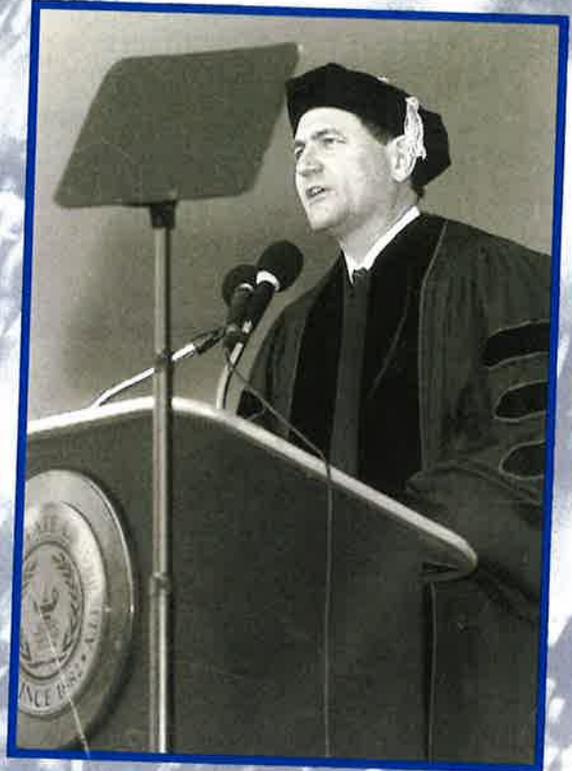
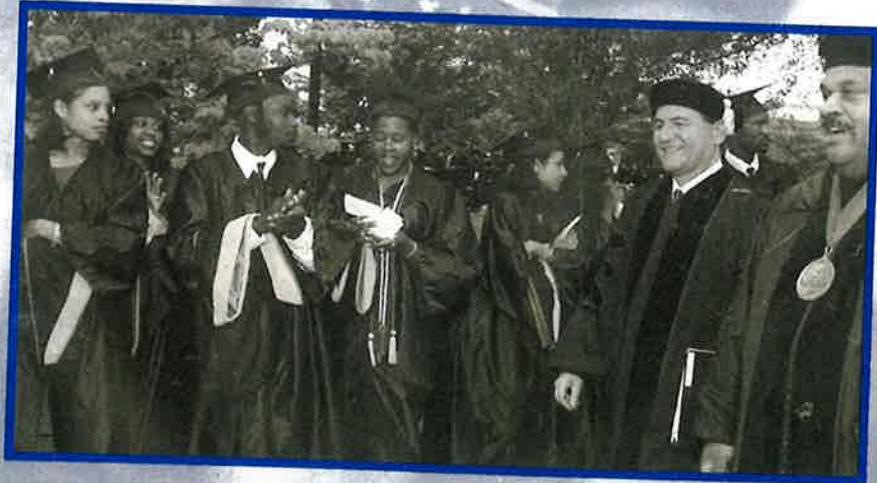


FINAL REPORT OF THE GOVERNOR'S BLUE RIBBON COMMISSION ON HIGHER EDUCATION



February 3, 2000



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COMMONWEALTH of VIRGINIA

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James S. Gilmore, III
Governor

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Secretary of Education

THE GOVERNOR'S BLUE RIBBON COMMISSION ON HIGHER EDUCATION

February 3, 2000

Honorable James S. Gilmore, III
Governor
Commonwealth of Virginia
State Capitol
Richmond, Virginia 23219

Dear Governor Gilmore:

As your first official act, you signed Executive Order No. 1 establishing the Blue Ribbon Commission on Higher Education. In that Order you asked the Commission to make recommendations for the future of Virginia's higher education with three goals:

- Raising the quality of academic and research programs at Virginia's public colleges and universities;
- Keeping a college education affordable for students and their families; and
- Ensuring accountability for the care and use of public resources.

In addressing these goals, the Commission has consulted with college and university presidents, faculty members, institutional board members, state and national experts in higher education, and representatives of the executive and legislative branches. The Commission has reviewed the Commonwealth's record of accomplishment in higher education and has respectfully made recommendations to build upon these successes.

Before addressing the Final Report, allow me to confirm what was never in doubt. The citizens of Virginia are the owners of one of the finest public systems of higher education in the U.S. Our public colleges and universities, and our system of independent institutional governance, have achieved a unique variety of high quality programs necessary to serve the diverse needs of our citizens. All Virginians should be proud of what has been accomplished in higher education since the founding of the College of William and Mary in 1693.

As you know, the Commission's Interim Report, which I submitted to you in 1998, contained a comprehensive and unprecedented examination of 15 years of funding and spending in Virginia higher education. On the basis of the findings in the Interim Report, you recommended, and the General Assembly adopted, a 20% tuition roll back. Tied to

the tuition reduction was the commitment of sufficient general fund dollars to replace those revenues. As a result, a college education is more affordable today for Virginia students and their parents. The Commission's recommendations in the following pages address the future. Among the most significant are these:

- A quality assurance proposal that would measure quality in terms of intended outcomes ("value added") rather than more traditional measures of "inputs" and strategies for a renewed emphasis on the quality of undergraduate teaching;
- A proposal for funding higher education pursuant to "institutional performance agreements" - negotiated by the Governor and the General Assembly with each institution - to permit cost-effective long term planning and more efficient operations by offering adequate, stable, and predictable funding for a six-year term, deregulation and decentralization, and institutional commitments to performance expectations, goals and measures;
- Continued tuition restraint, and restructuring, in addition to increased support for need-based financial aid and the Tuition Assistance Grant program;
- An annual report of institutional effectiveness that would compile and publish the results of an institution's system-wide and institution-specific performance measures--of both academic quality and operational efficiency--in the context of peer performance, trends over time, and/or pre-established targets;
- Provisions for additional information, training and support to boards of visitors to enable them to more effectively discharge their fiduciary duty as stewards of the substantial public resources--dollars, property and people--that are dedicated to public higher education and to ensure the cost-effectiveness of each institution's operations; and
- A united and focused application of state resources, including those available at our institutions of higher education, to address the Commonwealth's workforce needs and the important role of research in higher education and in the Commonwealth's economic development efforts.

The foregoing are only broad descriptions of 73 specific recommendations that are the result of the Commission's work. And while each recommendation can stand alone, the institutional performance agreement proposal provides a framework in which to incorporate and implement much of what is recommended.

The goals of quality, affordability and accountability for our students, parents and citizens in generations to come will require engaged and focused boards of visitors. Many of the Commission's recommendations call upon boards to exercise their fiduciary duties on behalf of our citizens in ways that will limit cost increases to students and taxpayers, ensure academic quality and promote operational efficiency. Institutional performance agreements,

Honorable James S. Gilmore, III

February 3, 2000

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quality assurance, and reports of institutional effectiveness are important tools, not only for the Commonwealth in the development of budgets and policies, but for governing boards, as they direct the efforts and resources of their respective institutions to what should be clear and well established priorities.

What is presented to you in the pages that follow is the product of thousands of hours of work by 39 citizen volunteers. I would be remiss if I did not take this opportunity to recognize the exceptional caliber and dedication of the individuals who served on this Commission and their unfailing willingness to contribute to the Commission's work. The experience, knowledge, and skill of the Commission's members, with the support and participation of our public and private colleges and universities, the Secretary of Education, the State Council of Higher Education, the Department of Planning and Budget, and others too numerous to mention here, enabled us to develop the comprehensive vision offered by the Final Report. I proudly offer the Commission's carefully considered conclusions concerning how best to preserve, protect and promote, for the future, the outstanding system of higher education that Virginia enjoys today. Finally, I express to you my deep appreciation for the opportunity of serving as chairman of the Commission.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "Edward L. Flippen".

Edward L. Flippen
Chairman

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INTRODUCTION

A BRIEF OVERVIEW OF VIRGINIA'S SYSTEM OF HIGHER EDUCATION

Citizens of the Commonwealth have recognized the importance of higher education for more than three centuries. The College of William and Mary was founded in 1693. By 1779, the Virginia House of Delegates was considering a "Bill for the More General Diffusion of Knowledge," which included provisions for the reform of the curriculum and governance of the College, penned by Delegate Thomas Jefferson. The Commonwealth has devoted public funds to higher education at least since the founding of Mr. Jefferson's University of Virginia in 1819. The principle advocated by Mr. Jefferson was that a representative democracy cannot survive, much less flourish, without a well-educated citizenry. That principle remains the foundation of the Commonwealth's continued commitment to higher education. As a direct result of this historic commitment, the citizens of Virginia today enjoy one of the most highly regarded state systems of higher education in the country.



Since 1819, Virginia's system of public higher education has grown to include, in addition to the University of Virginia and the College of William and Mary, 13 four-year colleges and universities, 23 community colleges, and Richard Bland College, a two-year transfer-oriented branch of the College of William and Mary. Some of Virginia's larger four-year institutions have satellite facilities or graduate centers located in various regions of the state that bring post-secondary programs to areas where students live and work. Virginia Polytechnic Institute and State University (Virginia Tech) and the University of Virginia offer graduate instruction at sites in Northern Virginia. Norfolk State University and Old Dominion University jointly operate several sites in Hampton Roads and Virginia Beach that

offer undergraduate and graduate educational opportunities to people who do not live close to either campus. Several institutions join in bringing higher education to southwest Virginia via the Southwest Higher Education Center.

The Commonwealth also is home to more than 40 private, not-for-profit colleges, many of which were established more than a century ago. Most recently, the rapidly increasing demand for post-secondary programs has generated a number of for-profit institutions, offering degrees and certificates that are in high demand, to supplement the educational offerings of the public and private, not-for-profit sectors. More than 30 out-of-state institutions offer programs from sites in Virginia. Today, a student in Virginia can go on-line and, by participation in distance education, complete programs offered not only by Virginia's public and private institutions, but by many out-of-state institutions, both public and private. This combined educational system serves more than 350,000 students and comprises the 11th largest system of higher education in the country.¹

There are two types of institutions in the Commonwealth's system of 15 public four-year colleges and universities. The first, known as "comprehensive institutions," offers undergraduate instruction and, with two exceptions, some graduate programs. The second group offers a variety of doctoral programs and research in addition to basic undergraduate and graduate education. Those 15 colleges and universities are:

COMPREHENSIVE INSTITUTIONS

University of Virginia's College at Wise	Undergraduate only
Virginia Military Institute	Undergraduate only
Christopher Newport University	Undergraduate and Masters Program
Longwood College	Undergraduate and Masters Program
Mary Washington College	Undergraduate and Masters Program
Radford University	Undergraduate and Masters Program
Virginia State University	Undergraduate and Masters Program
James Madison University	Undergraduate, Masters Program and 1 Doctoral Program
Norfolk State University	Undergraduate, Masters Program and 1 Doctoral Program

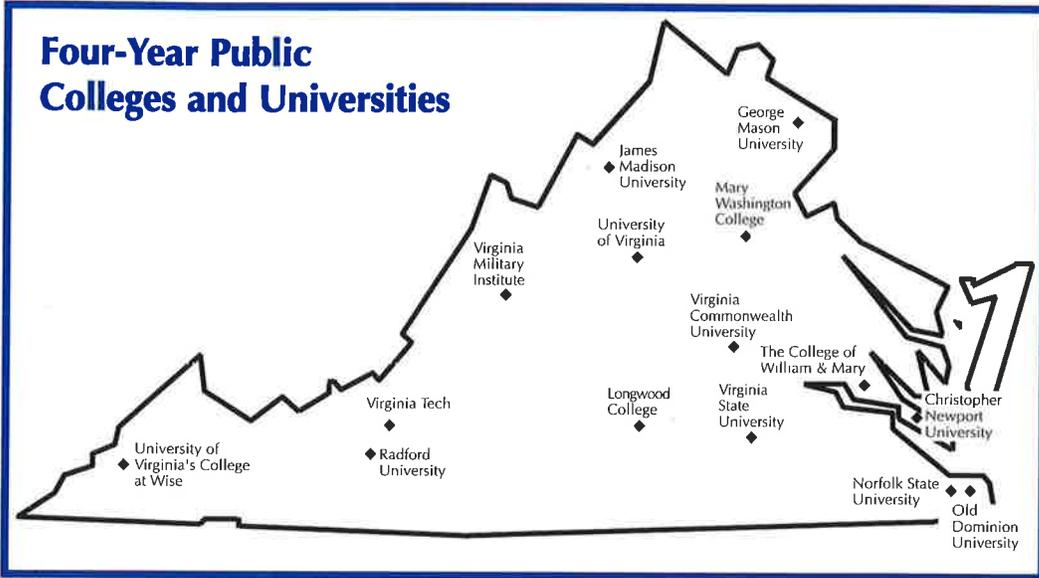
INSTITUTIONS OFFERING DOCTORAL PROGRAMS AND RESEARCH

College of William and Mary
George Mason University
Old Dominion University
University of Virginia
Virginia Commonwealth University
Virginia Polytechnic Institute and State University

¹ This number does not include enrollment in out-of-state institutions, either at physical sites in Virginia or on-line.

Virginia is unique among the states as home to several nationally-prominent public research institutions. Two of Virginia's institutions, Virginia State University and Virginia Tech, are land-grant institutions providing extensive agricultural and extension services to the state. Five institutions offer first-professional degrees: The College of William and Mary, George Mason University, and the University of Virginia have law schools; Virginia Tech includes a school of veterinary medicine; the University of

Virginia and Virginia Commonwealth University have medical schools; and Virginia Commonwealth University also houses pharmacy and dentistry programs. Eight institutions - the College of William and Mary, George



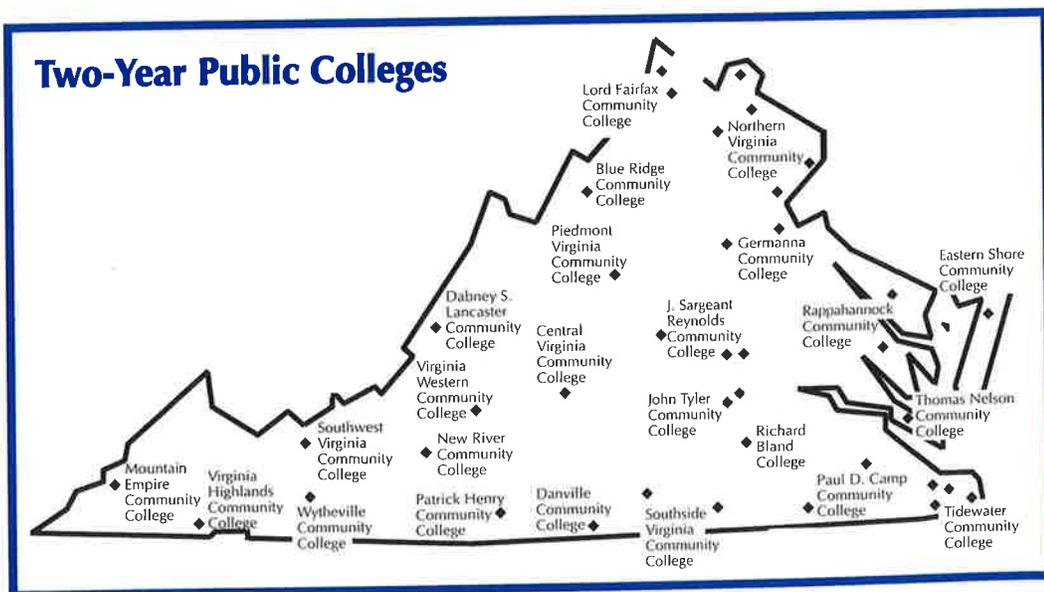
Mason University, James Madison University, Old Dominion University, Radford University, the University of Virginia, Virginia Commonwealth University, and Virginia Tech - offer the MBA. Many of these institutions have especially designed executive programs for students with considerable business experience.

On average, and across the entire system, approximately 88% of the students enrolled in Virginia's public colleges and universities are undergraduates, 72% at the four-year institutions. Approximately 78% of the students enrolled at Virginia's public four-year institutions are Virginia residents, and approximately 80% of the students enrolled at these institutions are enrolled full-time. Virginia's public four-year institutions award more than 34,000 degrees annually - 23,500 bachelor's degrees, 8,500 master's degrees, 1,000 doctoral degrees, and 1,200 first-professional degrees.

Within the past decade, Virginia's public four-year institutions, like those across the country, have expanded access to their programs through telecommunications in order to serve a greater number of students. Many offer courses and programs on-line. Among the more visible of these is Teletechnet, Old Dominion University's distance education program, which provides upper-division programs and graduate instruction at each of Virginia's community colleges and at numerous other sites within and outside Virginia. Several institutions also offer classes as a part of the Electronic Campus of Virginia and the Southern Regional Electronic Campus and deliver their programs through regional higher education sites like the Southwest Virginia Higher Education Center and the Continuing

Education Center and South Central Educational Consortium in South Boston. Each of our public four-year institutions has a distinct mission and serves a particular sector of the student population. Admissions requirements vary from the highly selective to the relatively open. The Commonwealth supports small residential campuses, such as the University of Virginia's College at Wise, Mary Washington College, and Longwood College, and large, urban universities, such as George Mason, Old Dominion, and Virginia Commonwealth University. Together, our four-year institutions offer a remarkable variety of programs and experiences and serve the entire spectrum of students seeking a baccalaureate degree. Each institution plays a critical role in a comprehensive system of higher education in Virginia.

Virginia also offers the Virginia Community College System (VCCS), a system of 23 two-year colleges located throughout the Commonwealth. The system operates 38 campuses (the Medical Campus of Northern Virginia Community College, planned for completion in late 2002, will be the 39th campus system-wide) and utilizes numerous off-campus facilities. Each community college is regionally accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award the associate degree and offers both credit and noncredit instruction.



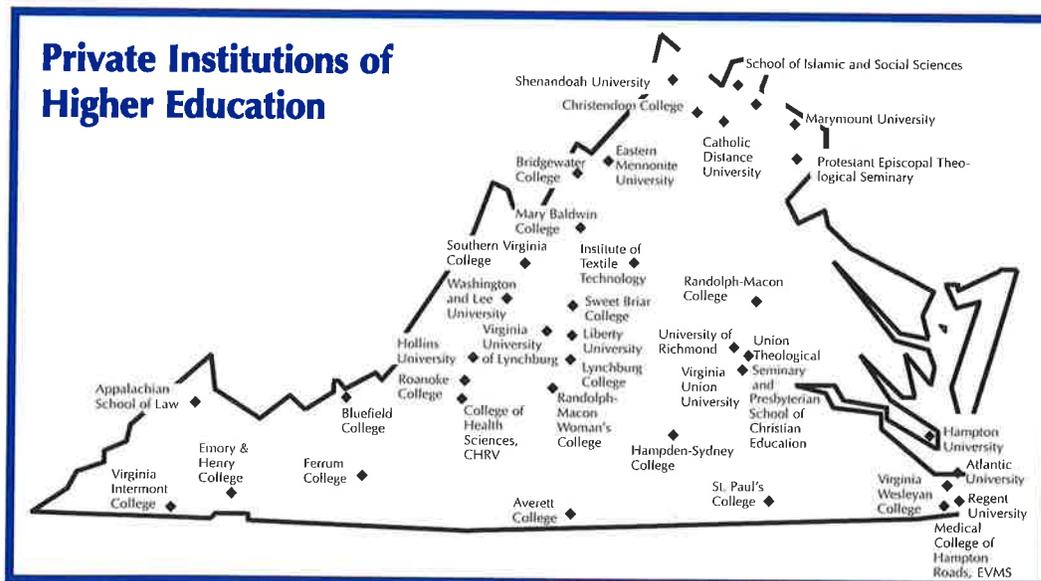
Credit instruction at each community college consists of a variety of certificate, diploma, and associate degree programs that prepare students to transfer to four-year baccalaureate programs or that provide

occupational and technical education leading directly to the workplace. Developmental courses in pre-college English, reading, and math provide preparation necessary for about 10% of students who are not ready to begin college-level work in related subjects. The Virginia Community College System offers many courses through its compressed video system, affording students at all the colleges access to instruction in disciplines for which many individual community colleges do not have sufficient demand to support a class or program. For example, Northern Virginia Community College offers on-site instruction in several foreign languages through this system, making it unnecessary to offer duplicative programs at several sites.

Enrollment in Virginia's community colleges is at historic levels. In 1998-1999, the system served 74,288 full-time equivalent students. Nearly 70% of Virginia community college students attend part-time. That means that those 77,288 "full-time equivalent students" are actually more than 189,895 individuals enrolled in at least one credit course during the year. Approximately one-third of those students are enrolled in transfer programs designed to prepare them for a four-year program; one-third are in occupational technical programs; and one-third are unclassified. The median age of Virginia community college students is 26. Approximately 95% of VCCS students are Virginia residents. In addition to credit enrollment, another 100,000 individuals take advantage of noncredit and work force training opportunities offered directly at Virginia's community colleges or through contracts with businesses. Distance education enrollment is also increasing. Over 23,000 community college students were enrolled in more than 1,000 distance learning courses in 1998-1999 - a 42% increase over the previous year.

Virginia's public colleges, universities, and community colleges are complemented by more than 40 private, not-for-profit colleges that contribute enormously to the Commonwealth's reputation for academic excellence. Beginning with the founding of Hampden-Sydney College and Washington and Lee in the mid-18th Century, private institutions have offered a variety of educational choices to

Virginia residents to this day. Today, 50,206 students attend Virginia's private colleges, of which 26,686 are Virginia residents. Fifty-four percent (54%) of the students who transfer to four-year institutions from Virginia community colleges attend



private institutions. That number has been growing steadily over the last several years. Virginia private colleges offer diversity and choice to Virginia's college-bound citizens not always available at the public colleges and universities. Among them, five institutions are single-sex; three are historically black institutions; and several have religious affiliations. The hallmarks of Virginia's private colleges are small class size and highly qualified faculties that focus on teaching. Students benefit not only from an accessible faculty but also from alumni who provide financial and other support and valuable networking opportunities. Most private colleges in Virginia offer a liberal arts curriculum.

Together, Virginia's colleges and universities, public and private, offer exceptional diversity ranging from large public universities with programs in medicine, law, and dentistry to small, private liberal arts colleges, and a remarkable variety in between. The balance of excellent students and faculty, strong institutional governance, and effective system coordination is often cited as the reason Virginia has achieved such an outstanding system of higher education.

WHERE WE ARE

In 1988, Governor Baliles charged the Commission on the University of the 21st Century with developing a vision of higher education in Virginia that would meet the demands of the next century. The Commission's report, "A Case for Change," identified significant issues on the horizon for higher education and suggested policy goals. Much of that vision was deferred, however, as a result of the recession of the early 1990s. A lack of public funding during that time caused steep tuition increases.

In 1996, the Commission on the Future of Higher Education in Virginia - also known as "the Chichester Commission," and so named for its chairman, Senator John H. Chichester - made concrete "nuts and bolts" recommendations for the future success of higher education in Virginia. "Making Connections: Matching Virginia Higher Education's Strengths with the Commonwealth's Needs," the report of the Chichester Commission offered a "how-to" manual, focusing the attention of policymakers and legislators for the first time on how public colleges and universities operate.

Seeking to build on the work of the Chichester Commission, Governor Gilmore executed Executive Order Number One on January 17, 1998, his inauguration day. By that Order, the Governor created this Blue Ribbon Commission on Higher Education and charged it with assuring that affordable opportunities to obtain a top-quality undergraduate education are available to all Virginians. Governor Gilmore's executive order emphasized his concern that higher education be accountable to the taxpayers, parents, and students who pay for it. The Governor requested that the Blue Ribbon Commission advise him on a number of issues. Central among them is how to assure that affordability and quality are compatible goals.²

In December, 1998, the Commission issued its Interim Report, which reviewed the history of funding and spending for higher education over the last 25 years.

² The Governor's charge to the Commission, as expressed by his speech delivered upon appointment of its members, and his response to the work of the Commission are included as Appendix A to this report.

Informed by the Interim Report, which documented the dramatic rise in the cost of a college education in Virginia, Governor Gilmore recommended, and the General Assembly approved, a 20% tuition rollback. General fund appropriations were provided to offset the resulting revenue loss to the institutions. The rollback has reduced the cost to Virginia students and parents of an undergraduate education at a public institution in the Commonwealth. This is an important beginning.

WHERE WE MUST GO

Many of the colleges and universities that make up Virginia's system of higher education are currently recognized as among the best in the nation. Yet, current measures of excellence will not be adequate in the fast-changing world that is experiencing an "information revolution." To prepare for the future, colleges and universities must work with their communities and partner with local school systems and governmental agencies, business and industry, and other private institutions to ensure that students emerge prepared to live and work in a global economy. Institutions of higher education need to be versatile and responsive to increasingly customized student needs, including lifetime learning, just-in-time learning, and distance education. They must focus on measuring and improving student achievement.

Public universities have a responsibility to serve their communities and the Commonwealth in more varied ways than in the past. In this new age, universities are an increasingly significant factor in the economic viability of a state or region. Work force development, research and scholarship, and creative partnerships for a broad range of public and private purposes are all key functions for universities as they meet their objective of educating undergraduates.

As arms of the Commonwealth, our colleges and universities have a role in supporting economic development and work force training efforts. To address the Commonwealth's work force challenges, universities must ensure that all students graduate from college with (i) a level of technological literacy that will equip them to deal with the technological requirements of business in the information age and (ii) the ability to think, write, and speak critically and solve problems. The Commonwealth should encourage the development of creative work force development programs in its institutions of higher education.

Work force development is just one of the critical economic challenges facing Virginia. To promote the economic viability of the state, the Commonwealth needs to ensure Virginia's leadership position in the information age by investing in developing technologies, research facilities, and instructional resources through its colleges and universities. Universities need to be farsighted and flexible, responding to the need for new programs to support new technologies and other emerging

needs. Universities should leverage funding sources and enhance and expand partnerships between Virginia and federal research and development facilities. The Commonwealth and its universities will need to support and encourage research at the graduate level and in partnership with the public and private sectors if Virginia is to maintain an economic leadership role among the states.

More important even than serving an economic mission, higher education impacts the lives of every Virginian in a variety of ways, direct and indirect. It teaches the skills and knowledge necessary for responsible participation and leadership in representative government and community life. It prepares us to evaluate information and ideas and to make personal judgments and choices in an increasingly complex world. It produces new learning and new teachers to ensure that the collective knowledge of generations can be passed on to future generations.

In continuing to serve their broad mission, Virginia's colleges and universities will need a strong commitment from their many supportive constituencies to meet the challenges ahead. The academic communities and all of their constituent parts must be creative and innovative in addressing new issues; faculty and administrators must be open to non-traditional alternatives. At the state level, the



impulse to plan and control centrally must be resisted. Instead, institutions must be equipped with the managerial tools and flexibility, adequate resources, and quality- and efficiency-related performance standards necessary to respond effectively to their dynamic circumstances and measure and report on their progress.

In this whirlwind of exciting new expectations and opportunities, Virginia's leaders must not lose sight of the crucial role played by our public institutions of higher education, and our

institutions must not lose sight of the core purposes for which they were created. In our enthusiasm to seize every opportunity and accomplish every task before higher education, we must remain mindful that it is taxpayers, parents, and students who pay the bills.

TOWARD QUALITY, ACCOUNTABILITY AND AFFORDABILITY - INSTITUTIONAL PERFORMANCE AGREEMENTS

In furtherance of its charge from the Governor to promote quality, accountability, and affordability in Virginia's higher education system, the Commission examined a range of options, including various funding models, performance measures and incentives, regulatory relief, governance reforms, and related issues. After deliberations and consultations with representatives of the Governor and Secretary of Education, the Co-chairmen of the General Assembly's Joint Subcommittee on Higher Education Funding Policies, other legislative leaders and staff, college and university presidents and other institutional representatives, the State Council of Higher Education members and staff, and business community leaders active in promoting Virginia higher education, the Commission determined that the Commonwealth could benefit from moving toward a system of *institutional performance agreements* that address major funding, quality, and accountability issues on an institution-specific basis.

Institutional performance agreements would be initiated by the institutions and negotiated by appropriate governmental bodies, with final approval through the legislative appropriations process. Such agreements would contain a six-year plan for funding and performance of the institution, subject to the constitutionally mandated appropriations process and unforeseen circumstances that may warrant a change.

The concept of institutional performance agreements is a central feature of the Commission's recommendations and touches upon each of the four major areas of the Commission's work - affordability, quality, governance, and work force/technology. Accordingly, this report begins with an overview of the institutional performance agreement concept and recommendations. The subsequent sections of the report contain narrative discussions related to financial issues, quality, and accountability provisions. Where the Commission proposes specific recommendations, those recommendations appear at the end of the relevant section of this report. Although many of the Commission's

recommendations are offered apart from the institutional performance agreement context and could be implemented in isolation, they are compatible with the institutional performance agreement concept and would be incorporated in that framework as might best serve the interests of the Commonwealth.

GUIDING PRINCIPLES

To remain a pacesetter in the 21st Century, Virginia higher education must reflect the managerial principles and innovations that are characteristic of competitive institutions in this dynamic era. These principles include

- System-wide policy objectives and institutional missions must be clearly defined;
- Institutions must be empowered and equipped to plan and act in furtherance of their missions, subject to state policies;
- Institutional performance and quality-oriented outcomes must be measured and appropriate consequences established; and
- Except as necessary to accomplish the foregoing, bureaucratic burdens, political pressures, and other market-place distortions and managerial diversions should be eliminated.

There appears to be wide agreement on these principles among key participants in the Virginia higher education policymaking process. So, too, is there broad agreement on key areas in which application of these principles requires improvement:

- Virginia's higher education institutions cannot engage in effective planning and resource management without the advantage of stable and predictable funding - an advantage largely absent in the current funding approach;
- Despite decentralization efforts, the institutions remain subject to considerable unnecessary and burdensome regulation and reporting requirements that hamper their effectiveness;
- Institutions of higher education are ready, able, and willing to become subject to performance standards and outcome measures, so long as the standards and consequences are framed with each institution's input and appropriately reflect the distinctive mission and circumstances of each school; and
- As public institutions, Virginia's state-supported colleges and universities must remain accountable to taxpayers - through legislative determination of major policy and budgetary issues, and through institutional direction from active, informed, and engaged boards of visitors.

The Commission believes that institutional performance agreements can provide a useful framework in which to achieve these and other needed improvements. While the content of the agreements will be critical, the framework is a vital

starting point. *The chief virtue of the institutional performance agreement concept is that it supplies a vehicle for combining adequate and reliable funding and managerial flexibility with institution-specific performance standards and accountability.*

The idea of institution-specific agreements that provide for adequate and predictable funding, managerial freedom, and outcome-oriented performance standards is apparently unprecedented in American higher education. Yet, it is a logical extension of the evolutionary reforms that have been underway in Virginia higher education in recent years. Despite political discourse that has magnified a few differences, key elements of the concept can be traced to both the 1996 report of the Commission on the Future of Higher Education in Virginia and the State Council on Higher Education's 1999 performance grant proposal. Moreover, the concept provides a vehicle for continuing, cementing, and building on important recent bipartisan initiatives, such as restructuring, decentralization pilots, tuition relief, nationally competitive faculty compensation, development of consensus performance measures, and investments in technology. In providing for greater operational autonomy in exchange for outcome-oriented accountability, the concept is the product of continuing, evolutionary improvement in Virginia's already excellent higher education system.

THE INSTITUTIONAL PERFORMANCE AGREEMENT FRAMEWORK - RECOMMENDATIONS ON KEY ATTRIBUTES

- 1. The Governor and General Assembly should provide for the establishment of institutional performance agreements for all public four-year colleges and universities in Virginia, Virginia's junior college, and for the Virginia Community College System.³**
- 2. Institutional performance agreements should**
 - a. Reflect and be based upon clearly defined institutional missions and higher education policies established by the Commonwealth of Virginia;**
 - b. Empower and equip institutions to plan and act in furtherance of their missions, subject to state policies;**
 - c. Provide for adequate, stable, and predictable institutional funding to the greatest extent possible within the context of the Commonwealth's constitutionally mandated appropriations and legislative process;**
 - d. Provide for measurement and reporting of key indicators of institutional performance and educational quality for the benefit of students, as education consumers, and state taxpayers;**

³ Shorthand references to "institutions" are intended to include all public four-year colleges and universities in Virginia, Richard Bland College, and the Virginia Community College System.

- e. **Provide incentives for institutions to achieve identified quality- and efficiency-related performance objectives and establish consequences for deficient performance; and**
- f. **Provide greater managerial and operational flexibility at the institutional level in exchange for increased outcome-oriented accountability.**

IMPLEMENTATION OF INSTITUTIONAL PERFORMANCE AGREEMENTS

The Commission consulted with representatives of the Governor, members of the General Assembly, the State Council of Higher Education, and institutional leaders regarding the process to be employed for the development, initiation, negotiation, and approval of institutional performance agreements. The Commission concluded that the initial development of a proposed agreement should come from the institutions through their boards of visitors. Each institution's internal strategic planning, budgeting, and other administrative processes would guide the development of a proposed agreement within the framework of existing state law and policies, the State Council of Higher Education's reporting requirements, the Department of Planning and Budget's budget preparation guidelines, and other appropriate sources.

Once the institution submits its proposed performance agreement, the ensuing process of review and negotiation would involve executive and legislative branch officials, the State Council of Higher Education, and institutional representatives to the fullest extent possible. The Governor, General Assembly, and State Council each has various constitutional and/or statutory duties with regard to higher education funding and policy and, therefore, must be involved in the determination of the terms of the agreement. Final approval of an institutional performance agreement would come through the legislative appropriations process and be referenced and reflected in the Appropriation Act passed by the General Assembly and approved by the Governor.

In order to provide reliable and predictable funding, the Commission recommends that the institutional performance agreements cover a six-year time period to provide institutions with an optimal strategic planning horizon and a multi-year funding commitment from the state.⁴ Although the Commission recognizes that such multi-year funding commitments cannot be legally binding, once agreements

⁴ A report prepared by a Commission member found that between FY1987 and FY1998, the budget of the typical public higher education institution in Virginia experienced fluctuations that were 50% larger than the volatility in the state's general fund revenues. Such volatility precludes efficient planning and adds significantly to the cost of providing higher education. The adoption of institutional performance agreements would dampen funding volatility and thus represents a key efficiency-enhancing mechanism. Crain, N., "The Cost of Volatility of Higher Education" (July 29, 1999).

are negotiated and adopted by the institutions and the political branches of state government, the Commission believes they will carry persuasive force that likely will restrain most changes other than those required to address major unforeseen external developments. In addition, institutions will be relieved of their performance obligations and undertakings pursuant to the agreements if the Commonwealth is unable to, or otherwise chooses not to, meet its multi-year funding commitments.

The Commission recognizes that the institutional performance agreement concept will not work if the agreements are subject to constant re-negotiation and readjustment. Conversely, the concept will be unacceptable to governmental and institutional decision-makers if the agreement purports to constrain the constitutional prerogatives of the Governor and General Assembly, or if it fails to provide appropriate means to address changing and unforeseen circumstances that may confront the institutions during the life of an agreement. Accordingly, the Commission concludes that institutional performance agreements should include a mechanism for adjustments to accommodate major programmatic or facility changes, new state mandates and initiatives, and unexpected costs.



Institutional performance agreements also would set forth the institutions' obligations for periodic reporting to the Governor, General Assembly, and State Council of Higher Education on a range of topics, including compliance with agreement terms. Each agreement would clearly spell out the failures in performance that would constitute a default under the agreement and the consequences of such a default. As a practical matter, the Commission assumes that the executive and legislative branches would take appropriate actions through the budget process for institutions that fail to comply with their performance agreements.

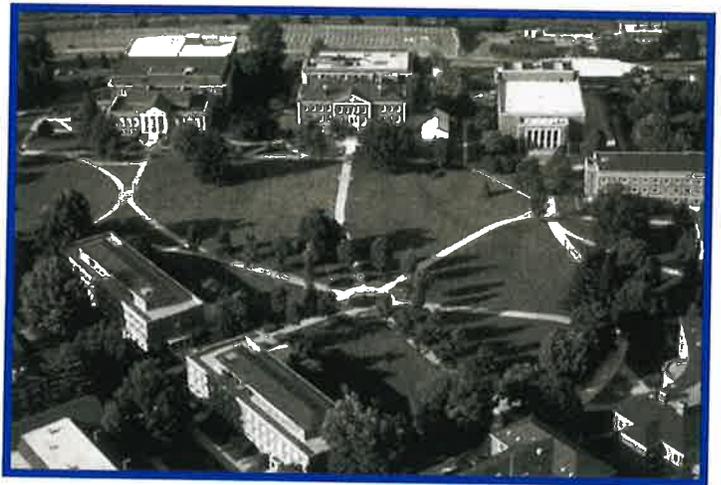
THE INSTITUTIONAL PERFORMANCE AGREEMENT FRAMEWORK - RECOMMENDATIONS ON IMPLEMENTATION

- 3. The Governor and General Assembly should establish a process, commencing in 2000, by which each institution develops and submits to the State Council of Higher Education a proposed institutional performance agreement. The process should provide successively for**
 - a. Board of visitors' approval of the proposed agreement;**

- b. **Submission of the proposed agreement to the State Council of Higher Education, with prompt dissemination to the Secretaries of Education, Finance and Administration, the Chairman of the Senate Finance Committee, and the Chairman of the House Appropriations Committee;**
 - c. **Review of the proposed agreement by the State Council of Higher Education and submission of the State Council's comments to the Secretaries of Education, Finance and Administration, the Chairman of the Senate Finance Committee, and the Chairman of the House Appropriations Committee;**
 - d. **Executive branch review and negotiation of the proposed agreement, followed by the Governor's preliminary submission of a recommended agreement or revisions thereof, if any, to the Chairman of the Senate Finance Committee and the Chairman of the House Appropriations Committee;**
 - e. **Consultation between the executive and legislative branches regarding the terms of the recommended agreement;**
 - f. **Final submission of the Governor's recommended agreement, if any, prior to the legislative session in tandem with submission of the Governor's budget recommendations; and**
 - g. **Approval, modification, or rejection of the submitted agreement by the General Assembly reflected in the enrolled appropriations bill.**
4. **Institutional performance agreements should be six years in duration to provide institutions with an optimal window for strategic planning and implementation.**
 5. **Each institutional performance agreement should contain a mechanism for adjustment and revision within the six-year term to reflect new state-endorsed initiatives or mandates, unforeseeable programmatic or facility changes, and unanticipated costs.**
 6. **Institutional performance agreements should acknowledge that the Virginia Constitution authorizes the General Assembly to alter the funding and other conditions established in the agreement, and should provide that the institution will be relieved of its obligations and undertakings pursuant to the agreement upon any such material change by the General Assembly not provided for by the agreement itself.**
 7. **Each institutional performance agreement should identify those material failures in performance or other actions by the institution that will constitute default resulting in termination of the agreement and remedial action by the Commonwealth.**
 8. **The State Council of Higher Education should monitor compliance with the provisions of each institutional performance agreement and report its findings to the Governor, General Assembly, and the signatory institution. The Council's findings should also be made available to the public in a readily understandable format.**

FUNDING BASE ADEQUACY AND GROWTH

The institutional performance agreements will provide a mechanism for ensuring that each institution receives adequate state funding to support its core activities and planned growth. The Commission is aware that the adequacy of institutions' current base level funding is an important issue now being examined by the Joint Subcommittee on Higher Education Funding Policies and the State Council of Higher Education. The Commission appreciates the importance of this ongoing analysis and chose not to duplicate that work or anticipate its results. Rather, the Commission concluded that such analysis would be a valuable aid in implementing institutional performance agreements by providing further information regarding the base funding level that should be established in each such agreement. It is anticipated that the issue of funding equity among institutions will be addressed in this context.⁵ To address the effects of inflation and other cost factors, each institutional performance agreement would provide for appropriate growth in state funding over the term of the agreement. Capital outlay and maintenance requirements also would be included.



For the foreseeable future, tuition, fee, and financial aid issues are likely to be determined through a system-wide state policy, and these topics are addressed more fully in a later section of this report. Institutional performance agreements would incorporate applicable state policy on tuition, fees, and financial aid, and also address any institution-specific issues, exceptions, or special provisions.

To address the anticipated system-wide growth in enrollment, each performance agreement also would set forth the institution's commitment regarding admission of Virginia students each year. Other provisions regarding the Virginia and out-of-state student mix, total enrollment targets, and the funding implications of additional enrollment growth could also be addressed in the performance agreement. Since some institutions have more capacity than others to accommodate additional enrollment, a performance agreement could selectively encourage growth consistent with the institution's mission and strategic plan. Special provisions would apply to the Virginia Community College System since it has an open admissions policy and, therefore, cannot control enrollment growth.

⁵ It was noted in testimony before the Commission, and by Commission members themselves, that substantial disparities exist between the per-student funding received by institutions. While portions of such disparity may be accounted for in the program offerings of different institutions and differing faculty salary goals driven by varying peer groups, the issue demands careful scrutiny in the context of base budget analyses.

THE INSTITUTIONAL PERFORMANCE AGREEMENT FRAMEWORK - RECOMMENDATIONS ON FUNDING AND RELATED ISSUES

9. Each institutional performance agreement should set forth the base budget of the institution, including general and nongeneral fund appropriations, for each of the six years during which the agreement will be in force. The base budget should take into account enrollment changes, inflation, the institution's competitive position on faculty compensation relative to its peers, and other factors relevant during the term of the agreement.
10. Each institutional performance agreement should set forth the capital outlay and maintenance requirements of the institution during the term of the agreement, including a description of each project and the source of funding.
11. Each institutional performance agreement should set forth the institution's plans for restraining growth in tuition and fees and for providing student financial assistance during the term of the agreement, including general and nongeneral fund appropriations for such purposes.
12. Each institutional performance agreement should describe the institution's plans for attracting increased financial support from nonpublic sources and the assistance and incentives, if any, that the Commonwealth will provide to encourage and enhance the institution's private fundraising efforts.
13. Each institutional performance agreement should state the institution's commitment for the enrollment of Virginia undergraduate students during the term of the agreement.

ACCOUNTABILITY AND PERFORMANCE PROVISIONS

Funding reliability, adequacy, and flexibility are core benefits to be realized by Virginia's higher education institutions through the proposed performance agreements. The principal corresponding benefit that gives state policymakers incentive to embrace such agreements on behalf of their constituents is the outcome-oriented accountability that results from performance assessments, standards, and consequences. The subject of performance measurement and reporting is addressed in detail in later sections of this report pertaining to educational quality and institutional accountability.

While the same or similar performance measures may be applied to some or all institutions as part of their performance agreements, the particular performance goals and expectations included in an institutional performance agreement would

be institution-specific and mission-driven. The consequences of performance above, at, or below these expectations would be spelled out in the individual agreements. Various types of consequences could be assigned to various performance measures. For some measures, the only requirement might be periodic publication of the results to inform the consuming public. At the opposite end of the spectrum, certain performance measures might supply minimum standards that must be met for the institution to avoid a default on its institutional performance agreement. More likely, negotiated agreements might employ performance measures as the basis for targeted financial incentives by attaching specific funding consequences to achievement of particular performance targets.

As part of a performance agreement, a college or university would agree to various undertakings designed to preserve and enhance the quality of its programs and its outcomes (student learning, research, and public service). For example, the Commission has observed that some institutions have made enormous strides in strengthening general education, while others have taken less initiative in this area. For an institution whose general education program is not deemed adequate in light of its mission, the state could insist on a commitment from the institution that it will develop and implement reforms as part of its performance agreement.



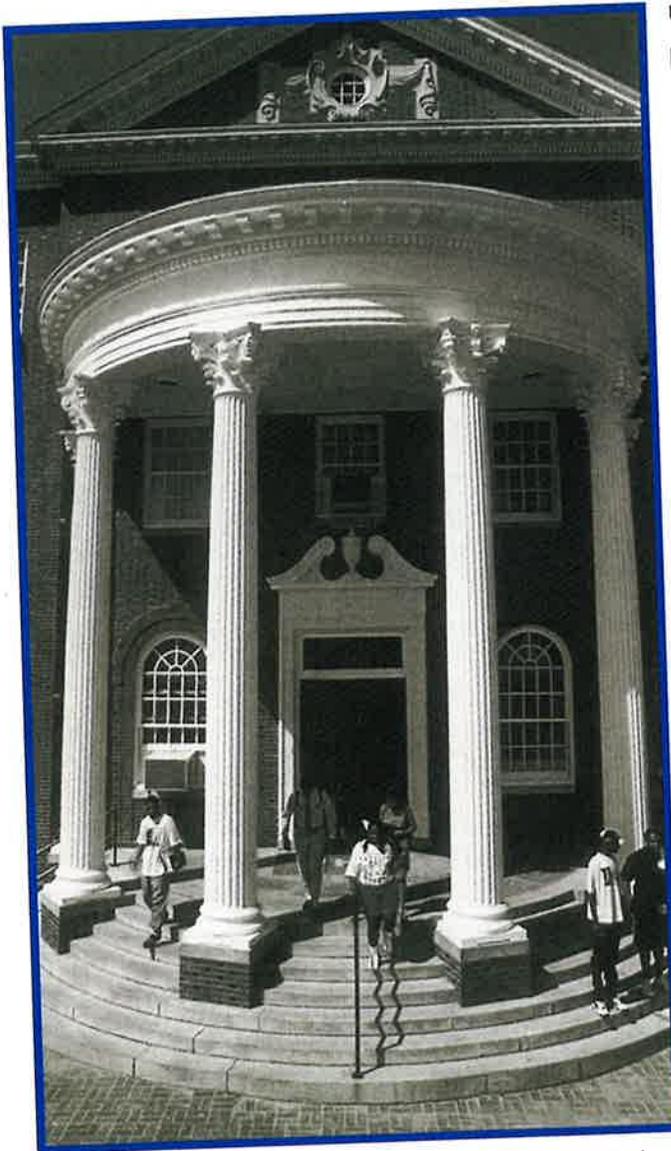
The Commission believes that institutional quality should be assessed, monitored, and reported through various performance measures, based on the maxim that "what gets measured (and rewarded) gets better." A principal purpose of such performance measures, especially those outcome measures that focus on the capabilities of the students who are graduated, is to provide quality assurance to higher education consumers. Under this approach, performance demonstrated through assessments and standards that are institution-specific, mission-driven, and outcome-oriented would become the primary focus of the institution's streamlined reporting obligations to the state. Funding incentives, perhaps including the resources and state approval necessary to proceed with new programs or other initiatives sought by the institution, could be tied to achievement of agreed-upon performance targets.

As part of a performance agreement, a college or university could also agree to various undertakings designed to enhance its administrative efficiency and productivity. Since performance measures were first developed and reported in the executive budget document in 1996, the institutions and the State Council of Higher Education have achieved a high degree of consensus on productivity- and efficiency-related measures (sometimes referred to as "accountability measures"). While some of these measures could be employed as part of a system-wide

incentive funding plan, the Commission views institutional performance agreements as the best vehicle for spelling out performance standards, incentives, and consequences for each institution utilizing a combination of system-wide and institution-specific measures.

Institution-specific agreements also could provide an effective vehicle for recognizing the distinctive mission-driven needs and objectives of various institutions with respect to research and technology. While some technology-related policies may be promoted on a system-wide basis, institutional performance agreements could reflect the research focus of particular institutions by specifying research-related undertakings, performance measures, and funding incentives. Similarly, distance learning could be the subject of specific

undertakings, measures and incentives for particular institutions.



Institutional performance agreements would also provide a vehicle, where necessary, for addressing governance issues that are specific to individual institutions. For example, the Commission has noted that some institutions are on the "cutting edge" in developing analytical tools that enable institutional managers and governing boards to know the cost of particular degree programs and to monitor the financial impact of programs over time. Although such information is vital for informed decision-making in regard to program approval, program termination, and resource allocation, many institutions either do not have these tools or do not employ them in the board-level decision-making process. Institutional performance agreements would provide for the development and proper use of such tools and best management practices where deficiencies are noted.

Institutional performance agreements should address the extent and nature of deregulation, enhanced managerial autonomy, and streamlined reporting to the state agreed upon for each institution. It is clear that the cost-effectiveness of some deregulation and decentralization will vary by school, as do the systems and capabilities that would be necessary to effectively transfer certain responsibilities to the institutions. Thus, while deregulation and decentralization should remain general goals of state policymakers, such

provisions should be tailored to the needs and capabilities of particular institutions. Among the principal issues to be addressed in this context are relief from various state requirements related to procurement, personnel, real estate transactions and property management, and employment (including the consolidated salary authorization). A list of specific deregulation proposals for negotiation in institutional performance agreements is attached to this report as Appendix B.

Existing financial safeguards at Virginia's public colleges and universities are extensive. Some of the intended safeguards appear to have resulted in unduly burdensome and unnecessary reporting to state agencies, and the State Council of Higher Education is in the process of developing recommendations for reform in this area. In addition to any system-wide changes that result from the State Council's review, a further degree of regulatory relief may be warranted for institutions with strong financial controls and performance records. At other institutions, managerial issues and performance records may actually justify prescribing additional actions the college or university will take to ensure financial accountability. Some or all funding under the performance agreement could be conditioned upon financial performance measures, such as the Commonwealth Management Standards and/or the State Council's administrative best practices.

Finally, institutions vary in the frequency and quality of their mission reviews, in the alignment of policies to their missions, and in the nature and extent of their strategic planning activities. Mission clarity, policy and budget alignment, and ongoing strategic planning would be prerequisites for, and necessary elements of, all institutional performance agreements. Where an institution suffers from deficiencies in some or all of these areas, its performance agreement could specify the corrective actions to be taken.

THE INSTITUTIONAL PERFORMANCE AGREEMENT FRAMEWORK - RECOMMENDATIONS ON ACCOUNTABILITY AND PERFORMANCE

14. Each institutional performance agreement should contain mission-driven and institution-specific standards of performance, expectations, and consequences related to educational quality and administrative efficiency and productivity. Specifically, each institutional performance agreement should include (a) an array of performance measures, including some applicable system-wide and others developed for the particular institution; (b) institution-specific expectations and targets for performance based upon such measures; and (c) institution-specific financial and non-financial incentives and other specific consequences tied to such performance.

15. Each institutional performance agreement should set forth the institution's

specific initiatives and undertakings for enhancing the quality of its programs and outcomes (student learning, research, and public service), and the corresponding measures of performance and consequences.

16. Each institutional performance agreement should set forth the institution's specific initiatives and undertakings for enhancing its administrative efficiency and productivity, and the corresponding measures of performance and consequences.
17. Each institutional performance agreement should set forth the institution's plans for increased development and utilization of advanced technology in its administrative, instructional, research, and public service activities.
18. Each institutional performance agreement should address the extent and nature of any deregulation, enhanced managerial autonomy, and streamlined reporting applicable to the institution.
19. Each institutional performance agreement should set forth actions the institution will take to develop and implement analytical tools for use by institutional managers and governing boards in assessing the cost of particular degree programs, the financial impact of programs over time, and other issues bearing on the allocation of resources to the institution's mission-driven priorities.
20. Each institutional performance agreement should set forth the financial performance standards and requirements applicable to the institution, including the Commonwealth Management Standards and the administrative best practices established by the State Council of Higher Education.
21. Each institutional performance agreement should set forth actions the institution will take during the term of the agreement to review its mission statement, align its policies and budget with the mission, and carry out ongoing strategic planning activities.

FUNDING HIGHER EDUCATION IN VIRGINIA - A PUBLIC PRIORITY

Governor Gilmore asked the Commission to "make specific recommendations on the highest priorities and best use for each dollar Virginia's citizens spend" on our public colleges and universities. His objective is to make "higher quality and affordable cost compatible goals throughout Virginia's entire system of higher education." The Governor charged the Commission with "devising a strategy for holding tuition to historic levels." This charge occupied the majority of the Commission's attention during its year-and-a-half of work, and the Commission examined several important developments in higher education funding.

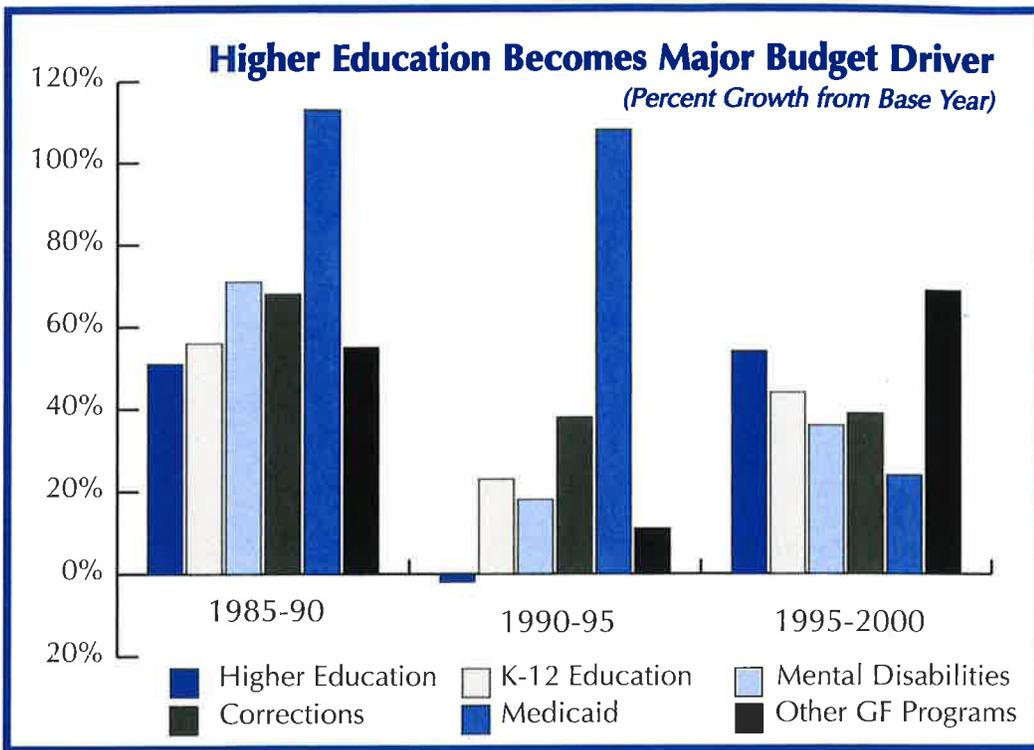
The Commission published an Interim Report on December 31, 1998, documenting the last 15 years of higher education funding and spending in Virginia. That report provided the foundation for Governor Gilmore's decision to recommend to the General Assembly a 20% tuition rollback in 1999. This report builds upon that foundation.

STRONG STATE GENERAL FUND SUPPORT

The Commission first considered the significant emphasis the Commonwealth has placed on tax support for higher education investment during the last five years. Since 1994, total tax support for higher education has increased substantially. In 2000 alone, state taxpayers will contribute approximately \$1.3 billion to Virginia's public colleges and universities compared to \$836 million in 1995.

Between 1995 and 2000, higher education appropriations from the state's general fund grew 54% - a rate well in excess of the overall general fund growth rate of 48% during the same period. As shown below, between 1995 and 2000 higher education became the state's leading "budget driver" for the first time in recent history, with a growth rate exceeding the growth in K-12 education, public safety, Medicaid, and mental health funding during the same period.

Even during the 1980s, when Virginia's economy was similarly strong, general fund spending grew faster in other areas than in higher education. Between 1980 and 1990, the state general fund grew by 154.5%, while higher education funding grew by 140.5%. During the early 1990s, Virginia's colleges and universities experienced actual reductions in general fund tax support as the Commonwealth weathered the national recession without resort to significant tax increases. During

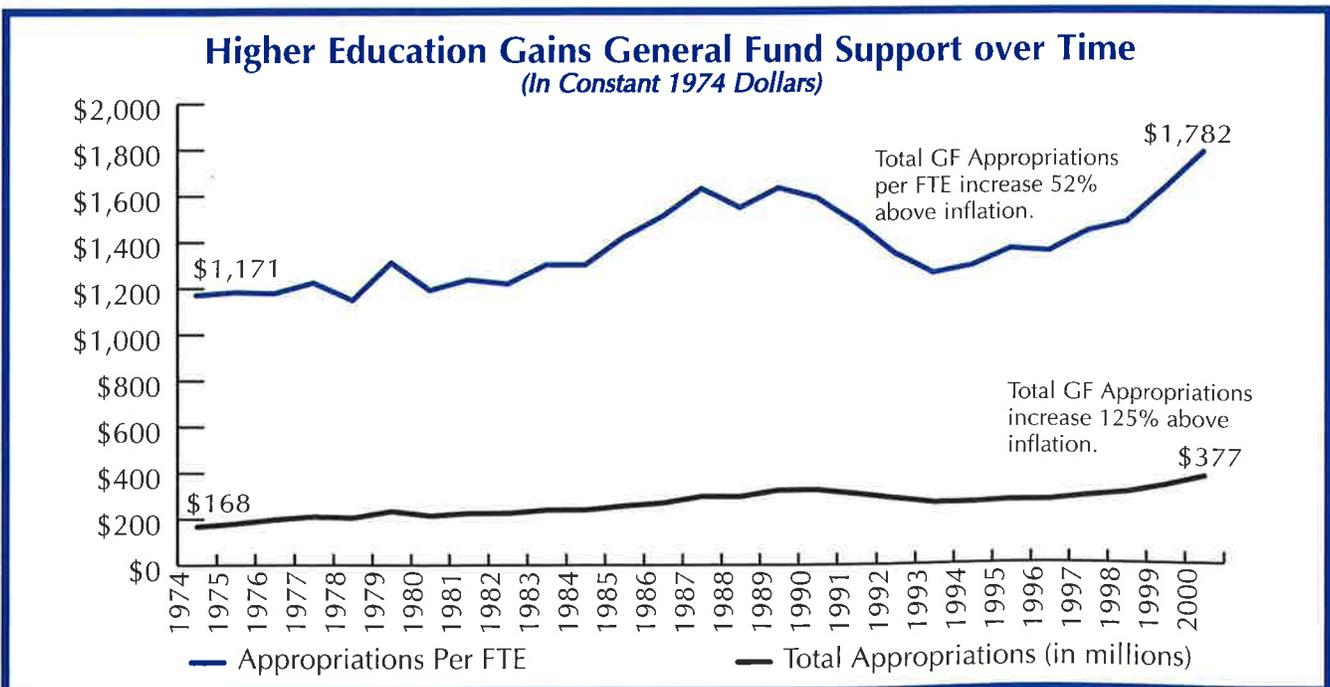


the 1990-1995 period, total general fund spending by the Commonwealth rose 23%, but general fund support of higher education actually declined by 2%.

The 54% increase in general fund support of higher education from 1995 to 2000 reflects the Commonwealth's

priority, during good economic times, to reverse the trend of the recession years, reduce tuition and fees paid by students and parents, and renew the state's long-standing commitment to its public colleges and universities.

During the last quarter-century, state tax support of higher education in Virginia has grown at an inflation-adjusted rate of 125% overall and 52% per FTE.

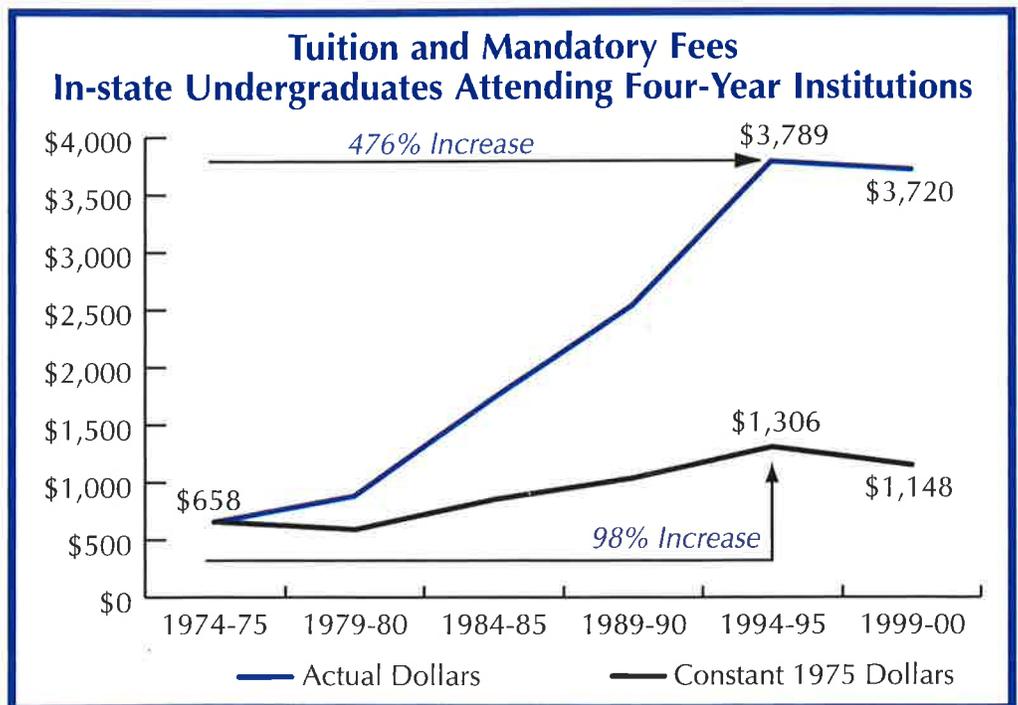


RELIEF FROM TUITION GROWTH

1990s, total spending by Virginia's colleges and universities continued to rise significantly. The funds used to finance this spending growth came from tuition-paying families, with the result that Virginia's public colleges and universities ranked among the most expensive in the nation.

The recession-driven tuition increases in Virginia were not unique to the recession era. As shown on the graph below, they were part of a longer term trend. From 1975 to 1995, average in-state undergraduate charges for tuition and mandatory E&G fees at Virginia's four-year institutions increased 476%, from \$658 to \$3,789. Adjusted for inflation, that amounted to a 98% increase. Thus, in 1995, the family of the average Virginia undergraduate student was paying roughly twice as much in tuition and mandatory fees as the same family was paying twenty years before.

In addition to the increased general fund support for higher education since 1994, several other steps have been taken to restrain and reduce tuition costs and make higher education more affordable. In 1995, the Commonwealth froze undergraduate tuition and mandatory fees charged at the public



institutions. Between 1995 and 2000, undergraduate tuition and mandatory fees dropped 12% at four-year institutions and 24% at two-year institutions. This decrease was largely attributable to the 20% rollback in tuition mandated by the Governor and General Assembly in 1999. Even with the 1999 tuition rollback, however, in-state undergraduate students at Virginia's four-year institutions in 2000 will pay 74% more, adjusting for inflation, than they paid in 1975. In-state undergraduates at Virginia's two-year colleges will pay 34% more, adjusting for inflation, than they paid 25 years ago.

Despite the recent reduction, the trend of escalating college tuition and fees between 1974-1975 and 1994-1995 demonstrates the need for continuing efforts to ensure that a college education remains within the financial reach of all qualified Virginia students.

THE NEED FOR COST CONTROL

Virginians have benefited greatly from taxpayer investment in higher education. A well-educated citizenry is the foundation of a free society, and the Commonwealth's colleges and universities have contributed significantly to the rising educational level in the state. They have helped to create a highly skilled workforce and to produce a large tax base from which to draw state revenues. They have assisted, both directly and indirectly, in attracting new business and industry to the Commonwealth and in enabling those enterprises and employers already in the state to flourish. In countless ways, Virginia's higher education expenditures are producing large dividends for the Commonwealth and its citizens.

To assure continued progress, however, state policymakers and institutional leaders should give ongoing attention to the rapid increase in the cost of higher education. Taking into consideration all sources of revenue (tax support, tuition and fee revenues, room and board charges, athletic revenues, research grants, and donations), Virginia's colleges and universities collectively spend approximately \$3.1 billion each year to operate their institutions. Tax support of higher education is at an all-time high with this year's (FY2000) appropriation of over \$1.3 billion, plus another \$260 million for capital projects. Ultimately, effective cost control and prudent resource allocation at Virginia's higher education institutions are essential because the state's economy likely will not permit sustained spending increases at high levels and continuous expansion unrelated to the number of students educated. The true measure of the Commonwealth's financial commitment to its colleges and universities is not how much parents and students are willing to pay over and above inflation-driven increases, but how much it can deliver in educational quality within the constraints imposed by economic conditions and competing claims on available resources.

1. Determining the Cost to Students - The Partnership between State Policymakers and Board Members

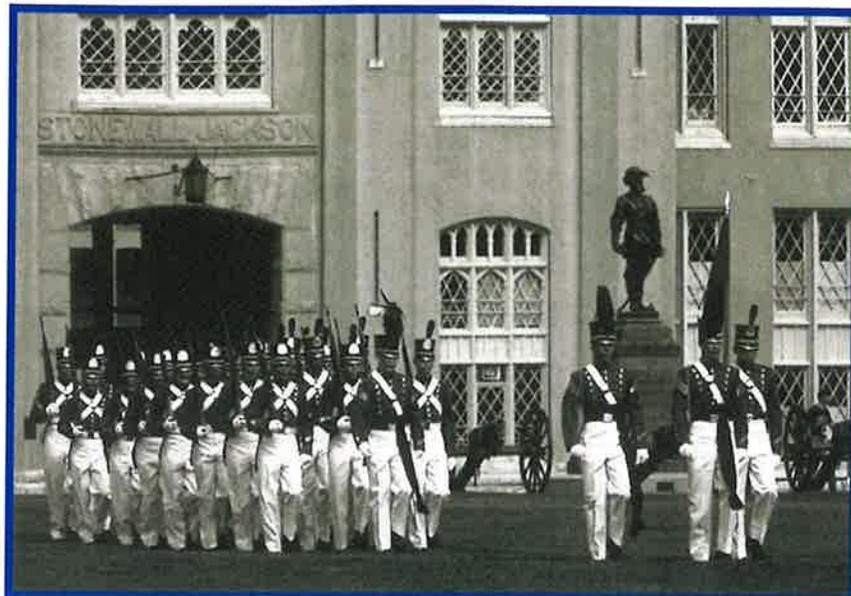
While committed to the ideal of quality public higher education, the Commonwealth has long recognized that students should pay a portion of the cost of their education. Student tuition and fees thus provide a substantial source of revenue for Virginia's colleges and universities.

In 1999, in-state student tuition and fees will cover slightly less than 30% of the cost of education at most Virginia institutions. Although institutions receive funding from other sources - the federal government, business and industry, athletic revenues, room and board charges, private donors, philanthropic organizations, and alumni - colleges and universities use these resources primarily to support their non-academic programs (e.g., financial aid programs, auxiliary enterprises, and sponsored research). Students and state taxpayers cover almost

the entire cost of the Educational & General (E&G) Program, which includes faculty salaries, academic support for students, general student services, plant operation and maintenance, as well as administrators' salaries and overhead.

Although both groups play a key role in financing higher education, the mix of support from students and taxpayers has varied over time. State

policymakers, who appropriate tax dollars and establish state laws, and the institutions' boards of visitors, who set tuition and fees within state guidelines, share the primary responsibility for determining the relative portion of the cost students and taxpayers will bear.



2. Setting Student Tuition and Fees

Policies on student tuition and fees influence heavily the decision whether an individual attends college and which college he or she chooses to attend. Tuition and fee policies in Virginia have varied significantly over time and among institutions. Although the institutions' boards of visitors have ultimate responsibility for setting tuition and fees, they cannot approve increases above levels authorized by the Governor and General Assembly. In order to standardize the amount students pay for their education, the Governor and General Assembly routinely provide board members with guidelines for setting tuition and fees.

In 1977, state policymakers created the first formal tuition policy, recommending that in-state students pay no more than 30% of the cost of their education. State taxpayers subsidize the remaining cost of education through general fund appropriations to the colleges and universities. Due to the varying costs of academic programs at each institution, this policy does not guarantee that all students pay the same tuition; rather, it ensures that all students pay the same relative share of their education cost.

The "70/30" tuition policy was modified several times during the 1980s, but essentially remained in place until the recession of the early 1990s. With the recession, state revenues became increasingly scarce while demands on state government for increased health care, social services, and elementary and secondary education grew. As a result, state policymakers placed less of a priority on investing in higher education during this period. Between 1990 and 1993,

E&G general fund appropriations were cut by more than \$100 million. Accounting for increases in enrollment and changes in inflation, state funding per FTE dropped 23% in the E&G program over the same time period.

With available state support limited, institutions raised resources through alternative means, in many cases choosing to raise student tuition and fees. During the four years of the recession (1990-1993), in-state tuition and mandatory fees at four-year colleges and universities rose almost 20%, adjusted for inflation. (Tuition and mandatory fees at two-year institutions similarly rose at an inflation-adjusted rate of 24%.) These increases made Virginia's major colleges and universities some of the most costly in the nation. Tuition and fees at Virginia's major public universities have ranked as high as 8th nationally.

Following the recession, state policymakers established new tuition and fee guidelines to offset the increases of the early 1990s and to make Virginia more competitive nationally. During the 1994-1996 biennium, Governor Allen and the

Governor Gilmore asked the Blue Ribbon Commission on Higher Education to recommend ways higher education could be more affordable, both to the taxpayer and to students and parents. In December of 1998, Governor Gilmore called for a 20 percent reduction in tuition and mandatory fees paid by students and their parents for undergraduate education. More than \$74 million in new general fund support is provided to fund this tuition and fee rollback. The Governor's 20 percent reduction continues today with undergraduate tuition frozen at the current level.

General Assembly established a policy that required boards of visitors to limit tuition increases in undergraduate tuition and fees to 3% for in-state students. In the 1996-1998 biennium, Governor Allen and state legislators limited tuition and fee increases further by requiring boards of visitors to "freeze" in-state tuition at its 1996 level. The tuition freeze continued through 1999. In 1999, informed by data documented in this Commission's Interim Report, Governor Gilmore and the General Assembly went still further by requiring institutions to decrease in-state undergraduate tuition 20%. In his most

recent Executive Budget, Governor Gilmore has proposed continuing to hold undergraduate tuition and mandatory E&G fees at their 1999 level through 2002. These policies have made Virginia more competitive nationally in extending educational opportunity. As a result of these policies, in 1999-2000, Virginia is projected to rank 18th nationally in the amount charged in tuition and fees among major public universities.⁶

In an effort to make college more affordable for Virginia families facing high tuition and increasing costs, the General Assembly also established Virginia's Higher Education Tuition Trust Fund. The program offers two college savings

⁶ Washington State Higher Education Coordinating Board. *Tuition and Fee Rates – A National Comparison*. Olympia, Washington. Selected years from annual survey publication.

options to the citizens of the Commonwealth. The Virginia Prepaid Education Program (VPEP) permits the prepayment, whether in one lump sum or by a series of payments over time, of college tuition and mandatory fees at community colleges, four-year universities, or a combination of the two. The VPEP guarantees payment of full tuition and mandatory fees at any public college in Virginia and provides funds that can also be used at Virginia private colleges, as well as at most colleges throughout the country. The Virginia Education Savings Trust (VEST) is a college savings option for students. Parents, grandparents, and individuals of all ages can save for all college costs, including tuition, fees, room and board, textbooks, and computers. Both savings options provide state and federal tax advantages that enhance their value as savings devices.

In addition to tuition, student fees can significantly impact the affordability of a college education. Colleges and universities raise fees to support a variety of functions - instructional activities in E&G programs, non-E&G programs, and student room and board. Certain fees are mandatory for all students. Others cover optional services such as user fees for parking or room and board.

Mandatory fees fall into two categories - those that support the E&G program and those that support other activities. For example, a college or university may establish a mandatory E&G fee for each student to cover the cost of laboratory supplies, photocopied materials, or other items used in the course of instruction. Similarly, an institution may charge mandatory non-E&G fees to offset the operating costs of eating establishments or to support intramural athletics.

Recently, students and state policymakers alike have expressed concern over increases in mandatory non-E&G fees. Over the last 25 years, mandatory non-E&G fees have risen three times faster than inflation. Without more vigorous oversight and public input, mandatory non-E&G fees may continue to rise. The Governor and General Assembly, therefore, included language in the 1998-2000 Appropriation Act to limit annual increases in mandatory non-E&G fees to the rate of inflation. Despite this restriction, however, students will pay nearly the same or more in mandatory non-E&G fees at some institutions in 1999-2000 than they will pay in tuition and mandatory E&G fees.

A number of higher education institutions have tuition and fee policies to ensure a quality education at an affordable cost. In the 1990s, Christopher Newport, Old Dominion and Virginia State implemented tuition and fee reductions at times when other schools were increasing fees. Virginia State implemented three separate reductions from 1990 to 1993, reducing its tuition 18% while the statewide average rose 36%.

With respect to fees, Richard Bland College ensured that students receive the full benefit of the Governor's 20% tuition rollback for FY 2000 by holding all fees, including non-E&G fees, constant at FY 1999 levels. And Old Dominion University opted to fund technology needs out of existing tuition and fees, rather than implement a new technology fee as authorized by the General Assembly in 1998.

It is important to recognize that several factors impact the level of mandatory non-E&G fees. First, such fees are subject to capital outlay decisions by the respective colleges and universities. Many students and parents today demand a significant number of amenities for student life, including recreational facilities, convocation centers, athletic centers, student activity centers, and the like. Since by law these activities must be fully self-supporting and cannot be funded with state resources, student fees are the primary source of revenues for such operations. Second, although these activities are not supported by the state, in many cases the operations employ state employees. Therefore, institutions are subject to mandated salary increases. While a 3% salary increase does not result in an overall 3% increase in operating costs, it does add upward cost pressures for these activities.

Mandatory Non-E&G Fees and the Cost of College 1999-2000

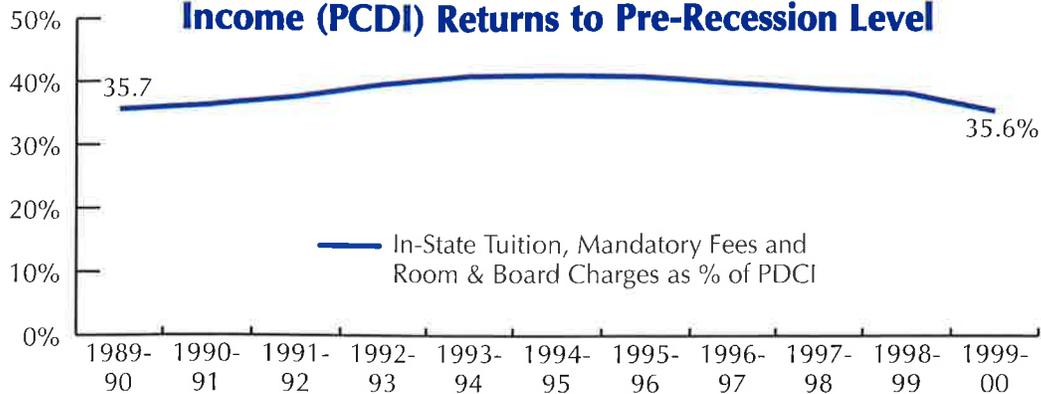
Institution	Tuition & Mandatory E&G Fees	Mandatory Non-E&G Fees	Total Charge (excl. room & board)	Mandatory Non-E&G Fees as a Percent of Total Costs
George Mason University	\$2,418	\$1,338	\$3,756	35.6%
Old Dominion University	\$2,200	\$1,596	\$3,796	42.0%
University of VA	\$3,144	\$986	\$4,130	23.9%
VA Commonwealth University	\$2,533	\$1,054	\$3,587	29.4%
VA Polytechnic Inst (VA Tech)	\$2,828	\$792	\$3,620	21.9%
William and Mary	\$2,352	\$2,258	\$4,610	49.0%
Christopher Newport Univ	\$1,952	\$1,096	\$3,048	36.0%
University of VA at Wise	\$1,930	\$1,262	\$3,192	39.5%
James Madison University	\$1,586	\$2,340	\$3,926	59.6%
Longwood College	\$2,062	\$1,862	\$3,924	47.5%
Mary Washington College	\$2,146	\$1,058	\$3,204	33.0%
Norfolk State University	\$1,530	\$1,484	\$3,014	49.2%
Radford University	\$1,629	\$1,258	\$2,887	43.6%
VA Military Institute	\$2,964	\$3,050	\$6,014	50.7%
Virginia State University	\$1,588	\$1,498	\$3,086	48.5%
Richard Bland College	\$1,552	\$100	\$1,652	6.1%
VA Community College System	\$1,145	\$14	\$1,159	1.2%

Source: Virginia Department of Planning and Budget, 1999.

With the recent changes in state policy, tuition and fees at Virginia's institutions are returning to their pre-recession levels. When compared to per capita disposable income, the median total charge⁷ for undergraduate students at Virginia's four-year institutions in 1999 returned to its pre-recession levels for the first time since 1989. Furthermore, with the 20% rollback, in-state students once again paid no more than 30% of the cost of their education in 1999.

⁷ Student charges include tuition, all mandatory fees, and room and board charges at Virginia's public, four-year institutions as reported by the State Council of Higher Education.

Cost of an Undergraduate Education as a Percentage of Per Capita Disposable Income (PCDI) Returns to Pre-Recession Level



MAKING COLLEGE MORE AFFORDABLE FOR STUDENTS - RECOMMENDATIONS FOR TUITION AND FEE POLICIES

To ensure that higher education remains an affordable option for Virginia's students and their families, the Commission recommends the following actions:

22. The Governor and General Assembly should provide resources to maintain the ceiling on tuition and mandatory E&G fees until the cost of a public college education in Virginia has recovered from the recession-related tuition increases of the early 1990s and is again competitive nationally. The State Council of Higher Education and institutions' boards of visitors should monitor fee increases to ensure they do not undermine the gains made in affordability as a result of tuition rollbacks and restraint.
23. Once the effects of recession-era tuition increases have been reversed and the cost of public higher education in Virginia is competitive nationally, the Governor and General Assembly should provide resources to limit undergraduate tuition increases for Virginia resident students to the rate of inflation, as measured by the Consumer Price Index. To the extent a college or university claims a need for revenue increases over and above inflation, all alternative sources of those additional revenues - reprioritization of existing resources, savings from greater efficiencies, private donations, auxiliary revenues and additional general fund tax revenues - should be explored.
24. The State Council of Higher Education should develop a process through which institutions and their boards of visitors will be required to notify the public and receive public comments on proposed increases in mandatory non-E&G fees before requesting such increases through the budget process.
25. To inform and assist students and their parents as higher education consumers, boards of visitors should require that any publication of student costs list each charge separately, including tuition and each mandatory fee, and describe what costs and/or services each charge covers. Further, boards of visitors should require that any changes anticipated in tuition and fees during a student's expected four-year term be reported.

3. Providing Student Financial Aid at Virginia's Public Colleges and Universities

Student financial aid policies provide another mechanism for containing the cost of higher education to the consumer. Some argue that tuition and fees should be allowed to rise and that the Commonwealth should focus tax dollars on providing financial aid to the needy students who are thereby priced out of a college education. They argue this policy protects institutions from bearing the brunt of fiscal restraint while preserving access to college. Others argue that a policy of "high tuition, high aid" forces middle-class students and families to incur debt to pay high tuitions. Moreover, if tuition increases are unrestrained, taxpayers must spend ever increasing amounts to meet the rising tide of financial need created by high tuition. This potential is avoided by constraining tuition and fees across the board for all students and funding financial aid programs to meet the true need of poor students.

With relatively high tuition, the Commonwealth has relied heavily on financial aid as a means of ensuring affordable and accessible higher education. In 1997-1998, Virginia ranked 8th nationally in terms of the percentage of the state budget dedicated to student financial aid.⁸ That year, slightly more than half of Virginia residents attending an undergraduate program at one of the state's public four-year institutions received some form of financial aid. On average, these students received over \$6,300.

Typically, states can fund two types of student financial aid:

- Need-based aid, which assists the lowest income students; or
- Merit-based aid, which rewards students for their academic achievement.

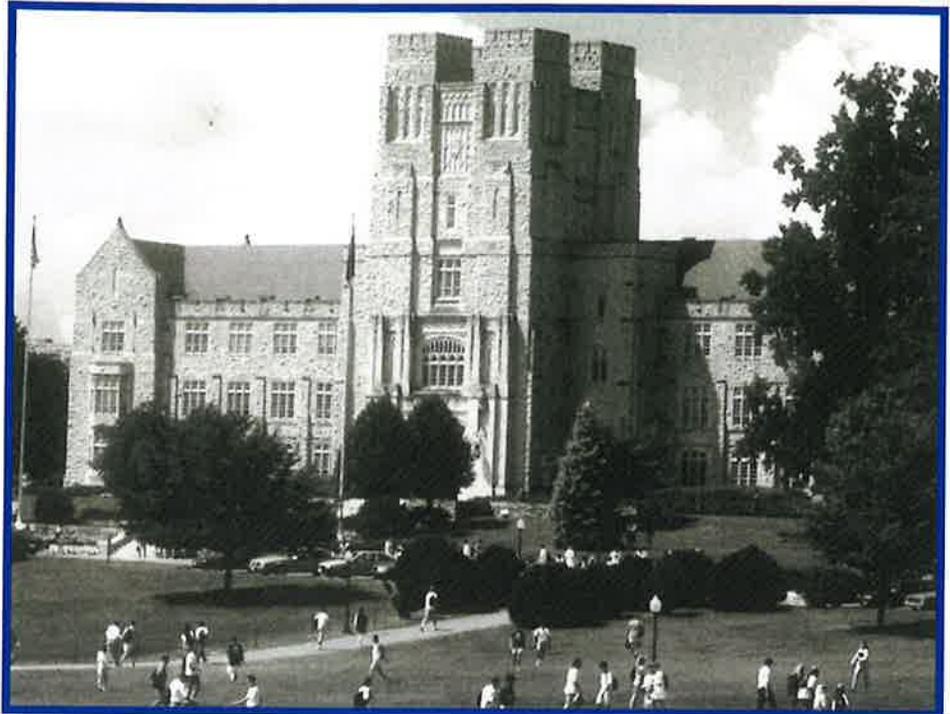
During much of the 1980s, Virginia funded both need- and merit-based financial aid. However, with budget cutbacks in the early 1990s, the Commonwealth established need-based aid as its top priority. Although the state still supports some financial aid programs that have both need- and merit-based components, the last fully merit-based scholarship was awarded for the 1998-1999 academic year. Virginia does not currently fund any financial aid program that relies exclusively on merit as an award criterion.

In providing support for need-based aid, the State Council of Higher Education annually calculates the level of *unmet need* at Virginia's public colleges and universities. Using federal guidelines, "unmet need" is defined as the cost of education less the resources available to students on a grant basis, including expected student and family income, scholarships, grants, and other sources. Until

⁸ National Association of State Student Grant & Aid Programs. *29th Annual NASSGAP Survey Report*. 1998.

recently, the state has set a goal of providing ample state resources to meet 50% of unmet need at each Virginia institution. The 50% goal is based on the assumption that students can cover the remaining 50% through other sources, such as student loans and work-study programs, that are available but not taken into account under this definition.

Despite this goal, the Commonwealth last provided ample funding to meet 50% of unmet need in 1989. Since that time, the state typically has funded between 35% and 45% of unmet need. In 1999-2000, state student aid is expected to meet approximately 43% of unmet need.



In an effort to provide more relief to Virginia's students and their families, the State Council

of Higher Education recently recommended an alternative funding strategy for need-based student financial aid. Rather than considering only the resources immediately available to students on a grant basis (i.e., expected family contributions, grants, and scholarships), the State Council recommends also considering reasonable "self-help" mechanisms - primarily in the form of student loans and student work-study programs - that students can use to offset the cost of education. Taking into account all available resources, the State Council of Higher Education has calculated students' true need with the recommendation that the state meet 100% of this need.

MAKING COLLEGE MORE AFFORDABLE FOR STUDENTS - RECOMMENDATIONS FOR FINANCIAL AID

Even with recent efforts to lower tuition and fees at Virginia's public colleges and universities, residents attending a Virginia institution will spend \$3,447 annually, on average, on their undergraduate education this year. If a student chooses to live on campus, the average annual cost increases to \$8,566.⁹ These costs prohibit many Virginians from pursuing a college degree. For these students and

⁹ Figures include 1999-2000 tuition and all mandatory fees plus the cost of room and board for residential students.

their families, state-supported financial aid provides an opportunity for college study that otherwise might not exist. Therefore, to make a college education more affordable for all Virginians, the Commission recommends the following actions:

26. **The Governor and General Assembly should adopt the calculation of "true need" recommended by the State Council of Higher Education and supported by the Joint Legislative Audit and Review Commission, as the basis for the Commonwealth's higher education financial aid policy. Further, the Governor and General Assembly should assign the highest priority to ensuring that the Commonwealth achieves and maintains full funding of such "true need."**
27. **Once the Commonwealth achieves full funding of "true need," the Governor and General Assembly should establish a merit-based scholarship program that will further encourage students to achieve academic excellence. Performance on the Commonwealth's nationally acclaimed Standards of Learning tests should be a central factor in assessing such academic excellence.**
28. **Once the Commonwealth implements a merit-based scholarship program, the Governor and General Assembly should address critical work force needs - including current shortages in the fields of teaching and technology - with an additional targeted scholarship program.**

4. Partnership with Virginia's Independent Colleges

In addition to providing for need-based student financial aid at public colleges and universities, the Commonwealth provides financial assistance through the Tuition Assistance Grant (TAG) program to Virginia residents attending independent colleges in the state. Established in 1972, the TAG program was initially undertaken to help address rising capital construction costs at public institutions by making it more affordable for students to attend private institutions. Expressly authorized by the Virginia Constitution, the TAG program provides recipients with an annual grant to offset part of the cost of a private college education.

The TAG program provides many students - 15,000 in 1999-2000 - with the opportunity to attend a private institution. The program benefits not only its recipients, but Virginia taxpayers as well by providing a less expensive alternative to subsidizing the cost of a public college or university. In 1999-2000, state general fund support per in-state student will be \$8,369 at public four-year institutions and \$4,502 at public two-year colleges - significantly more than the \$2,700 grant awarded to TAG recipients.

According to the Council of Independent Colleges for Virginia, which represents the interests of many of Virginia's private higher education institutions, Virginia's independent colleges have been disadvantaged in attracting new Virginia student

enrollments as a consequence of the 20% tuition rollback at public colleges and universities in 1999. With that rollback, tuition and mandatory fees dropped an estimated \$200 at Virginia's public institutions. To offset this new competitive advantage enjoyed by public institutions, the Council for Independent Colleges for Virginia has reasonably suggested that the TAG grant amount should be increased significantly.

The Commonwealth's independent colleges contribute materially to the diversity of higher education opportunities in the state. The Commonwealth should continue to support them through increased TAG funding.

MAKING COLLEGE MORE AFFORDABLE FOR STUDENTS - RECOMMENDATIONS FOR TUITION ASSISTANCE GRANT PROGRAM

The Tuition Assistance Grant program increases student access to college in a cost-efficient manner for taxpayers and is a vital component of Virginia's broader program of higher education financial aid. The Commission therefore recommends the following actions:

29. **The Governor and General Assembly should increase the amount of the Tuition Assistance Grant sufficiently (a) to eliminate at least the independent colleges' competitive disadvantage resulting from the recent tuition rollback at public institutions and (b) to enable Virginia's independent institutions to continue assisting the Commonwealth in meeting demand for increased student enrollment.**

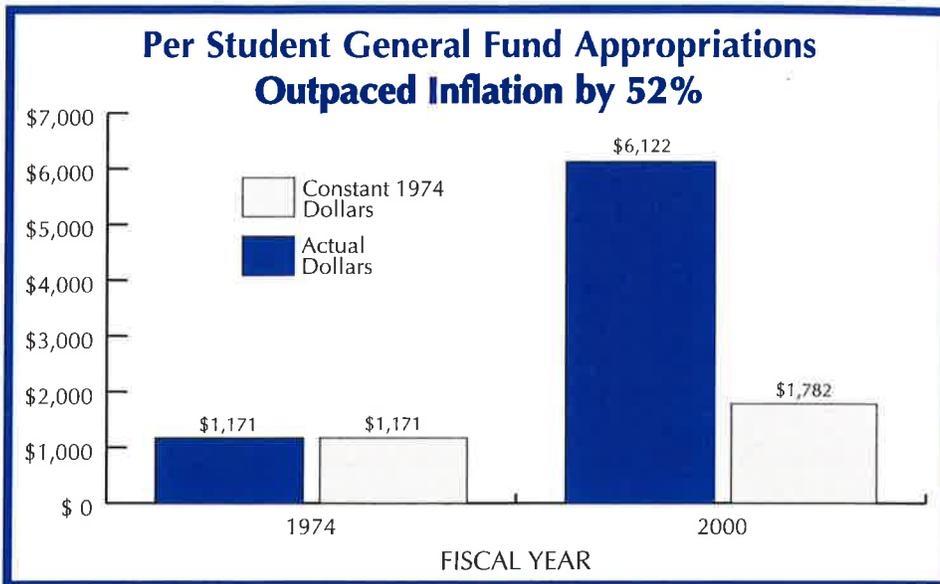
30. **To assist the Governor and General Assembly in determining the appropriate funding level for the Tuition Assistance Grant program in the future, the State Council of Higher Education should study the cost effectiveness of the Tuition Assistance Grant program in achieving its statutory goals and the capability and willingness of Virginia's independent colleges to assist the Commonwealth materially in meeting anticipated enrollment increases.¹⁰**

5. Determining the Cost to Taxpayers—The Partnership between State Policymakers and Board Members

The upward trend in the cost of higher education affects students and their families, but it also affects taxpayers. Today, colleges and universities in Virginia are spending more per student than ever before. In 1999, Virginia institutions

¹⁰ For CICV's analysis of the additional enrollment capacity available at many of Virginia's private institutions, see Appendix C.

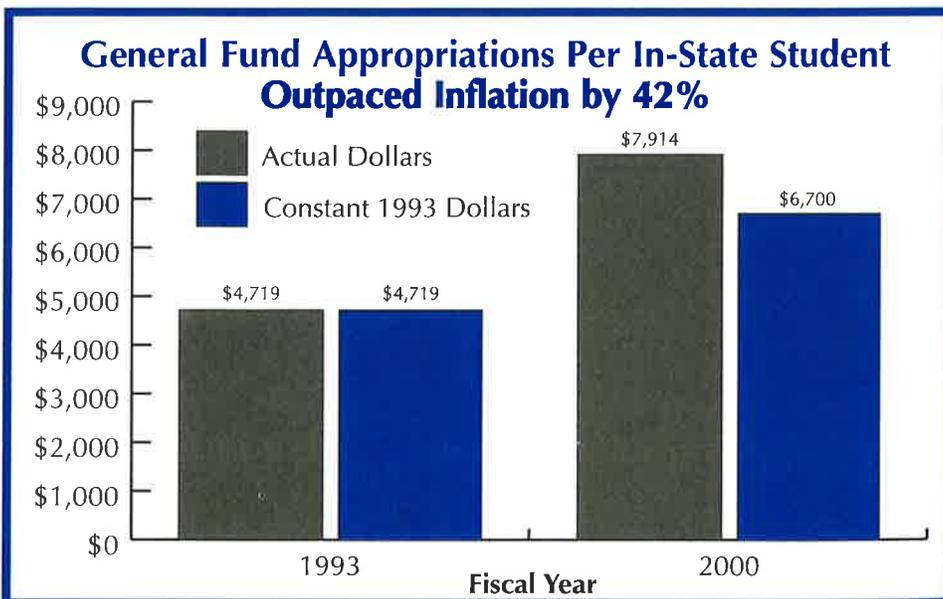
spent almost \$2 billion in E&G programs. That figure does not include capital expenditures or substantial expenditures of over \$1.5 billion annually on non-educational functions. It also does not include hundreds of millions of dollars spent collectively by university-affiliated foundations on behalf of the institutions.



Since the mid-1970s, the growth in the amount taxpayers have been called upon to contribute to higher education has outpaced inflation by over 50%. Furthermore, since 1993, the Commonwealth has maintained a policy of funding only in-state students. The cost of education for out-of-state students must be covered

entirely by out-of-state tuition and fees. Therefore, since 1993, general fund appropriations per in-state student have risen 40% over the rate of inflation.

The reasons for the increased costs in higher education are complex. College administrators and boards of visitors determine, in part, the cost of education by



responding to the demands of students and faculty in the marketplace. For example, many institutions have found that student expectations have risen over time. To remain competitive in attracting the best students, institutional representatives state that they must offer new academic courses, provide additional

student services and amenities, and upgrade computer equipment on campus, which in turn raises institutional costs. Likewise, they may conclude it is necessary to launch new academic research initiatives or to construct new, state-of-the-art classrooms and laboratories to attract top-notch faculty.

General Assembly appropriates funds for annual salary increases awarded to faculty and classified staff. As the legislature responds to escalating salary demands and competition in the marketplace for higher education faculty, the cost impact can be enormous. Between 1994 and 2000, the Commonwealth appropriated over \$200 million from the general fund for faculty salary increases alone. With personnel costs comprising almost three-fourths of E&G expenditures, state compensation policies here and around the country can quickly contribute to a significant increase in overall higher education costs.

State government may also contribute significantly to rising costs through other funding decisions. For example, institutions received over \$25 million in state support to accommodate enrollment growth between 1996 and 2000. Through the Higher Education Equipment Trust Fund, over \$385 million has been allocated for the acquisition of technology and equipment on campus.

As institutions strive to address internal and external demands and to expand their physical plants, missions, and programs, costs necessarily will rise. In the absence of active management, prudent resource allocation, and some fiscal restraint, those cost increases can be dramatic. At the same time, all of Virginia's higher education institutions strive to focus and clarify their priorities in accordance with their educational missions and strategic plans. They often find innovative and cost-effective ways of achieving identified objectives and demands for expansion.

a. The Evolution of Higher Education Funding

Prior to the creation of a coordinated system of higher education in Virginia, few state-level funding policies existed in higher education. Instead, each institution lobbied the Governor and legislature independently with its funding requests. During this time, institutional appropriations were often based more on political influence than sound education or fiscal policy. With the establishment of the State Council of Higher Education and the development of a coordinated system of higher education in the Commonwealth, the state moved to a more formalized and stable funding policy.

James Madison University (JMU) has been recognized for its efforts to reduce the escalating cost of higher education. Per credit hour, JMU is the lowest cost producer of higher education in Virginia's system of public, four-year colleges and universities. JMU also has the lowest cost among its national peer group of 24 similar institutions developed by the State Council of Higher Education. The peer comparison data is based upon the most recent year for national data available (FY 1997).

For five years in a row, James Madison University ranked first in the South in a listing of the "Nation's Most Efficient Institutions" compiled by U.S. News & World Report. The magazine determined efficiency by comparing the academic quality of the institution with the financial resources available to it. Only the top schools listed in U.S. News' annual quality rankings were considered for the efficiency ratings. JMU ranked first in the magazine's efficiency ratings in 1993, 1994, 1995, 1996 and 1997. The efficiency ranking was discontinued after the 1997 rankings.

The College of William and Mary is highlighted for its effective use of resources, an achievement recognized repeatedly by the U.S. News & World Report. In 1998, William and Mary ranked second among all national universities in terms of efficiency, when efficiency is determined by the educational quality produced per dollar invested. Although William and Mary spends only \$11,580 per full-time-equivalent student, it ranks sixth in quality among the best public universities in the nation, according to U.S. News. Public universities in the top 25 report an average per-student expenditure of \$21,887, nearly double William and Mary's expenditure. William and Mary's achievement is underscored by the fact that the College's graduates are admitted to law and medical schools at rates that substantially exceed the national average.

(1) Appendix M - A More Predictable Model

In the late 1960s, the Division of the Budget (the predecessor to the Department of Planning and Budget) established the first higher education funding guidelines for use in the 1968-1970 biennium. The budget office summarized these guidelines in one of the appendices of its budget instructions, creating their nickname - "Appendix M." In 1974, the General Assembly transferred responsibility for the guidelines contained in Appendix M to the State Council of Higher Education.

Over the next several years, the State Council of Higher Education refined the guidelines to include specific staffing ratios for various academic

disciplines. These ratios were based on a complex analysis of academic programs, reflecting the recognition that some programs by their nature required more instructional positions than other programs. They also took into account the number of academic and institutional support positions required for each student and faculty member. The staffing guidelines attempted to provide adequate resources for the number of students institutions were projected to serve.

In addition to addressing the institutions' personnel needs, the Appendix M guidelines provided funding parameters for library materials, technology, and the operation and maintenance (O&M) of the physical plant. The guidelines aimed to provide ample funding for institutions to maintain their current library collections, replace aging computers, meet the growing need for new research equipment and other technologies on campus, and operate and maintain their buildings and facilities.

Despite general support for the staffing, library, technology, and O&M guidelines that evolved from Appendix M, the Commonwealth had difficulty funding higher education at the level specified by the model. In fact, during its use between 1968 and 1990, the state never fully funded Virginia's higher education system at 100% of guidelines. Rather, state policymakers opted to prorate the required funding based on available state resources, establishing a goal of funding 90% of guidelines in the late 1980s. Faced with the impending recession of the early 1990s, state

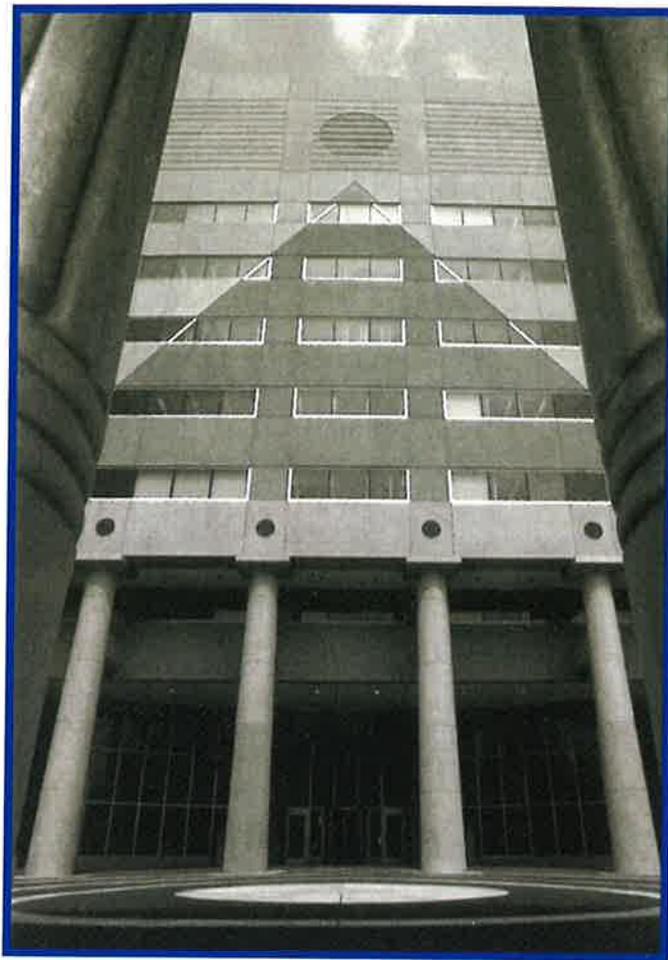
policymakers ultimately viewed Appendix M as an unrealistic funding model and abandoned it in 1990.

(2) New Approaches, Familiar Priorities for Higher Education

Without consistent funding guidelines, state policymakers scrambled to develop appropriate funding policies for higher education during the 1990s. Although widespread support for Appendix M had diminished, state policymakers realized that, notwithstanding the differing missions of Virginia's public colleges and universities, those institutions shared similar funding concerns in many areas. Policymakers were particularly concerned with the institutions' ability to

- attract and retain quality faculty;
- maintain appropriate staffing levels in the face of fluctuating enrollments;
- operate and maintain their physical plants; and
- keep pace with the growing demands of technology.

Acknowledging that all institutions faced ongoing needs in these areas, policymakers once again moved toward developing new funding policies.



b. Faculty Salaries – Remaining Competitive with Peer Institutions

The Governor and General Assembly recognized that quality academic programs depend on having an ample number of high-caliber faculty members. In order to promote and cultivate quality programs, institutions constantly work to recruit and retain the best faculty available. This goal requires Virginia's colleges and universities to provide compensation packages, teaching facilities, and research opportunities that can compete with those offered by other institutions nationwide.

Since the 1960s, the State Council of Higher Education has used various benchmarks to compare Virginia's salary levels to other states and institutions. During the late 1970s, the State Council expanded its use of benchmarks with the development of a national peer-benchmarking model. In 1984, state policymakers formally recognized the value of national peer-

benchmarking. The Governor and General Assembly included language in the Appropriation Act directing the State Council of Higher Education to establish a benchmarking process that recognized the unique mission of each Virginia public college and university and reflected "the regional and national patterns of recruiting for each institution." As a result, the State Council developed a process for selecting a group of peer institutions with comparable characteristics for each Virginia college and university.

During the 1986-1988 biennium, the Governor and General Assembly established the goal of raising average faculty salaries at Virginia's public institutions to the 60th percentile of their national peer institutions. Their intention was to ensure that all Virginia institutions could compete with similar institutions nationally in attracting and retaining quality faculty.

The national peer selection process has changed somewhat over time, with the most recent revisions occurring in 1997. Under the current process, the State Council of Higher Education uses a cluster analysis model to select those institutions most like Virginia public institutions.¹¹ The model identifies 50-75 colleges and universities outside the state that most closely resemble the Virginia institution. Once these institutions are identified, representatives from the institutions, the Governor's Cabinet, the General Assembly money committees, the State Council of Higher Education, and the Department of Planning and Budget use more subjective variables to narrow the group to no more than 24 colleges or universities.

c. Enrollment Growth - Keeping Pace with a Growing Student Body

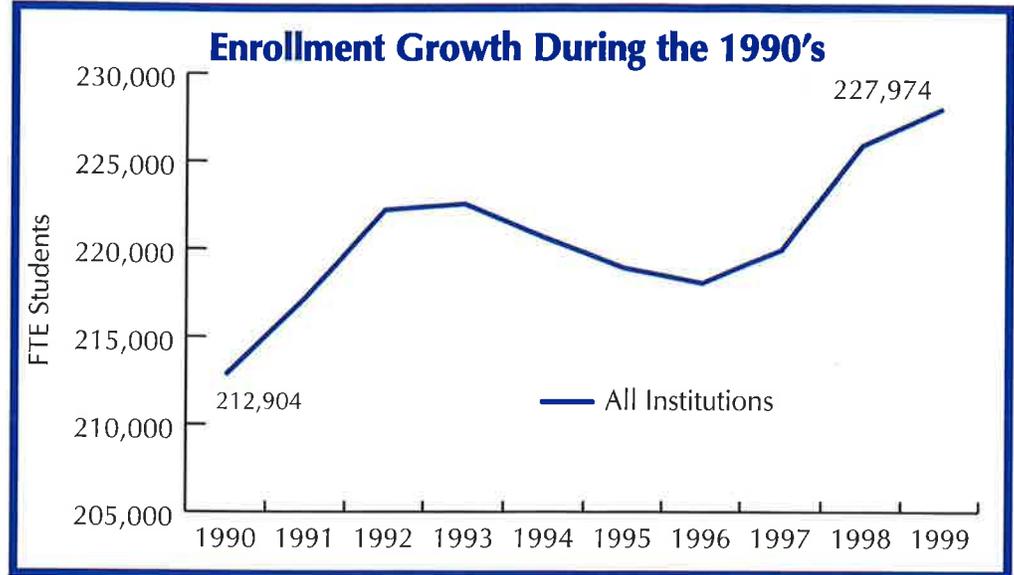
The Appendix M guidelines were established, in part, to ensure that institutions had ample resources to accommodate both the current number of enrolled students and additional students as they enrolled later. Even after the guidelines ceased to be used, institutions faced continuing growth in enrollment during the early and late 1990s, with more than 15,000 full-time equivalent students added during the decade.

With no guidelines in place, state policymakers faced the difficult task of determining how much additional funding and personnel institutions needed in order to accommodate this growth. Beginning with the 1990-1992 biennium, state policymakers chose to fund enrollment growth on an ad-hoc basis. Then, with the adoption of restructuring initiatives in 1994, the Commonwealth opted for a new funding methodology for enrollment growth during the 1996-1998 and 1998-2000 biennia. In each of these

¹¹ The selection process is based on multiple characteristics of each Virginia institution including the number of students enrolled, percent of part-time students, percent of bachelor, master and doctoral degrees awarded, average SAT scores of entering students, institutional expenditures on research, percent of degrees awarded in each academic area, and percent of faculty with terminal degrees.

biennia, the state provided additional funds to institutions with greater than 2% annual enrollment growth. Institutions with less than 2% annual growth were expected to absorb the cost of additional students through savings achieved from their restructuring efforts. Specifically, under this

methodology, institutions received funding to hire additional faculty and staff (based on the current staffing ratios at each institution) at each institution's average



employee salary. Despite the endorsement of this policy over the last two biennia, institutions have stated clearly that they cannot continue to absorb 2% of enrollment indefinitely.

d. Capital Outlay – Ensuring Adequate Space for New Students

Between 1980 and 2000, enrollment at Virginia's colleges and universities will have risen by 30%. The growth in enrollment forced institutions to contend not only with ongoing operating costs, but with space limitations as well. Some institutions faced limitations in the sheer number of buildings on campus, while other institutions faced limitations with the types of buildings they had on campus. Even at colleges and universities facing relatively small changes in enrollment, changes in academic programs, program mix, and improvements in technology often required institutions to remodel existing buildings.

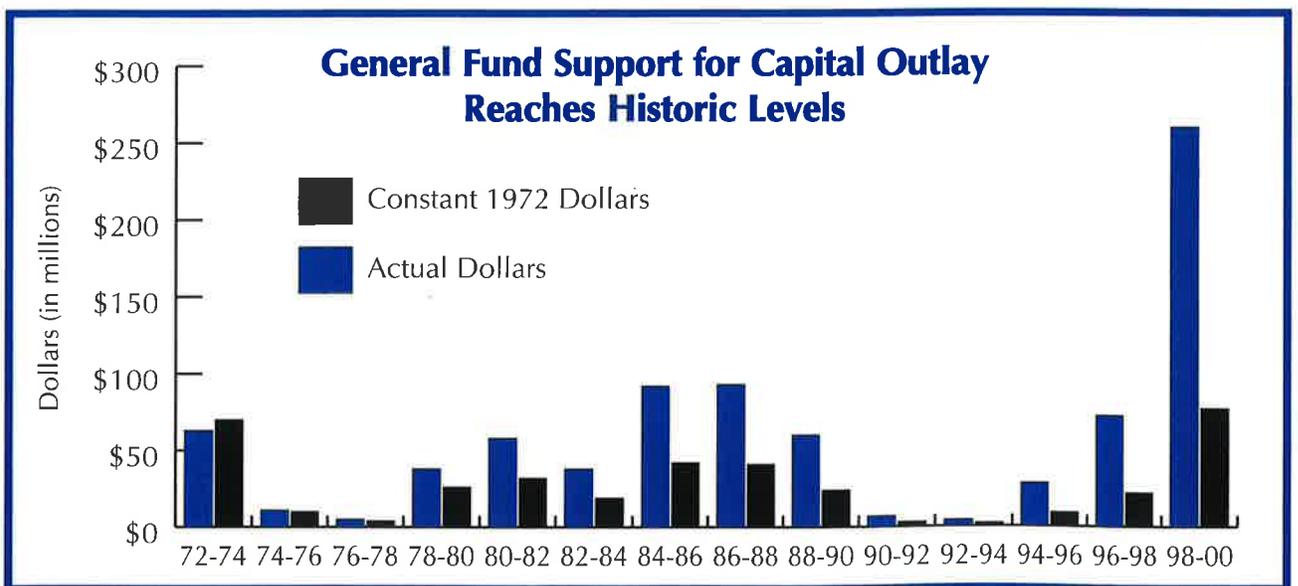
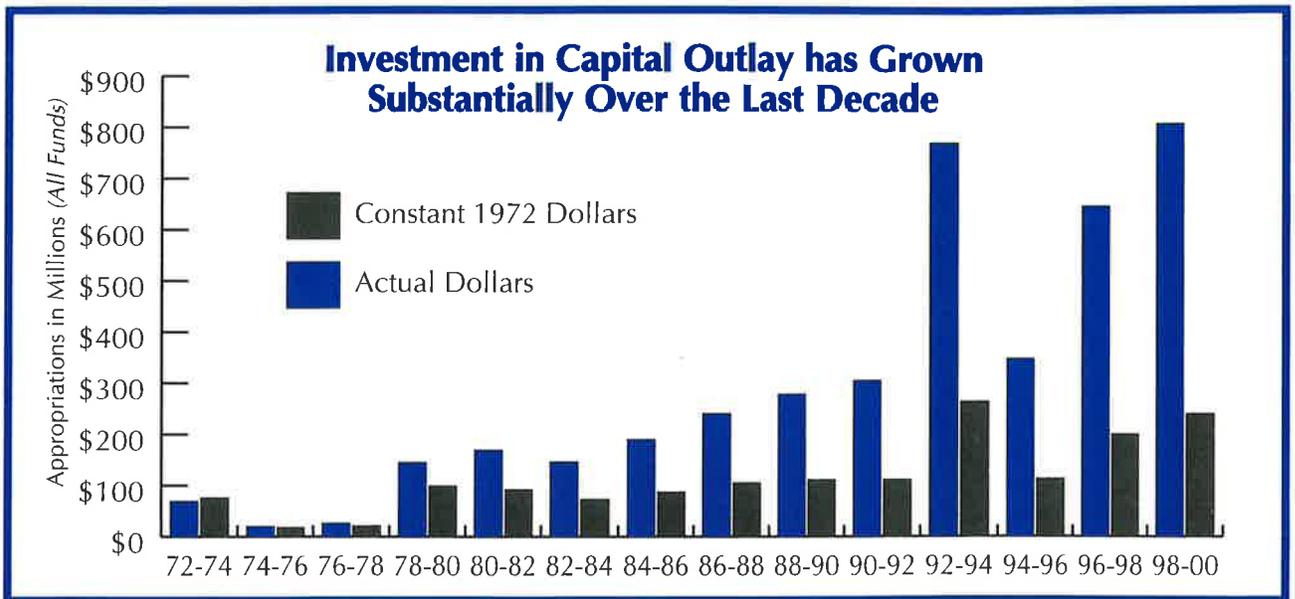
Although the state has had no formal policy for funding capital outlay, since the early 1990s state policymakers have relied on four criteria to prioritize funding for capital projects. Specifically, institutions are more likely to receive funding for the renovation of an existing building or the construction of a new facility if

- their existing facilities are in poor condition;
- they use their existing facilities at or close to capacity;
- they anticipate a significant rise in enrollment; or
- they have a unique need in one of their academic programs that requires specialized facilities.

Proposed capital projects meeting more than one of these criteria are given highest priority. Furthermore, under Virginia law state taxpayer dollars can

only be used to support the construction of academic or administrative facilities. The state cannot provide funding, for example, to construct student dormitories, athletic facilities, or dining halls.

The Commonwealth's investment in capital outlay on college campuses (excluding funding for maintenance reserve) has totaled over \$4.5 billion since 1972. That figure includes all capital projects and all fund sources, including general fund tax support and bonds. Of that total amount, tax dollars from the state's general fund provided over \$830 million. The state's current biennial budget (1998-2000) appropriates the largest amount ever appropriated in general funds for capital outlay on college campuses - over \$260 million.



e. Operation and Maintenance - The Cost of an Expanding Physical Plant

As new buildings were constructed, policymakers realized that institutions needed additional resources to light, heat, cool, operate, and maintain the new facilities. The operation and maintenance of the new buildings were considered operating costs and were not provided in the capital project appropriations used to finance construction of the facilities.

In 1992, the Commonwealth routinely began providing additional resources to institutions as new facilities opened. Recognizing differences in building size, function, and location, state policymakers did not adopt a specific policy for funding operation and maintenance costs, but instead opted to provide funding on a case-by-case basis as institutions constructed new buildings. This approach continues today. In this context, it is important that policymakers understand that the approval of capital projects, whatever the source of funds, carries with it inherent operation and maintenance costs that will require annual expenditure by the Commonwealth once a building is completed and in use.

In addition, aging campus facilities have significant maintenance needs that go beyond day-to-day operations or repairs. In the summer of 1998, the senior finance officers of Virginia's public institutions of higher education carried out a study that quantified the magnitude of the deferred maintenance problem in educational facilities and suggested a plan for addressing the backlog. The study concluded that if allowed to go unchecked, deferred maintenance could total \$1.4 billion by 2009. The study recommended that the Governor and General Assembly adopt a plan for eliminating the backlog, over time, to a point at which the level of deferred maintenance did not exceed 5% of the value of the physical plant. The State Council of Higher Education will shortly conduct its own study of deferred maintenance to (1) determine reliability of instrumental methods for assessing building needs, and (2) to adopt a uniform methodology for identifying deficiencies to provide consistency across colleges and universities.

f. Higher Education Equipment Trust Fund - Technology's Growing Demands

Since funding guidelines for technology were phased out with Appendix M, support for the purchase of instructional technology and equipment has been funded primarily through the Higher Education Equipment Trust Fund. Under this program, institutions can use proceeds from bond sales issued by the Virginia College Building Authority to supplement their equipment budgets. Institutions cannot use the Higher Education Equipment Trust Fund resources to replace funds appropriated for equipment in their operating

budgets, but instead are required to use those resources to purchase additional equipment they would not otherwise be able to afford.

Under the current program, the State Council of Higher Education surveys institutions to determine their need to purchase new equipment and replace obsolete equipment. Based on its findings, the State Council recommends an amount of additional funding to meet institutions' needs. The Virginia College Building Authority then sells bonds to raise the needed funds and transfers the proceeds to the institutions. During the late 1980s, institutions were required to use equipment trust fund dollars to target several academic disciplines: academic computing, engineering, biological sciences, physical sciences, and health science disciplines such as veterinary medicine, dentistry, pharmacy, medicine, nursing, and allied health professions. State policymakers subsequently broadened use of the funds to support institutional centers of excellence and additional academic programs, including fine arts, psychology, and clinical medicine.

g. Institutional Priorities - Specific Requests from the Colleges and Universities

Despite the development of funding policies in several areas and the use of other funding mechanisms, institutions still routinely seek support of institution-specific initiatives. Each biennium, institutions request additional funding for the unique aspects of their missions as well as newly proposed activities. These requests have ranged from supporting the unique military activities at Virginia Military Institute to expansion of distance learning courses through Old Dominion University's Teletechnet to development of a new academic program in health sciences at George Mason University. State policymakers review such requests individually and authorize the appropriation of state funds based on the merit perceived in each request and the funds available.

ASSESSING THE CURRENT FUNDING STRUCTURE FOR HIGHER EDUCATION

With institutional spending growth outpacing inflation and total spending now at nearly \$3.5 billion in 1999,¹² it may appear that the existing funding mechanisms serve higher education well. Since Appendix M was discarded and alternative funding strategies implemented, general fund appropriations to higher education have increased 16% in constant (inflation-adjusted) dollars despite the 1990-1994 recessionary decline. Including nongeneral fund appropriations, total appropriations to higher education have increased 40% in constant dollars over the last decade.

¹² This figure represents total institutional spending in all programs--E&G, financial aid, auxiliary enterprises, sponsored programs, capital outlay and others--as reported in the Commonwealth Accounting and Reporting System.

The level of spending, of course, is not the only, or necessarily the best, measure of how well current funding policies are serving the state's objective of excellence in higher education at affordable cost. From the higher education community and many experts in the field, the Commission heard the criticism that the current state funding structure encourages and rewards aggressive annual lobbying by institutions, but impedes long-term planning and strategic management at the institutional level. Rather than enabling an appraisal of spending proposals purely on their merit in the context of system-wide needs and goals, the existing funding approach often fosters institutional rivalry and pits legislators against one another in the quest to fund "hometown" institutions.

The current funding structure serves the salutary purpose of providing resources for identified state priorities such as technology investment and higher faculty salaries, but even this advantage is not without certain drawbacks. State-driven, system-wide policies tend to tie the hands of institutional managers and boards of visitors who are best positioned to identify and address institutional priorities. Such policies may also create the perception of institutional entitlements in areas like faculty salaries and enrollment growth, thereby discouraging innovation and efforts to contain costs.

In short, the current funding structure does not foster a cohesive vision for the future of higher education in Virginia, nor does it encourage or permit institutions to operate strategically in developing and pursuing long-term goals.

1. A Call for Restructuring

The recession of the early 1990s brought some of these shortcomings into focus. In 1993 and 1994, Governors Wilder and Allen and the General Assembly called on Virginia's colleges and universities to undergo a process of restructuring that would

- effect long-term changes in the deployment of faculty;
- ensure the effectiveness of academic offerings;
- minimize administrative and instructional costs;
- prepare for the demands of enrollment increases; and
- address funding priorities as approved by the General Assembly.¹³

Colleges and universities complied, first submitting restructuring plans to the Secretary of Education in 1994.

Institutions estimate that they will save Virginia taxpayers over \$100 million once their restructuring plans are fully implemented. Despite the anticipated cost savings, however, Virginia's institutions allocate approximately the same

¹³ Item 183 (paragraph E), Chapter 966, 1994 Acts of Assembly.

proportion of their budgets on instruction and academic support - the primary educational activities of the colleges and universities - following restructuring as they did previously.

Institutional Expenditures Over Time

Four-year Institutions

	FY 1989	FY1999
Instruction and Academic Support	70.2%	71.3%
All Other E&G	29.8%	28.7%

Two-year Institutions

Instruction and Academic Support	63.5%	62.0%
All Other E&G	36.5%	38.0%

2. Institutional Financial Assessment and Budget Reforms

Since the concept of restructuring has gained acceptance at the state level, some boards of visitors have embraced and expanded the concept at the institutional level. They have begun scrutinizing institutional programs more closely in an effort to plan more effectively long-term strategic efforts, enhance academic quality, and contain costs. For the first time in some cases, board members and institutional leaders are taking a close look at the cost-effectiveness of their academic programs.

Virginia Commonwealth University (VCU) stands out as one of the pioneers in this effort. Using extensive data, VCU administrators have begun to look at the operating costs of each academic program and administrative unit at the University to determine its efficiency and cost-effectiveness. In particular, the University uses five-year trend data for unit expenditures, staffing levels and productivity, enrollment levels, and the number of degrees awarded to develop ratios that assist with cost and budget analysis.¹⁴

Like their counterparts in the private sector, college and university managers and board members can use such information to evaluate how academic programs are responding to changes in the marketplace. For example, VCU has found that within its School of the Arts, the number of students majoring in fine arts has declined in recent years, while the number of students majoring in Communication Arts and Design - a technology-based program - has increased. Understanding this and similar trends may aid programming and resource allocation decisions in the future.

¹⁴ A list of these measures can be found in Appendix D.

The data also inform institutional leaders about the use of adjunct faculty. In some highly technical fields, VCU has determined that it cannot offer competitive full-time faculty salaries. Therefore, the University has chosen to employ adjunct faculty in these positions.

Faculty and staff productivity information is also highly valuable to institutional leaders. By comparing the number of faculty in each academic unit to the number of students majoring in the academic discipline, the number of degrees awarded in that area, and the number of course credit hours taught, VCU has been able to develop a better understanding of how the institution is currently utilizing its faculty and to make changes as needed.

VCU's approach enables institutional leaders to know the cost of each degree program per student, including personnel costs and nonpersonnel costs such as supplies, materials, contracts, faculty travel, and equipment. This information allows board members and university administrators to compare the cost of academic programs within their institution and to weigh this cost data with other academic and quality considerations in determining where and how to allocate resources. So enabled to consider meaningfully both cost and quality factors, board members can better assess whether certain programs are and should be priorities for the University, whether some programs need to be revamped, and where priority investment is appropriate.

Information about the per-student cost of degree programs also empowers board members to consider options for providing programs and services through alternative methods. For example, board members may determine that it is less expensive to contract with another college or university for certain academic courses through distance-learning than to continue operating specific academic programs on their own. Reliable cost data is not the only consideration, but it is a crucial element in weighing such options and making sound decisions that serve the long-term interests of the institution and its students. VCU's next step will be to disaggregate its cost data in a manner that will allow institutional leaders to compare the cost of academic programs by student level - undergraduate, graduate, or first professional.

Although these reviews are in their infancy at many institutions, university administrators and board members are already finding them highly useful. In fulfilling their responsibilities as fiduciaries, boards of visitors are asking penetrating questions about what their institutions currently do well, what they can improve, and what they may no longer be able to afford to do at all. With appropriate financial tools, board members can participate meaningfully in this essential and continual process of evaluation, thereby improving educational quality and ensuring that taxpayers' dollars are well spent.

MAKING COLLEGE MORE AFFORDABLE FOR TAXPAYERS - COMMISSION RECOMMENDATIONS FOR STATE POLICYMAKERS

State policymakers must preserve and enhance excellence in Virginia's higher education system while ensuring that taxpayers get the most out of their investment and are not called upon to bear an inordinate burden. The Commission recommends the following funding policies to guide state policymakers in meeting this challenge:

31. Funding decisions should be made in the context of multi-year institutional performance agreements that combine adequate and reliable financial resources and managerial flexibility with institution-specific performance standards and accountability.
32. Funding decisions should be based on objective criteria that treat similarly situated institutions similarly and should provide sufficient resources to enable each institution to fulfill its institutional mission.
33. Funding decisions should make adequate provision to offset annually the impact of inflation on all aspects of each institution's programs, activities, and operations.
34. Funding decisions should continue to reflect the Commonwealth's commitment to attracting and retaining high-quality faculty, and should take into account the distinctive features, needs, and objectives of each Virginia institution, the level of faculty compensation at peer institutions, cost-of-living variations, and other relevant factors.
35. Funding decisions should continue to reflect the Commonwealth's commitment to forward-looking and cost-effective investments in science and technology.
36. Funding decisions should reflect the impact of increasing student enrollment at those institutions that participate in meeting the growing enrollment demand throughout the Virginia higher education system.
37. Funding decisions, and especially funding increases, should be predicated on continuous restructuring efforts and the achievement of increased productivity and quality as a result of those efforts. Continuous restructuring should also include systematic and periodic reviews of operations to identify opportunities for reducing costs.
38. Institutions that meet 100% of management standards should be permitted to carry over up to 2% of their total Education and General (E&G) budget to the next fiscal year. Such funds should be retained by the institution for application to operational and capital needs.
39. The Commonwealth should pursue policies that will provide greater

managerial and operational flexibility at the institutional level. However, the Commonwealth should not embrace and adopt such policies without a corresponding commitment from the institutions to increased accountability for outcomes. The General Assembly should end the current decentralization pilots, in place since 1994, and adopt legislation that would permit the Governor to grant requests from individual institutions for decentralization of financial management activity. However, such requests must be originated and approved by an institution's board of visitors and the conditions upon which such decentralization is granted should be subject to post-function audits by the Commonwealth and other such checks and assurances as the Commonwealth's fiscal officers might recommend, in order to assure continued effective and efficient fiscal operations.

In addition to the foregoing funding policies of general application to Virginia's higher education system today, the Commission approved an additional recommendation that could have a long-term potential impact on institutional funding:

40. The General Assembly should consider the forthcoming recommendations of the Governor's Distance Learning Steering Committee, created pursuant to the recommendation of this Commission, to make the most of each institution's ability to offer off-site classes and programs. The Commonwealth should fully exploit the potential of distance learning capabilities to meet the growing demand for higher education without incurring the high costs associated with duplication of programs and expansion of institutions.

The system of institutional performance agreements for funding higher education in the Commonwealth was developed and recommended by the Commission after review and consideration of several options. One such option, proposed by a Commission member to control costs, would provide public funding directly to students with tuition grants. Students, in turn, would use that money to attend the institution of their choice. Although the proposal generated considerable interest, the Commission agreed that a more in-depth analysis of the proposal would be necessary and worthwhile, and the Commission thus has recommended that the State Council of Higher Education study such proposal.

41. While the Commonwealth moves forward expeditiously with institutional performance agreements, the State Council of Higher Education should study the feasibility, benefits, and costs, if any, associated with implementation of a simplified funding model for Virginia's public institutions of higher education that would provide each Virginia resident enrolled in a state college or university a tuition grant.

As stewards of public funds, boards of visitors must also take part in ensuring that state resources are being used wisely. For board members, the Commission recommends the following actions:

42. Boards of visitors should fulfill their fiduciary obligations to scrutinize carefully institutional expenditures and identify ways to preserve and enhance affordability consistent with the institution's mission.

- 43. Boards of visitors should require that proposed and actual institutional expenditures be reported to them in such format and detail as will permit them to assess the cost-effectiveness of particular degree programs, to assess the financial impact of programs over time, and to address other issues bearing on the allocation of resources to the institution's strategic goals and mission-driven priorities.**
- 44. In reviewing and adopting the institution's budget, request for state funds, and tuition and fees, each board of visitors should consider whether it is fully realizing the potential for private sources of funding for the institution and whether funds received from private sources are being utilized fully and effectively in furtherance of the institution's strategic goals and mission-driven priorities.**
- 45. Each institution's budget requests to the Governor and General Assembly should be accompanied by a certification by the board of visitors that it has reviewed and considered the request, that the request reflects the priorities the board has established for the institution pursuant to its mission and strategic plan and that the request is endorsed and supported by the board.**

PROMOTING HIGHER EDUCATION FOR FUTURE GENERATIONS

The Commonwealth and its students have made substantial investments in Virginia's higher education system over the last several decades. These investments have returned valuable benefits to the Commonwealth and its citizens, yet the investments often have been made in an ad hoc manner without sufficient focus on long-term institutional objectives and without a cohesive vision for the Commonwealth's higher education system as a whole.

Governor Gilmore charged the Commission with finding ways to ensure that a college education of high quality remains affordable for Virginia students and taxpayers. To that end, the Commission has adopted recommendations that will facilitate long-term planning, promote more strategic use of public monies, provide more accountability to taxpayers, students and parents, and give institutional administrators and board members greater ability to allocate resources and manage their institutions in a cost-effective manner.

The Commonwealth can no longer afford to provide funding to higher education without performance expectations to measure educational results. By embracing the Commission's recommendations for institutional performance agreements and other funding policy reforms, the Governor, General Assembly, and institutional leaders will help ensure that Virginia leads the way to quality, accountability, and affordability in higher education for a new century.

THE GOALS

The citizens of the Commonwealth treasure the national reputation of Virginia's public colleges and universities. To maintain that reputation, the academic quality of our institutions should be jealously guarded, preserved, and enhanced at every opportunity. It is important that, in the face of the many exciting opportunities for higher education in today's dynamic marketplace, our institutions maintain their focus on providing a high-quality undergraduate education. As several witnesses before the Commission noted, everyone favors meaningful efforts to protect and advance quality, but few take the time to define it.

An insightful presentation by one of the Commission's members defined quality in terms of purpose - an effort has quality if it achieves its purpose. The purposes of higher education, it is generally agreed, are to prepare students for (1) citizenship in a democratic society, (2) successful employment, and (3) personal fulfillment. Education prepares individuals "to earn a living and to live a life." Quality, then, is the measure of whether the education provided by our colleges and universities achieves these identified purposes. Quality is about the results. It is about how well prepared our graduates are - the contribution that their undergraduate education makes to each student's knowledge and skills. As discussed in other sections of this report, it is essential to control costs and respond to rapid changes in the demands and expectations of students, parents, business, and government. But undergraduate education must remain the indispensable heart of higher education. Nothing our colleges and universities do is more urgent than graduating students educated broadly and deeply; students who have exercised the discipline to master rigorous curricula and perform to well-defined high standards; and students who are prepared to embark on productive and meaningful lives and to accept the significant responsibilities of participation and leadership in our communities, our businesses, and our governments.

MEETING THE GOALS - A QUALITY ASSURANCE PLAN

Continued support for a strong and competitive system of public higher education requires the commitment of substantial resources, both public and private. Our citizens contribute a large portion of their hard-earned tax dollars to support higher education. Parents and students pay many more dollars in tuition and fees. As is clearly illustrated in the analysis of cost issues in this report, although the Governor has had some success reducing the cost of a higher education to students and parents, institutions are spending more than ever before to provide our children with an undergraduate degree.

Experts have explained to the Commission that analysis of the quality of what we are paying for too often measures inputs rather than outputs, how much we spend instead of how much graduates know and have the skills to achieve. Because of the preoccupation with inputs, few objective and agreed upon measures of whether or not the purposes of higher education are actually accomplished have been developed. The Commission believes that the results of higher education are so important that students and parents, citizens, and employers can no longer afford to rely on indirect or anecdotal reports of quality or on the assumption that the quality of the results can be measured by the level of inputs. The demonstrable knowledge and ability of our institutions' graduates - the outcomes - must be the measure of quality. Objective outcome measures will enable graduates, parents, employers, and taxpayers to determine whether they have received a fair return on their investment.

In light of the sharp competition for limited public resources from every sector, the citizens of Virginia cannot be expected to continue to support substantial increases in higher education spending unless they are presented with a body of meaningful evidence that demonstrates the high educational quality their support makes possible. This body of evidence will attract increased support, private as well as public. The evidence will attract more and better students to study and work in the Commonwealth. The evidence will attract businesses to locate in the Commonwealth, once they are assured of a well-prepared work force and a well-educated citizenry.

To develop such evidence, we must first recognize that excellence in higher education is best evaluated not by who comes in, but by who leaves - not by what they know when they enter, but by what they know when they graduate - and by the difference between the two, often referred to as "value added." As described to the Commission by officials from the State Council of Higher Education and several assessment officers from institutions around the state, this proposition was implicit in the General Assembly's adoption, in 1985, of legislation mandating that each public institution implement a system of academic program assessment and that the State Council of Higher Education regularly collect and report the results. Since 1985, institutions have gathered assessment information in a variety of methods and forms and have used that information creatively and effectively to improve programs and instruction. Today, individual institutions have in place assessment programs that have brought about substantial educational improvements.

More recently, the State Council of Higher Education has reported several system-wide efforts to assess outcomes. They include administration of common alumni survey questions, generating comparative data regarding student success and annual reporting of transfer student performance by four-year institutions back to community colleges, and assisting the community colleges with preparation of their students for success in a four-year program. These are effective practices that

pay careful attention to what is accomplished between admission and graduation. However, there is currently no state-wide assessment of the most important outcome of higher education: what every graduate of every Virginia college or university, regardless of major, can be expected to know and be able to do. The Commission believes that, given the strong foundation in assessment of student learning outcomes that exists in Virginia, collecting and providing that information requires only a small step forward from where we are today. The time has come to take this step in quality assurance.

In order to develop and publish adequate information about student learning at Virginia's colleges and universities, the Commission offers the following Quality Assurance Plan intended for full implementation for the 2001-2002 academic year. This proposal was developed by a subcommittee of the Commission that included faculty members and two institutional presidents, ably assisted by assessment experts from James Madison University and the State Council of Higher Education.

1. The plan has three goals:

- a. To define precisely the knowledge and skills that cross the boundaries of the academic discipline or undergraduate major, degree type, or institutional mission and that are expected of every graduate of a public college or university in Virginia. There is general agreement that the "core competencies" include at least written communication, mathematical analysis, scientific literacy, critical thinking, oral communication, and technology;
- b. To identify measures that will assess student mastery of these core competencies at key points in the undergraduate experience, and at completion of the undergraduate program, while assessing the gain in knowledge and ability in these areas since admission (the "value added"); and

The Center for Assessment and Research Studies facilitates the measurement of student learning and development at James Madison University. The Center's faculty and staff include seven doctoral-level measurement specialists and additional technology/administrative support staff.

Assessment studies are conducted in all of JMU's academic degree programs. Assessment projects have been completed regarding the effectiveness of general education, student affairs, and technologically-delivered instruction. The assessment methods applied range from multiple-choice tests to rating scales of student performances and portfolios.

Current projects include the setting of competency standards in general education and the development of computer-based assessments (including computerized adaptive testing).

In conjunction with JMU's School of Psychology, the Center faculty have initiated a Doctor of Psychology degree program in Assessment and Measurement, which is the first of its kind in the nation.

c. To provide a meaningful vehicle for public communication of the Commonwealth's expectations for its college and university graduates (mastery of the core competencies) and of the results attained in meeting those expectations (assessment results) at the institutional level.

2. Accomplishment of these goals should take place in three stages:

a. Gathering the Information

(1) The State Council of Higher Education should convene a small working group, composed of representatives from the several constituencies interested in assuring quality student learning outcomes, to work in consultation with the institutions and assessment experts to define expressly the necessary knowledge that comprises the core competencies identified above.

(2) Once the desired outcomes have been determined, the working group, in consultation with the institutions and assessment experts, should oversee the selection of institution-specific assessment instruments, or a combination of instruments, to be used to measure student mastery of the core competencies. The State Council of Higher Education should review and approve the reliability and validity of the selected instrument(s). Over time, the State Council of Higher Education should explore the feasibility of developing a single assessment tool for use system-wide in selected core competencies.

(3) The working group should also establish the standard of performance that would be expected of every graduate of a Virginia college or university. Individual institutions should be encouraged to set higher standards of performance for their graduates than those set by the working group. Such standards should be mission-driven and approved by the board of visitors. Any and all standards should be stated in terms that can be clearly understood by the public.

(4) Institutions should continue to administer common alumni survey questionnaires and report the results to the Commonwealth and to the public. The reporting of performance of community college students transferring to public four-year institutions should also continue, and the data should be aggregated in such a way as to report to the public our community colleges' success in preparing their baccalaureate-bound students to complete baccalaureate programs.

(5) The working group should be appointed by April 1, 2000, and should complete its work in time for the institutions to begin implementation of the Commonwealth's quality assurance plan in the 2001-2002 academic year.

(6) Each institution should implement its approved assessment mechanism pursuant to this proposal as well as any further direction agreed upon by the working group.

(7) The assessment process adopted should be cost-effective and efficient and should be consistent with the workings of the institutions and with the criteria required by the Commission on Colleges of the Southern Association of Colleges and Schools.

b. Reporting the Information:

(1) Institutions should be required to measure the skills and knowledge students acquire, at least in the core competencies, during their college career that are beyond or in addition to those the student brought from high school - where they begin and where they are when they have completed the work for their degree. The institutions should calculate and report the "value added," or longitudinal change, in their students by attendance and graduation.

(2) The State Council of Higher Education should report, as a part of its Report of Institutional Effectiveness described in the Accountability section of this report, the percentage of an institution's graduates that meets the performance expectations established for each core competency and, if a higher institutional standard is employed, the percentage of graduates meeting that higher standard along with an explanation of the higher standard.

(3) Institutions should report the percent of matriculating students participating in the assessment of the core competencies, the percent of graduating students participating, and average scores or ratings on each assessment instrument. All of this information, from each of the institutions, in order to be useful, should be

compiled in a single, concise report that presents the information in a uniform format throughout. Accomplishments should be reported in the context of institutional mission, the institution's strategic plan, and specific goals.

In 1989, Longwood's School of Business and Economics was a marginal program, with students scoring at the 35th percentile on a national test of business knowledge. By 1998, students were scoring above the 90th percentile on this test. Furthermore, the School ranked second out of seven institutions in three separate benchmarking studies conducted by an independent organization. In 1998, the School of Business and Economics was accredited by the American Association of Collegiate Schools of Business with the highest rating. How did this happen? It happened with leadership from the dean and president, involvement of faculty, strategic planning, and assessment of progress towards

c. Assuring the Integrity of the Degree:

(1) The Commonwealth should continue to encourage the diverse assessment of degree programs already being conducted by individual colleges and universities. Each institution should require every department or college offering a degree to state the general skills and abilities that holders of that degree can be expected to possess. These expectations might include standards in general education beyond the minimum established in the core competencies for the system as a whole, in addition to those in the specialty. Statements of the requirements for the degree should include a rationale for each requirement and a statement of how fulfillment of that requirement is accomplished and assessed.

(2) Each institution should assure the integrity of each of its degree programs by publishing and circulating widely the statement of specialized skills and knowledge a graduate of each degree program is expected to attain, along with the results of the outcomes assessment used to measure the success of the program.

(3) The State Council of Higher Education should periodically review the accuracy of selected statements of specialized skills and knowledge and the validity of the assessment tools being used to measure student mastery. The institution should provide evidence of its accomplishment of the stated goals by means of

- (a) universal or random-sample comprehensive examinations;
- (b) student portfolios of work to be reviewed by a State Council of Higher Education-appointed outside examining committee;
- (c) data about its students' achievements;
- (d) senior capstone courses or projects;
- (e) national program accreditations;
- (f) a degree-evaluation retrospective by alumni who graduated two years earlier (printed forms sent to a random sample and/or focus groups);
- (g) surveys of employers hiring graduates; or
- (h) some combination of the above or other measures acceptable to the institutions and the State Council of Higher Education.

(This list is intended to be suggestive only and by no means exclusive; there is a vast array of assessment tools available for measuring student learning outcomes.)

(4) The measurement and reporting of student learning outcomes recommended by this proposal should be included in and made a part of the Report of Institutional Effectiveness described in the Accountability portion of this report. Institutions must be, and by all indications to the Commission are, willing to be held accountable for the achievement of intended student learning outcomes. As the Commission has heard on

numerous occasions, "what gets measured (and rewarded), gets better." Academic assessment and program evaluation are vital to maintaining the quality of undergraduate education that Virginia so values.

MEETING THE GOALS - OTHER EFFORTS NECESSARY TO PRESERVE AND PROTECT THE ACADEMIC QUALITY OF VIRGINIA'S COLLEGES AND UNIVERSITIES

Colleges and universities were founded primarily for the education of students. The teaching of undergraduates, therefore, is central to the mission of every one of the Commonwealth's institutions. However, every institution must approach this task in a manner defined by and consistent with its own distinct mission. The design and delivery of academic programs is primarily the responsibility of faculty, but administrators are responsible for providing academic leadership and boards of visitors are ultimately responsible for establishing the policies and priorities that will support the achievement of educational goals.

While outcomes are the appropriate measure of quality, there are inputs central to achieving intended outcomes. From the presentations and discussions of the Commission, there seems to be general agreement that excellent teaching, a strong, effective curriculum, and well-prepared and motivated students are the most critical elements that contribute to academic quality.

1. The Curriculum

a. General Education

In hearings on the curriculum, the Commission heard from faculty members and administrators, as well as many nationally recognized experts in the field. The Commission learned that, in undergraduate education, the curriculum includes three components - general education, majors, and electives. General education is that portion of the curriculum that is required of all undergraduates. It is different, both in aim and scope, from education in a major. Rather than providing depth of knowledge and skill in a single field of learning, it is intended to provide broad foundational knowledge and intellectual skills. General education introduces students to the common fund of knowledge with which college-educated persons should be familiar and equips them with skills to fill the various roles that contemporary society expects of college-educated persons. It is the component that best prepares the graduate for lifelong learning and that provides the intellectual flexibility required for success in today's workplace. As the distinguished educator Ernest Boyer has said, "at the

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center of any effective curriculum there should be a core of common learning wherein students are exposed to the basic elements of our cultural

and intellectual tradition, and are encouraged to make connections between ideas, modes of thought, and bodies of knowledge." The "core of common learning" is what "general education" is intended to accomplish.

The information received by the Commission indicates that in order to achieve its goals, general education must have four features: it must be comprehensive, broad-based, coherent, and rigorous. The total set of requirements must be comprehensive in their coverage of the essential fields of knowledge - such as history, literature, science, mathematics, western civilization, non-western civilization, the social sciences, foreign language, and the arts - so students will have the broad base of learning necessary to prepare them for our rapidly changing economy and for their role as citizens in a democracy. For the same reason, the courses themselves must be broad-based introductions to the study of the human and natural worlds and their histories. The combination and sequence of general education courses must be coherently related to one another; they should provide the student with a meaningful

The general education program at Mary Washington College focuses on core areas of knowledge central to a liberal arts education and on the development of essential skills that enable students to achieve success in their education and throughout their lives. Students encounter two sets of general education requirements. The first includes courses satisfying eight learning "goal areas," requirements that provide the foundation of the general education experience and emphasize subject areas that are historically a part of a liberal arts program (arts, literature, natural sciences, mathematics, foreign language, etc.). The second are "across-the-curriculum" requirements focusing on intensive skill development (such as in Writing Intensive and Speaking Intensive courses) and on learning issues that cut across a variety of course disciplines (such as global awareness and race/gender topics). All courses fulfilling the "goal" requirements are introductory courses designed as foundational experiences. "Across-the-curriculum" requirements add an upper-division layer to the general education program because the majority of the courses fulfilling these requirements are advanced courses (and students address many of these requirements as a part of their major program).

The current set of requirements first took effect with the class entering in fall 1997, following an extensive process in which the College's faculty exhaustively reviewed the former curriculum. The review process substantially reduced the number of courses eligible to fulfill "goal area" requirements and ensured that all courses proposed to meet the revised general education goals were reviewed against a common set of course criteria. Another key feature of the new program is faculty ownership and responsibility which is provided by the General Education Committee (overseeing the "goal area" part of the program) and several additional curriculum advisory committees managing each of the across-the-curriculum elements.

whole. Finally, courses must be rigorous, preparing students to write well, compute accurately, and think critically in the context of an integrated body of common knowledge. There are two major approaches to achieving

these goals: core curriculum and distribution requirements. A core curriculum gives students a single set of required general education courses that provide a "common core of learning" for all students. Distribution requirements give students a menu of courses from which to choose to satisfy general area requirements. The menu may be restricted to a few carefully designed alternative courses within each category, but the Commission heard testimony that sometimes the list may run to hundreds of courses, many of them narrow and not suitable for general education.

Either approach, if done well, can give students a good education. The choice must be made by the institution itself. However, the Commission was impressed with the advantages of a common core of learning and encourages institutions to adopt a core curriculum as the most effective way to provide students with a strong grounding in fundamental fields of knowledge. Faculty have the experience to design a set of core courses that are comprehensive and relate coherently to each other. It is unlikely that students, who are not yet college-educated, can piece together a sequence on their own that is as effective as one designed by the faculty. This is why almost every major requires certain specific courses rather than just a menu from which students may select. The need for an intelligently designed curriculum is especially important for disadvantaged and first-generation college students who may not have the resources and experience to draw upon in making the curricular choices that will define the usefulness of the education they receive.

During the life of this Commission, the State Council of Higher Education completed a comprehensive examination of the state of general education at Virginia's colleges and universities. It concluded that Virginia's public institutions fare comparatively well against the backdrop of the broader national portrait, but with room for improvement. Strengthening general education across the Commonwealth is the overriding responsibility of the faculty who design and teach the courses, the president and other administrators who provide academic leadership, and governing boards that identify the effort as a priority, make the necessary resources available to the faculty, and approve the end result.

These responsibilities - of board, administration, and faculty - for the general education of students are significant public responsibilities. The purposes of general education have as much to do with the public good accomplished by higher education as with the private good accruing to individual students. A common core of learning addresses the inner lives of our students and their ability to be successful in life, but also their public responsibilities as fellow citizens. What bodies of knowledge and competencies and what habits of heart and mind our institutions encourage are matters of profound public interest. The citizens of Virginia deserve no

less than public colleges and universities that meet the challenge of a rigorous and comprehensive education for all our students.

Finally, curricular requirements are dynamic and constantly evolving. The core curricula of the 18th Century consisted of four disciplines – English, history, philosophy, and mathematics. Certainly such a core would be inadequate today. Once meaningful goals and effective measurements of accomplishment, fulfilling this Commission's Quality Assurance Plan, are put in place, boards, presidents, and faculty will be well-equipped to fine-tune their general education requirements to provide the knowledge

The New York Times reported in September 1998 that officials from the College Board had found evidence of "persistent grade inflation in American high schools." The College Board found that more college-bound students had A averages than a decade ago but that they scored lower on their S.A.T. exams. The statistics showed that A averages grew from 28 percent of the total 10 years ago to 38 percent in 1998, but the S.A.T. scores of those students fell an average of 12 points on the verbal test (to 505) and 3 points on math (to 512).

As higher education institutions around the country come under increased scrutiny to curb grade inflation, the University of Virginia (UVA) has responded. The University's Office of Assessment and Studies recently released its own study, reporting that grades in the College of Arts and Sciences have improved progressively in the last 10 years. The study identified a trend of grade inflation when compared to S.A.T. scores, which remained relatively constant. In response, the Dean of the College of Arts & Sciences will begin to review grades for any sign of inflation, the results of which will be factored into faculty promotion and tenure. It is expected that this level of scrutiny will result in increased accountability on the part of the faculty.

necessary to support core competencies and the academic quality expected by the students, parents, and citizens of the Commonwealth.

b. Standards

Standards are also an essential element of an effective curriculum. Without high expectations and challenging work, students will not stretch their capabilities or expand their skills. Without meaningful and comparative assessment of their work, students are less likely to test their true abilities in various areas of endeavor or become familiar with their own strengths and weaknesses. Grades are both the carrot and the stick. They can be the motivation for exceptional performance or the result of insufficient effort. At the very least, if sufficiently anchored to specific and express goals, they should be some measure of a student's achievement relative to his peers.

During its meeting on assessment, the Commission received a report that included a review of nationwide data on grades and changes in grades over time. The data indicates that the

average grades of college students have been steadily rising over the last several decades - a phenomenon commonly referred to as "grade inflation." More specifically, in the quarter-century between 1969 and 1993, the

percentage of students receiving A's rose from 7% to 26%. Over the same time period, the percentage of students receiving C's and below has dropped from 25% to 9% - a figure that contradicts the very definition of a C as average. The data used to develop these statistics were collected from every type of institution, from two-year colleges to research universities, and from around the country. More recent data developed by individual institutions reflect similar trends. Over the period that grades were inflating most rapidly, average SAT, ACT, and GRE scores were in decline.

The natural and necessary consequence of grade inflation is a failure to distinguish academic excellence from competence and a failure to take note of, much less reward, hard work and exceptional performance. Grades today provide very little information regarding the actual knowledge and abilities of those attaining them. This result is a disservice to employers, graduate schools, and, most of all, to the students themselves. As acknowledged by the University of Virginia last fall, this state of affairs cries out for reform. The Commission calls on faculty to take the lead in examining the existence of grade inflation at their institutions and for presidents and boards of visitors to place rigorous and accurate grading high on the institution's agenda. One proposal to consider is recording and reporting, along with the student's grade in each class, the average grade in the class. The average grade in the class may provide students a more accurate indication of their relative accomplishments and provide a context for determining how much weight can be given to grades which purport to reflect above average performance or stellar accomplishment.

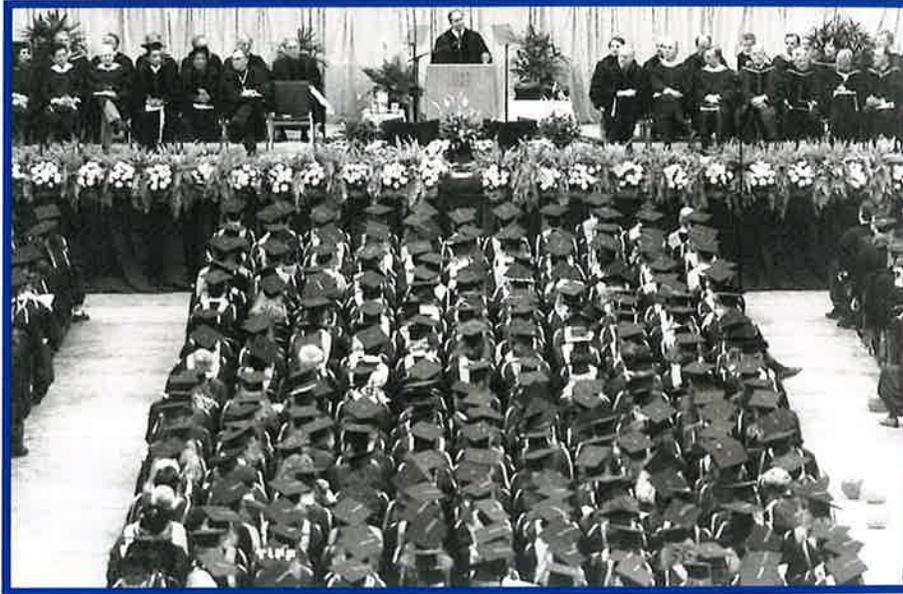
2. The Faculty

a. Excellence in the Classroom

For students to become well-educated, it is not enough to design an outstanding curriculum on paper. The subject-matter must be brought alive with clarity and energy by outstanding teachers who know their subjects and care about their students. Neither curriculum adjustments nor rigor in grading can effectively ensure academic quality where there is not emphasis on excellent teaching.

The modern university, especially the research university, faces enormous challenges in balancing multiple missions. In some ways, teaching, research, and service complement each other, as the results of research are shared through public service or preparing to teach a new course stimulates new areas of research. But time and resources are limited and, to prioritize their time, faculty are presumably influenced by the available rewards.

When President Charles W. Eliot transformed Harvard from a liberal arts college to a research university at the turn of the century, thinkers as eminent as William James and Irving Babbitt anticipated these problems. They warned that undergraduate teaching would decline in prestige and rewards. Educational leaders in our own day, such as Ernest Boyer and Lynne Cheney, have continued to express concern that undergraduate teaching may not attract the laurels and high salaries that publishing can bring. Anecdotal evidence suggests that, while Virginia's colleges and universities do more to support good teaching and good teachers than institutions in other states, they are not immune to the same pressures,



from publish-to-perish to building reputation by hiring high-priced research "stars."

In the face of these pressures, excellent teaching cannot be the rule unless an institution makes a commitment to achieve it. The Commission calls on Virginia's public colleges and universities to consider ways to

improve teaching. The most obvious way is to hire excellent teachers, and this may require a shift in institutional hiring priorities. Excellent teaching - and, depending on the institutional mission, service - should be rewarded with tenure, promotion, and salary increases comparable to excellent scholarship. It was suggested to the Commission that the highest salaries should go to those faculty members who make the most difference in the lives of their students rather than to those whose professional efforts are directed outside the institution. That may go too far, but the thought underscores the life-altering impact an outstanding teacher can make on his or her students.

The demands on faculty are not likely to diminish as the demands on higher education generally increase. Therefore, it is up to governing boards and senior administrators to adopt policies and priorities that promote and support the expertise of faculty in the classroom. The president and his or her senior academic officers must create an environment where free inquiry, investigation, and expansion of the scope of human knowledge are viewed as integral to and inseparable from life in the classroom. As Virginia Tech's president, Paul Torgersen, explained to the Commission, "excellence in the classroom includes

sharing with students the intellectual curiosity and excitement that is a part of scholarly research, and that same intellectual curiosity and excitement is a part of what makes a faculty member an excellent teacher." Teaching both educates and entices future scholars. In addition to creating a campus culture where research and classroom work are merely two aspects of the same vocation, it must be clear, from the institution's system of faculty incentives and rewards, that success in the classroom is as meaningful a professional accomplishment as success in the lab or in publication.

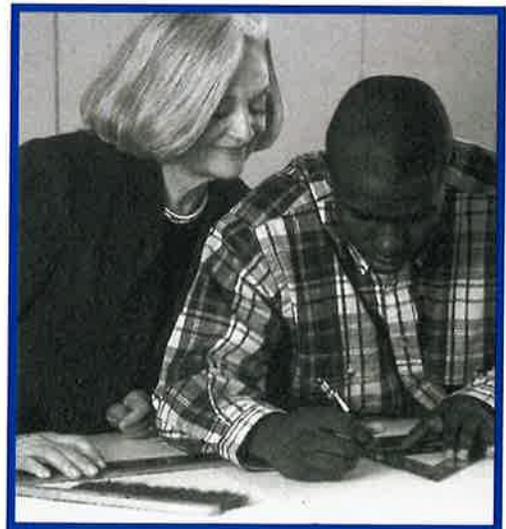
In addition to excellence in undergraduate teaching, Virginia's colleges and universities should make a major commitment to improving the academic preparation of teachers, not just in education courses but in general education and substantive majors, and to the increasingly important role of continuing education in both personal and career development.

The incorporation of technology into classroom methods can be an important instrument, not only of greater access to higher education but of more engaged teaching as well. E-mail, chat-rooms, and internet research, not to mention electronic white boards, overhead projection of computer screens as work is done, and similar technology, make available dynamic new teaching tools and methods that are being used to improve teaching around the Commonwealth. The equipment is expensive, and the comfort level necessary to incorporate the equipment into teaching is not quickly or easily obtained. Institutions should examine the needs of their faculty with regard to technology training and plan to address those needs as quickly as possible.

b. Tenure and Post-tenure Review

It is widely recognized in higher education that tenure is an institution in transition. Every organization, especially in changing times, must have some flexibility in its work force. Some institutions achieve this flexibility without modifying traditional tenure rules. Others have adopted a variety of experiments to combine the essential values represented by tenure - the protection of academic freedom and reasonable job security - with a greater ability to respond to changing needs.

The classic case for tenure is presented in the American Association of University Professors' 1940 "Statement of Principles." That case is based on the accepted premise that "The common good depends upon the free



search for truth and its free exposition." It argues that tenure is an essential "means" to protect that freedom, in research and in the classroom, and to make the profession of teaching sufficiently attractive to talented individuals. Without tenure, many faculty positions would be far less attractive to potential candidates and some of our institutions might have difficulty competing for top candidates for faculty vacancies. Even those who have suggested changes in tenure do not question the ends in this view. To pursue the truth, and to teach students to pursue it, requires freedom to follow reason, evidence, and conscience wherever they may lead. And hiring outstanding faculty must remain a priority. No modification of tenure that threatens academic freedom or undermines the hiring of outstanding faculty would be acceptable.

Even under current rules, institutional needs are driving changes in the kinds of faculty appointments being offered. AAUP rules prohibit retaining a single individual in a full-time teaching appointment for longer than the probationary period of seven years if, at the end of that period, the individual does not receive tenure. An unintended consequence of this rule is that institutions have gained flexibility - and reduced costs - by creating a large number of temporary or part-time positions. In November, 1998, the State Council of Higher Education reported that the proportion of adjunct to total faculty has doubled over the last 25 years to more than 40%. For faculty who hold these positions, tenure may be a job threat rather than a job protection. Although in some fields the use of adjuncts is a practical and enriching alternative to competing with private sector salaries, few believe that a large percentage of adjuncts across the board is a permanent solution. Some feel the individuals are being exploited. At the same time, an institution cannot expect a high degree of involvement with, and long-term commitment to, students, general education, and campus life from temporary, part-time faculty.



Around the country, a variety of experiments have arisen that, while providing less job security, provide other benefits to both the faculty and the institutions involved. It is already the case that adjuncts, some of whom have taught full-time for years, do not have tenure. Several Florida institutions recently made adjunct appointments longer, increased salary, and added benefits. These faculty had previously lived on year-to-year appointments with low salaries and no benefits. The positions do not carry tenure and, hence, apparently violate AAUP rules, but other rules are in place to protect academic freedom.

Another alternative to meet instructional needs is "renewable term

appointments" - three-year contract appointments that can be renewed to meet long-term staffing needs. They are intended to provide faculty a degree of job-security while retaining for the institution the ability to shift resources as programmatic needs fluctuate. They are similar in some ways to the system of one-, three-, and five-year contracts used by the Virginia Community College System since the 1970s. Use of term contracts can allow both institutions and faculty members flexibility. Individual faculty members can negotiate specific job duties which match their particular

interests and skills, without being locked into the single set of standards presented by an institution's tenure system. Institutions gain the flexibility to eliminate non-productive



programs or set up new programs to meet demand that may be short-lived. Over 40 institutions nation-wide have adopted contract systems in place of tenure.

In a time of transition and increasing experimentation in the structure of faculty appointments, the Commission concluded that there is no well-established, one size fits all policy that would be right for all of Virginia's colleges and universities. It would be best for each institution to inform itself about changing needs and experiments around the country and to adapt policies to meet its own mission and needs. This task falls ultimately to boards of visitors to be educated in the relative costs and benefits of tenure and its alternatives and to be kept current with regard to scholarship suggesting modifications of tenure that might better address faculty and institutional needs. Boards have the responsibility to set overall policy for the composition of their faculty, as it is an important element of the quality of education their students receive and of the costs that students, parents, and taxpayers bear. Similarly, decisions about what kinds of courses and programs are taught by tenured, contract, or adjunct faculty should be actively reviewed by the board with careful attention to the quality of teaching, as well as other institution's goals and priorities.

The Commission observed that, in addition to the programmatic inflexibility tenure can create, another challenge is how to hold tenured faculty accountable for their performance. On this issue, institutions in

Virginia are attempting a solution. In 1996, each of Virginia's public four-year institutions (community colleges operate without tenure) instituted its own formal system of post-tenure review. Post-tenure review is intended to allow institutions to address instances of inadequate performance and to assist and support tenured faculty in their efforts to improve their work in a manner sufficient to meet the expectations of the institution. It ensures that tenured faculty members who fall short of the institution's performance expectations have an opportunity to improve, as well as face the possibility of job-related consequences for continued inadequate performance. Post-tenure review should be one component of a comprehensive faculty evaluation plan that includes annual performance evaluations, merit pay, pre-tenure review and post-tenure review.

Post-tenure review is currently in the early stages of implementation in Virginia. Though some issues remain to be resolved in the implementation, the Commission believes that the essential feature is a well-defined procedure with clear standards for performance and real and significant consequences for any tenured faculty member who does not meet the established standards. The process must include a remedial opportunity, a probationary period, and a dismissal policy. Final responsibility falls to boards of visitors to ensure that these policies are fully and successfully implemented, regularly reported, and evaluated. Successfully implemented, effective post-tenure review will strengthen support for tenure in the context of changing needs and demands.

3. The Students

Finally, efforts to build a strong faculty and strong curriculum, defined goals, and programs for measuring student learning outcomes aimed at ensuring quality have little meaning or value if the students of Virginia do not have access to them or if the students who do have access are not prepared to take full advantage of the opportunities presented to them.



It is critical to the Commonwealth that every Virginia citizen have at least an opportunity to obtain an undergraduate degree. To achieve this goal, the Commission reaffirms Virginia's commitment to eliminating any vestiges of segregation in its education system and to

promoting opportunity, access, and affordability for all students. Such a commitment supports the educational and economic development goals of the Commonwealth by increasing the number of students prepared to meet

the challenges of a global economy and become economic contributors to our society.

Under the Supreme Court's 1992 decision in *U.S. v Fordice*, Virginia has an obligation to take all necessary steps to eliminate any vestiges of discrimination that might remain at its institutions of higher education and provide real opportunity for higher education to all students. The Commission recommends that the Commonwealth develop a comprehensive plan to continue its efforts to meet this obligation and address the issue from kindergarten through graduate school.

Leadership for development and implementation of such plan must come from the Governor and the

General Assembly and have the support and input of the educational and private sector communities.

One Commission member suggested that access to a four-year degree opportunity should be expanded by guaranteeing that every student who completes a transfer program at any of Virginia's community colleges will be admitted to the four-year institution and degree program of his or her choice. It was also suggested that community colleges experiment with offering four-year degrees. Although the Commission concluded that both of these proposals promised formidable unintended consequences, it is vitally important that the Commonwealth continue to encourage strong articulation agreements between our community colleges and four-year institutions. Though much has been accomplished on this front, additional attention to the issue and coordination between Virginia's community colleges and our four-year institutions are essential. The development of creative programs and partnerships, particularly between community colleges and Virginia's most selective four-year institutions, will help improve higher education in Virginia. In addition, the community colleges should be encouraged to continue the strong transfer relationships they have developed with Virginia's private institutions.

Finally, for the benefit of all of the citizens and students of the Commonwealth, institutions must give careful attention to their admissions

In July 1999, Norfolk State University and Tidewater Community College created a deferred admissions program. This unique partnership is designed to assist students at both institutions in becoming more academically prepared for collegiate work. NSU applicants who fail to meet the admissions requirements of the university are offered "deferred admission" if they enroll in a structured program of study at TCC designed to meet the individual student's academic needs. While at TCC, the student's progress is monitored and NSU is kept informed. Upon successful completion of the structured program at TCC, which may consist of a few courses or a degree, the student is admitted to NSU. While at TCC, students are invited to participate in social and cultural events at NSU. During the 1999 fall semester, fifty-five students participated in this new program.

criteria and processes. Boards must set admission standards in a manner consistent with the distinct missions of their institutions. That, together with the diversity of missions among our institutions, will offer a variety of educational opportunities to all of the students of the Commonwealth who are prepared and motivated to take advantage of them.

The Governor has requested advice on how the Commonwealth might continue to provide excellent educational opportunities and academic programs that meet the needs of students, the workplace, and the community well into the next century. Ultimately, it is by directing efforts and resources to the accomplishment of expressly defined, intended outcomes that our colleges and universities will continue to be institutions boasting high standards of academic quality. Maintaining quality while, at the same time, ensuring that higher education remains affordable and accessible to all Virginians is fundamentally about priorities. The task must begin with a focus on institutional missions and the goals for student learning that derive therefrom.

THE COMMISSION RECOMMENDS THE FOLLOWING:

- 46. The State Council of Higher Education should oversee implementation of the quality assurance plan detailed above.**
- 47. Boards of visitors should set and maintain admission standards consistent with their institutional missions.**
- 48. Virginia's community colleges and the Commonwealth's four-year colleges and universities should develop strategic and effective articulation agreements which (1) ensure a place in Virginia's diverse system of higher education for all Virginians who have the ability to benefit from collegiate-level study, and (2) ensure easy access to baccalaureate education as a critical component of both a well-trained work force and an educated citizenry.**
- 49. The Commonwealth should encourage creative partnering between Virginia's community colleges and the state's most selective four-year colleges and universities which ensures access for those community college graduates who would benefit from the collegiate experience of these institutions.**
- 50. The Governor and the General Assembly should lead in the development and implementation of a comprehensive plan to fulfill the Commonwealth's constitutional obligation to eliminate any remaining vestiges of discrimination in its system of higher education. The plan should have real goals for enhanced educational opportunity and measures for accountability as well as support and input from the education and private sector communities.**

51. The board of visitors at each four-year institution should review its general education curriculum at least every six years and ensure that it provides students with "a core of common learning." The exact makeup of the core should be mission-driven and should include broad learning in mathematics, the sciences, technology, history, literature, and communication skills. Study of foreign language is a powerful way for students to develop a deep appreciation for cultural differences - an attribute so important for an educated person in our global economy - therefore, the Commission strongly urges institutions to establish or maintain a foreign language requirement as part of their general education curricula.
52. Presidents should implement a plan for posting all course syllabi on each institution's web site where students, parents, and taxpayers alike can review what is being taught in particular classes, departments, and programs, including general education.
53. Each board of visitors should carefully examine the average grades of its graduates over time, across the institution, and in its various colleges, programs, and departments, to determine the impact of grade inflation at the institution. If grade inflation has occurred, the board should direct steps to impose consistency and rigor on the grading process. The State Council of Higher Education should provide assistance to boards in this endeavor as necessary and appropriate.
54. Boards of visitors should examine their faculty performance review criteria and tenure review process and ensure that those processes encourage and support the dedication of time and energy to undergraduate teaching and reflect that such teaching is the central job and concern of the institution. Boards should consider financial incentives for faculty who make teaching a priority and exhibit excellence in the classroom. In addition, boards should consider establishing, as a priority, providing the training and support necessary ultimately to require faculty to incorporate technology into their work in the classroom as appropriate to their field.
55. Boards of visitors should require that successful implementation of their post-tenure review policy be tracked and reported as institutional priorities. Each institution's policy should set forth real and significant consequences for any tenured faculty member who does not meet the established standards, including a required remedial effort, a probationary period, and a dismissal policy.
56. Boards of visitors should establish policies that allow the institutions to be purposeful in their decisions with regard to how instruction is offered to their students and become familiar with the various alternatives to tenure currently in use around the country, in particular the use of short- and long-term contracts, so that they might use such alternatives should circumstances dictate the need to do so.

ACCOUNTABILITY

As the opportunities and choices available to our institutions multiply, and as the environment in which they operate becomes more complex, the state cannot and should not attempt to direct the course of each institution from year to year. That responsibility must be left, in large part, to each institution's governing board. What the state can and must do is hold institutions accountable for operation and performance in accord with the public purposes for which they were created and for performance in a manner that respects the public trust that is vested in them.

In so doing, the Commonwealth must remain ever cognizant that policy choices for the system as a whole can have notably different consequences for individual institutions. Certainly, there are, and always will be, significant issues that must be addressed system-wide. But state policy should enhance and preserve the diversity that arises from the uniqueness of each of Virginia's public colleges and universities.

MEASURES OF INSTITUTIONAL EFFECTIVENESS: A SYSTEM FOR ENSURING INSTITUTIONAL ACCOUNTABILITY

1. The Background - Considering the Use of Performance Measures

Performance measurement - as a mechanism for program evaluation - has been the subject of serious consideration in state government since the Joint Legislative Audit and Review Commission's study of Virginia's executive budget process in 1991. In response to that work, the General Assembly directed that the Commonwealth begin performance measurement pilots. This formed the foundation for 1995 budget reforms that incorporated measurement of performance into Virginia's budget development process for the 1996-1998 biennial budget.

As a result of the budget reforms, the Department of Planning and Budget adopted system-wide performance measures for Virginia's institutions of higher education. The measures were developed in consultation with the State Council of Higher Education and the institutions themselves. Participation by the institutions included assistance from vice presidents for academic affairs, business and finance officers, and several institutional research directors. This collaborative process

resulted in seven agreed-upon measures.¹⁵ Institutional performance was compared to institutionally-set targets and did not intend comparison of results between institutions. The measures and institutional performance were twice published in the state's Executive Budget document.

In 1997, the Executive Budget built on the system of performance measurement already in place. It included several performance-based initiatives and tied funding for higher education to certain performance outcomes. Most significant was \$50 million allocated for appropriation to colleges and universities on the basis of their achievement of selected performance outcomes. Although this particular initiative was not adopted by the General Assembly, interest in strengthening accountability remains strong.

The model introduced in 1997 has served as a starting point for much of the Commission's discussion of performance measures. The Governor has asked the Commission to determine how to increase fiscal accountability and how institutions can become accountable for the quality of the academic content and the outcomes accomplished through the investment of public funds. The Commission believes that performance measures should be used to build a system of institutional accountability that will provide evidence to taxpayers, legislators, institutional managers, and state officials of what is accomplished with over \$3 billion of the public's funds (including general fund appropriations and revenues from tuition and fees) appropriated to higher education each biennium.

In May of 1999, the State Council of Higher Education adopted a performance-based funding model for use in preparing its annual budget recommendations. At the core of the model is the provision of operating funds in an amount adjusted annually for inflation. Although growth of operating budgets is limited to inflation, the model also includes significant deregulation that would allow institutions to have full control over allocation of their resources. The deregulation carries with it a greater level of accountability for meeting certain minimum expectations relative to selected performance indicators.¹⁶

¹⁵ The performance measures selected were

1. graduation, progression, persistence and retention rate;
2. transfer rate;
3. percent of graduates employed in program related work or pursuing further study;
4. instruction as percent of E&G expenditures;
5. percent of management standards met;
6. space utilization; and
7. faculty productivity.

These measures have served as a starting point for the Commission's work on this issue.

¹⁶ The performance measures adopted as a part of the State Council of Higher Education's proposal are

1. graduation rates;
2. retention rates;
3. passage rates on exit exams;
4. post graduate placement;
5. faculty productivity; and
6. transition rates or completion rates.

These measures are intended to be system-wide and work continues to refine them. Number 6 was developed to address the needs of community colleges in particular.

The State Council model also proposed an incentive fund that would reward institutions for performance over and above minimum expectations. Performance funds earned by the institutions would be added to the institution's base funding in subsequent years. The model has been submitted to the Governor and General Assembly for their consideration in the 2000-02 budget. In addition, the language creating the Joint Legislative Subcommittee studying higher education funding directs that the proposals it considers include "incentives for achievement and productivity."

Nationally, the use of performance measures in higher education has become a wide-spread strategy for achieving higher levels of accountability for state institutions of higher education. In February of 1999, a report published by the State Higher Education Executive Officers indicated that as of December, 1998, 34 states were using performance measures in some fashion. Nine were linking performance to funding.¹⁷

In addition to providing accountability and a basis for funding decisions, performance measures are also valuable at the institution level. They can provide information that assists faculty and university administrators in strengthening programs and demonstrating the value added by the programs they provide. Strong programs and clear evidence of results will also be useful as institutions find themselves competing more and more for their students with a larger number and wider variety of institutions.

2. A Structure for Greater Accountability - The Issues Addressed

a. What to Measure

Consideration of institutional effectiveness implicates a variety of important areas of institutional activity. The two primary areas that should be measured are academic quality and institutional efficiency. Academic quality measures should demonstrate the success of students during their higher education experience as well as after graduation. Efficiency measures should demonstrate institutional efficiency in the use of fiscal, human, and physical resources.

b. System-wide versus Institution-specific Measures

Any system of performance measures must include both system-wide measures and institution-specific measures which take into account the unique mission and circumstances of each institution.

¹⁶ "Financing Higher Education: An Annual Report from the States," by Mary P. McKeown-Moak, and published by the State Higher Education Executive Officers in February, 1999.

c. Determining the Meaning of the Results

Simply developing a multi-dimensional model that includes both system-wide and institution-specific measures of the two identified aspects of institutional effectiveness is not enough. For performance results to be meaningful, they should be interpreted using an appropriate mechanism for a comparative analysis of the results. This mechanism also should recognize and respect institutional mission and uniqueness. Therefore, when system-wide measures are used, comparisons must not be made among or between Virginia institutions. Instead, appropriate comparisons can be made in one or more of the following ways: comparisons can be made with the performance of an institution's peers; comparisons can be made of results over time; and/or comparisons can be made to a determined target.

Some measures will allow both system-wide assessment and comparative assessment in all three ways. For example, graduation rates should be measured system-wide because the Commonwealth expects students to complete programs successfully. However, graduation rates differ markedly from institution to institution and actual graduation may be more or less important to the definition of institutional success, depending on the mission of the institution. A comparative assessment of graduation rates could be performed by (i) comparing the institution's graduation rate to that of similar institutions, (ii) viewing the graduation rate as part of an upward or downward trend over time, and/or (iii) with reference to an expected rate (computed based on a variety of known variables).

d. Avoiding Unintended Consequences

Performance measures have great potential as both a tool for management and a means for articulation of the Commonwealth's goals and objectives for its system of higher education. However, the risk of performance measurement most often cited is that a focus on particular outcomes (those being measured) leads to unintended consequences. For example, with regard to graduation rates, an institution might sacrifice rigorous academic standards to make sure more students graduate on time.

Although the risk of unintended consequences cannot be ignored, two factors will mitigate against such unintended consequences. First is the reputation of the institution. Abandoning standards with regard to one aspect of performance in order to achieve success on another will surely take its toll on the education of students and, eventually, on the institution's reputation.

Second, establishing a broad and balanced set of measures will minimize the risk of unintended consequences. A variety of measures should be selected and combined so that attempts to manipulate results on one

measure would have a corresponding negative impact on performance of other measures. Again, graduation rates provide a helpful example. If performance is manipulated (rather than actually improved) to increase an institution's graduation rate, it can be expected that rates of passage on licensure and GRE subject exams will decrease. If rate of passage on licensure and GRE exams is also a performance measure, there will be no benefit to an institution from manipulating graduation rates.

3. The Proposal - Reports of Institutional Effectiveness

Whether or not a decision is made to tie funding to institutional effectiveness, the Commonwealth should measure effectiveness and publish the results for the benefit of the public and policymakers. To this end, the State Council of Higher Education should produce an annual Report of Institutional Effectiveness. The report should compile performance results on both system-wide and institution-specific measures and provide a context for analyzing that information by comparing the results to the performance of peer institutions, historical trends, and/or determined targets.

a. Agreement on the Measures

The Commission has solicited and received input from the institutions in response to the work done on performance measures to date. The institutions are ready and willing to be measured and to have their effectiveness reported widely and plainly. Their single concern is that the measures chosen should be appropriate to reflect performance across the wide spectrum of missions and circumstances that exist across the system. Building on the work of the Department of Planning and Budget and, more recently, the State Council of Higher Education, the Commission and its staff have worked with the presidents of the institutions to develop a list of measures that will allow the Commonwealth to assess institutional performance in a meaningful and accurate way. The list of performance measures offered by the Commission as a result of such efforts is included with this report in Appendix E. All of the measures listed are useful for informational purposes and could be used to measure and report institutional effectiveness.

In order for a system of performance measures to provide meaningful accountability, institution-specific measures of institutional effectiveness must also be developed for each institution. These measures, like the system-wide measures, must include measures of student outcomes and of operational efficiency. The State Council of Higher Education should work with the institutions to refine the list of system-wide measures and to develop institution-specific measures for each college and university. The final set of measures adopted must minimize the risk of manipulation and

unintended consequences. To the extent possible, these measures should be based on outcomes and value-added.

b. Reporting the Results

The State Council of Higher Education should collect each institution's results on the measures either annually or biannually, depending



upon the measure. Institutions should provide explanations of results that show significant deviations from the performance of their peers, historical trends, and/or determined targets. The State Council should compile the results and publish an annual Report of Institutional Effectiveness that compares results using peer comparisons, longitudinal analysis, and/or methodologically set targets. The report should be distributed to the Governor and General Assembly, posted on the State Council's web site for public consumption, and otherwise made available to the public. The State Council should conduct periodic audits of the measures and the data reported by the institutions to assure that the Report of Institutional Effectiveness continues to reflect accurately the academic quality and operational efficiency of Virginia's colleges and universities.

Reports of Institutional Effectiveness generated by the State Council of Higher Education pursuant to this proposal, in addition to identifying the accomplishments of our institutions, would provide valuable information for making decisions about the future. In addition to serving parents and students faced with choosing an institution, and governors and legislators faced with setting funding priorities for the Commonwealth, the information gathered in the reports would be helpful to boards of visitors charged with directing the efforts and resources of their respective institutions.

The measures included in the State Council of Higher Education's annual Report of Institutional Effectiveness may or may not be appropriate for use in relation to funding decisions. Certainly, performance on a subset of these system-wide measures combined with selected institution-specific measures could be included in an institutional performance agreement. However, the selection of measures to be included in an institutional performance agreement and the expected outcomes would be a part of the separate process of negotiation and agreement detailed elsewhere in this report.

ACCOUNTABILITY FOR INSTITUTIONAL EFFECTIVENESS: BOARDS OF VISITORS

The Governor, General Assembly, institutional administrators, parents, alumni, students, and, especially, boards of visitors must all understand the singular role of the governing boards of our institutions. The governing boards bear responsibility for managing the Commonwealth's multi-billion dollar higher education system. Their role needs to be clearly articulated and fully appreciated in order for our institutions to be fully accountable to the citizens of the Commonwealth for the results they achieve with the resources received. The central role of a board of visitors is best explained and understood in the context of what it means to be a public institution.

1. What it Means to be a Public Institution in Virginia

Like other state agencies and institutions, our public institutions of higher education are arms of the Commonwealth, created and operated by the Commonwealth to serve a public purpose. Section 23-14 of the Code of Virginia declares that the public institutions of higher education in the Commonwealth are "public bodies and constituted as governmental instrumentalities for the dissemination of education." All powers are vested directly or indirectly in the respective governing boards of the institutions.

Being a public body and government instrumentality means (and many of the institutions' enabling statutes expressly provide) that all of the property, both real (land and buildings) and personal (books, equipment, and furnishings), in the possession and control of the institution, is public property owned by the taxpayers of the Commonwealth, entrusted for care and use to the public entity. It means that the employees of our colleges and universities are public employees performing responsibilities that carry with them that unique element of public trust that is implicit in state employment. It means that the institutions must operate within a system of unique constraints and limitations intended to protect public assets, the public treasury, and the public trust from abuse and misuse.¹⁸

2. The Public Role of Boards of Visitors

a. The Source

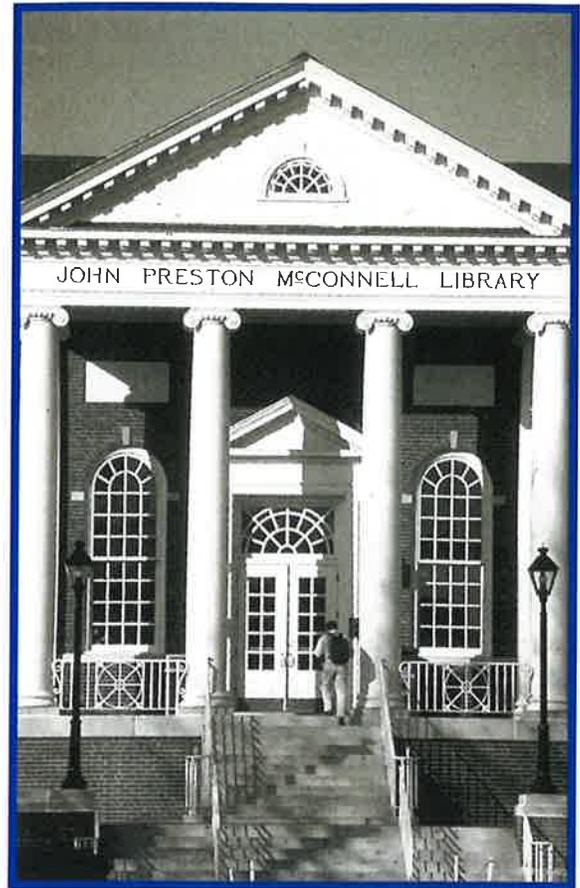
The laws that bring each institution into existence - a separate group of statutory provisions for each - establish a board of visitors or board of trustees as the governing entity for the institution. By these provisions, the

¹⁸ The Public Procurement Act, the Freedom of Information Act, and the Conflict of Interest Act are some of the most significant statutory provisions that direct how public officials must conduct public business.

General Assembly has delegated management and operation of Virginia's public colleges and universities to these governing bodies. The laws provide the means of appointment of individuals to serve on each board and set forth specific duties and authority deemed necessary for the oversight and operation of the institution.

b. The Role

Although these statutory provisions vary among the institutions in their details, they all create a fiduciary duty in each board and in each board member to act as a responsible steward of the public assets entrusted to them and at all times to act in the best interest of the owners of those assets, the citizens of Virginia. The responsibility entrusted to boards can, in part, be measured in terms of the substantial sums of general fund taxpayer dollars appropriated to each institution each year and the value of the property under their control. However, it is much more than that. It is the responsibility of the board to see that the public purposes for which the institution was created and is funded are accomplished. The policies and practices adopted by each board are public policies and practices. They are the actions of state government.



c. The Oversight

The Governor is responsible for ensuring that the boards of visitors carry out their fiduciary duties by acting as faithful and responsible stewards. The Governor's obligation arises not only out of his responsibility to appoint their members, but from the express charge of Article V, Section 7, of the Constitution of Virginia that directs that "[T]he Governor shall take care that the laws be faithfully executed." It is by law that boards of visitors are assigned their duties. Faithful execution of those laws requires dedicated and effective execution of those duties - a matter for which the Governor is ultimately responsible.

3. Carrying Out the Public Role

What does it mean for a governing board of a public institution of higher education to faithfully and effectively execute its fiduciary duties? This question has been the topic of considerable debate in recent months and, as was made apparent by presentations to the Commission, one on which the boards and individual board members historically have received very little guidance.

The Commission believes the boards are responsible, first and foremost, for providing oversight and leadership. To do so effectively, a board must focus its attention and effort on matters of broad and central importance to the continued successful operation of the institution. Boards that micro-manage their institutions will not have sufficient time to attend to the overarching policy matters that are the heart of their responsibility. The Commission heard much testimony on this topic from state officers, experienced board members, and national experts. Based on that input, the Commission has attempted to articulate the central areas of concern that should occupy a board's attention and efforts. The Commission proposes that the following list be adopted as a Statement of Role and Responsibilities and be provided to all board members upon appointment.¹⁹

a. Selection and Oversight of the President - Annual Performance Reviews

This is the single most important duty of a board. The board should have a policy outlining a presidential search process that reflects the importance of this duty. The board should control the process and should be responsible for developing and narrowing its own list of candidates. The selection of a president should be premised upon the mission and strategic goals that already express the board's vision for the institution.

Every board also bears responsibility for oversight of the president's performance. Review of the president's performance should occur annually pursuant to an agreed upon process and agreed upon goals and measures. Those goals and measures should be directly related to the priorities developed for the institution in the strategic planning process. The president reports only to the board. It is up to the board to be certain that the president is implementing its policies and accomplishing its goals for the institution effectively and efficiently.

b. Mission - Examination, Redefinition if Necessary, and Expression

A board of visitors serves in a policymaking role. The board is the body ultimately responsible for the institution. The board must make certain that the institution's mission reflects and directs the relative commitment to undergraduate, graduate, and/or professional programs, as well as the desired balance between teaching, research, and service. An institution's mission should drive the development of a strategic plan and should be reflected in budgets and personnel policies.

¹⁹ The Commission wishes to acknowledge the contribution of, and offer special thanks to, Dr. Phyllis Krutsch whose presentation to the Commission inspired the creation of this document. Dr. Krutsch generously shared her current research and findings with regard to the work of boards of visitors, in advance of their publication, with the Commission and its staff to assist the development of this statement.

c. Strategic Planning for Accomplishment of Mission - Setting Goals and Priorities

Boards of visitors are responsible for leading the institution in an ongoing strategic planning process. In conjunction with the president, and in consultation with faculty and other internal groups, as well as external constituencies, the board must develop priorities and goals necessary to the accomplishment of the institution's mission. In order to make decisions about the allocation of resources, boards must have priorities; in order to measure success, boards must set goals for accomplishment of those priorities.

d. Development of Institutional Budgets that Reflect the Mission Driven Priorities Defined by the Board

The board should review and approve the process by which the institution's budget will be formulated and hold its president and administration accountable for directing a process that seeks input from the board early and often. The budget should reflect the priorities developed for the institution in the strategic planning process. The board must ensure that high priority programs are allocated sufficient resources and, if resources must be reallocated to do so, that the reallocation is from low priority or non-productive areas. The board is responsible for ensuring that the institution's mission and priorities are visible in and expressed through its budget.

Virginia Commonwealth University (VCU) utilizes written agreements to formally adopt Management Principles and specific guidelines that relate to foundation activities. The board of visitors operates under the premise that university-related foundations and other affiliated organizations exist to benefit the University or one of the University's schools or departments. The board is advised of the purpose of the foundation or affiliate and the scope of its activities, including grants and fund raising, even though the board does not control the activities of the related foundation or affiliate. A representative of Audit and Management Services reviews related foundation or affiliate activities at least annually to ensure that the foundation's or affiliate's operations are consistent with the Guidelines for University Related Foundations and Affiliates.

The board takes its fiduciary responsibility seriously to ensure that it (i) complies with the Statement of Management Principles that define essential components of university and foundation relationships; (ii) funds activities consistent with the mission of the University; and (iii) has in place proper internal controls to review expenditures of all such funds on behalf of the University.

e. Academic Integrity of the Institution

The board must protect and advance the academic quality of the education offered by its institution. In doing so, the board should consider several issues, including admission standards, graduation requirements, and issues related to academic quality, such as grade inflation, faculty productivity

and priorities, use of technology in the classroom, and faculty development and incentives for outstanding teaching. The board should consider all of these issues in the context of an institution's strategic plan.

f. Oversight of Affiliated Foundations - Priorities for Fundraising and Expenditures Should be Consistent with Mission and Goals Set by Board for Institution

As set forth by Attorney General Baliles' 1983 memorandum,²⁰ all private funds donated to an institution's private affiliated foundations are private dollars committed to a public purpose. Boards of visitors must assure that funds committed to benefit a public institution of higher education are applied in a manner consistent with the mission, priorities, and goals of that institution. Regular detailed reporting of expenditures should be required and carefully reviewed. In addition, private affiliated entities use the name and relationships of the institution in their fundraising efforts. Boards of visitors should be fully informed and approve of the activities undertaken in their name and on their behalf.

g. Audit Planning and Review

An institution's internal auditor should report directly to the board of visitors or a committee of the board. The board can use the audit function for a variety of purposes. A careful review of financial audits will reveal whether or not the institution's actual allocation of resources is consistent with the board's priorities and with the financial position of the institution. In addition, audits allow the board to ensure that good business practices are in place and a part of the campus culture. With purposeful use of internal audits, boards can select accountability measures, review results accomplished, and determine how effectively its policies have been implemented.

h. Assuring Fiscal Efficiency - Minimizing Costs without Sacrificing Quality

The board is ultimately responsible for the cost-effective operation of its institution. It should use all of the tools at its command to assure itself that, and to create a culture where, every taxpayer's, student/parent's, and private dollar is used wisely and well. Boards should articulate to those on the campus that more efficient use of the dollars makes more dollars available for the education of more students. In addition, decisions with regard to enrollment and tuition and fees must not be allowed to place a college education beyond the reach of the average citizen.

²⁰ See Appendix F to this Report

4. Means of Carrying Out Board Duties

The boards and other governmental actors should ensure that the boards assertively carry out their duties by maintaining board organization and leadership, having an appropriate mix of personnel on the board, becoming fully informed, and communicating effectively with its constituencies.

a. Organizational Control

Maintaining focus on the foregoing "big picture" items requires strong board organization and leadership. A board must determine what is important, place it on the agenda, and meet as often as necessary to get the job done. Boards should omit, delegate, or create consent agendas for items that do not require the careful consideration of the board. A board's committee structure should reflect its priorities. Rectors and committee chairs should be chosen for their experience and leadership skills with consideration given to their ability to work together and with the president and vice presidents.

b. Time and Talent

In order to carry out their responsibilities effectively, boards must have the benefit of individual members who bring talent to their efforts and are willing to commit the time necessary to carry out their important mission. Each board, as a whole, requires a variety of skill sets to bring to bear on the decisions they must make.

A board needs among its members individuals experienced in group dynamics and group decision-making.

It needs individuals adept at working with budgets, financial statements, and audit reports. It needs members who understand management and personnel

The Board of Visitors at George Mason University recently reorganized the operation of the board. The board now provides oversight through the following standing committees: Audit, Finance and Resource Development, Faculty and Academic Standards, Student Affairs, Land Use and Physical Facilities, and Equal Employment and Affirmative Action. Each member of the Board identifies the committee on which he or she prefers to serve and the Rector makes an effort to honor that preference (a member may serve on a maximum of three committees, but may participate in the meetings of all). Each committee elects annually from its membership a chairman and vice chairman. The only exception is the Finance Committee where the Chair serves for two years because of the biennial budget process. The Chairs prepare the committees' agendas with assistance from the other committee members. Committees can meet as often as needed to address agenda items and prepare their recommendations for the consideration of the full board.

The Finance Committee will not vote on any budget proposal that has not been circulated to committee members at least ten days prior to an announced meeting. The current committee exercises its fiduciary responsibility for budget review and setting institutional priorities by conducting a line item review of the budget. All budget items must be reviewed and voted on by the full board prior to submission to the Governor or General Assembly. To accommodate increased activity and an abundance of agenda items, the board meets as often as necessary.

issues. It needs members who are familiar with the higher education enterprise, the role of faculty in an academic community, and with the interests and

In the mid-1990's, the Board of Visitors at the University of Virginia through an ad hoc subcommittee cataloged and computerized all of the board minutes dating back to 1819. The board's goal was to have a concise record of all policies that the board had ever adopted to provide a historical perspective and serve as a guide to future board action. This intense process gave the board a better understanding of what the board was responsible for and what had been delegated to other entities. By having a clear understanding of every board policy enacted, as well as an idea of which board policies need revising, the board was able to establish a clear line of authority.

demands of the private sector on higher education. It needs persons experienced in working within state law and policy. It needs experience with fundraising and development. And it needs citizens who are in touch with the interests and concerns of parents, students, and alumni and are able to reach out to these groups.

Certainly, no single individual can be expected to bring all of these attributes to a board; however, the Governor, when considering appointments to boards of visitors, should note which skills and knowledge are already represented on the board and what pieces are missing. Consultation with rectors and sitting board members could aid in this process.

c. Information

There are aspects of the business of a public institution of higher education that are unique to the enterprise and beyond the familiarity of even the most talented and experienced community and business leader. The higher education enterprise offers its own language, its own peculiar issues, and a unique set of cultures and relationships. There are also unique aspects of public institutions attributable to their status as state agencies that require their business to be conducted in ways unlike the private sector that may come as quite a surprise to those who are not experienced in state government.²¹

The Commonwealth's agencies and officials must provide board members the requisite information concerning the operation of state government, how their institution fits into that system of government, how their institution operates, and about relevant issues peculiar to higher education. To this end, the General Assembly should require mandatory training seminars for members of boards of visitors, at least in their first year of service.²² The State Council of Higher Education has offered day-long training sessions twice a year for the last several

²¹ One example of this is the Freedom of Information Act which renders meetings and records of the boards open to the public and for public inspection. While there are exceptions to the rule, they must be applied carefully and with an understanding and respect for the purpose of the statute.

²² Such a statutory requirement is already in place for the State Board of Education and for members of local school boards. Governance of higher education requires no less expertise than governance of K-12.

years. These efforts are a strong beginning, and testimony before the Commission indicated that they are informative and helpful. However, there is more that can and should be done.

The State Council of Higher Education should explore ways of offering short (2-4 hour) seminars on specific topics,²³ perhaps more than once a year, and using interactive distance education capabilities available at several institutions to make these sessions more accessible and convenient for board members. State officers and agencies should explain to boards statewide higher education issues, priorities, and processes.²⁴

d. Additional Resources

There are several other ways in which the Commonwealth can assist in the development and support of effective boards of visitors. Suggestions for many of these were offered to the Commission by current members of various boards of visitors in discussions concerning the challenges of their work.



The Commonwealth could provide to each board member upon appointment a book that would gather information about state laws, policies, and processes that bear on the operation of higher education. Such a handbook might include an overview of the system of higher education in Virginia, a chapter on board organization and operation, sections on financial and academic issues, explanations of shared governance and tenure, and provide contact information for various state agencies and officers that might be helpful to board members. In a similar vein, each institution could provide every new board member a compilation of critical institutional documents. Boards should not only know what documents control their relationships and obligations, but should be familiar with their contents, and have them available for reference in their work. Such

²³ Discrete topics could include, *inter alia*: a discussion of the system of higher education in Virginia and how it works to serve the needs of the Commonwealth; fiduciary duty and legal obligations of a public body; board organization and operation (by-laws, policy manuals, committees, agendas); strategic long-range planning--why and how; financial accounting at public institutions of higher education; state policies and processes; academic issues; faculty issues; student issues; presidential searches, oversight and evaluation; the use of audits to track accomplishments; the role and oversight of affiliated entities; and national trends and issues in higher education.

²⁴ These agencies would include the Secretaries of Education, Commerce and Trade, and Technology, the Comptroller, the State Auditor, the State Council of Higher Education, the Department of Planning and Budget, the Office of the Attorney General, the Department of General Services, the Department of Personnel and Training, legislative staff, the Joint Legislative Audit and Review Commission staff, institutional staff, and, likely, many others. This process would not only encourage the development of real understanding, but would introduce board members to human resources in state government who can answer their questions and assist them in performing their duties.

documents include the institution's enabling legislation, the board's by-laws, the president's contract(s), the institution's mission statement, strategic plan and current budget and financial statements, affiliation agreements with related charitable foundations, and the most recent reports submitted by those organizations.

The Longwood College model for achieving faculty input into Board of Visitor decisions ensures the Board the benefit of the unique perspective that faculty have to offer. Longwood has a non-voting faculty representative to the Board. This representative is elected annually by the faculty at the first faculty meeting in the fall. The representative can participate as a non-voting member in all regular meetings of the Board. The representative is able to speak and present his or her viewpoint. Moreover, each standing committee of the Board includes a member of the Faculty Senate Executive Committee as a (non-voting) member. This faculty member can participate in all discussions of the committee. Finally, the Board often has a breakfast on campus (before its regular meetings) to which faculty are invited to interact directly with the Board members. This practice has given the faculty reasonably good communication with the Board.

Board members should also receive a compilation of the board policies still in effect. A list of those modified and abandoned in recent years might also provide helpful context for a new board member. Other important documents for board members are the institution's course catalogue, publication of academic policies, and faculty handbook.

Yet another idea involves changing the nature of the recently re-formed Council of Visitors in a way that would formalize it and provide resources and support to the group. The Commission heard from several sources that the opportunity to gather and meet with fellow board members from other institutions to share experience, ideas, and information is valuable. However, Commission witnesses expressed some frustration that the group does not have any resources to devote to planning meetings and coordinating communication.

The State Council of Higher Education currently convenes monthly meetings of a General Professional Advisory Council (the Presidents), Financial Advisory Council (Institutional Finance and Business Officers), a Student Affairs Advisory Council (Vice Presidents for Student Affairs), and an Academic Affairs Advisory Council (Vice Presidents for Academic Affairs and Provosts). The State Council schedules and hosts the meetings of each group, develops agendas for the meetings, and facilitates the sharing of relevant information and resources among the members of the groups. The currently existing Council of Visitors should be brought together as a group similar to these others and assisted with their meetings and organization by the State Council staff.

e. Communication

The Faculty Senate of Virginia requested that the Commission recommend that each board "adopt a policy of full, active, significant, peer-elected faculty

participation in the governing boards of their institutions." Although it would not be appropriate for this Commission to direct the adoption of specific procedures by individual boards of visitors, the Commission believes it is important for every board to have opportunities, both formal and informal, to hear from the many constituencies involved and interested in the work of their institution. Boards should meet and confer regularly with students, parents, faculty, alumni, and community leaders.

Communication is particularly important with regard to faculty. Boards should regularly solicit formal faculty input and be willing to engage in regular informal conversations concerning the issues before them. The faculty are responsible for the learning that occurs in the classroom, and board members should be interested to know them and their thoughts and opinions on issues that confront the institution.

THE ROLE OF BOARDS OF VISITORS - RECOMMENDATIONS

- 57. The Governor and the General Assembly should support and maintain Virginia's system of independent institutions with individual governing boards.**
- 58. The Governor should endeavor to appoint individuals to serve as visitors who possess the necessary skills and experience to undertake the substantial responsibility entrusted to them. They should be accomplished individuals, with a distinct interest in higher education, who will exercise their independent judgment in the best interest of students, parents, taxpayers, and citizens. In making appointments to boards of visitors, the Governor should consider the various sets of skills that a board needs to work effectively and ensure that the members of the body, as a group, bring the necessary skills to their work.**
- 59. Boards of visitors should be provided with a statement of role and responsibilities. Such a statement should describe the central areas of concern that ought to occupy a board's attention and efforts. A proposed statement, based on the presentations to and discussions of the Commission, is contained in the text of this report and in Appendix G.**
- 60. Boards of visitors should regularly review the mission statement of the institution to ensure that it clearly identifies the institution's unique role in Virginia's public system of higher education and that the institution is directing its resources to being the best it can be in that role. Similarly, boards should review regularly their policies, by-laws, and operating procedures to be certain they permit and promote effective and efficient work by the board.**

61. **The State Council of Higher Education, in collaboration with the Secretary of Education and the Office of the Attorney General, should identify vehicles and opportunities to provide boards of visitors with the information they need in order to be informed and effective policymakers. Lists of topics on which boards need information and documents that are critical to a board member's informed decision-making are included in the text of this report.**
62. **The General Assembly should adopt a mandatory training requirement for board members in their first year of service, such as that already in place for local school boards. The State Council of Higher Education should be tasked with developing a series of programs that would allow board members to satisfy the training requirement, by acquiring information and skills necessary to productive service on a board of visitors, in an efficient and cost effective manner.²⁵ The Commission urges board members to continue to participate in continuing education throughout their term service as board members.**

²⁵ The General Assembly has already deemed it appropriate to require that "[E]ach member of the Board of Education shall participate in in-service programs on personnel, curriculum and current issues in education as part of his service on the Board." Va. Code Ann. § 22.1-253.13:5(B) (Michie 1999). In addition, local school board members are required to participate in annual in-service programs, addressing the same topics, as part of their service on the board. Va. Code Ann. § 22.1-253.13:5(E) (Michie 1999). Several other states have adopted some form of mandatory training requirement for members of the boards in their higher education system. See, e.g., Okla. Stat. tit. 70, § 3228 (West 1999); Tex. Educ. Code Ann. § 61.084 (West 1999).

THE ROLE AND VALUE OF THE STATE COUNCIL OF HIGHER EDUCATION

Virginia's colleges and universities are the product not only of the independent work of each school's governing board but of coordination and policy guidance provided by the State Council of Higher Education. The State Council, an 11-person board appointed by the Governor, oversees a staff of experts in higher education and is charged with a variety of advisory and regulatory duties. Established in 1956 by the General Assembly, the State Council's mission is "to promote the development of an educationally and economically sound, vigorous, progressive, and coordinated system of higher education" in Virginia (Va. Code Ann. § 23-9.3 [Michie 1997]). In practice, this means that the State Council serves as a catalyst for system-wide planning and improvement and as a source of information and expertise in the Commonwealth's efforts to advance excellence in higher education.

The express authority of the State Council of Higher Education is that necessary to provide general oversight of the system as a whole and to bring the needs of the system as a whole to bear on the plans and proposals of individual institutions. For instance, the State Council is charged with approving or disapproving changes in mission statements; it is responsible for review and approval or disapproval of proposed new academic programs at the undergraduate and graduate level; and it is required to approve or disapprove the establishment of any new department, school, college, branch, division, or extension of any public institution. In addition to these regulatory responsibilities, it is authorized to develop a comprehensive data information system as necessary to carry out its duties; it is directed to develop guidelines for the assessment of student achievement and to establish uniform standards and systems of accounting, record keeping, and reporting for the administration of financial aid at the public institutions. It is also available to provide advisory services to private not-for-profit institutions in the Commonwealth. The State Council also serves as the central collection and distribution point for information about Virginia's institutions of higher education and is currently undertaking a review of the myriad of reporting requirements (many without clear purpose) imposed on our public institutions.



The foregoing is only representative of the even longer statutory list of the State Council's duties and authority. However, it reflects the vital importance of Virginia's coordinating body to the system of higher education as a whole. This Commission has directed many of its most important recommendations to the State Council of Higher Education for implementation and relies on it in many instances to follow through with the work the Commission has only been able to begin.

In addition to continuing to carry out its current responsibilities, the State Council of Higher Education must play a central role in the negotiation of institutional performance agreements. This role is consistent with the State Council's statutory responsibility for making budget recommendations to the General Assembly. The State Council possesses both the information and the expertise to review proposed institutional performance agreements with a view toward system-wide issues and concerns and to bring a system-wide perspective to institution-specific issues and concerns.

Its role with regard to data gathering and expertise on higher education issues also puts the State Council in a position to provide needed support to boards of visitors, institutional administrators, and faculty in the manner suggested in this report and otherwise. The State Council should serve as a clearing-house for best practices identified at Virginia institutions and around the nation, and continue its efforts to facilitate the statewide discussion of higher education policy issues. The State Council's research and proposals serve as a catalyst for innovation and encourage open and honest dialogue about meeting the challenges of the future with the best interests of all Virginians in mind.

THE ROLE OF THE STATE COUNCIL OF HIGHER EDUCATION AND DECENTRALIZATIONS - RECOMMENDATIONS

- 63. The State Council of Higher Education should adopt and implement a matrix of performance measures that would allow it to measure academic quality and institutional efficiency. It should include and incorporate the Commission's quality assurance proposal and should produce an annual Report of Institutional Effectiveness. Reports of institutional effectiveness should be made widely available to students, parents, taxpayers, employers, and policymakers.**

- 64. The State Council of Higher Education should continue to serve as a statewide coordinating body for Virginia's system of higher education. It should gather, analyze, report, and publish data about higher education in Virginia. The State Council of Higher Education should review the multitude of reporting requirements currently imposed on our colleges and universities and develop and implement a plan for consolidating and streamlining state reporting requirements. As the repository of higher education information, the State Council of Higher Education should serve as a clearing-house for identifying and circulating best practices among the institutions and should be responsible for providing information and support to boards of visitors and their individual members.**

WORK FORCE TRAINING, ECONOMIC DEVELOPMENT AND RESEARCH

The growth of Virginia's economy depends in large part on the development of human capital - a highly skilled work force, including well-trained scientists and engineers - and the continuous creation and application of new knowledge. This is particularly so in the technology sector that has contributed most to the Commonwealth's vigorous economic growth in recent years.

Virginia boasts the third largest information technology industry in the United States and the largest east of the Mississippi River. Virginia companies manufacture a full range of high-technology products, including computer chips, rocket motors, night vision devices, robotics, flight simulators, and advanced telecommunications equipment. Virginia firms also leverage technology effectively for biomedical, agricultural, and manufacturing applications.

The Commonwealth must make the most of the potential in its institutions of higher education to ensure the continued expansion of Virginia's technology sector and support economic development in the face of national and international competition. Colleges and universities will play a critical role in preparing the Commonwealth's work force. The Commission's recommendations with regard to quality are aimed, in part, at furthering that role. In addition, research efforts and opportunities at our colleges and universities provide the new knowledge and innovation in basic and applied science that can encourage new companies to locate here and support their development and expansion once they do.

THE ROLE OF WORK FORCE PREPARATION IN ECONOMIC DEVELOPMENT

Virginia businesses are competing in international markets. To succeed in these markets, these firms require employees who are well-educated, highly skilled, flexible, and prepared to meet the challenges of the 21st Century workplace. In the past, most people learned a narrow range of skills and applied them to a single job for the same employer for much of their lives. Today, workers must be prepared to learn new skills regularly and adapt to new technologies. Today's work force is far more transient than in the past and likely to work for several

employers in a single career and even enjoy more than one career in a lifetime. Therefore, they must be broadly educated and flexible, lifelong learners. The Commonwealth must develop and maintain a comprehensive network of work force preparation opportunities that prepares individuals to enter the work force and to acquire new skills to remain competitive throughout their careers. The resources of Virginia's system of higher education must be brought to bear on today's education and training needs and on the work force demands of the business community or risk losing business to more aggressive states.

1. Current Work Force Preparation Efforts in Virginia

The principal sources of work force training in Virginia are (1) the doctoral and comprehensive colleges and universities, and (2) the Virginia Community College System. Through their academic programs, colleges and universities provide

The Virginia Community College System serves a distinct role in work force development, while also emphasizing the importance of learning as well as teaching; incorporating technologies, and accountability. The community colleges have carved out several niches by preparing students for transfer, training students for the work force through both credit and non-credit courses, and offering continuing education. Remedial services also remain an important part of their missions. As the State Council of Higher Education for Virginia states in the 1999 Virginia Plan: "The VCCS institutions must provide the doorway into higher education for those who have been away from education for a period sufficiently long to need refresher course in math, reading, and critical analysis."

students with the context and application, as well as skills, needed for their participation in the work force. New students gain in-depth knowledge of their field while learning necessary skills as part of the overall learning experience. Colleges also serve individuals who are part of the work force but want to change careers to meet growing work force needs or retool their current knowledge base. Working individuals who want to polish or increase skills have the options of both degree programs and a variety of certificate programs and seminars, many of which are offered by the colleges and universities at their work sites.

The Virginia Community College System is one of the most significant contributors to work force training in the Commonwealth.

The General Assembly has funded the community colleges to establish work force training centers. Among other things, those training centers have

- delivered customized job training to over 3,500 companies serving over 103,000 employees;
- provided non-credit alternative delivery (e.g., internet or computer-based) work force training programs to 6,600 employees;
- provided individualized counseling and management assistance for start-up or expansion for over 1,150 small business clients, helping to create and retain over 1,200 jobs and increase sales revenues by over \$23 million;
- served nearly 8,000 apprentices through over 2,400 sponsors through the community college Apprentice-Related Instruction Program; and

- provided training to over 12,500 employees through Institutes of Excellence in the areas of high performance manufacturing, information technology, and semiconductor technologies.

2. The Strategy

Virginia has made great strides toward meeting work force needs as we enter the 21st Century. However, much remains to be done. Other states are ahead of us in coordination of work force preparation and training and support for noncredit instruction. And while relatively widespread, work force training opportunities are not available in all areas of the

Commonwealth. Much more training could be made broadly available through alternative delivery methods such as distance learning. Opportunities for expanded access are facilitated by our regional higher education centers. Priority should be placed on making sure the most is made of the potential of these facilities.

The Commonwealth's major efforts to improve K-12 education through the Standards of Learning and other initiatives are also critical to ensuring a well trained, flexible, and adaptable work force to keep Virginia businesses competitive in the global economy of the 21st Century. Virginia's system of higher education must be intimately involved in preparing teachers to provide Virginia's children with the educational foundation so crucial to success in higher education and the workplace. Providing training for experienced teachers learning new strategies and ensuring that new teacher training programs are rigorous and demanding are the critical role of Virginia's colleges and universities.

In this rapidly changing global environment, higher education institutions at all levels need to be both farsighted and flexible in responding to changing educational needs. At the basic level, colleges and universities must ensure that all students graduate with the following critical skills to enable them to succeed in both the workplace and society at large:

- a level of technological literacy that will equip them to deal with the technological requirements of business in the information age; and
- the ability to think critically, problem solve, and write and speak clearly.

Virginia stands at the forefront of the "distance learning" revolution with its ability to provide quality education to Virginians throughout the state and world, regardless of location. Old Dominion University's (ODU) TELETECHNET program, which began offering classes in 1994, is a partnership between ODU and each community college in the Commonwealth of Virginia.

TELETECHNET also offers courses to a number of military bases, corporations, the Library of Virginia, and other institutions throughout the country. TELETECHNET utilizes television and computer technology to provide students who live in remote areas the opportunity to obtain their baccalaureate and Master's degrees from ODU.

However, while the institutions must recognize the need for change, such responsiveness can place great strains on institutional budgets. If colleges and universities are to respond in a timely and appropriate way to the need to serve increasing numbers of students and changing workplace requirements, the

Mary Washington College is implementing "information literacy" for students. Beginning Fall 2001, all students, as early as possible after matriculation, must demonstrate proficiency in a set of basic skills which, in the current specification, include: (i) use of the campus information technology network, including e-mail, (ii) familiarity with electronic (Internet, library bibliographic data bases, etc.) information resources, (iii) word processing, and (iv) computer spreadsheets. Students are assisted in acquiring skills in special non-credit orientation sessions and workshops provided by the College, as well as with WEB-based auto-tutorial instructional materials.

Each student's demonstration of proficiency is monitored by Instructional Technology and/or Library staff and recorded on the student's transcript by the Registrar. Proficiency is not only a requirement for graduation, but also a prerequisite for many courses in which it is assumed that the student has acquired basic information technology and computer skills.

Commonwealth must assist in identifying sources of essential support for this work.

The Commonwealth has identified five strategies for meeting the demand for work force preparation and training programs to ensure that Virginia's work force remains prepared to meet the employment challenges of the 21st Century. The strategies are

- implement a coordinated approach to work force development;
- ensure our education system (K-doctoral) provides all students with a solid academic foundation;
- ensure that all institutions of higher education incorporate work force skills where appropriate in the academic curriculum while training for specific work force skills is focused primarily at the community college level;
- increase emphasis on technical training and apprenticeships; and
- develop a statewide strategy for retraining existing workers.²⁶

Pursuant to the federal Work Force Investment Act of 1998, the General

Assembly passed legislation establishing the Virginia Work Force Council. The members of the Council include key business and government officials from throughout Virginia. The Council is charged with overseeing the creation and implementation of Virginia's work force training system and formulating strategies for work force development in the Commonwealth. Our institutions of higher education must be prepared and equipped to respond to the role defined for them by the Council.

²⁶ *The Virginia Workforce Strategy: Virginia's Plan for Workforce Development Entering the New Millennium*, Report of the Governor's Advisory Committee on Work force Training, December 1999.

WORK FORCE TRAINING - RECOMMENDATIONS

65. **The Secretary of Commerce and Trade, the Secretary of Education, and the Secretary of Technology must work closely together in order to ensure purposeful and focused state participation in meeting the demand for higher education from employers and employees, both present and future.**
66. **The Commission endorses the State Council of Higher Education's examination of the nature and extent of non-credit courses and programs offered by the community colleges and recommends a similar review of non-credit offerings by Virginia's four-year institutions. This important information should be made available to the Secretaries of Education, Commerce and Trade, and Technology for use in planning and promoting Virginia's work force training efforts.**
67. **The Commonwealth must make the most of its higher education system's potential for off-site course and program offerings. The State Council of Higher Education and the Secretary of Commerce and Trade should work together to identify degree, certificate and other, non-credit programs that are needed by businesses across the state, and the Secretary of Technology should oversee technology initiatives for off-site programs to ensure compatibility. The State Council of Higher Education should assist in negotiating unified operating standards among participating institutions.**
68. **Post-secondary institutions must make preparing new teachers for K-12 a priority. To underscore and support the Commonwealth's commitment to higher levels of subject-area knowledge among new teachers, every teacher preparation institution should be expected to achieve a 70% pass rate on the Praxis II exam, the subject area test given at the end of a prospective teacher's training and required for licensure in the Commonwealth of Virginia. The 70% pass rate should increase over time.**

THE ROLE OF ACADEMIC RESEARCH IN ECONOMIC DEVELOPMENT

Along with teaching and service, research is one of the major responsibilities of Virginia's colleges and universities. Faculty perform research in order to create new knowledge and to bring innovative ideas to what and how they teach. Students at all levels participate in research activities as a component of their education.

Research is vital to all of the academic disciplines of our colleges and universities. Depending on the discipline and the individual faculty member, the nature of the research ranges from the basic and theoretical to varying degrees of applied research. Reflecting this, support can come from external sources, can be an element of the university's support of a faculty member, or a combination of the two. Not surprisingly, the more applied the research, the more likely that support

will be available from outside sources.

1. Academic Research Attracts Business

Federal and private research funding contribute directly to economic development generating a net inflow of funds to the Commonwealth. Virginia's six research universities receive a total of over \$400 million annually in external research funds. The receipt of external grants, and the research they support, serve as indicators of academic vitality and are an important element in attracting additional external funding.

Studies suggest that the active creation of new knowledge fuels economic growth in at least three ways. First, strong research programs at a university contribute to economic development through the entrepreneurial activities of faculty and graduates working in those programs. Faculty members who are successful researchers develop relationships with their students who may then take jobs in local private industry. These relationships offer opportunities for partnerships between the private sector and individual faculty members and their institution that can reap significant benefits for all concerned, including the citizens of Virginia. In many cases, faculty and graduates may establish their own private businesses to capitalize on theoretical discoveries made on campus. Second, there are "knowledge spillovers." When a business or institution

develops useful new knowledge, it often provides benefits to other local businesses. These spillovers occur both within and among industries. Spillovers within industries help explain why we observe concentration of firms in an industry in one locality. Spillovers between industries are one explanation for the faster growth rate of cities over non-urban areas. Third, strong research programs at our institutions of higher education contribute to the economic development of the Commonwealth by establishing a concentrated presence of talented researchers on the faculty, high caliber students, and the facilities to conduct advanced research.



The first two of those factors make the creation of new businesses more likely. The third makes the area surrounding a research institution more attractive to existing businesses. Companies selecting a location for new

facilities, particularly those at which they expect to conduct research, consider association with or proximity to high quality institutions of higher education, association with or proximity to renowned researchers in their fields, and the availability of well-educated and skilled labor. Virginia's colleges and universities, therefore, play an important role in attracting and retaining employers in the Commonwealth.

2. The Commonwealth Should Invest in Research

The source of funding for academic research has shifted over the last two decades. During the Cold War, there was a national commitment to establishing and maintaining the United States' dominance in science and technology. As a consequence, from the 1960s through the 1980s, generous federal funding for academic and industrial scientists in many fields, to conduct basic and applied research, was the norm. With the end of the Cold War, however, the 1990s saw economic development become the central driver of research and development efforts. Federal funding declined, as a percentage of total funding available for research, and the role of funding from the corporate sector increased. According to the National Science Foundation, U.S. industry's investment in basic research performed at U.S. universities increased in real terms by 20% from 1991 to 1997, to over one billion dollars, or 6.5% of all academic basic research expenditures.

Similarly, federal funding for single-investigator, independent research, which was plentiful during the 1960s through 1980s, has been increasingly replaced by funding for large, multi-investigator collaborative projects, leveraging the intellectual and



financial resources of various institutions to solve large problems with commercial applications. As federal funding has become more competitive, it has been directed to top-ranked academic departments and to departments with leading scientists who are considered "stars" in their fields of study. Developing a top-ranked department takes time and money, primarily for the recruitment of top scientists and students, but the investment is likely to pay substantial dividends in increased external research funding to the institution and, indirectly, to the economic development of the Commonwealth.

In light of the overall decline in federal funds and changing federal priorities, the Commonwealth's investment in research is increasingly important. State support for research is also an investment in the quality of the education offered by our institutions. Top research departments draw top faculty and top graduate students who enhance the educational experience and training of undergraduates in the department. Investment in developing top departments can be viewed as an investment in the education of graduate and undergraduate students, and in the production of a highly skilled work force.

While this investment remains important, Virginia must critically examine the most effective ways of making such investment. The competition among states for businesses that offer high paying jobs and a growing tax base has driven up the costs of attracting those industries. However, given the relationship between the creation of knowledge and economic growth, it can be argued that states cannot afford not to compete for a share of these industries. The question becomes one of how to compete efficiently for the growth sectors and how to leverage Virginia's strengths to give it the greatest chance of succeeding in this area.

The Virginia Microelectronics Consortium (VMEC) utilizes resources and talents combining high technology delivery of teaching while simultaneously reducing or eliminating duplicative and overlapping degree programs, facilities, and faculties. The VMEC is designed to provide a statewide undergraduate and master's program in microelectronics. Five of the Commonwealth's engineering schools (University of Virginia, Virginia Tech, Old Dominion University, George Mason University, and Virginia Commonwealth University), the Applied Science program at the College of William and Mary, and the Virginia Community College System have joined forces to create a framework for a statewide microelectronics education and research consortium. VMEC seeks to utilize the complementary skills, expertise, and facilities of the Commonwealth's universities, community colleges, major laboratories, and growing microelectronics industries to deliver seamless, flexible, high-quality instructional training and research programs in microelectronics and semiconductor technology (with a strong emphasis on fabrication).

Across the country, most state funding for research has been funneled through state universities. The largest share of those dollars is for research and development centers associated with universities. There are many models available for providing state support in this way should the Commonwealth decide that this approach to strengthening economic development is necessary.

PROMOTING THE ROLE OF HIGHER EDUCATION RESEARCH IN SUPPORT OF ECONOMIC DEVELOPMENT

69. The Secretary of Education and the Secretary of Technology should work together to identify significant research efforts and capabilities at Virginia's colleges and universities that relate to federal priorities. They should educate Virginia's congressional delegation so that the delegation might be better prepared to draw "earmarked" federal research and development projects and dollars to Virginia institutions.
70. The Governor and General Assembly should consider and develop creative strategies for attracting both federal and private investment in research and development infrastructure at Virginia's colleges and universities. Some possible programs for consideration include a Technology Growth Fund that would offer matching funds on a competitive basis, the establishment of multi-university, cross-disciplinary centers aligned with existing and emerging technology industry clusters in Virginia, and an increased physical presence in Washington, D.C., to attract additional federal funding. These and certainly other ideas deserve careful study as the Commonwealth moves forward to incorporate more strongly and directly the research and development efforts of its research institutions into its economic development efforts.
71. The State Council of Higher Education, in close consultation with the institutions of higher education, the Secretary of Education, the Secretary of Technology, and the Attorney General, should promulgate revised intellectual property guidelines. These parties should examine the need for a single intellectual property policy for all institutions, in order to facilitate private participation in research and development efforts at our institutions.
72. The Governor and General Assembly should fully fund the Commonwealth's share of the Eminent Scholars Program as recommended by the State Council of Higher Education. The Eminent Scholars Program encourages private contributions to Virginia's state-supported colleges and universities by providing state funds to match eligible endowment earnings. Institutions use the state match and the corresponding endowment earnings to supplement salaries of about 450 leading faculty members. This program helps universities recruit and retain top faculty, thereby increasing and maintaining external research funding.
73. Research institutions must give serious consideration to the moral and ethical implications of any research they undertake and the methods employed. Arguably, the most precious legacy of America's founding fathers (many of whom were Virginians) was not economic prosperity but, rather, the declaration that each member of society, regardless of power or status, has equality and dignity under the law. This principle must be kept before us when we undertake research where there may be opportunity to exploit those too weak or powerless to give informed consent.

APPENDIX A

REMARKS BY GOVERNOR JAMES S. GILMORE, III, ANNOUNCING THE BLUE RIBBON COMMISSION ON HIGHER EDUCATION, JUNE 30, 1998

I want to welcome everyone here today and thank you for coming. Today is an important day for the people of Virginia because I am announcing the membership of my Blue Ribbon Commission on Higher Education. A list of the members is being distributed. I want to take this opportunity to express my appreciation and to articulate my goals for the members of this Commission.

I look around this room and I see so many distinguished leaders from the public and the private sectors, and I know that assembled here is a combination of experience and talent and vision to ensure the success of what we are gathered to accomplish; people like the Commonwealth's Secretary of Education Wil Bryant, George Mason University President Alan Merten, Sid Dewberry, Elizabeth McClanahan, and the man who will chair my Blue Ribbon Commission - Ed Flippen.

The reason I have asked these distinguished people to serve on my Blue Ribbon Commission on Higher Education is that they all share a common commitment and the integrity to serve the people of Virginia.

HIGHER EDUCATION'S IMPORTANCE FOR VIRGINIANS

Let me share a few thoughts with you about how important your work will be for the people of Virginia.

As many of you know, both Roxane and I attended public schools and the University of Virginia. I started in 1967 and she started in 1972. Between us, we have four degrees from U.Va., and Roxane has completed the course work for her Ph.D. while she teaches at Randolph Macon.

When I graduated from college in 1971, my tuition and fees were \$484. I can promise you that's the best \$484 I ever spent in my life!

Last year, tuition and fees at U.Va. were \$4,866. For those with math degrees, that's an increase of over 900 percent in about 25 years. And I might add, I am sure it's the best \$4,866 each student at U.Va. has ever spent in their young lives - whether they appreciate it yet or not. I bring these numbers to your attention to show you the difference that a generation makes.

Now I have two sons. Jay is in the 10th grade. Ashton is in the 7th grade. I am sure that Roxane and I share the sentiments of all Virginians when we look forward to providing our children the same educational opportunities that we were afforded 25 years ago.

There are parents of young children all over Virginia today who are aspiring and saving; aspiring to provide their children a college education and saving their hard-earned dollars to make a college degree affordable.

Which brings me to the fundamental reason we are gathered here today: How can our generation ensure the highest quality educational opportunities at affordable costs for the next generation of parents and students in Virginia?

ASSESSING WHAT WE HAVE INHERITED

Clearly we are doing some things right in Virginia. I've seen the most recent rankings by U.S. News

U.Va, again, is ranked the number 1 public university in the country, and 21st among all public and private universities in the nation; William & Mary is ranked 6th among public universities nationally; James Madison and Mary Washington rank 1 and 2, respectively, among public Southern regional universities, and 3 and 5, respectively, among all public and private Southern regional universities.

I understand that U.S. News rankings are not the ultimate test of a university. But they do indicate that by some objective measures Virginia is offering its people quality educational opportunities.

I also understand that these great educational institutions did not come about haphazardly or by accident; they are the visions realized of prior generations of Virginians.

They are the legacy of Virginia's first blue ribbon commission - the Rockfish Gap Commission of 1818, appointed by Governor James Preston and chaired by Thomas Jefferson at the age of 75.

The Rockfish Gap Commission of 1818 was formed to draft a plan for the creation of Virginia's first public university - to plan a university that, in Jefferson's words, "would remain, be respected and preserved through the ages."

The commission deliberated over several days in a tavern in Rockfish Gap. At the conclusion of their deliberations, they issued a report, authored by Thomas Jefferson, which detailed plans - from the courses to be taught to the number of professors to teach - for Virginia's first public university - the University of Virginia in Charlottesville.

Based on the work of the Rockfish Gap Commission, the University of Virginia was established. It received over \$40,000 in private contributions, an annual appropriation of \$15,000 from the Literary Fund, loans from the Literary Fund totaling \$180,000 - loans that were subsequently forgiven - and a general fund appropriation of \$50,000 to build the Rotunda. It opened its doors to students six years later in March of 1825.

The rest is history - 15 four-year institutions, 23 community colleges covering 38 campuses, a two-year liberal arts college, and a vast distance learning network. Today, Virginia's system of higher education offers a variety of educational opportunities in all regions of the State.

In Northern Virginia, George Mason University is emerging as a nationally preeminent university in economics, in law, and in software engineering. In Hampton Roads, Old Dominion is making it possible for students to attend classes via satellite, while William & Mary - Virginia's inheritance from the King and Queen of England - continues after 300 years to offer students from around the globe one of the finest liberal arts programs in the world. Here in Richmond, VCU

has distinguished itself in the fine arts and is poised to become a national leader in microelectronic engineering. And in Southwest - Virginia Tech's engineering program is ranked as one of the nation's best. And if a high school graduate wants a truly unique educational experience - VMI wants a few good men - and, today, a few good women, too.

And our community colleges continue to offer educational opportunities - bringing the first rung on the ladder of a college degree to local communities - and offering workforce training services across the Commonwealth.

We are the beneficiaries of the Rockfish Gap Commission and the hard work of many Virginians who have contributed their resources, their skills, and their ideas to higher education over the last 200 years.

And like the generations of Virginians who came before us, it is incumbent upon our generation to build upon the high quality of our institutions and their educational missions.

CREATING A BLUEPRINT FOR FUTURE GENERATIONS

Despite Virginia's global recognition as home to some of the world's best colleges and universities today, we are at a milestone in the history of Virginia's system of higher education.

The 21st Century is fast approaching and it is bringing change. Change creates challenges. The internet and other new technologies have begun to liberate the classroom from the confines of brick and mortar. Missions of our institutions are gradually evolving to fulfill the demand for further technological discoveries and for economic development.

Additionally, the Commonwealth's public policies toward higher education have at times drifted from decade to decade, or sometimes from Administration to Administration.

With changes in the times as well as policies, my goal for higher education in Virginia is to ensure that the system we have is as much the product of conscious decisions and policies as it is of accident - or I fear that some future generation of Virginians may be left with something of less quality and less opportunity - something less valuable than I was afforded.

No doubt higher education has been - from the days of Jefferson - the topic of healthy debate. More often than not this debate is over priorities.

Should we build more buildings or use existing facilities more efficiently? Should we hire more administrators or more professors? Is the highest use of our intellectual resources more faculty research or more instruction in the classroom? And are our students better taught by full-time professors or adjunct faculty and graduate students?

What are Virginia's priorities? We are assembled here to answer that question. My objective in establishing this Blue Ribbon Commission is simple: the parents, the students, and the taxpayers of the 21st Century deserve a formal blueprint to guarantee them a high quality and affordable college education 25 years from now.

This Blue Ribbon Commission will write that blueprint - just as Thomas Jefferson wrote the blueprint for Virginia's first public university in the Rockfish Gap Report of 1818.

Responsible stewardship of our vast educational resources – from the buildings on our college campuses, to the preeminent intellects of our college faculty, to the vast libraries and academic programs being offered - dictates that we set priorities and adopt goals first. And then - and only then - we should direct our resources to those priorities in order to achieve those goals.

The blueprint you write will establish Virginia's priorities for boards of visitors, policymakers, and the next generation of Virginia taxpayers, parents and students.

CHARGE TO THE BLUE RIBBON COMMISSION

As you embark upon your work, I urge you to consider these core objectives for the people of Virginia:

First, what can Virginia do to raise the quality of educational instruction and programs at all of its colleges and universities - not just one or two flagship universities - but all of our public institutions? We have a system of higher education offering a wide variety of educational opportunities. The people of Virginia deserve academic excellence across the board - from Norfolk State, to Radford, to Clinch Valley. We must guarantee all students a high quality education an excellent curriculum taught by qualified faculty - that will equip them for the intellectual challenges of the 21st Century.

As you consider quality, I ask you to consider the applications of new technologies. When a student at Virginia State University can take an economics class via satellite from Nobel laureate James Buchanan at George Mason, and a government student at Christopher Newport can attend Larry Sabato's campaigns and elections course in Charlottesville – how will earning a degree and granting a degree change? And where there are opportunities for collaboration, are there equal opportunities for cost savings while augmenting quality?

Second, as we look across the next 25 years, how can Virginia make higher quality and affordable cost compatible goals throughout its entire system of higher education? Virginia's taxpayers currently spend over \$1.3 billion each year - about 1 out of every 10 tax dollars paid to the State's general fund - on higher education. Parents and students spend a billion dollars more each year in tuition and fees. And generous alumni contribute hundreds of millions more each year. I ask you to make specific recommendations on the highest and best use for each dollar Virginia's citizens spend. How can we ensure that each dollar is spent to increase the quality of education for students and learning?

I ask you to consider the 900 percent tuition increase I mentioned earlier. Even controlled for inflation, that increase represents a real increase of 146 percent for in-state students since 1971. This increase has occurred despite real increases in general fund appropriations. The next generation of Virginians cannot afford to pay an additional 900 percent increase - they cannot afford to pay \$49,000 each year for tuition. So I charge this Commission with devising a strategy for holding tuition to historic levels.

Third, how can Virginia fulfill its fiduciary duty to the parents and students who pay tuition, to the taxpayers who subsidize tuition, and to the generous alumni who contribute their own resources to augment the Commonwealth's institutions? The

people of Virginia own every brick and every book at each public college and university in Virginia. It will be incumbent upon this Commission to design an accountability structure for the use of those bricks and books.

On the subject of accountability, let me add a word about our boards of visitors. The people of Virginia elect a Governor to serve them.

It is in the name of the people that the Governor appoints men and women of distinction to govern our colleges and universities. Boards of visitors are stewards of public resources and the public trust - they are accountable to the people - and they speak for their institutions.

Therefore, I ask the Commission to make specific recommendations for making our college boards true governing bodies - and for empowering them to fulfill their fiduciary duties to the people of Virginia.

I close with this thought. I ask you always to remember the hopes and aspirations of the parents and students of Virginia. For almost 200 years, the Commonwealth has constructed and maintained a vast system of higher education to serve the educational and economic needs of its citizens as well as the Nation. It is in the service of the people of Virginia that we are assembled here today and that we embark on our work.

I thank you for your commitment, for your creative ideas, and for your desire to serve. Thank you and God bless the people of the Commonwealth.

REMARKS BY GOVERNOR JAMES S. GILMORE, III, UPON THE PRESENTATION OF THE FINAL REPORT OF THE GOVERNOR'S BLUE RIBBON COMMISSION ON HIGHER EDUCATION, FEBRUARY 3, 2000

INTRODUCTION

When the people of Virginia entrusted me with the high privilege to serve them as Governor, my first official act was to sign Executive Order No. 1 establishing this Blue Ribbon Commission on Higher Education. Mindful of a Governor's solemn obligation to be a steward of the public's resources, tax dollars, and educational opportunities, I established this Commission to undertake a thorough review of how public colleges spend nearly \$3.5 billion in public funds each year to provide Virginia's daughters and sons a college education. I paused during my Inaugural Address to create this Commission to underscore the importance of this undertaking to the lives and opportunities afforded hundreds of thousands of Virginia's citizens.

Needless to say, the subject of this Commission's work touches upon the dearest hopes and aspirations of every person in this room. At some point in our lives each of us sought to improve our intellects and our lots in life by going to college and earning a college degree. College was my way up. And now, like many of you, college will be one of the most important opportunities I will provide my children.

In fact, hundreds of thousands of students and parents seek this opportunity each year in Virginia. We owe them the highest quality educational opportunities at costs they can afford.

This Commission's work is equally important to the millions of Virginians who

work hard, pay taxes from the earnings of each week's labor, and who thereby own sixteen public colleges and universities and twenty-three community colleges. The people of Virginia are the shareholders of the higher education enterprise. It is on their behalf that the General Assembly appropriates \$1.5 billion of tax dollars annually and that our public institutions spend nearly \$3.5 billion in public funds each year – in order to improve the Commonwealth and serve our citizenry as a whole. We owe these people a solemn fiduciary duty.

So, when the people of Virginia granted me the opportunity to serve as their Governor, I set the highest expectations for this Commission and what it could accomplish on their behalf.

APPRECIATION FOR THE COMMISSION'S EFFORTS

Ladies and gentlemen of the Commission and Chairman Flippen, you have exceeded my highest expectations. You devoted over eighteen months and literally hundreds of hours to the service of parents and students and taxpayers all across this Commonwealth. You criss-crossed the state. You received testimony from nearly a hundred experts. You engaged the public and policymakers alike. You included the General Assembly, college board members, college presidents, administrators and faculty. You went beneath the surface. And you have contributed significantly and substantively to public policy on higher education.

On behalf of the people of Virginia, please accept your Commonwealth's deepest appreciation. I applaud you.

THE COMMISSION'S CHARGE

When we met at the Commission's first meeting at this location in June of 1998, I asked you to make specific recommendations on three core objectives:

- First, to raise the quality of educational instruction, programs, and research at all public colleges and universities.
- Second, to keep a college education affordable for the next generation of Virginians.
- Third, to ensure accountability for the expenditure of public resources, and, in that regard, to empower boards of visitors to fulfill their fiduciary duties to the people of Virginia.

These core objectives – quality, affordability, and accountability – are the touchstones of what I consider the best system of public higher education in the nation. And Virginia should strive to be nothing less.

QUALITY

On the matter of quality, I believe the Commission's focus on academic rigor and setting priorities within institutions to allocate resources where they will produce the greatest educational benefit will resonate with boards of visitors and deans and faculty for many years to come. Too often an institution's programs become static or are left to drift over the years – but if institutions adopt the kind of quality and resource allocation measurements endorsed in your report, excellence will be only a few deliberate allocations away – degree program by degree program.

And on the issue of quality research and programs, this Commission has recommended that the Commonwealth expand its support for research and move more innovations from academia to the marketplace. I'm providing \$20 million in my budget to establish the Technology Competitiveness Fund for colleges and universities – to match federal and private research grants in state-of-the-art technology and scientific fields. The fund will enhance the national reputation of our key academic departments and attract some of the world's leading faculty to teach at our colleges and universities. This will propel Virginia as a higher education leader as well as a technology leader.

AFFORDABILITY

Of course, a high quality education is of little value to people if access is denied because the degree is too expensive. Far too many families are forced to undertake substantial debt – sometimes a second mortgage – to afford the dream of a college education.

Last year this Commission revealed that tuition and fees doubled in Virginia in just fifteen years. You also documented the effects of what was described as a "tuition transfer tax" during the recession of the early 1990s – when colleges and universities increased tuition and fees to offset reductions in general fund tax support

The General Assembly and I responded to your findings. I proposed a 20 percent tuition rollback and budgeted \$75 million in new tax dollars to reimburse the institutions dollar-for-dollar in order to reverse the "tuition transfer tax" of the recession era. The General Assembly concurred, and we made a college education more affordable for the citizens of Virginia by \$75 million – a savings of over \$400 per family each year.

In addition to that, we have frozen tuition and mandatory fees, and I propose that we continue the freeze for four more years and use tax dollars to maintain excellence instead of tuition jumps.

When this Commission started its work, Virginia ranked as the 8th most expensive state to obtain a college education. As a result of your work and these progressive policies, Virginia is now only the 18th most expensive. With a freeze in place, we can improve our national position in affordability even further.

Clearly, a college degree is more affordable for a citizen of Virginia today than it was just two years ago. That will be one of this Commission's most defining legacies, and each of you should be very proud of that achievement.

Of course, we have enjoyed a bountiful economy. And that economy has permitted us to increase tax support for Virginia's colleges by \$690 million since I became Governor to enhance the quality of academic programs, raise faculty salaries, and expand campuses. Consequently, the taxpayers and citizens of Virginia are devoting more money to higher education today than at anytime in the history of Virginia. By all measures – including inflation and the number of students we educate – Virginia is supporting higher education with unprecedented resources.

Consider, for a moment, how far we have come:

- In 1990, Virginia taxpayers spent about \$4,200 per student. This year, they are spending \$6,100 per student – a 12 percent increase in real dollars per student.

- And combined with all other sources of income our colleges take in each year – from taxes to tuition and fees to research grants, book store profits and athletic ticket sales – total resources per student increased from \$9,200 in 1990 to \$15,600 this year – a 28 percent increase in real dollars – per student – in just ten years!

This Commission also documented that – compared to all other government programs – from Medicaid to public schools – higher education has received higher percentage increases than any other program during the last five years – re-affirming that a college education is a top priority for the people of Virginia. Virginia can be proud of its progress.

ACCOUNTABILITY

We all understand, however, that Virginia never will be able to stand pat. To compete nationally and globally with cutting edge programs and eminent professors, Virginia must be prepared to do more.

When I spoke to this Commission at your first meeting at VCU in August of 1998, I showed you spending increases by Virginia's colleges over the last two decades and I said: "The next generation of Virginians ... will be asked to spend an additional 210 percent on higher education. That may be needed," I said. "But before they are required to pay, the people of Virginia deserve a formal blueprint to guarantee them that the Commonwealth is prepared to spend every dollar to increase the quality of teaching and learning – and to maintain the academic excellence we have achieved since the 1970s."

Ladies and gentlemen, you have written that blueprint and for the first time have proposed that higher education planning and strategy become a part of the overall public policy process of the Commonwealth. It is a blueprint for accountability based upon two key principles:

- First, active and effective governance by boards of visitors to ensure internal accountability within institutions; and
- Second, "Institutional Performance Agreements" between each institution, the General Assembly and the Executive Branch to ensure external accountability to the public.

Accountability is the touchstone of all public policy in the 21st Century – not just in Virginia but throughout the nation – and the predicate for public confidence and support in the future. There is no greater threat to the public's support than an utter lack of accountability. The people pay our way, and they deserve to measure our results.

I predict that the accountability blueprint authored by this Commission will be copied by other states and other institutions in years to come. The people of Virginia can be very proud of your work.

In my view, this foundation of accountability will enable prudent stewards of tax dollars here in Virginia to support the expenditure of increased resources for higher education in the years ahead, and to do so with confidence that the consumers of higher education, and all taxpayers, are getting their money's worth.

FROM RECOMMENDATION TO REALITY – WHERE VIRGINIA GOES FROM HERE

As you know, the budget I submitted to the General Assembly incorporates your recommendation for Institutional Performance Agreements.

The process calls for each institution to develop and submit an IPA this year. Each proposal will be reviewed by both the executive and legislative branches. Some agreements may be finalized by the end of this year, and others may take longer. But the process must begin promptly and it must involve every institution.

I understand the partnership that is necessary between the General Assembly, the college boards and presidents, and the Executive Branch to make performance agreements a reality as effective mechanisms for linking increased funding for higher education with enhanced accountability. Toward that end, I have discussed the proposal with Senator Chichester and I have asked him to partner with me in reshaping our process to ensure excellence in higher education. I am reaching out to other members of the General Assembly as well.

Secretary Bryant, President Merten and Frank Atkinson already have engaged in spirited and constructive discussions before General Assembly committees. The Council of Presidents, speaking through Alan Merten's letter to the money committees, has put forward a workable approach to the IPA process that is consistent with this Commission's recommendations.

And I believe the development of Institutional Performance Agreements should proceed in tandem with the crucial – and complimentary – work of Senator Chichester's Joint Subcommittee on Higher Education on the subject of base funding adequacy. I look forward to seeing the results of those studies.

Working together over the course of this year, and next year if necessary, we can develop multi-year agreements that combine adequate and reliable funding with outcome-oriented accountability. For the first time ever, Virginia's public colleges and universities will be able to plan their affairs strategically, rely upon predictable funding, and build their programs deliberately and thoughtfully over several years. That is the best – and indeed perhaps the only sure way – to fulfill our responsibilities, both as stewards of tax dollars and as trustees of what can be the best higher education system in America.

A COMMISSION'S LEGACY

Ladies and gentlemen, few commissions in the history of Virginia can claim the kind of legacy that this Commission will leave behind:

- Attention to curricula and academic rigor
- A new research grant fund
- 20% tuition rollback
- A prescription for effective board governance, and
- A statewide blueprint for higher education's accountability to the public that will be recognized nationally.

Not since Thomas Jefferson chaired the Rockfish Gap Commission in 1818 has a commission gone into such detail and produced such creative and far-reaching

thought on an issue as complex as the higher education enterprise.

I am proud of each of you. I am proud of your honorable chairman for his effective leadership. And I am hopeful for the next generation of Virginia's students, parents and taxpayers – that their educational opportunities will be greater because of what you have accomplished here. Thank you.

APENDIX B

INSTITUTIONAL PROPOSALS FOR DECENTRALIZATION

FACILITIES MANAGEMENT

Capital Outlay: Eliminate central state agency oversight of building projects financed with state taxpayer dollars. Eliminate central state agency oversight for building projects financed without state taxpayer dollars (e.g., dorms, recreational facilities, food service facilities, etc.), operating leases, and land acquisition and disposition.

Leases: Delegate all Division of Engineering and Buildings (DEB) lease authority to the institutions, including expense leases, capital leases and income leases.

Design/Build or Construction Management: Delegate the authority to approve use of design/build or construction management to chief facilities officers.

Building Permits: Delegate permanent building permit authority to chief facilities officers, eliminating the need for annual delegation by the Division of Buildings and Grounds.

Life/Safety Compliance: Allow the State Regional Fire Marshal's Office to review design documents for life/safety compliance for capital projects, thus aligning document review in the same office as physical inspection of facilities for fire and safety.

Master Plan Approval: Delegate approval of Campus Master Plans to Boards of Visitors

Construction of Temporary Facilities: Delegate the authority to approve construction of temporary facilities and to issue tent permits, particularly given the high volume and the immediacy and temporary nature of these permits and projects to institutions' chief facilities officers.

Design Reviews: Allow institutions to outsource design document code reviews to qualified architects and engineers, expediting the review and design completion process.

FINANCE AND BUDGET

Employment Levels: Allow institutions to fill as many positions as needed to support operations as long as there are sufficient resources (i.e., eliminate the Maximum Employment Level (MEL) currently included in Appropriation Act).

Automatic Carry Forward of Yearend Balances: Provide an automatic re-appropriation of any yearend cash balances funds instead of requiring institutions to justify the re-appropriation.

HUMAN RESOURCES

Compensation and Classification: Decentralize authority to establish classified compensation and classification plans.

Benefit Plans and Program: Allow institutions to establish benefit plans and programs including, but not limited to:

- leave policies
- long-term care
- wage personnel benefits
- optional retirement plans
- eligibility standards

PROCUREMENT

Purchase and Procurement: Subject to the Procurement Act and related regulations, allow institutions to

- make purchases off state contracts
- make sole source purchases
- develop purchasing policies locally
- modify the Virginia Business Opportunity advertising requirements, and
- seek, as optional, use of the Virginia distribution Center (central warehouse),

Graphics Communications, and Virginia Industries for the Blind for select goods and services

Travel: Expand air travel payment methods (beyond the Air Travel Card (ATC)), there by allowing institutions to utilize more efficient tools such as purchasing cards.

Motor Vehicle Purchases and Leasing: Delegate authority for motor vehicle purchases and leases, thereby eliminating Virginia Department of Transportation (VDOT) approval.

Construction and A&E Services: Extend current authority for delegated small purchases to procurement of renovation and construction projects less than \$500,000 and architectural and engineering services. Allow the use of agency purchase orders instead of two-party contracts for renovation and construction projects less than \$500,000 and architectural and engineering services.

APPENDIX C

1998 REPORT OF THE COUNCIL OF INDEPENDENT COLLEGES IN VIRGINIA ON ENROLLMENT CAPACITY

The Council of Independent Colleges in Virginia (CICV) recently surveyed its 24 member institutions to measure enrollment capacity. The survey results indicate that space does exist at many private institutions to accommodate current additional students and anticipated increases in enrollment in the future. This study comes at a time when many public policy leaders are expressing interest in achieving maximum usage of private college enrollment capacity.

METHODOLOGY

In the spring of 1999, CICV initiated a study to identify the enrollment capacity at member institutions. Previous studies were done in 1992 and 1994. The survey instrument used measured actual versus capacity enrollment for 1998-99 (see Appendix B). In addition, projections were provided by each school for expected enrollment capacity in 2002. Institutions were also asked to provide data on residence hall capacity and new facility construction planned or anticipated program changes which would also impact future capacity. All 24 CICV member institutions furnished data for the study.

ACTUAL VS. CAPACITY ENROLLMENT, 1998-99

The actual FTE enrollment reported by the 24 institutions for Fall 1998, was 35,597. Of this number, 31,304 (88%) were enrolled in on-campus programs and 4,293 (12%) in off-campus programs.

Total on-campus capacity in 1998 was estimated to be 35,244. Subtracting the actual on-campus enrollment from the on-campus capacity enrollment produces a capacity figure of 3,940 to accommodate additional students.

Total off-campus capacity in 1998 was estimated to be 5,905. Therefore, an additional 1,612 FTE students could have been accommodated by CICV institutions in 1998. Because of the flexible nature of off-campus programs, capacity enrollments are more difficult to define. Ten of 24 CICV institutions currently offer off-campus programs. This compares six to institutions in Fall 1994, and seven in Fall 1992.

As a group, the 24 CICV institutions operated at 86.5% of total capacity in 1998-99. All but two institutions indicated that they had the ability to accommodate additional students in 1998-99. The range among the 24 colleges and universities was 60% to 100% of capacity. The median was 88%. The ability to accommodate additional students using current enrollment capacity is geographically distributed throughout the state.

ACTUAL FTE ENROLLMENT AS A PERCENTAGE OF CAPACITY ENROLLMENT

RANGE	NUMBER OF CICV INSTITUTIONS		
	FALL, 1992	FALL, 1994	FALL, 1998
Less than 50%	2	1	0
50% - 60%	1	1	1
61% - 70%	2	1	2
71% - 80%	3	6	4
81% - 90%	9	8	9
91% - 100%	8	7	8

RESIDENCE HALL CAPACITY

The total residence hall capacity at the 24 member institutions was 20,645 students. The actual number of students in the residence halls in Fall 1998, was 18,930. The aggregate available capacity of the residence halls is 1,715. The

residence halls were 89% full in 1998-99. The range was 60% to 100% full. The median was 91% full.

RESIDENCE HALL OCCUPANCY RATES

RANGE	NUMBER OF CICV INSTITUTIONS		
	FALL, 1992	FALL, 1994	FALL, 1998
Less than 50%	1	2	0
50% - 60%	1	0	1
61% - 70%	2	1	0
71% - 80%	2	2	4
81% - 90%	9	7	6
91% - 100%	10	12	13
Over 100%	0	1	0

PROJECTED FTE ENROLLMENT CAPACITY FOR FALL 2002

In 1998, the total capacity for both on- and off-campus programs at the 24 CICV member institutions was 41,149. By Fall 2002, that number is projected to increase to 44,263; an additional 3,114 FTE spaces. Combining the projected additional spaces with the current additional enrollment capacity of 5,552 spaces, means that there will be 8,666 spaces available to accommodate additional on- and off-campus students by 2002. (It should be noted that only CICV member institutions participated in this survey; therefore, if non-CICV member institutions additional enrollment capacity is included, then it is estimated that there will be an excess of 10,000 spaces to accommodate additional students by 2002.)

Of the 24 institutions, ten do not currently plan to increase capacity. Of the 14 institutions increasing capacity, the increases in FTE enrollment capacities ranged from 8 to 1000. Institutions expanding enrollment capacity are located throughout the state.

NEW FACILITIES

Twelve of the 24 CICV institutions indicated that some expansion of their physical facilities will take place within the next five years, which will have an impact on their enrollment capacity. In several instances, the planned expansions are already underway. In addition to new facilities, many institutions reported renovation projects. Many projects will have an impact on enrollment, and all are anticipated to increase the quality of student life.

PLANNED EXPANSION OF PHYSICAL FACILITIES AT CICV INSTITUTIONS 1998-2002

TYPE OF CONSTRUCTION	NUMBER PLANNED BY 2002
Academic Buildings	4
Administrative Offices	1
Athletic	3
Libraries	2
Residence Halls	4
Student Centers	5

CONCLUSION

The CICV study indicates that the 24 CICV member institutions should be able to accommodate an additional 8,666 students by 2002. An estimated 5,712 students could enroll in on-campus programs, and 2,954 in off-campus programs. Total available spaces exceeds 10,000 when non-CICV Virginia private colleges are considered. Utilizing space which already exists makes financial sense for both the Commonwealth and Virginia's extraordinary system of higher education.

SUMMARY OF ENROLLMENT CAPACITY

Capacity of Residence Halls in 1998	20,645
Residence Hall Spaces Occupied in 1998	18,930
Residence Hall Spaces Available in 1998	1,715
Actual FTE Enrollment in 1998	35,597
Capacity Enrollment in 1998	41,149
Available Capacity in 1998	5,552
Projected Capacity Enrollment in 2002	44,263
Number of Additional New Students that Could be Enrolled in On and Off Campus Programs by 2002	5,712 on-campus 2,954 off-campus 8,666

APPENDIX D

VCU LIST OF RATIOS

In particular, the University uses five-year trend data for unit expenditures, staffing levels and productivity, enrollment levels and the number of degrees awarded to develop the following ratios:

- Percent of administrative staff to teaching and research (T&R) faculty
- Percent of full-time equivalent (FTE) adjunct faculty to total FTE teaching faculty
- Percent of graduate teaching assistants to T&R faculty
- E&G expenditures per filled staff position
- E&G expenditures per student credit hour
- Percent of travel to total expenditures
- Percent of contracts, supplies, and materials to total expenditures,
- Percent of equipment expenditures to total expenditures
- Percent of instructional expenditures to total expenditures
- Percent of research expenditures to total expenditures
- Percent of public service expenditures to total expenditures
- Percent of academic support expenditures to total expenditures
- Percent of institutional support expenditures to total expenditures
- Percent of student financial aid to total expenditures
- Instruction spending per credit hour in current and constant dollars

- Headcount of majors per E&G T&R faculty
- Degrees awarded by E&G T&R faculty
- Course credit hours per E&G T&R faculty
- Course credit hours per E&G T&R and adjunct faculty

APPENDIX E

PROPOSED PERFORMANCE MEASURES FOR USE IN INSTITUTIONAL PERFORMANCE AGREEMENTS AND REPORTS OF INSTITUTIONAL EFFECTIVENESS

After consultation with institutional representatives and the State Council of Higher Education, the Blue Ribbon Commission recommends the following performance measures to be included among those used in the State Council's proposed Report of Institutional Effectiveness and in Institutional Performance Agreements. Additional institution-specific measures could be developed. While the following performance measures can be used system-wide, the performance expectations based on these measures would vary by institution, as would any consequences agreed upon in the institutional performance agreements.

A. Quality or Student Outcome Measures:

1. Graduation and retention rates for four-year institutions based on actual versus predicted rates, historical trends, and/or peer analyses.
2. Nationally standardized tests (licensure, GRE subject, etc) compared with peer performance, predicted/projected rates and historical trends.
3. Transfer-completion/progression rates for Community Colleges and for institutions with non-traditional populations – based on student goal achievement and/or successful performance if transfer to four-year is the student goal – compared to historical trends.
4. Specific skill measures for competencies such as technological, writing and speaking.
5. Post-graduate experience – evaluated through alumni surveys and employers/graduate school interviews/surveys – including review of trends over time and comparison with peers and national benchmarks.

B. Efficiency Measures:

1. Research productivity as viewed by NSF and National Research Council ratings as well as review of index counts of citations of faculty publications in comparison to peers and based on the institution type (highest for research, lowest for primarily teaching institutions).
2. Audits of assessment, program review and post-tenure review processes by external auditors trained to conduct such audits.
3. National rankings of institutions and program-specific rankings for each institution, including historical trends in the rankings.
4. Percent of alumni who contribute as one means of reflecting students' opinions and satisfaction regarding their experience at the institution.

Results on this measure would be compared over time and compared to peer or national benchmarks.

5. Crime statistics, including comparisons over time and possibly comparisons to other institutions in similar locations with similar demographics, would be useful consumer information appropriate for inclusion in the state Council's planned Report of Institutional Effectiveness but probably would not be included in an institutional performance agreement.

6. Expenditure of funds on instruction and academic programs, including trend analysis, to reflect changing institutional priorities and re-allocation of resources based on priorities.

7. Attainment of national accreditation, including percent of programs eligible for national accreditation that actually receive it.

8. Attainment of Management Standards, historically and on a projected/actual basis, as a minimum requirement to establish that the institution's financial management meets DPB's five existing accounting-related standards.

9. Positive quality assurance reports based on internal audits as a minimum requirement to ensure the institution has an effective internal audit function.

10. Debt capacity (i.e., the institution's revenue to debt ratio) as a fiscal health indicator, including comparisons over time and to state and/or national standards.

11. Faculty productivity in terms of credit hours generated and research dollars generated.

12. Space utilization measures to assess how well institutions use existing space over time and as compared with the State Council's system-wide this measure would be compared over time and compared to peer or national benchmarks.

APPENDIX F

1983 ATTORNEY GENERAL'S MEMORANDUM TO VIRGINIA'S PUBLIC INSTITUTIONS OF HIGHER EDUCATION

INTRODUCTION

The following is a summary of the voluminous information provided this Office pursuant to the request concerning foundations which were made to you as the presidents of Virginia's public institutions of higher education. Also included are several observations and suggestions. All institutions responded. No response gave rise to any basis for a finding of unlawful activity by the institutions or the foundations.

PROLOGUE

The reported foundations exist because of, and for, the public institutions they support and after which they are named. Looking beyond their independent

corporate existence, the foundations are depositories of enormous funds charitably donated for the benefit of public higher education. Their assets exist essentially because of public tax policy and publicly spirited donations. As a consequence, fiduciary obligations are impressed by law on the management of such funds, and this Office is obligated to protect the public interest at stake when, and if, abuses become evident. Our authority becomes meaningless unless the institutions keep themselves closely apprised of foundation activity.

Prior to the inquiry of this Office, little was known by State government as to the identity, purpose, structure, and institutional relationship of each foundation supporting public higher learning in Virginia. As a result of this inquiry, a positive step has been taken in the right direction. Hopefully, the institutions will be more aware of the importance of effective disclosure and review of foundation activity, along with the public interest at stake in the prudent management of foundation assets.

SUMMARY

Virtually all of the foundations solicit, receive, manage and invest private gifts intended for the ultimate benefit of the institution they support. In some cases, institutional policy and/or practice encourages prospective donors to make donations directly to the supporting foundations and not to the institution. In some cases, the institutions routinely transfer their endowments and private gifts to the foundations for management and investment. Nonetheless, the institutions do not generally have the final say, nor control, over the management or ultimate disposition of the gifts once in the custody of the foundation. Institutional powers are usually recommendatory in nature, except for the limited input existing by reason of institutional representatives serving on foundation boards or as foundation officers and employees.

The foundations are generally not legally accountable to the institution, nor are they accountable to voter, stockholder or consumer. Furthermore, the institutions, with few exceptions, have no control over appointments or removal of foundation directors and officers. The broad discretion of the foundation managers is limited only by fiduciary obligations. Furthermore, so long as they exercise their fiduciary responsibilities, their discretion over the management and application of the foundation assets is publicly non-controlled. Yet, foundation policies and activities can influence institutional priorities with great impact, as well as the overall educational policy of the Commonwealth.

Foundation disclosure to the institutions is fundamental to public accountability. Thus, each institution should have in force some meaningful mechanism for disclosure and review of critical foundation operations.

The extent to which disclosure currently exists at each institution varies greatly. In some limited cases, no regular reports are made to the institutions. It is not clear if this is due to the absence of any institutional request or desire to receive reports. Where periodic reports are made, disclosure is voluntarily submitted by the foundations in a cooperative spirit. Most foundations fall into this category. The depth of the disclosure and the subsequent institutional examination is unknown. In some instances, the disclosure is made once a year, not sufficiently frequent to be truly effective. Few institutions themselves currently audit the foundations, or

require a statement of financial condition. It does appear to be a wide practice that most foundations voluntarily provide the institutions with copies of their annual audits. Uniquely, the community college foundations are required by policy of the Virginia State Board for Community Colleges to submit to an audit by the internal auditor of the institution.

As a fundamental step, the institutions should be encouraged to shoulder the primary responsibility for closely reviewing (as opposed to regulating) these foundations. The foundations should not be allowed to act under their name, nor for their benefit, without at least some form of minimum scrutiny and institutional review of foundation activity on a periodic basis, frequent enough to be effective.

Accordingly, each institution, by express board policy, is advised to seek, at a minimum, the following disclosure (preferably on a monthly basis) from each foundation operating under its name and/or which receives, solicits or manages private gifts or endowments for it:

- a) any repeal, amendment or addition to the foundation articles or bylaws; particularly watching for changes in purpose and potential distribution or use of assets;
- b) current listing of names and professions of all directors and officers (not just principal officers);
- c) description of any compensation paid anyone and the amount (except expense reimbursements);
- d) description of all private gifts and contributions received for the institution's benefit, and description of any restrictions or conditions attaching (the identity of the donor is desirable, but unnecessary);
- e) description of all expenditures and those planned or committed;
- f) identification of all investments and those under consideration (e.g., names and locations of deposits, account numbers);
- g) identification of all private firms responsible for the daily management of the funds and the fee, if any;
- h) notification of any litigation, or threat of litigation, brought by or against the foundation;
- i) notification of any audit or review by tax authorities, or action taken, or threatened action, that would adversely affect the tax-exempt status of the foundation.

Furthermore, each institution should seek a periodic statement of the foundation's current financial condition annually (preferably certified by an external or independent auditor); and each institution should be provided with any annual audit provided the foundation.

Additionally, the foundation should be encouraged to surety bond all personnel handling funds intended for the ultimate benefit of the institution. In those instances where institutional employees handle foundation funds, the institution should review its existing bond policy and confirm that the policy covers both institutional endowments and private gifts legally titled in the name of the foundation.

When received, the information should be regularly examined at least by a finance committee of the institution's governing board. Any questions or concerns should be promptly reported to this Office and/or the State Auditor, as may be appropriate.

The institutions should not assume a complete "hands-off" or "laissez faire" attitude to foundation activity. Without controlling foundation activity considered crucial to foundation independence and effective fund raising, the institutions can, and minimally should, be actively and acutely aware of such activity.

THE EXTENT OF FOUNDATION INDEPENDENCE AND ITS CONSEQUENCES

With the lone exception of two community colleges, all two and four year public institutions of higher learning in Virginia have separate foundations/associations. A total of sixty-three foundations/associations have been reported and analyzed.

No institution described its fund-raising foundations as a part of State government. In nearly every case, the foundations are separately incorporated as non-stock corporations. In some limited cases, they are described as unincorporated associations, or, in one case, an association formed as a result of a trust indenture.

The institutions view the independence and private nature of the foundations as critical to their philanthropic purpose. Some prospective donors do seek assurance that their gifts will not become part of the State treasury. That concern is more illusory than real from purely a legal point of view. A donor may make a private gift directly to an institution's endowment and restrict it to a particular institutional purpose (e.g., student scholarships). In so doing, the gift must be legally applied consistent with the donor's intent. Also, endowment funds and private gifts to the institutions (including income earned therefrom) are not paid into the State treasury. See § 2.1-180. An additional concern is that prospective donors may hesitate to contribute directly to the institution believing that the General Assembly may withdraw its financial support to the extent of the gift. The legislative policy is expressly to the contrary. See §§ 23-9.2 and -9.14.

It may well be that a separate foundation increases private giving. That is a belief widely held. However, as noted, restricted gifts to the institution, as well as unrestricted gifts to its endowment funds, enjoy the same "immunity." Considering that fact, it would be prudent for the institutions carefully to weigh policies or practices which encourage donors to make gifts directly to a foundation. Once such a deposit is made, the institution may lose control over its future application. This is not an empty or theoretical concern. For example, in one instance a foundation refused to fund needed computer equipment desired by the institution. Institutions should consider the benefits of such practices or policies, against the loss of control over the funds. Because private gifts to the institutions are legally separate from the State treasury and considering the current legislative policy regarding appropriations, it may be to the institution's advantage to amend its policies or practices and encourage gifts directly to the institution.

In the event such an institutional practice or policy of direct giving to the foundation is continued, the institution should consider requesting prospective donors (1) expressly to condition or restrict their foundation gifts to benefit the institution and (2) require that the foundation may not apply the funds to any institutional purpose contrary to the wishes of the institution's governing board. Any transfer of endowments by the institution to the foundation for

management/investment should likewise be expressly conditioned in order that the institution unquestionably reserves control over all future disposition.

In all cases, the reported foundations/associations bear the name of the institution and thus publicly represent themselves as existing only for the benefit of the institution. It is interesting that four institutions reported that the foundations held no funds in "trust" for them. Perhaps it is a misunderstanding on their part of the legal jargon. It is clear that when such a foundation receives or solicits funds under the institution's name, a trust is impressed by law requiring prudent use and management of such funds.

Not all foundations are limited by their charter to only benefit the institution after which it is named. Most are, but some are not, expressly limited. The legal possibility that a foundation, which on its face is dedicated exclusively to the institution, may solicit gifts and lawfully apply them to other charitable ends consistent with their charter is disconcerting. When these foundations solicit funds, there is at least the implied representation to donors that the funds will solely benefit the institution. To the extent permitted by its articles of incorporation, there is the legal possibility that the foundation could apply unrestricted gifts to other educational purposes authorized by its charter.

An equal concern exists with respect to unrestricted gifts which the institution transfers to the foundation. The institution may not be aware of the potential legal consequences when they are dealing with foundations that are not expressly limited by their charter to benefit only the institution. This concern is particularly fueled by the fact that one institution erroneously reported that "its" foundation was limited to benefit the institution. A careful reading of the referenced foundation's charter reflects that the foundation may broadly apply its funds for: "Charitable, religious, scientific....purposes....by contributions to organizations that qualify as exempt organizations under § 501- (C) (3) of the I.R.C...."

Additionally, the charters of a few foundations do not provide that, upon dissolution, the assets will be distributed as shall be in the best interest of the institution. Although it is unlikely that such assets would find their way into the wrong hands, because of the enormity of the wealth involved and the public interest at stake, any ambiguity should be eliminated.

Each institution should carefully read the charter of each foundation/association bearing its name and purporting to support only it. If the charter does not limit the foundation to benefit only the institution, the institution should require the foundation to amend its charter. If the foundation fails to cooperate, the institution should reassess its relationship to the foundation, and its current policy. This Office should also be apprised. Furthermore, the articles should expressly provide that, upon dissolution of the foundation and payment of all expenses required by law, the remaining funds will be distributed in such a way that the institution's interest therein would be preserved. Obviously, this is a matter which should be cooperatively resolved between the two entities. There is no reasonable basis for disagreement if the foundation genuinely sees itself as existing for the institution's benefit. Furthermore, this Office's attorneys with expertise in charitable trusts should be immediately advised of any intended dissolution of any foundation.

With few exceptions, all of the reported foundations receive and solicit private gifts to benefit the institution. In every instance, the funds received are controlled and invested according to policies exclusively established by the foundation board. The institution generally has no control or vote in such matters (except to the extent their representatives are on the foundation board). The day-to-day management in some instances is entrusted to an executive or finance committee of the board of directors and/or delegated to a private management/investment firm.

In some cases, private investment firms provide regular counseling services. In other cases, an institutional employee has a central role in the investment decisions serving as the key fiscal officer for the foundation.

With the exceptions of two institutions, no institution reported whether it has developed comprehensive policies or guidelines governing fund solicitations. Minimally, each institution should require some notice of all proposed fund raising activity undertaken in its name and for its benefit, including method, location, etc. This Office urges each institution to be actively involved in coordinating such activity as a minimum. The institution may also wish to require advance approval. Such approval can be lawfully enforced under common law principles, as well as § 57 - 57 (C).

The institutions should also require, by policy, the following:

- a) That no foundation funds will be accepted by any institutional personnel or departments without the prior consent of the governing board of the institution.
- b) That the foundations will not transfer funds to the capital outlay operations of the institution without the prior consent of the governing board and the Virginia General Assembly.

This second concept is also usually embodied in the Appropriations Act. See §4 - 4.01 of Ch. 684, Acts of Assembly of 1982.

There is no universal rule regarding institutional board members also serving as foundation directors or officers. Variation is the theme, and breaks down as follows:

Several institutions do not routinely have such dual service. In some cases dual service does exist by virtue of institution and/or foundation policy; for example, the chairman of the institution's governing board may serve ex officio on the foundation board; or the foundation bylaws may require appointment of one governing board member to the foundation board of directors; or, in some cases, all members of the institutions governing board also serve ex officio on the foundation board.

Sound policy suggests that each institution be represented on the foundation board by representatives from its college board, preferably members familiar with college operations and dedicated to the college interest. Such dual service has obvious advantages to the institution in terms of the direction and policy of the foundation, but most importantly, such dual service would permit the institution to be continually apprised of foundation developments.

Regarding dual service of institutional employees, the rule with little exception is that such dual service exists. In nearly all cases, the president is an ex officio member on the board and/or officer of the foundation. Additionally, the chief fiscal officer for the institution is frequently the treasurer (or assistant treasurer) for the foundation. There are also instances where the following occur:

Members of the institution's faculty are elected to the foundation board

regularly; members of the college administration (other than the president) serve on the foundation board; for example, the vice president may also serve as executive director of the foundation.

It is clear that many foundations rely principally on institutional resources and personnel for support services (computers, accounting, bookkeeping, office space). It is not clear whether such foundations reimburse the institutions for the reasonable value thereof in all cases. The institutions which did volunteer an answer indicate reimbursement. Foundation reliance on institutional support services increases the likelihood of institutional monitoring and awareness of foundation condition and activity.

It is advisable that the institutions recover all their resulting costs from the foundations. In so doing, the resulting diminishment to the foundation corpus benefits the institution anyway, the separate identity of the foundation is strengthened as more than just an institutional satellite, and the foundation may avoid otherwise arguable statutory obligations currently applicable to State agencies.

Each institution should likewise require that none of its personnel perform services for the foundation without its prior consent. Such a policy will reduce the possibility for interference with the employee's primary loyalty to the institution, and also serve to ensure that no unlawful conflict exists as specifically prohibited by § 2.1 - 351 (b) and (c) of the Code. See also, § 2.1 - 349 (a) (4).

Regarding foundation employees, many foundations do not employ their own personnel, but rely on institution employees. In such circumstances, it appears that reimbursement to the institution for personnel services in whole or in part (depending upon the percentage of the employee's work dedicated to the foundation) is the general rule. For example, an institution's secretary may work both for the institution and the foundation, but technically is a State employee.

The institutions should examine the risks/benefits to it in hiring administrative employees who essentially provide services for the foundation, even though reimbursed for salary/benefits. There are some obvious legal risks to the institution employing such personnel; e.g., worker's and unemployment compensation and civil rights liability. The risk is amplified with passage of the Virginia Tort Claims Act. These legal risks can be lessened to the institution if the foundation was the sole employer. Furthermore, in a time when limited personnel positions are authorized to each institution, the institution might gain additional slots for academic programs by requiring the foundation to employ needed personnel.

In the case of one institution, there is an unwritten understanding that a member of the College's business office will be on the foundation board. It is always advisable to reduce verbal understandings to written form.

The general rule is that the institutions do not audit the foundations. There are limited exceptions. Where audits are conducted, it is only with the permission of the foundation. It appears, however, to be a general practice that many foundations voluntarily share their private audits with the college. At two institutions, all fund activity of the foundations is logged through the institutions' computers and books.

The presidents may wish to establish a collegial forum of institutional representatives to exchange the diverse policies and practices existing at each

institution. For example, this subject could be a regular agenda item for the Council of Presidents. It is unfortunate that there is no centralized pool of information drawing from the individual experiences of each institution.

Regarding the institution's power to appoint/remove foundation director/officers, or to manage or control funds held by the foundation for its benefit, the general rule is that no such power exists. The appointment/removal of foundation directors and officers is generally within the sole discretion of the foundation board. Likewise, the management, investment and control over foundation assets reside in the discretion of the foundation board. For the most part, the foundations are self-perpetuating entities. There are few instances where the institution has powers of appointment. Only one institution cited a power of removal.

Regarding the provision of legal services, with one limited exception, all foundations look to private counsel. Institutional counsel should not establish attorney-client relationships with the foundations. If the foundations are truly private and independent as claimed, this Office has no legal responsibility to advise them. Also, and more importantly, dual service by institutional counsel can create difficult conflict problems for this Office in the event it may be called upon to render advice to the institution over foundation activity.

COLLATERAL MATTERS

A. Virginia Freedom of Information Act

The Act may possibly be applicable to some foundations. Included within the reach of the legislation is not only legislatively created boards, but also, "other organizations, corporations or agencies in the Commonwealth, supported wholly or principally by public funds." § 2.1 - 341 (a). Foundations which exclusively or principally rely on institutional resources and personnel for their operations are vulnerable to a finding that their records are subject to public scrutiny, as other public bodies; and that meetings must be conducted in public session, unless otherwise excepted by the Act. Knowing this, it may be prudent for the foundations to reimburse the institutions for the foundation's use of institutional personnel and resources. "Arms length" transactions strengthen claims to separate identity.

Also, once foundation records come into the possession of the institution, or other State agency, such records are subject to public disclosure requirements unless otherwise exempted by law. § 2.1 - 342 (b).

B. Sovereign Immunity

It is unsettled in Virginia whether these foundations are insulated from tort liability. A credible argument can be made that immunity exists as the foundation acts as an arm of the State, integrally tied with a State institution, and dedicated solely to the State institution and public interest. Nevertheless, such a claim may not withstand judicial scrutiny. Notwithstanding the foundation's close involvement with the institution, the pivotal fact remains that the State generally exerts no mandatory control over foundation policies, management, or investment of its assets. Control is usually the critical issue. *Elizabeth River Tunnel District v. Beecher*, 202 Va. 452 (1961); *James v. Jane*, 221 Va. 43 (1980); *Maias Administrators v. Eastern State Hospital*, 97 Va. 507 (1899) ("Eastern State Hospital is a public

corporation governed and controlled by the State.") Until it can be said that the institution has legal control over the foundation, it cannot be said that a suit against the foundation is a suit against the State. For example, independent contractors have no claim to immunity even if they act exclusively for the State. *Boyd v. Mahone*, 142 Va. 690 (1925).

Separate from the legal issue is the appearance created when a foundation claims it is cloaked by State immunity. Clearly, from a legal analysis, a foundation should not inconsistently claim its independence from State government, and at the same time seek the benefit of State immunity.

C. Foundation Loans

The institutions may not lawfully borrow funds from their foundations creating a State indebtedness, nor lend State appropriated dollars to their foundations, without explicit approval of the General Assembly. Before such transactions are undertaken, this Office should be consulted.

D. Institutional Reports

The institutions should be aware of § 23-1 of the Code:
It shall be the duty of the president or chairman of the board of visitors or trustees of every State institution of higher education to cause to be made out by the president or other proper officer of such institution and forwarded to the State Council of Higher Education on or before the first day of October of each year a report for the year ending the thirtieth of June preceding. Such report shall set forth...the kind and amount of all funds and endowments yielding an income; the annual income from all sources, and the items thereof.... [Emphasis added.]

Section 23-1.1 also requires an annual institutional report to the Comptroller of all athletic receipts and disbursements of the institution and of any affiliated committee, group, corporation or association charged with administering the athletic program.

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APPENDIX G

PROPOSED STATEMENT OF ROLE AND RESPONSIBILITIES OF BOARDS OF VISITORS

SELECTION AND OVERSIGHT OF THE PRESIDENT - ANNUAL PERFORMANCE REVIEWS

This is the single most important duty of a board. The board should have a policy outlining a presidential search process that reflects the importance of this duty. The board should control the process and should be responsible for developing and narrowing its own list of candidates. The selection of a president should be premised upon the mission and strategic goals that already express the board's vision for the

institution.

Every board also bears responsibility for oversight of the president's performance. Review of the president's performance should occur annually pursuant to an agreed upon process and agreed upon goals and measures. Those goals and measures should be directly related to the priorities developed for the institution in the strategic planning process. The president reports only to the board. It is up to the board to be certain that the president is implementing its policies and accomplishing its goals for the institution effectively and efficiently.

MISSION - EXAMINATION, REDEFINITION IF NECESSARY AND EXPRESSION

A board of visitors serves in a policymaking role. The board is the body ultimately responsible for the institution. The board must make certain that the institution's mission reflects and directs the relative commitment to undergraduate, graduate, and/or professional programs, as well as the desired balance between teaching, research, and service. An institution's mission should drive the development of a strategic plan and should be reflected in budgets and personnel policies.

STRATEGIC PLANNING FOR ACCOMPLISHMENT OF MISSION - SETTING GOALS AND PRIORITIES

Boards of visitors are responsible for leading the institution in an ongoing strategic planning process. In conjunction with the president, and in consultation with faculty and other internal groups, as well as external constituencies, the board must develop priorities and goals necessary to the accomplishment of the institution's mission. In order to make decisions about the allocation of resources, boards must have priorities; in order to measure success, boards must set goals for accomplishment of those priorities.

DEVELOPMENT OF INSTITUTIONAL BUDGETS THAT REFLECT THE MISSION DRIVEN PRIORITIES DEFINED BY THE BOARD

The board should review and approve the process by which the institution's budget will be formulated and hold its president and administration accountable for directing a process that seeks input from the board early and often. The budget should reflect the priorities developed for the institution in the strategic planning process. The board must make clear and make certain that high priority programs are allocated sufficient resources and, if resources must be reallocated to do so, that the reallocation is from low priority or non-productive areas. The board is responsible for ensuring that the institution's mission and priorities are visible in and expressed through its budget.

ACADEMIC INTEGRITY OF THE INSTITUTION

The board must protect and advance the academic quality of the education offered by its institution. In doing so, the board should consider several issues, including admission standards, graduation requirements, and issues related to academic quality, such as grade inflation, faculty productivity and priorities, use of technology in the classroom, and faculty development and incentives for outstanding teaching. The board should consider all of these issues in the context of an institution's strategic plan.

OVERSIGHT OF AFFILIATED FOUNDATIONS - PRIORITIES FOR FUNDRAISING AND EXPENDITURES SHOULD BE CONSISTENT WITH MISSION AND GOALS SET BY BOARD FOR INSTITUTION

As set forth by Attorney General Baliles' 1983 memorandum, all private funds donated to an institution's private affiliated foundations are private dollars committed to a public purpose. Boards of visitors must assure that funds committed to benefit a public institution of higher education are applied in a manner consistent with the mission, priorities, and goals of that institution. Regular detailed reporting of expenditures should be required and carefully reviewed. In addition, private affiliated entities use the name and relationships of the institution in their fundraising efforts. Boards of visitors should be fully informed and approve of the activities undertaken in their name and on their behalf.

AUDIT PLANNING AND REVIEW

An institution's internal auditor should report directly to the board of visitors or a committee of the board. The board can use the audit function for a variety of purposes. A careful review of financial audits will reveal whether or not the institution's actual allocation of resources is consistent with the board's priorities and with the financial position of the institution. In addition, audits allow the board to ensure that good business practices are in place and a part of the campus culture. With purposeful use of internal audits, boards can select accountability measures, review results accomplished, and determine how effectively its policies have been implemented.

ASSURING FISCAL EFFICIENCY - MINIMIZING COSTS WITHOUT SACRIFICING QUALITY

The board is ultimately responsible for the cost-effective operation of its institution. It should use all of the tools at its command to assure itself that, and to create a culture where, every taxpayer's, student/parent's, and private dollar is used wisely and well. Boards should articulate to those on the campus that more efficient use of the dollars makes more dollars available for the education of more students. In addition, decisions with regard to enrollment and tuition and fees must not be allowed to place a college education beyond the reach of the average citizen.