**FUNDING THE PURPOSES OF STATE SUPPORT**

**FOR HIGHER EDUCATION**

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 Over the last 25 years, higher education finance policy in West Virginia has been subject to a series of fits and starts. Funding models have come and gone; lofty goals, such as peer equity, have been boldly pronounced, then ignored; and there has been universal agreement that higher education is vital to the future of the state, yet it’s never considered a funding priority.

 In 2011, a report by the Higher Education Policy Commission’s Efficiency Project properly noted that the state’s finance policy “lacked clear philosophical direction.”[[1]](#footnote-1)

 The root cause of this predicament is the uncertainty that exists in establishing and implementing finance policy as well as the failure of the Legislature to fund directives it imposes by statute.

 Currently, the funding of the state’s colleges and universities is fairly simple – same as last year. There is a distinct lack of any correlation between the level of support each individual institution receives each year and a clear, well-thought formula. On occasion, the state’s budget will provide for a diversion - an across-the-board cut or additional funding for an institution that responds to an immediate need. For the most part, however, an institution’s state appropriation follows a pattern that is rooted in the amounts determined in the late 1990s.

 This paper suggests that the lack of a logical method for the distribution of state funding to each institution rests with the lack of a clearly defined philosophical purpose for subsidization. True, the Code is replete with legislative directives and mandates – many of which fail to include a solemn promise of funding. Yet, there is no clear reason as to why the taxpayers of West Virginia subsidize its institutions of higher learning.

 From a 30,000-foot view of the Code, regulations and an historical perspective of state funding, there appears to be three reasons for taxpayer support of higher education:

1. Support for general operations;
2. Subsidization of resident student tuition; and
3. Incentives for the attainment of state policy goals.

All three philosophical purposes are stated or reasonably inferred. Often, funding is implied or statutorily required. Yet, the Governor and the Legislature consistently ignore these statutory implications.

This conundrum stems from the fact that while statutory mandates are open-ended, i.e. the HEPC shall do this, this and this, funding is finite – here’s how much you have to spend.

This paper offers a financing alternative. It starts from the premise that the West Virginia Code grants the Higher Education Policy Commission the power to create a method for the allocation of state funding to the individual institutions.[[2]](#footnote-2) In operation, the Governor and the Legislature has confiscated such authority from the HEPC by setting forth specific state appropriations for each institution in the state’s annual budget. This proposal returns the authority to the HEPC.

Second, this paper recognizes the political reality that regardless of high-minded Code provisions, each year, the Legislature is only going to appropriate a certain amount of money for higher education. At a mystical time in the future, there may be an altruistic politician who embraces the public policy goals for higher education set forth in the Code and succeeds in elevating its funding to a position of greater priority. However, this paper prefers to create an alternative to waiting for such a time to emerge.

The paper addresses the three purposes stated above, although the HEPC may wish to narrow this number based upon its determination as to why we subsidize higher education. It begins by outlining its basis for each of the three areas.

**GENERAL INSTITUTIONAL SUPPORT**

 Prior to statehood, there was little to no support for the development of higher education in the part of the state of Virginia that now comprises West Virginia. Residents on the western side of the mountains viewed higher education as “elitist” and preferred to focus on creating a system of education for all children.[[3]](#footnote-3) Although some private academies aspired to college status, most antebellum colleges in West Virginia were weak and unstable.[[4]](#footnote-4)

 The rapid growth of high schools during the early 20th century inspired state-supported academies to transform into “normal schools” that offered teacher education. During this time, state support was sporadic, but usually took the form of a state appropriation.

 On occasion, the state Legislature would appropriate an additional amount, usually for a capital improvement. Although under the authority of the State Board of Education until 1969, most campuses operated with relative autonomy often using the political skills of their leadership to secure extra funding.

There were occasions during the 1870s when the Legislature provided a state appropriation on a per student basis. For the most part, however, the state appropriation was a set amount provided for the general support of the college. This continued through the transformation of normal schools to state colleges to universities.

 Since 1988, the state’s colleges and universities have been subject to three different governmental structures.

 From 1969 to 1989, the state’s governing board consisted of a highly centralized Board of Regents. In 1987, a great deal of dissatisfaction arose among legislators, college and university presidents and members of the Board of Regents over the tradition in West Virginia of providing funding increases for state institutions of higher education based upon an incremental approach. In response, in the spring of 1988, the Board of Regents adopted a Resource Allocation Model (RAM). The RAM was a formula based approach focusing on providing an equitable basis of support for the state’s institutions. The model was used in a limited manner in the funding of institutions during academic year 1988-1989.

 In 1989, the state abolished the Board of Regents and created a state university system, which included West Virginia University and Marshall University, and a state college system, which included all of the remaining baccalaureate institutions and the two existing community colleges. As part of the restructuring, the Legislature created a task force to review the RAM and recommend modifications. The purpose of the resulting model was to determine the basis for (1) the total amount of resources needed by higher education in West Virginia and (2) the distribution of funds among institutions based upon the median level of funding at peer institutions in the 15 states that belong to the Southern Regional Education Board (SREB).

 In essence, the model was to provide a method to move the state’s institutions towards equity with their peers. The components of the RAM included (1) instructional support calculated by using median salaries at peer SREB institutions and (2) total funding per institution determined by extrapolating instructional funding as a percentage of total funding as determined by the average percentage of a group of peer instructions in states contiguous to West Virginia and members in the SREB.

 Once the formula determined the amounts needed, the task force believed that the two systems and the institutions could work together to approach the Legislature for additional funding.

 In 2000, the Legislature ended the state university and state college systems and created two new governing boards: the Higher Education Policy Commission (HEPC) for the state’s four-year colleges and universities[[5]](#footnote-5) and the Community and Technical College System (CTC). As a part of this restructuring, the Legislature repealed the RAM noting that the funding model had not moved “all institutions equitably towards comparable peer funding levels” and that the formula had left West Virginia institutions “at a competitive disadvantage to their national peers.”[[6]](#footnote-6)

 Despite the Legislature’s representations, there was really nothing wrong with the RAM funding model. Instead, the problem was the Legislature’s failure to provide the additional money needed to fund the formula.

 Under the new model, West Virginia Code §18B-1B-4(a)(2), directs the Higher Education Policy Commission (the “Commission”) to:

(2) Develop, oversee and advance the promulgation of and implementation of a financing rule for state institutions of higher education under its jurisdiction.

The Legislature required the rule to meet the following criteria:

1. Provide for an adequate level of educational and general funding for institutions pursuant to section five, article one-a of this chapter;
2. Serve to maintain institutional assets, including, but not limited to, human and physical resources and eliminating deferred maintenance; and
3. Invest and provide incentives for achieving the priority goals in the public policy agenda, including, but not limited to, those found in section one-a, article one and article one-d of this chapter.

In 2011, the Commission responded to this directive by creating and presenting to the Legislature a funding model for higher education in West Virginia. The proposed model was based upon a significant amount of research and thoughtful analysis that aligned state funding with the need to provide a base of support for each institution while providing incentives for those colleges and universities which achieved the major goals set forth in the state’s master plan.

From the system’s perspective, the proposed model was mindful of the need to avoid adverse financial impacts at the campus level while recognizing peer equity issues and the influence of inflation on each institution’s operating budget.

The development of funding formula reflected nearly two years of work by the Chancellor and institutional leaders as well as the Commission staff. Nevertheless, following its presentation, legislative leaders dismissed the proposed funding model without comment.

Why was the proposed funding model so readily rejected by the Legislature? Despite the statutory directive that the Commission determine “an adequate level of education and general funding for institutions,” the proposal required $70 million in additional monies (a 28% increase) for the first year of implementation and nearly $100 million (a 38% increase) for the second year. The drivers behind these increases were the funding model’s plan to increase public support for all public institution to 50% of its operating budget and the decision to hold each institution harmless during implementation.

Consequently, the Legislature took one look at the price tag and decided that either it wasn’t in a position to fund such significant increases or it just wasn’t a priority. Peer equity funding had met a similar fate many times in the past.

**SUBSIDIZATION FOR RESIDENT STUDENT TUITION**

 Tuition differentials between in-state and out-of-state students are not unusual at public institutions. Historically, they have been used since early in the 1900s.

 At first glance, one may assume that the purpose of these differentials are merely to charge out-of-state students more since in-state students or, more likely, the parents of in-state students pay taxes to state government, which subsidizes the institutions.

 In fact, a review of the regulations governing the financing higher education reveals that in-state pricing may be lower than out-of-state pricing due to state subsidization of each student.

 This theory starts with the assumption that a student’s tuition and fees should cover the cost of individual instruction and the cumulative tuition and fees from all students plus the state appropriation should cover the costs of all instruction.[[7]](#footnote-7)

 W.Va. Leg. Reg. 133-2-4.3.3.5 requires the Policy Commission to “set guidelines for out-of-state tuition levels which take into account the cost of instruction and an appropriate relationship between in-state and out-of-state tuition levels, with out-of-state tuition and fees covering at least the full costs of instruction.”

 Based upon the reasonable assumption that the cost of instruction is the same for both residents and nonresidents, we may deduce from this provision that while out-of-state tuition covers the cost of instruction for the nonresident, the lower in-state tuition is the result of the state appropriation subsidizing the difference between a resident’s tuition and his or her cost of instruction.

**INCENTIVES FOR THE ATTAINMENT OF POLICY GOALS**

 As previously noted, West Virginia Code §18B-1B-4(a)(2) directs the Commission to:

1. Invest and provide incentives for achieving the priority goals in the public policy agenda, including, but not limited to, those found in section one-a, article one and article one-d of this chapter.

As mentioned, in 2011, the Higher Education Policy Commission drafted a funding model based upon over two years of work. The proposal encountered the same political challenge that is not uncommon nationwide.

1. Legislators enact noble laws calling for incentives for colleges and universities to meet public policy goals.
2. Legislators fund colleges and universities at or near the same level as prior years, i.e. no extra money for the incentives.
3. State level coordinating boards are left with the highly undesirable alternative of reducing money from state appropriations to fund incentives.
4. No changes are made.

Taxpayers fund public institutions of higher learning. As such, taxpayers through their elected representatives have a right to require colleges and universities to aspire to a certain set of public policy goals.

**PROPOSED DISTRIBUTION FORMULA**

**Funding allocation**

 For purposes of demonstration, this proposal shall use the FY 2014 allocations to the state’s two research institutions and the eight regional institutions, which includes WVU-Tech. For FY 2014, the Legislature allocated $278,287,721 for these ten institutions.

 This proposal suggests three parts that each represent the three purposes previously set forth: general support, subsidization of in-state students and incentives. Under the proposal, each part shall be allocated one-third of the total state appropriation or approximately $92,762,574. [See attached spreadsheet.]

Part I: General support

 The amount apportioned for general support is allocated based upon the proportional amount of undergraduate student credit hours (SCH) provided by each institution.

 In essence, the “product” produced and sold by each institution is the credit hour. In terms of general support, other formulae may take into account such variables as physical space maintained by the institution. This proposal believes that subsidizing any input, such as physical space, does nothing but encourage greater expansion of that variable which may or may not produce greater efficiency.

Moreover, the proposal does not grant any special recognition of favored disciplines, such as STEM courses, since the purpose of this allocation is to provide “general support.” Thus, all courses are the same. Special recognition can be provided in the allocation targeted at achieving public policy goals.

The proposal also limits the allocation to undergraduate hours based upon the assumption that the overall public policy objective of subsidizing higher education is to provide the opportunity for students to receive an undergraduate degree.

 The Part I allocation for an institution equals the institution’s percentage of total credit hours statewide multiplied by total Part I support ($92,762,573.67 in FY 2014).

Part II: Subsidization of in-state students

 An institution’s Part II allocation equals its share of in-state undergraduate full-time equivalencies (FTEs) attending the ten institutions multiplied by the Part II allocation. Undergraduate FTE is the sum of all hours generated by all students enrolled in classes, divided by 15. Fifteen hours is considered by national standards to be a full-time load for undergraduate students. FTE enrollment is calculated using annualized data.

 This proposal understands that institutions offering graduate courses and degrees also utilize tuition differentials. However, we return to the premise that public policy is focused on students earning an undergraduate degree and that any additional support for graduate programs may be pursued as a part of a Part III allocation (public policy goals) or through increased tuition and fees. As a result, Part II support only includes in-state undergraduate FTEs.

Part III: Incentivizing public policy goals

 The Part III allocation moves away from a strict formula to grant the HEPC the discretion to apportion the remaining one-third of the total appropriation.

 Each of the ten institutions is unique. Each has its own particular mission that has evolved historically due to its demographics and geography. As such, this proposal personalizes each institution instead of establishing a one-size-fits-all incentive program.

 The vehicle for this approach is the institutional compacts currently in use and currently unattached to any type of financial reward or retribution that may result from their ability or inability to reach certain agreed upon goals.

 Under this proposal, the HEPC continues to enter into compacts with each institution, but sets forth the financial consequences of their success or failure. This provides the HEPC with the ability to perform their primary mission of pursuing the state’s public policy goals for higher education.

 In the initial years of implementation, the HEPC could also use this allocation to ease or hold institutions harmless while they transition into a new system.

**Outcome of the proposal**

 This proposal includes a spreadsheet that illustrates the allocation of the state appropriation using the FY 2014 budget allocation.

 It must be noted that the use of three parts, the allocation to each part based upon 1/3, 1/3 and 1/3 are wholly arbitrary not wishing to make a statement regarding the level of priority the HEPC would give to each area.

 Moreover, for the purposes of illustration, the apportionment of the Part III allocation is arbitrary since the amounts will be within the discretion of the HEPC based upon each institution’s compact.

 This attached spreadsheet reflects two calculations. The percentages for the first spreadsheet are based upon each institution’s share of the total FY 2014 budget. The percentages for the second spreadsheet are based upon using the Part III allocation to make each institution whole for FY 2014. It is interesting to note that under this calculation, four institutions would have their Part I allocation and Part II allocation reduced. This result alone is instructive.

**FTE – PART III BASED ON %AGE OF TOTAL BUDGET**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **FY 2014** |  **SCH**  | **% of total** | **Part I allocation** | **In-state FTE** | **% of total** | **Part II Allocation** | **Policy %age** | **Pt III Alloc** | **Total Appropriations** |
| West Virginia University | $134,737,474 |  336,015  | 0.4527 | $41,995,627 |  14,324  | 0.3657 | $33,918,699 | 0.4842 | $44,912,491 | $120,826,817 |
| Marshall University | $65,751,984 |  132,420  | 0.1784 | $16,550,038 |  8,750  | 0.2234 | $20,719,674 | 0.2363 | $21,917,328 | $59,187,040 |
| Fairmont State University | $16,281,666 |  53,925  | 0.0727 | $6,739,622 |  3,394  | 0.0866 | $8,036,866 | 0.0585 | $5,427,222 | $20,203,710 |
| West Virginia State University | $12,395,081 |  31,755  | 0.0428 | $3,968,785 |  1,918  | 0.0490 | $4,541,753 | 0.0445 | $4,131,694 | $12,642,231 |
| Shepherd University | $10,224,351 |  53,910  | 0.0726 | $6,737,748 |  3,685  | 0.0941 | $8,725,943 | 0.0367 | $3,408,117 | $18,871,807 |
| Concord University | $9,294,046 |  36,210  | 0.0488 | $4,525,577 |  2,128  | 0.0543 | $5,039,025 | 0.0334 | $3,098,015 | $12,662,617 |
| West Liberty University | $8,488,844 |  37,770  | 0.0509 | $4,720,548 |  1,786  | 0.0456 | $4,229,182 | 0.0305 | $2,829,615 | $11,779,344 |
| Glenville State College | $6,489,479 |  20,816  | 0.0280 | $2,601,613 |  1,036  | 0.0264 | $2,453,209 | 0.0233 | $2,163,160 | $7,217,982 |
| Bluefield State College | $6,003,814 |  23,520  | 0.0317 | $2,939,563 |  1,350  | 0.0345 | $3,196,750 | 0.0216 | $2,001,271 | $8,137,584 |
| WVU-Tech | $8,620,982 |  15,870  | 0.0214 | $1,983,455 |  803  | 0.0205 | $1,901,474 | 0.0310 | $2,873,661 | $6,758,590 |
|  |  |  |  |  |  |  |  |  |  |  |
| TOTAL | $278,287,721 |  742,211  |  | $92,762,574 |  39,174  |  | $92,762,574 |  | $92,762,574 | $278,287,721 |
|  |  |  |  |  |  |  |  |  |  |  |
| Part I - General support | $92,762,573.67 |  |  |  |  |  |  |  |  |  |
| Part II - In-state student subsidization | $92,762,573.67 |  |  |  |  |  |  |  |  |  |
| Part III - Public policy goals | $92,762,573.67 |  |  |  |  |  |  |  |  |  |

**FTE – PART III ALLOCATED TO MAKE INSTITUTIONS WHOLE**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **FY 2014** |  **SCH**  | **% of total** | **Part I allocation** | **In-state FTE** | **% of total** | **Part II Allocation** | **Policy %age** | **Pt III Alloc** | **Total Appropriations** |
| West Virginia University | $134,737,474 |  336,015  | 0.4527 | $41,995,627 |  14,324  | 0.3657 | $33,918,699 | 0.4842 | $58,823,148 | $134,737,474 |
| Marshall University | $65,751,984 |  132,420  | 0.1784 | $16,550,038 |  8,750  | 0.2234 | $20,719,674 | 0.2363 | $28,482,272 | $65,751,984 |
| Fairmont State University | $16,281,666 |  53,925  | 0.0727 | $6,739,622 |  3,394  | 0.0866 | $8,036,866 | 0.0585 | $1,505,178 | $16,281,666 |
| West Virginia State University | $12,395,081 |  31,755  | 0.0428 | $3,968,785 |  1,918  | 0.0490 | $4,541,753 | 0.0445 | $3,884,544 | $12,395,081 |
| Shepherd University | $10,224,351 |  53,910  | 0.0726 | $6,737,748 |  3,685  | 0.0941 | $8,725,943 | 0.0367 | -$5,239,339 | $10,224,351 |
| Concord University | $9,294,046 |  36,210  | 0.0488 | $4,525,577 |  2,128  | 0.0543 | $5,039,025 | 0.0334 | -$270,555 | $9,294,046 |
| West Liberty University | $8,488,844 |  37,770  | 0.0509 | $4,720,548 |  1,786  | 0.0456 | $4,229,182 | 0.0305 | -$460,885 | $8,488,844 |
| Glenville State College | $6,489,479 |  20,816  | 0.0280 | $2,601,613 |  1,036  | 0.0264 | $2,453,209 | 0.0233 | $1,434,657 | $6,489,479 |
| Bluefield State College | $6,003,814 |  23,520  | 0.0317 | $2,939,563 |  1,350  | 0.0345 | $3,196,750 | 0.0216 | -$132,498 | $6,003,814 |
| WVU-Tech | $8,620,982 |  15,870  | 0.0214 | $1,983,455 |  803  | 0.0205 | $1,901,474 | 0.0310 | $4,736,053 | $8,620,982 |
|  |  |  |  |  |  |  |  |  |  |  |
| TOTAL | $278,287,721 |  742,211  |  | $92,762,574 |  39,174  |  | $92,762,574 |  | $92,762,575 | $278,287,722 |
|  |  |  |  |  |  |  |  |  |  |  |
| Part I - General support | $92,762,573.67 |  |  |  |  |  |  |  |  |  |
| Part II - In-state student subsidization | $92,762,573.67 |  |  |  |  |  |  |  |  |  |
| Part III - Public policy goals | $92,762,573.67 |  |  |  |  |  |  |  |  |  |

1. *Financing West Virginia’s Future: A Funding Model for Higher Education,* West Virginia Higher Education Policy Commission Efficiencies Project, January 21, 2011, p. 1. [↑](#footnote-ref-1)
2. W.Va. Code §18B-1B-4(a)(2) [↑](#footnote-ref-2)
3. Rice, Otis K. and Brown, Stephen W., *West Virginia: A History (Second Edition)*, The University of Kentucky Press (1993), p. 72. [↑](#footnote-ref-3)
4. Rice, *ibid*, p. 73. [↑](#footnote-ref-4)
5. The HEPC also governs Potomac State College, a two-year college affiliated with West Virginia University and the West Virginia School for Osteopathic Medicine. [↑](#footnote-ref-5)
6. W.Va. Code §18B-1A-5(b)(1). [↑](#footnote-ref-6)
7. The general assumption is that the primary reason for a student to attend college is to receive instruction. [↑](#footnote-ref-7)