

Joint Subcommittee Studying Ways in which the Commonwealth May Work More Closely with Virginia's Private, Nonprofit Colleges to Meet State Higher Education Needs

EXECUTIVE SUMMARY

The Joint Subcommittee Studying Ways in which the Commonwealth May Work More Closely with Virginia's Private, Nonprofit Colleges to Meet State Higher Education Needs pursuant to House Joint Resolution 91 (2008) was established to: (1) review the success of the Tuition Assistance Grant Program and develop recommendations to increase the effectiveness and awareness of the program among Virginia families; (2) evaluate current and future higher education enrollment needs and identify ways in which the Commonwealth can partner or enter into contracts with Virginia private colleges to meet these needs; (3) examine the ability of private colleges to provide the technology, equipment, and facilities necessary to serve Virginia students; (4) review publicly supported programs for private higher education in other states and consider the applicability of such programs to Virginia; and (5) examine the success of private colleges in educating disadvantaged students and recommend ways in which the Commonwealth can help private colleges continue this important public mission. The joint subcommittee met five times over the course of the 2008 and 2009 interims to carry out these objectives.

2008 Interim

During the 2008 interim, the joint subcommittee received presentations by the State Council for Higher Education in Virginia, detailing current enrollment trends and projections for the future, as well as a history of the Tuition Assistance Grant program.

Robert Lambeth, President of the Council of Independent Colleges in Virginia (CICV) spoke about the valuable role that private institutions play in the higher education system and how additional state assistance would benefit Virginia families. Additionally, the joint subcommittee delved into the subject of financing capital projects in more detail. Two private college presidents discussed their experiences in financing such projects without state assistance. Robert Lambeth also provided the joint subcommittee with an overview of publicly supported programs for private institutions in other states and pointed out that Virginia is currently one of only 11 states that does not offer a state sponsored student loan program.

2009 Interim

During the 2009 interim, the joint subcommittee received a higher education budget overview, provided by Tony Maggio, House Appropriations Staff. Mr. Maggio explained that higher education funding is divided into three different categories, with educational and general programs being the category most often talked about. This category includes instruction, research, and public service programs. He then gave an overview of how state funding for higher education has fluctuated over the years,

depending on the economic health of the Commonwealth. He also explained that while the Joint Subcommittee for Higher Education Funding Policies was established to develop funding guidelines for public colleges and universities in 1998, because of budget reduction requirements, the guidelines were not actually used until the 2004 session.

Manju Ganeriwala, the State Treasurer, spoke regarding the Virginia College Building Authority, with particular emphasis on the Private College Program. This program allows the Authority to act as a conduit issuer, in order to give private, non-profit institutions access to the tax-exempt bond market. The bonds issued through this program are in no way considered obligations of the Commonwealth. She provided the joint subcommittee with information on current outstanding bonds, totaling over \$560 million.

Staff provided an historical overview of the Virginia Education Loan Program, or VELA. This program was started in 1972, in order to help Virginia students fill in any gaps in funding after existing federal resources were exhausted. In 1992 VELA was combined with the State Education Assistance Authority, the state's guarantee agency, to comprise the Virginia Student Assistance Authorities. In 1995, legislation was passed directing VELA to liquidate its assets; after a final sale in 1997 to Sallie Mae, \$64 million was deposited into the General Fund.

Robert Lambeth reiterated the importance of private institutions in education Virginia's citizens. He emphasized the cost-savings to the Commonwealth of educating students in private institutions of higher education rather than public. And he again asked the subcommittee to consider successful programs for funding private institutions in place in other states.

Eugene Cattie, gave an overview of the former Virginia Education Loan Authority (VELA), along with suggestions for how to create a new state student loan program more in line with current lending practices.

Robert Dean Pope of Hunton and Williams, gave suggestions ways in which the Commonwealth could help private institutions finance capital projects. Mr. Pope suggested a two-pronged approach: first, the Commonwealth could offer a form of credit enhancement modeled after the Virginia Resources Authority, and second, the Commonwealth could offer selective incentive grants.

Potential Final Recommendations

The joint subcommittee considered and discussed the following recommendations generated over the two year study at its final meeting:

1. **State supported student loan program.** This potential legislative proposal would create an updated or "hybrid" Virginia Education Loan Authority (VELA), or could involve Virginia buying into an existing program in another

- state. The hybrid program would offer federal and alternative loans to students attending Virginia institutions of higher education. A guaranty fund would be created to cover losses and the program would be authorized to accept federal, state, or private funds.
2. **Support for capital projects.** This proposal would provide direct support for institutions, or create a fund from which projects can be chosen, based on criteria set by the state. This could be structured similar to Maryland or New York's current program. Maryland's program provides for coordinated budget requests through an independent college authority. The proposed projects must meet certain higher education goals set by the state of Maryland in order to be considered and a 1:1 match by the institution is required. New York's program provides for a state contribution of one dollar of support for every three dollars spent by the independent college
 3. **Credit enhancement programs/ incentive grants.** Based on Mr. Pope's presentation in August 2009, the Commonwealth could lend its credit through a program similar to the Virginia Resources Authority (VRA), as well as set up incentive grants for preferred projects to lower borrowing costs for private colleges. The credit enhancement program would be a little stronger than the Virginia College Building Authority, currently available to non-profit institution, as it would allow private colleges to take advantage of bond financing at very affordable low interest rates, through the Commonwealth's subject-to-appropriation undertaking to provide funds necessary to pay bonds if, and only if, the basic payment sources are inadequate. The subject to appropriation language provides the necessary assurance to national ratings agencies that the bonds will be paid, but legislation would need to impose standards that would reduce to an absolute minimum the chances that the Commonwealth's subject-to-appropriation obligation would ever be called on. In addition, incentive grants could be utilized to promote capital projects, increase enrollment of Virginia students, or increase financial assistance to Virginia residents.
 4. **Shortage area funding.** Virginia has two existing programs, for teachers and nurses; these could be expanded, or new programs added based on need.
 5. **Tuition Assistance Grant expansion/promotion.** This could involve an increase in the award amount or creation of a TAG website or promotional campaign. The 2009-2010 awards amounts provide \$3200/year for undergraduate graduate students and \$2200/year for graduate students.
 6. **Direct per capita funding.** Direct appropriations to non-private colleges and universities could be based on the number of students enrolled, degrees granted, minorities or special needs students enrolled, or the number of Virginia residents enrolled.
 7. **State matching program for either federal or private research grants.**

Final Recommendations

The joint subcommittee voted to put forth one legislative recommendation during the 2010 Regular Session of the General Assembly. The recommendation would create a credit enhancement program modeled after the VRA to allow the non-profit private institutions to take advantage of the Commonwealth's credit rating in obtaining bond financing. The program would impose a moral obligation on the Commonwealth to step in if a private college or university defaults at any time. The members emphasized that strict criteria should be imposed in order for a private institution to be eligible to participate and to further minimize risk to the Commonwealth.

In addition, lengthy discussion established the desire of the joint subcommittee to include language in the final report that is supportive of the following proposals when better economic conditions exist: (1) exploration of a hybrid Virginia Education Loan Program; (2) competitive incentive grants for public and private institutions of higher education through Requests for Proposals in shortage areas; and (3) increased Tuition Assistance Grant funding so that the TAG award more closely resembles the average state tuition subsidy to public institutions for in-state students.

A final report will be submitted to the General Assembly and to the Governor in 2010.