

## **Introduction:**

The University of Vermont is a huge asset. UVM is the state's only research university and a powerful economic engine and knowledge producer, with an impact on Vermont's economy in excess of \$1 billion annually. (The entire higher education enterprise in Vermont exceeds \$3 billion). The University is retaining and graduating Vermont students at record rates and at the same time attracts thousands of young people every year from across the nation and the globe to study, live in and contribute to our state.

The University of Vermont's continued success and viability is crucial to individual economic and personal success, the future staffing of public service and community, and for the jobs, research and entrepreneurship which will be keys to the state's future.

Vermont always has had limited resources to fund higher education and the additional resource challenges of the great recession and the economic aftermath of Tropical Storm Irene have been profound. The constrained resources we have available must be invested in Vermont's only research university in strategically focused ways that have the maximum return on investment for Vermont and its people. Our state cannot thrive without a powerful, vigorous, innovative university.

The State formally has not taken a hard look at how UVM is funded in nearly 60 years. The time is now to do so, with a strong sense of creativity, common sense, and focus on what is good for the future of Vermont and UVM.

## **Historical Background:**

The University became public in 1955 after 164 years as a private institution, and four years later the legislature mandated that in-state tuition not exceed 40% of out-of-state tuition, which created a large tuition discount (60%) for Vermonters, regardless of income or financial need.

At that time there was no Vermont State College system (established in 1961- *with no 40% tuition restriction*) and no Vermont Student Assistance Corporation (established in 1969, with the provision that funds could be used by Vermont students at out-of-state institutions – "portability").

Since 1955, state funds for UVM have been spent in three basic ways: about half is allocated to the "tuition offset" that creates tuition reduction for all Vermonters irrespective of income, means or wealth. The other half is split between the college of Medicine and Agricultural and Extension outreach in Vermont.

It is important for us, here, in Vermont to understand that because the state appropriation does not cover the full cost of educating Vermonters, and has not done so for many years, a significant part of the tuition paid by out-of-state students subsidizes Vermont students. In addition, UVM applies annually over \$20 million of institutional funds, to assist Vermonters who need additional financial aid. This situation is simply not sustainable.

## **Current Landscape:**

You may recall that the Governor's Committee ("Donofrio Committee") recommended the elimination of the requirement that restricts tuition for all in-state students to 40% of out of state tuition. In the face of diminished support from the State and no foreseeable significant increases in that funding, the University needs to be able to access the potential revenue that online courses and other innovations may offer. We believe that an exception to the 40% rule for graduate and distance education will create the flexibility that we need and allow us to maintain a competitive market position.

When the 40% rule was instituted the higher education world was much different than it is today. A few examples:

- The Internet and the potential for online courses did not exist at the time the rule was created.
- The College of Medicine (one of the only existing graduate programs at the time) was exempted from the rule shortly after it was created, indicating at least recognition of the difference between graduate and undergraduate education.
- Both the student population and the number of graduate degrees and courses offered have expanded greatly.
- The State College system did not exist as we now know it and it continues not to be bound by the 40%; in fact, our research indicates that UVM is an outlier among other public universities.

## **Conclusion**

In 1959, when the 40% rule was implemented, over 95% of UVM's enrollment (College of Medicine excluded) was comprised of undergraduates, in-classroom instruction was the sole means by which students were taught, and the state appropriation represented 59% of the University's general fund budget. It is unlikely that, when the rule was adopted, anyone envisioned an era when courses would be offered all over the world via the Internet and the state appropriation would represent substantially less than 10% of the University's budget. Thus, it seems likely that most legislators had undergraduate students in classrooms in mind when the 40% rule was adopted.

In an era of flat revenue streams from traditional non-tuition sources, the University is confronted with the challenge of developing new revenue so that we can continue to enhance the academic environment for all students. Two such sources are distance (on-line) education and expanded graduate offerings with non-traditional tuition structures. If we had the flexibility to price these offerings in a way that made them competitive in the worldwide market place there would be a much greater likelihood of success. This proposal is not an effort to have Vermonter's pay more for graduate and on-line courses. To the contrary, in order to be competitive, we need to reduce the price for out-of-state students because they can take many such courses from institutions all over the world without ever leaving their homes. With the 40% rule in place, if we reduce the cost of these programs for out-of-state students and charge Vermonters only 40% of the reduced amount, we will not be able to cover our costs, and hence not be able to offer the courses. This same issue was recognized when College of Medicine students were exempted from the 40% rule, some 54 years ago.

This proposal will not change the price structure for the undergraduate students that are the core focus at the birth of the rule in 1959, but it would help UVM in its goal to compete in a rapidly changing higher education environment.

Finally, as the UVM partnership with Vermont Law School matures and joint degree programs are developed and offered, there is a real concern on their part that they may become subject to the rule. If that were to happen, it will drastically inflate the cost of earning a degree from UVM/VLS, and doom from the start such a partnership to failure.