

**Report of the Interim Committee Established  
to Study Higher Education Funding\***  
**Act No. 148 (2014)**

**Submitted to the Vermont General Assembly  
January 2015**

*\* The Study Committee was comprised of the members of the Higher Education Subcommittee of the Prekindergarten-16 Council (16 VSA sec. 2905), supplemented with five members appointed as provided in Section 1(b) of Act 148.*

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# Interim Study of Higher Education Funding

## *Importance of Higher Education*

On May 27, 2014, Governor Shumlin signed into law Act 148, establishing an interim committee to propose policies to restore funding for higher education to levels last seen in 1980 and to make higher education more affordable. The Committee strongly supports the goals of Act 148:

(A) to lower student and family costs and debt so that the University of Vermont (UVM) and the Vermont State Colleges (VSC) are more affordable for Vermonters;

(B) to return to the 1980 level of state funding for the student tuition support ratio for UVM and VSC; and

(C) to restore funding to the Vermont Student Assistance Corporation (VSAC) incentive grant program to reduce the difference between the VSAC incentive grant and the VSC and UVM tuition rates to the amount of that difference in 1980.

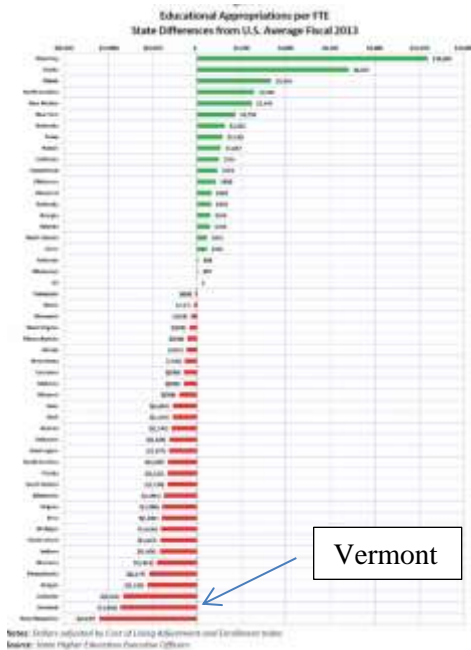
Research has demonstrated that, with few exceptions, all students need education or training after high school in order to be able to earn a livable wage. In 2013, U.S. adults with a high school diploma earned an average of \$28,000. In contrast, adults aged 25-32 with a baccalaureate degree earned a median income of \$45,000. Importantly, while wages for high school graduates have declined by 11 percent since 1965, wages for baccalaureate degree holders have increased by 17 percent.<sup>1</sup>

The Vermont picture is equally clear. The J. Warren and Lois McClure Foundation, in partnership with the Vermont Department of Labor, has identified 67 high-pay, high-growth jobs available in Vermont. Only nine of these jobs can be filled by an individual with a high school diploma and additional training; 17 can be obtained by an individual with an associate's degree and the remaining 41 require a four-year degree or higher.<sup>2</sup>

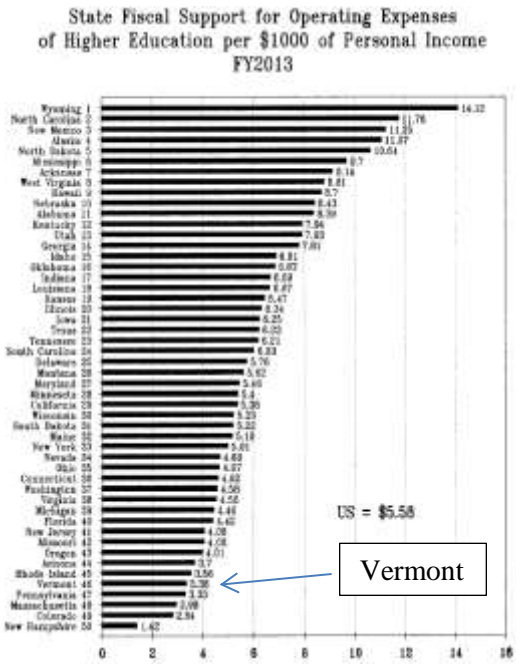
While it is tempting to consider education and training after high school solely in terms of its benefits to the individual, the benefits to the state are equally important. The Federal Reserve of Cleveland, in a report on state economic growth, concluded that a state's "knowledge stocks" as measured by high school and college degree attainment rates and the state's stock of patents, were the main factors explaining a state's relative per capita income.<sup>3</sup> This is particularly critical at a time when state revenues lag behind projections.

## *State Disinvestment in Higher Education*

By nearly any measure, Vermont ranks near the bottom of the nation in terms of state funding for education and training after high school. Whether calculated in terms of appropriations per education full-time equivalent or FTE (Vermont ranks 49<sup>th</sup>)<sup>4</sup>, or in terms of state fiscal support per \$1,000 of state personal income (45<sup>th</sup>)<sup>5</sup>, Vermont has not made the same investment in access to higher education and in its public institutions of higher education that has been made by nearly every other state.



Vermont



Vermont

Vermont’s disinvestment in higher education has been the cumulative result of many annual budgetary decisions. One common way to understand a state’s investment in a program relative to a state’s size and capacity is to look at expenditures relative to \$1,000 of personal income. This reflects the state’s investments relative to its potential capacity to invest and accounts for differences in both the size and the economic capacity of the state. In 1980, Vermont spent \$7.78 per \$1,000 of personal income in support of higher education. By 2013, this had fallen to \$3.38 per \$1,000 of personal income.<sup>6</sup>

Another way to understand this disinvestment is to look at funding for higher education relative to investments Vermont has made in other General Fund programs and services. In 1980, Vermont spent 11.8 percent (\$26.5 million) of its \$225.4 million General Fund expenditures on higher education. In 2014, Vermont spent 6 percent (\$82.9 million) on higher education of its General Fund expenditures of \$1.37 billion.<sup>7</sup> Funding for higher education grew at roughly 42 percent of the rate the General Fund grew over that same period.

Simply put, if funding for higher education had done nothing more than grow at the rate of the General Fund, higher education now would be receiving an annual appropriation of \$161.5 million. This in turn would have resulted in lower tuition at our public institutions, expanded and higher-quality programs, larger grants, increased education opportunity for all Vermonters and lower student debt.

As a direct result of this public policy, tuition for Vermonters attending the state’s public institutions is artificially high compared with states whose higher education funding is more the norm. One consequence of these funding decisions has been increased student and parent debt. In FY10, a Vermont family receiving a VSAC grant (typically lower-income families) borrowed \$34,715 in student and parent loans to obtain a four-year degree at one of the Vermont State Colleges, \$30,273 at UVM, and \$46,367 to obtain a degree from one of Vermont’s private institutions. Additionally, these funding decisions likely contribute to Vermont’s lower-than-average college continuation rates.

## ***Higher Education Trust Fund***

This disinvestment has been exacerbated by decisions by the state to intercept and redirect non-General Fund resources that by statute are intended to support access to higher education.

The Higher Education Endowment Trust Fund was established in the Office of the State Treasurer by the General Assembly in 1999. The law provides that in August of each year and subject to certain triggers, the State Treasurer is to withdraw:

- (a) 5 percent of up to a 12-quarter moving average of the fund's assets and divide the amount equally among the University of Vermont, the Vermont State Colleges, and VSAC; and
- (b) 2 percent of the same asset calculation to UVM and the Vermont State Colleges for the purpose of creating or increasing a permanent endowment fund.

In no event may the amounts withdrawn bring the fund balance below all contributions to principal.

The General Assembly made specific appropriations to the Trust Fund four times from 1999 to 2005. In addition, the law provides that funds raised by the Vermont estate tax that are more than 125 percent in excess of state's official forecast for that tax are deposited to the Trust Fund.

On a number of occasions, the General Assembly has put "notwithstanding" language in appropriations bills, redirecting estate tax revenues away from the Trust Fund to other state priorities. This has reduced the growth of the Trust Fund, resulting in smaller distributions for higher education and in some cases requiring UVM and VSC to forgo endowment funding entirely.

## ***Policy Recommendations***

### **A. Funding for Higher Education**

Increased funding for higher education is needed to achieve Vermont's economic and social goals. In order to maximize the impact of this funding, we recommend three equally important investments:

- 1) Increase the size and availability of need-based financial aid through the VSAC grant;
- 2) Invest directly in our public institutions of higher education to allow them to strategically strengthen the quality and expand their programs to better meet Vermont's social, education and economic development needs; and
- 3) Provide support to our public institutions of higher education to reduce the cost of tuition that is charged to Vermont students and their families.

Investments in higher education yield well-documented, long-term economic and fiscal benefits to states that make them. We believe that a clear and convincing case has been made for significant immediate increases in state funding for higher education. We also recognize that Vermont still faces significant economic and budget challenges stemming from the Great Recession. Nonetheless, we believe that it is important that steps be taken now to halt continued disinvestment.

We propose that funding for higher education increase at the rate of growth of the General Fund for the prior year plus 1 percent. For example, higher education funding for FY16 should increase by the rate of

growth of the General Fund between FY14 and FY15 plus 1 percent. This funding recommendation acknowledges the state's fiscal challenges while re-establishing higher education funding as having equal importance with other programs and services in the General Fund. We also recommend that increases in funding to UVM and VSC equally serve reducing the cost of tuition for Vermont students and their families and direct investments in our public institutions and their infrastructure.

B. Vermont Higher Education Endowment Trust Fund

The Vermont Higher Education Endowment Trust Fund (16 VSAC sec. 2885) creates a unique opportunity for Vermont to reinvest in higher education. Investments in the Trust Fund come from estate tax revenues that **exceed** the revenue projections for that particular fiscal year. These funds were not accounted for as part of the budget for that year. Currently, the threshold for investing these funds is 125 percent.

We recommend that the threshold for investing these revenues be reduced from 125 percent to 110 percent of excess estate tax revenues. We also recommend the inclusion of language in the statute, or in the rules of the General Assembly, that would restrict the ability of the legislature to redirect this higher education funding toward other programs.

## Appendix

**No. 148. An act relating to establishing an interim committee that will develop proposed policies to restore the 1980 ratio of State funding to student tuition at Vermont State Colleges and to make higher education more affordable.**

(S.40)

It is hereby enacted by the General Assembly of the State of Vermont:

Sec. 1. INTERIM STUDY OF HIGHER EDUCATION FUNDING; REPORT (a)

The higher education subcommittee of the Prekindergarten-16 Council established in 16 V.S.A. § 2905 shall study and develop proposed policies to make the Vermont State Colleges (VSC) and the University of Vermont (UVM) more affordable for Vermont residents by lowering costs and restoring the 1980 ratio of State funding to tuition costs and by restoring funding to the Vermont Student Assistance Corporation (VSAC) incentive grant program to reduce the difference between the VSAC incentive grant and the VSC and UVM tuition rates to the amount of that difference in 1980.

(b) In addition to the members of the higher education subcommittee identified in 16 V.S.A. § 2905(d), the following individuals shall be members of the subcommittee solely for purposes of this interim study:

(1) one UVM faculty member to be appointed by United Professions American Federation of Teachers Vermont;

(2) one VSC faculty member to be appointed by United Professions American Federation of Teachers Vermont;

(3) two students, one from UVM and one from VSC, at least one of whom is a current or past recipient of a VSAC incentive grant, appointed by

their respective student government associations; and

(4) one VSAC outreach program counselor to be appointed by the VSAC President.

(c) Powers and duties.

(1) The subcommittee shall develop proposed policies to:

(A) lower student and family costs and debt so that UVM and VSC are more affordable for Vermonters;

(B) return to the 1980 level of State funding for the student tuition support ratio for UVM and VSC; and

(C) restore funding to the VSAC incentive grant program to reduce the difference between the VSAC incentive grant and the VSC and UVM tuition rates to the amount of that difference in 1980.

(2) In developing the proposed policies, the subcommittee shall consider:

(A) higher education funding for state colleges and universities in other states, with a particular focus on tuition ratios and funding methods supporting students and public institutions;

(B) the best policies for increasing the enrollment of Vermont students and keeping students in Vermont after they graduate from college;

(C) total spending as compared to instructional spending, and how institutional spending affects student costs;

(D) the uses of VSAC incentive grant funds, including the portability of use for attendance at in-state and out-of-state institutions;

(E) how to minimize the financial impact of living expenses on



student costs; and

(F) any information available regarding the impact of VSC and UVM graduates and VSAC incentive grant recipients on Vermont's economy and on job creation and retention.

(d) The chair of the Prekindergarten-16 Council shall convene the first meeting of the interim subcommittee to occur on or before July 1, 2014, at which meeting the members shall elect a chair or co-chairs. On or before January 15, 2015, the subcommittee shall report to the General Assembly on its findings and any recommendations for legislative action.

(e) The subcommittee may meet no more than six times between July 1, 2014 and January 15, 2015 for the purposes of this interim study. For attendance at meetings during adjournment of the General Assembly, legislative members of the subcommittee shall be entitled to compensation and reimbursement for expenses under 2 V.S.A. § 406, and other members of the subcommittee who are not employees of the State of Vermont may be reimbursed at the per diem rate under 32 V.S.A. § 1010 if not otherwise compensated or benefited.

## Sec. 2. EFFECTIVE DATE

This act shall take effect on passage.

Date Governor signed bill: May 27, 2014

## **Members of the Interim Study Committee**

- Liz Beatty-Owens, Student Representative, Vermont State Colleges, Chairwoman
- Aya Al-Namee, Student Representative, University of Vermont
- Don Collins, Prekindergarten-16 Council, Vermont Senate
- Clarence Davis, Prekindergarten-16 Council, University of Vermont
- Tim Donovan, Prekindergarten-16 Council, Vermont State Colleges
- Scott Giles, Prekindergarten-16 Council, Vermont Student Assistance Corporation
- Linda Olson, Faculty Representative, Vermont State Colleges
- Peter Peltz, Prekindergarten-16 Council, House of Representatives
- Jeb Spaulding, Prekindergarten-16 Council, Secretary of Administration
- Susan Stitely, Prekindergarten-16 Council, Association of VT Independent Colleges
- Merrillyn Tatarczuch-Koff, Outreach Program Counselor, Vermont Student Assistance Corporation
- Lisa Ventriss, Prekindergarten-16 Council, Vermont Business Roundtable
- Denise Youngblood, Faculty Representative, University of Vermont

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- The Pew Research Center. "The Rising Cost of Not Going to College." The Pew Research Center, 2014.
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<sup>1</sup> The Pew Research Center, "The Rising Cost of Not Going to College," (The Pew Research Center, 2014).

<sup>2</sup> The J. Warren & Lois McClure Foundation and Vermont Department of Labor, "Pathways to Promising Careers: Vermont's High-Pay, High-Growth Jobs," (2014).

<sup>3</sup> Paul W. Bauer, Mark E. Schweitzer, and Scott Shane, "State Growth Empirics: The Long-Run Determinants of State Income Growth," (Cleveland, OH: Federal Reserve of Cleveland, 2006).

<sup>4</sup> State Higher Education Executive Officers, "Higher Education Finance Fy 2013," (2014).

<sup>5</sup> Tom Mortenson, "State Disinvestment in Higher Education Fy1961 to Fy2013," (Postsecondary Education Opportunity, 2013).

<sup>6</sup> Ibid.

<sup>7</sup> Communications with Joint Fiscal Office.