

# INTRODUCTION

This paper has been prepared for the James Madison University Board of Visitors. The material presented herein is a continuation of similar papers prepared for the board since 1990. Most of the data updates tables, charts and graphs from these previous papers. This emphasis on continuity is purposeful. It is intended that this be an annual effort that concentrates on building longitudinal databases used for trend analyses.

The purpose of the paper is to identify and describe significant national, regional and state factors affecting the financing of higher education. Trends affecting tuition and fees, state appropriations and expenditures are analyzed in separate sections of the paper.

Each year, a different topical issue affecting the financing of higher education is featured in the paper's introduction. This year, we offer an update to last year's look at the operating budget needs of Virginia's higher education system as developed by the General Assembly's Joint Subcommittee on Higher Education Funding Policies. The joint subcommittee's model of base operating budget adequacy was produced prior to the Commonwealth's current fiscal crisis. The actions taken by the 2002 General Assembly and the Governor to cope with this crisis will dramatically impact the funding gap between the base adequacy level predicted by the subcommittee's model and actual appropriations. Specifically, the operating budget cuts and the lack of certain faculty salary increases widen the gap between what the institutions need and what they have – or will have.

The table on the following page examines the likely funding deficit for Virginia higher education operating budgets at the beginning of the 2004-06 biennium. We estimate that approximately \$525 million will need to be added system-wide in order to: (1) fund the recommendations of the Joint Subcommittee on Higher Education Funding Policies for base budget adequacy, (2) restore the 2002-04 budget cuts, and (3) pay instructional faculty competitive salaries equal to the 60<sup>th</sup> percentile of their institutional peer groups. Of that total, JMU will need approximately \$41.1 million to meet its base budget adequacy level – a substantial increase from the \$24-\$26 million reported last year.

The table and accompanying notes explain the details of the deficit projections and the assumptions upon which they are based. Possibly the most controversial assumption is the exclusion of any potential offsets to the budget cuts from tuition increases. There are two reasons for this exclusion. First, the amounts of the potential tuition increases were not known as this paper was being finalized in March of 2002. The institutional boards will be making those decisions later in the spring of 2002. Second, tuition increases are largely irrelevant in terms of meeting the Commonwealth's policy target of the state paying for 75% of actual costs and students/parents being responsible for the remaining 25% (§4-2.01.b.9.). Any budget transfer from state funding to tuition will eventually need to be reversed in order to meet this public policy objective.

It is important to stress that the deficit amounts should be viewed only as initial estimates. We can anticipate changes to both the joint subcommittee's base adequacy model and to institutional appropriations that will modify the predicted deficits – perhaps substantially – over the next two years. For example, the Commonwealth's economic recovery may be substantial enough to allow for progress on faculty salaries in the 2002-04 biennium such that the projected deficits would be reduced.

# Estimate of FY2005 Operating Budget Deficits<sup>1</sup>

(All Dollars in Millions)

	Joint Subcommittee Report <sup>2</sup>	Joint Subcommittee O&M <sup>3</sup>	Inflation for FY02-04 at 1.9% per Yr. <sup>4</sup>	Restore 2002 GA Budget Reductions <sup>5</sup>	Restore 60 <sup>th</sup> Percentile Faculty Salary <sup>6</sup>	Totals <sup>1</sup>
JMU	\$25.0	\$2.4	\$1.6	\$7.3	\$4.8	\$41.1
Senior Institutions	\$132.5	\$17.1	\$8.7	\$147.9	\$78.8	\$385.0
All Higher Education	\$196.5	\$41.4	\$16.3	\$166.4	\$104.4	\$525.0

## Notes:

- 1 This is the estimated amount of additional annual operating funds which will be required at the beginning of FY2005 (July 1, 2004) to: (1) fund the recommendations of the Joint Subcommittee on Higher Education Funding Policies, (2) restore the budget cuts made by the 2002 General Assembly through FY2004, and (3) restore faculty salaries to the 60<sup>th</sup> percentile target of the institutions' respective peer groups.
- 2 The dollar amounts in this column represent the midpoint of the operating budget recommendations made by the Joint Subcommittee on Higher Education Funding Policies in Table 4 of their December 18, 2000 *Status Report and Recommendations*. The recommendations address annual operating budget deficiencies for all expenditure categories except the operation and maintenance (O&M) of plant.
- 3 This column contains the additional operating funds for the operation and maintenance (O&M) of plant that were not included in the December 18, 2000 *Status Report and Recommendations* of the Joint Subcommittee on Higher Education Funding Policies. The amounts were derived by subcommittee staff based upon an approved methodology, but the amounts have not been publicly endorsed. The table above simply adds the O&M funds to those previously calculated by the original model. This method will tend to understate the total operating funds generated by the model and, therefore, the additional funds required. The O&M numbers will effect other fund categories – increasing them for most institutions – when the entire model is re-run with O&M.
- 4 This column contains inflation for the budget recommendations of the Joint Subcommittee on Higher Education Funding Policies for FY2002, FY2003 and FY2004. The subcommittee's recommendations were based upon comparative national data for FY2001. Inflation will be necessary to achieve the original policy objective established by the subcommittee of bringing Virginia up to national norms. The 1.9% used for FY2002-04 is the CPI index for calendar 2001 calculated by the US Department of Labor.
- 5 This column represents the budget cuts for FY2004 in the amended budget bill at the completion of the General Assembly's regular 2002 legislative session and could change pending action by the Governor. The amounts may also over estimate the impact of the budget cuts since they do not reflect any potential offsets for future tuition increases. However – given the policy target of the state paying for 75% of actual costs and students/parents being responsible for the remaining 25% (§4-2.01.b.9.), these amounts will – most probably – ultimately be required to reach the 75/25 objective regardless of any 2002-04 tuition offsets.
- 6 This column represents the additional dollars that will be necessary to restore faculty salaries to their 60<sup>th</sup> percentile targets based upon institutional peer groups – assuming that there will be no raises for faculty in the 2002-04 biennium. As one-time funds, the proposed FY2003 bonuses do not impact salary goals. The potential faculty salary increases in FY2004 were not included as offsets in this analysis due to their uncertain nature. The amounts shown are the State Council's faculty salary recommendations for FY2004.