Front and Center

Critical Choices for Higher Education

Presented by the

Miller Center, University *of* Virginia

Association *of* Governing Boards *of* Universities *and* Colleges

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MILLER CENTER, UNIVERSITY *of* VIRGINIA

ASSOCIATION *of* GOVERNING BOARDS *of* UNIVERSITIES *and* COLLEGES

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**Front and Center:
Critical Choices for
Higher Education**

The report is based on a Jointly Sponsored Meeting of the Miller Center, Association of Governing Boards of Universities and Colleges, and National Conference of State Legislatures, and National Governors Association Center for Best Practices

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Letter from Conference Partners

The pursuit of public education, at all levels, is a particularly American idea—especially the conviction that educational opportunity must be universally available, and that educational excellence must be consistently sought. There is a reason for this. Our nation subscribes to the Jeffersonian notion that men and women, by the sheer force of education, can so enlighten themselves that representative government will transcend its limitations.

In other words, our citizens believe in the idea of progress as part of democracy. By the sheer power of our own intellectual capacity we will advance our society. For us, progress means an endless stream of human creativity and imagination, combined with a sustained desire for improvement.

The pragmatic means for achieving those ambitions has been higher education. What happens at universities matters. Educational institutions are integral to our states, communities, and the fabric of our society However, no state educational institution exists in its own orbit, free and unattached from the citizens that support it.

In this economic climate, where general funds are dwindling, universities require money to deliver their valuable product. The strategies universities deploy to fill the widening hole left by receding general funds: tuition, private dollars, and cost cutting, are close to being exhausted. How can we pay for this public good in an increasingly strained financial situation?

Educators, policymakers, and the public must be proactive in providing resources for higher education if we want to regain our long-term economic prosperity.

Leadership from states, even in this era of constricted resources, is absolutely essential for improving and expanding the nation's education systems. A creative, educated, and skilled workforce is critical to the economic prosperity of our states; and so policy makers must be emboldened to make higher education a priority, in spite of limited funds.

Richard D. Legon

Gerald L. Baliles

Undoubtedly, difficult decisions must be made to ensure that higher education achieves its goals. This report, developed by the Miller Center and AGB, is based on a conference that was also sponsored by the National Governors Association and the National Conference of State Legislatures. The NGA and NCSL are member organizations that were invited to provide input and we are grateful for their participation. We also are grateful for the financial support of Lumina Foundation for Education. This report is the result of careful deliberation. It is intended to identify realistic and implementable solutions that will increase output in a time of dwindling resources and result in improved educational attainment and performance for our citizens.

This is an important project and one that we hope will result in strong interest and bold action to restore and improve our nation's higher education systems.

Sincerely,

Richard D. Legon

Gerald L. Baliles

Executive Summary

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America is at a crossroads. In a time of economic upheaval both nationally and at the state level, we are not helping younger people in this country prepare themselves to become members of a skilled workforce that can compete effectively in a global economy. We are one of only two nations (Germany is the other) whose older generations are better educated than the younger. Fewer people are successfully completing higher education degrees and certificates, and the quality of many academic programs is being questioned. Other nations now outpace us in higher education participation and degree attainment.

At least four strong societal forces now are in conflict:

- Our economy demands unprecedented levels of human talent;
- Our society is looking for services and modes of delivery that higher education is not yet equipped (or, in many instances, is not inclined) to provide;
- Our demographics are shifting, with substantial change in the number of minority persons in the population, who have been classically underserved by our educational system; and
- Our political environment demands results as a precursor to further investment.

Despite or, actually, because of the challenges we face, our colleges and universities remain one of our nation's greatest assets and we must work to support and improve them.

This is not just the down side of a cyclic pattern. This is time for fundamental and difficult choices.

Despite or, actually, because of the challenges we face, our colleges and universities remain one of our nation's greatest assets and we must work to support and improve them. We have to think in new and different ways about higher education and its place in our society, because it is a crucial investment in our citizens and in the economic vitality of our states.

Muriel Howard and
Sue Hodges Moore

In December, 2010, the Miller Center, the Association of Governing Boards (AGB), the National Conference on State Legislatures (NCSL), and the National Governors Association (NGA) convened a meeting to discuss the future of higher education and the critical choices that must be made to ensure its strong role in the 21st century.

The Miller Center and AGB then developed this set of recommendations related to state, federal, and institutional polices affecting public higher education, outlined below:

1. Promote—and reward—institutional changes that increase the number of persons who successfully complete higher education degree and certificate programs.

Much of the responsibility for increasing the number of Americans holding postsecondary degrees or certifications will rest with community colleges and regional public universities that admit most applicants, rather than being highly selective. To achieve higher rates of successful completion, greater percentages of operating budgets have to be assigned to instruction; administrative overhead has to be evaluated and reduced where possible. In addition, states and the federal government should focus research efforts at fewer institutions, increase faculty teaching responsibilities, and adopt tighter, more focused curricula with key learning objectives.

To achieve higher rates of successful completion, greater percentages of operating budgets have to be assigned to instruction; administrative overhead has to be evaluated and reduced where possible.

As a general rule, states have to ensure that the educational systems are sufficiently flexible to meet the varying needs of different portions of the population, especially persons who have to attend college part-time. Online instruction is an important way to reduce costs and time to completion of degree and certificate programs.

2. Reconsider the federal role in higher education.

This is a good time to re-examine the basic roles of the federal government in higher education because the Higher Education Act is scheduled for re-authorization in 2013. This re-examination should focus on aligning the tools available at the federal level with the "completion agenda." It will demand careful re-consideration of what the federal government does and ensure that it does not impinge upon state responsibility for higher education. Suggested ways in which the federal government can help to improve our education systems include: playing a strong national leadership role in stressing the importance of increased rates of college completion; convening state leaders to discuss issues that require inter-state cooperation; aligning its student financial aid programs, with a student success and completion agenda; and clarifying its regulatory responsibilities for higher education.

Federal data collection and analysis systems should be changed to enable better monitoring, diagnosis, and policy formulation.

3. Create an environment at the state level that will give institutions reasons to pursue the public agenda.

Governors and state legislatures are key to change at the state level. They can articulate statewide goals that address public needs, while institutions can only set goals for themselves. Acting with advice from the state governing or coordinating bodies in their states, they can implement funding and policy mechanisms that reward institutions for meeting goals of efficiency, productivity, and increased rates of program completion. The state governing and coordinating boards, working with governors and legislators, should assume leadership roles with two major responsibilities: setting clear, measurable, and institution-specific performance goals for colleges and universities; and creating funding mechanisms that link to those goals, such as emphasizing the completion of courses and programs of study, not just enrollment. State boards should encourage institutional re-design, curriculum revision, and the introduction of educational programs that meet the needs of new kinds of students (on-line, weekend, and evening programs, for example).

4. The last word. Leadership: helping the colleges and universities do the work that needs to be done.

Leadership is needed at all levels of involvement. Governors and legislatures play key roles, as do the state governing or coordinating bodies. Institutional boards and administrations are crucial, as are the faculty. Institutional governing boards need to establish completion agendas for their institutions, supporting the leadership of administrators and the efforts of faculty, and insist upon accountability for results. The federal government can provide leadership by setting national goals and providing incentives for meeting them.

Governors Geringer, Heineman, and Baliles

We have the potential to create an America in which educational attainment produces a globally competitive workforce, in which our citizenry is better able to deal with the complexities of being self sufficient and engaged in the civic life of our communities, and in which we narrow the achievement gaps that contribute to the inability of low-income persons or underrepresented minorities to participate in the well-being of our nation.

That is what is called for today in the recommendations included here.

Recommendations

Why are we writing this report?

For all the gloom about the economy, state and federal budget deficits, and political factionalism, this is an exciting time in the history of American higher education—or it can be, if our elected officials and higher-education leaders are willing to make some different, and sometimes difficult, choices.

Higher education has been central to this nation's ability to make great strides in the past. And the excitement comes from the belief that it can do so once again. The social and economic changes confronting our country call for the complete engagement of higher education—both the liberal arts and sciences and the practical, but in some new and different ways.

A generation from now, America will be a better or worse version of itself depending on the performance of higher education:

- As the primary means for individuals to advance socially and economically;
- As a force for innovation and economic development in an increasingly competitive global economy; and
- In preparing individuals to be engaged citizens in society and in our democracy.

A generation from now, America will be a better or worse version of itself depending on the performance of higher education.

In one version of the future, we will have:

- A concentration of institutional wealth and international prestige among a handful of colleges and universities serving increasingly smaller proportions of the population;
- Increasing income stratification in America, determined by educational-attainment levels and race, not by talent;
- Continued loss of jobs to workers in other countries; and
- A diminished standard of living for our nation's citizens.

Gordon Davies and
Molly Corbett Broad

The other version of our future looks much brighter:

- Increased levels of education attainment and a more globally competitive workforce;
- A citizenry more able to deal with the complexities of being self-sufficient and of engaging in the civic life of the community; and
- Elimination or at least narrowing of achievement gaps separating low-income persons and underrepresented minorities from more-privileged and upper-income persons in access and degree attainment.

To secure this more desired future, we need an initiative that promotes a new national agenda for higher education, addresses the need for increased access and success of students, ensures the quality of learning, and provides reliable finances so that institutions can accommodate increased enrollments. We also need highly differentiated institutions capable of achieving these goals in ways appropriate to their missions, stable and efficient systems of delivery and the financial support required to sustain them, and effective institutional governance that can ensure the independence and identity of institutions while meeting public needs.

We have a rich array of institutions that offer learning beyond high school, many of which did not even exist 60 years ago, and some of which have begun operating only in the past 20 years.

We are writing primarily about public higher education because our state-supported colleges and universities enroll a substantial majority of the approximately 18 million students in American higher education today. This also is the sector that can be most directly affected by public-policy leadership at the state and national levels. But some of our suggestions clearly are relevant to the private and for-profit sectors. We urge that all institutions consider them.

We have a real choice as a nation about which version of our future prevails, but only if colleges and universities, state governments, and the federal government—with the support of an understanding public—undertake much stronger and well-coordinated efforts to change.

We have a rich array of institutions that offer learning beyond high school, many of which did not even exist 60 years ago, and some of which have begun operating only in the past 20 years.

We have means of communication that are improving human interaction in profound ways and that can improve the work of teaching and learning and its outcomes, as well.

Our colleges and universities are one of the nation's greatest assets. Other nations are catching up; some now have larger percentages of their populations participating in higher education than ever before. Their progress should be welcomed as an indication that people all over the world are learning to lead rewarding and productive lives in new circumstances.

There have been dramatic increases in higher-education participation and degree attainment in several European and Asian countries over the past two decades. Several countries are outpacing America in degree attainment. But we can reach new heights of access and attainment if we coordinate strong commitments of talent and resources.

Increasing successful participation in higher education is a challenge that we must confront now. We are a nation whose older citizens are better educated than their children. But their children will succeed them in the workplace and in positions of social and political leadership.

Among members of the Organisation for Economic Co-operation and Development (OECD), only Germany and the United States face this problem.

The American population is changing again. Those who can afford it continue to go to college, but a growing number of others do not. Higher education tends now to support a growing gap between "haves" and "have-nots." We risk losing those Americans for whom higher education could be a pathway to richer, more-productive lives. The consequences could be dire for our society and our economy.

At least four strong forces now are in conflict:

- An economy that demands unprecedented levels of human talent;
- A society that is looking for services and modes of delivery that higher education is not yet equipped (or, in many instances, is not inclined) to provide;
- A substantial increase in the number of minority persons in the population, with Hispanics being the segment least served by our educational system; and
- A political environment that demands results as a precursor to further investment.

This is not just the down side of a cyclic pattern. This is a time for fundamental and difficult choices. We have to think in new and different ways about higher education and its place in our society

We have a great deal to do, simply because higher education is a public service that should be extended more widely across our changing population. This is a new century, a new world. Even those institutions that were created after the middle of the 20th century no longer function as we need them to. Ways of communicating are changing, as are ways of learning. This is a changed economy, and students need alternative schedules and curricula. But institutions are not motivated to change because state and federal governments still are using the old rules and providing incentives that (often without intention) reinforce the status quo.

Many political leaders and educators have agreed that having more persons who have completed college is important to the social and economic health of our nation. While there is inevitably disagreement about the details, the relationships between educational achievement and economic security, health, family stability, and other factors that are key to strong and vibrant communities, have been well-established. There is broad consensus about the overall goal. Missing has been the will to take the necessary actions.

We have a great deal to do, simply because higher education is a public service that should be extended more widely across our changing population. This is a new century, a new world. Even those institutions that were created after the middle of the 20th century no longer function as we need them to.

We are writing this report because we are convinced that people will live better and more-productive lives if they have completed some kind of education beyond high school. Remember: It was less than 100 years ago that finishing high school was not necessary for a place in the workforce. Only after World War II did we as a nation begin to stress higher education. Now we have helped to create a world in which it is essential to our personal and common good.

We are at a crucial time for public higher education—a time when many states are questioning their investment in it and wondering if a public system still serves our purposes. Public-opinion research consistently shows that Americans believe in the importance of higher education, but that confidence in the institutions and their leaders is eroding.

We believe that higher education is a crucial investment in our citizens and in the economic vitality of our states. We want state policymakers to consider their higher-education decisions seriously and strategically. What they decide will affect the ability of people to live better and more-productive lives. It will help to strengthen public confidence in our colleges and universities.

We do not call for higher education to become simply utilitarian: The strong tradition of liberal education in this country should be protected and, indeed, extended to reach more people. Knowing something of the complexity of human history and thought is essential to leading rich and fulfilling lives. Indeed, what is commonly known as education in the liberal arts and sciences is important for economic development as well as other kinds of progress. The creativity that has marked American progress over the past four centuries has drawn heavily from the heritage of the past—from the best that has been thought and said by women and men through the centuries.

Poetry, science, philosophy, social theory, and religion have enriched the lives of many in the past, up to and including those who have contributed to America's 20th-century leadership role in the world. We call for this tradition to continue—and to continue changing as it always has. But now we call for its benefits to be extended to many more women and men in our society.

This is about people: women, men, and children. It is about communities and about states. It is about our nation, its historic respect for the rights and privileges of its citizens, and its expectations of them—all of them, rich and poor.

The need to increase the numbers of working Americans who have earned a higher-education credential need not be framed in terms of competition with other nations for economic superiority. It can be framed instead in terms of how well people live and what kind of lives they provide for their children.

Here is what we think should happen, and quickly. We start with actions at the institutional level because this is where essential education and training are delivered. Then we offer suggestions for change at the federal and state levels because institutions are unlikely to change unless incentives are provided for them to do so. The institutional changes will not occur if the incentives created by state and federal policy remain the same.

At the same time, we caution against a strictly top-down strategy. Colleges and universities with substantial autonomy, working in concert with both state and federal governments, generally have served our national interests and the people of our country well. Coordination and focus, not more regulation, are what is lacking. The leadership that is needed is to help institutions do their work, not to tell them how to do it.

Again, the messages and recommendations in this report are largely about state, federal, and institutional polices affecting public higher education. Independent higher education also has an important responsibility to the national public agenda, often acknowledged in state and federal policy. Much of what this report recommends will resonate with private colleges and universities, and they should extract from it those elements that they find most relevant and useful.

To ensure America has the higher-education system that it needs, we must:

1 . Promote—and reward, institutional changes that advance the completion agenda.

In his inaugural address about 10 years ago, the president of a flagship university said, "If we make this a top-30 research university and the children of our state do not live better lives as a result, we shall have failed."

The past few decades have seen far too many colleges and universities engage in a rush toward elite status. The more selective an institution is, the better. The more research money it collects, the better. The higher it ranks in national and international publications, the better.

But what has the race for status contributed to the public good? It is possible to build state institutions that are noted in *U.S. News & World Report* and national rankings of research universities but ignore the needs of many or most of a state's people.

Much of the responsibility for increasing the number of Americans holding postsecondary degrees or certifications will rest with community colleges and regional public universities. They should make clear distinctions between programs that are specifically aimed at skilled trades or vocations and those that are intended to teach what used to be called "General Education." Many students who enter community colleges are intent upon learning what they need to know to become technical specialists of one kind or another. While most of us would agree that everyone should learn about the liberal arts and sciences, some people don't want to, or simply cannot, at this stage in their lives. Now they want and need skills for a good job. Perhaps later in their lives they can experience the pleasures of general education.

Institutions should take several actions, none of them comfortable.

- Allocate greater percentages of operating budgets to instruction. Evaluate and regulate expenditures on activities and services that do not directly affect learning but consume large portions of state appropriations and, especially, student tuition. The percentage of increases in student tuition over the past several years is far greater than the increases in expenditures on instruction. Where is the money going? What expenditures can be reduced or eliminated?
- Reduce the number of non-permanent and adjunct faculty (more than two-thirds of teaching now is done by persons in these kinds of positions). This almost certainly will require that many regular, full-time faculty members teach more courses and be relieved of other duties for which they have volunteered or to which they have been assigned.
- Evaluate and, where possible, reduce administrative overhead, in particular the salary and support costs of senior staff. Whatever funds can be saved should be shifted to instruction

and advising. Many institutions have grown used to spending their money on things that may not reflect the needs of the states or regions that they are supposed to serve.

Some colleges are developing blocks of required courses from, say, 5 p.m. to 9 p.m. in the evening. Some blocks extend even later into the night or are offered exclusively on weekends. Others are putting the courses online to be accessed when students are not at their jobs.

- States and the federal government probably should focus research efforts at fewer institutions and say clearly that the "research" obligation of the great majority of faculty members is simply to remain current in their fields. Relatively few of them are going to make historic contributions to human knowledge.

- Return to a tighter, more focused curriculum. Of course the required courses cost money. But the "electives" that have proliferated in the past half-century often are far less cost-effective, in part because enrollment in them is voluntary and usually smaller, and not required for particular programs of study. A core curriculum of required courses may seem less attractive than a wide array of choices, but it also may be less costly and more focused on key learning objectives. It is also likely to lead to higher levels of program completion.

- Recognize that providing access to persons at all socio-economic levels will require new kinds of scheduling. Students who must work in order to attend college cannot come and go throughout the day to attend various courses. Neither can those who are caring for young children This is particularly true of some students attending community colleges and regional universities with large numbers of commuter students. Courses can be scheduled in coherent blocks that are compatible with the typical work and family obligations of older students.

  A person who holds a job while going to college will have difficulty attending classes scheduled at three different times during the day. Some colleges are developing blocks of required courses from, say, 5 p.m. to 9 p.m. in the evening. (Some blocks extend even later into the night or are offered exclusively on weekends.) Others are putting the courses online to be accessed when students are not at their jobs.

  Remedial work should be made more efficient and cost-effective to help students complete their programs of study. Prerequisite remedial courses that carry no credit often appear to be roadblocks to persons beginning higher education.

  There are other ways in which institutions can offer educational opportunities that meet the needs of different population segments. A regional university could create a "Special College" that offers courses exclusively in the evening or on weekends. Or it could introduce an optional three-year baccalaureate that offers a year-round program of study. Changes like these make institutional resources more accessible, while reducing costs and time to completion of degree or certificate programs.

- Increase the use of technology in teaching and learning. We know that online teaching can be effective, even though we also suspect that not all learning should be online. But the strong results of institutions like Western Governors University and the best of the for-profit institutions are good reason to venture into this realm. The result is less money for bricks and mortar, greater ease of access for some students, and possibly more-efficient teaching and learning.

Even elite universities are expanding their services to reach new segments of the population. Columbia University's School of General Studies targets a market of new and returning students. Yale University is reaching out to the same potential students, as is New York University. There are many similar examples, and public universities and community colleges should take notice of the creative marketing that is going on in higher education.

Actions like these will help to improve completion rates, especially if they are supported by effective student advising.

Many colleges and universities are taking several steps toward transforming academic delivery and administrative operations, if for no other reason than efficiencies are demanded for today's fiscal realities. But much more is needed if institutions are to rein in costs and dramatically increase productivity, and then strategically "invest" in college affordability and degree completion. They need resources from state and federal governments, as well as aligned and consistent federal and state policies. But in the end, it is colleges and universities who must produce the graduates who will ensure a bright future for the nation.

Presidents and governing boards will need courage to implement the changes required at the institutional level: increased productivity, clear goals for successful degree and certificate completion, and allocation of resources to meet public needs. Boards will need to pick the right chief executives and then support them, while requiring that they address the institutional changes suggested in this report.

2 . Reconsider the federal role in higher education.

The federal Higher Education Act will come up for reauthorization in 2013. This is a perfect opportunity to reexamine the basic roles of the federal government and the states. We are in a new time, and higher education is being called upon to play a new role in our society. The Higher Education Act should focus on the support the federal government should provide, and eliminate whatever wasteful and distracting additions may be in the way. This is a very good opportunity for some "barnacle scraping."

It is important to align the tools available at the federal level with the "completion agenda." This will require careful reconsideration of what the federal government does and how it avoids impinging upon state responsibility for higher education. A federal, one-size-fits all approach to higher-education transformation is not what we need.

In the mid-20th century, the federal government had two primary roles in higher education: to provide financial aid to needy students and to support research that was in the national interest. A third role was then added: to promote equal educational opportunity for all people, regardless of gender or race. A fourth role, accountability, cuts across the other three.

The U.S. Constitution assigns responsibility for education to the states, but the federal government continues to have a large and ever-increasing impact on higher education through its student aid and research programs and the regulations that come with them. There are three key things the federal government should do.

The Higher Education Act should focus on the support the federal government should provide, and eliminate whatever wasteful and distracting additions may be in the way. This is a very good opportunity for some "barnacle scraping."

First, it should play a strong national leadership role in stressing the importance of increased rates of college completion. Second, it should align its primary funding programs, both student financial aid and institutional grant programs, with a student success and completion agenda. Third, it should clarify its regulatory responsibilities for higher education.

To its credit, the U.S. Department of Education has begun convening governors, business leaders, and others to encourage interstate cooperation and commitment to the national objective of increased numbers of people earning college degrees or certificates. But its efforts should be more strategic and sustained.

Student financial-aid programs have become very complex and may need to be simplified. We have moved from a single program whose objective was to provide educational opportunity to the most economically needy to a variety of programs that try to give a little something to many constituencies. The federal government should focus its aid programs on college opportunity and provide real incentives for persistence and completion.

The federal government has proposed some new grant programs that might include institutional incentives for increased college completion. But these are add-on programs that could easily get lost among those that already exist. The Department of Education should review those programs to ensure alignment with the college completion agenda and determine whether the current large number of programs is necessary.

There are other federal programs outside the Department of Education that support students and institutions—like the Workforce Investment Act, aid to returning veterans, and the Temporary Assistance for Needy Families program—whose requirements ought to be evaluated for their possible effects on persistence and completion.

Federal research programs and the continued investment in research and innovation at our institutions of higher education are vital to the national interest and national economy. But even here, we should consider whether research support is providing the maximum return on investment. Is it good that research dollars are being spread over a larger number of institutions? Are institutional ambitions being advanced at the expense of stronger research at fewer institutions?

Data collection and analysis systems should be changed to enable better monitoring, diagnosis, and policy formulation. But here again, federal definitions of variables like the "credit hour" and "gainful employment" are likely to make higher education more bureaucratic. Federal officials might engage in discussions with the states before plowing ahead. Good state governing or coordinating boards recognize the need for flexibility across institutions; well-intentioned but poorly informed intrusions can damage higher education, rather than advance a productivity agenda. Accountability has to include flexibility.

3 . Create an environment at the state level that will give institutions reasons to change and pursue the public agenda.

Governors and legislators are key here, of course, because state policy is critical. They can change institutional behavior and outcomes. Governors and legislators can articulate statewide goals, while institutions only set goals for themselves. They can consider funding and policy mechanisms that reward institutions for meeting these goals of efficiency, productivity, and increased rates of program completion. They can look at possibilities like using the 12th grade of high school to make students more college-ready through college credits that

Thomas Haas

Richard Legon

Charles Steger

Gary Rhoades

can reduce the time to degree, remedial work that can be completed before leaving high school, and so on.

State governing and coordinating boards, working with governors and legislators, should assume leadership roles with two major responsibilities:

- Set clear, measurable, and institution-specific performance goals for colleges and universities; and
- Create funding mechanisms that link to those goals, such as emphasizing the completion of courses and programs of study, not just enrollment.

Many of the state boards were created in the 1950s and 60s, when the United States faced the great challenge of rapidly building capacity to accommodate large numbers of students. The GI Bill sparked a movement by returning veterans to gain the benefits of college education, ushering in a vastly larger college-going middle class. The primary work of these boards was to promote rational and politically acceptable expansion, ensuring that all regions of a state were served by institutions that were reasonably accessible and that these institutions offered comparable and appropriate arrays of programs, student services, and amenities.

The state governing and coordinating boards are still needed, both for their leadership and for the "buffer" role that they play between higher-education institutions and state governments. But the job to be done and the circumstances have changed dramatically, while the functions of many state agencies have not. Leadership needs to be focused on public priorities, not simply upon expansion and institutionally driven agendas.

In addition to measuring and paying for performance, state boards should encourage institutional redesign, curriculum revision, and the introduction of educational programs—for example, online, weekend, and evening programs—that meet the needs of new kinds of students.

To ensure that emphasis on program completion does not come at the expense of quality, institutions should be required to assess what students learn and to measure and report their progress in clear and unambiguous terms. At a minimum, each institution should be required to undertake responsible and transparent measurement of its own progress.

States should provide special support to those institutions that will bear primary responsibility for achieving significantly higher levels of higher-education attainment in the state: regional universities and community and technical colleges.

To ensure that emphasis on program completion does not come at the expense of quality, institutions should be required to assess what students learn and to measure and report their progress in clear and unambiguous terms. At a minimum, each institution should be required to undertake responsible and transparent measurement of its own progress.

For example, regional universities and community colleges seeking to serve adults with some college credits but no degrees might need special assistance in creating online academic and advising programs, as well as other services. They might need extended security and other assistance to ensure that their campuses are functional during non-traditional times. It might be good for the higher-education sector to assume responsibility for adult literacy programs in a state. The work could be integrated with program content (for example, learning arithmetic while also learning auto mechanics), and adults could be spared the embarrassment of admitting their literacy and numeracy deficiencies. These kinds of actions would require revised state policies, such as special state-operating-budget support.

State boards should promote review of the missions of institutions, and create conditions in which it is in their own best interests to focus on the public mission of higher education. Private institutions should be encouraged to reconsider their missions as well, particularly in states in which they and their students are eligible for state support.

Reconsidering the missions of colleges and universities requires participation by faculty, institutional management, institutional governing bodies, and those who are responsible for the statewide coherence of higher education. It also requires consultation with the executive and legislative branches of government, with employers, localities, and the business community in general.

4. The last word: Leadership. Help colleges and universities do the work that needs to be done.

Leadership is needed at all levels of involvement. Governors and legislatures obviously play key roles, as do the state governing or coordinating bodies. Institutional boards and administrations are crucial, as are the faculty. Governing boards need to advocate for a degree-completion agenda on their campuses, supporting the leadership of administrators and the efforts of faculty members, while demanding accountability for the achievement of that agenda. The federal government can provide leadership by setting national goals and providing incentives for meeting them.

Western Governors University is a private, non-profit, online university that focuses on keeping education high quality and low cost while allowing students to study at their own pace. WGU was founded in 1997 by the governors of 19 states—the first time that policymakers joined together to create an educational institution–and receives support from major corporations and foundations. WGU's mission is to utilize technology to teach rather than just deliver classroom education, to measure learning instead of time through the competency-based model, to make higher education more affordable while improving educational quality, to expand access to underserved populations, and to meet key workforce needs.

WGU now serves over 25,000 students across all 50 states, 80% of whom would be classified as traditionally "underserved" populations, such as low-income, ethnic minority, rural, or first generation college students. Current degree offerings include bachelors and masters degrees in the key workforce areas of business, information technology, K–12 teacher education (including initial teacher licensure), and health professions (including nursing and health informatics). According to recent third-party surveys, 97% of WGU graduates would recommend the university to a friend and 93% of employers rate the preparation of WGU graduates for the workforce as "good" or "excellent."

The story of WGU's founding is an example of how innovation in education can produce dramatic results. In a 1995 meeting of the Western Governors Association, the chair of the association—Utah Governor Mike Leavitt—had the foresight to recognize that there was a growing pressure on state universities and colleges. He and fellow Governor Roy Roemer of Colorado came to the conclusion that distance learning technologies had the power to tackle one of the western states' most pressing problems: rapid population growth coupled with limited public funds for state higher education systems. The governors decided to create a new university that would maximize use of distance learning technologies, would be collaborative among the western member states, and would use competencies rather than seat time as the measure of student learning outcomes. The governors enlisted help from educational organizations to complete the model for the university, which was chartered in 1996. WGU was incorporated as a private, non-profit university in 1997, began accepting students in 1999, and earned regional accreditation in 2003.

WGU was created as a resource to the states, and has recently partnered with states to increase options for higher education to state residents. In June 2010, WGU partnered with the State of Indiana to create WGU Indiana, announced by Governor Mitch Daniels, as the "eighth state university". In just three months since the launch, WGU Indiana now accounts for 10% of all WGU new student enrollments each month whereas Indiana students were previously only 1% of WGU enrollment. This spring in Washington, a bill was passed by the legislature and signed by the governor that will create WGU Washington, to be launched in July 2011.

Western Governors University
Online. Accelerated. Affordable. Accredited.

A New Funding Paradigm for Higher Education

Session 1

December 6, 9:15–10:15 a.m.

Corina Eckl
Fiscal Program Director,
National Conference of State Legislators

Scott Pattison
Executive Director,
National Association of State Budget Officers

Respondent
Brit Kirwan
Chancellor,
University System of Maryland

Session Description

State higher education leaders must recognize a mutual problem—limited state revenues, competing priorities, sharply increasing tuition levels, increasing levels of student debt, federal mandates, and a large portion of the state budget which is non-discretionary. How bad is it, how much worse might it get, how long will it last, and is there any way out of this?

Session Notes

Corina Eckl began the session with a discussion of states' revenue forecasts for upcoming years; her forecast was not particularly rosy. Her data showed states bouncing back from the economic downturn but not so robustly that they are out of the woods. Revenue forecasts that do show upticks are still operating within a very small margin of error and may miss those estimates—although the overall outlook is better than it was a year ago.

Most states' revenue collections peaked in 2008, and it will take some time for revenue collections from sales and income tax to reach pre-recession rates. Forty-nine states saw year over year collections decline as personal income tax revenues dropped dramatically and sales tax revenues contracted. States like Washington and Nebraska anticipate returning to those rates by 2012, while others think it will take longer—2013 for Maryland and Virginia; 2014 for Florida, Idaho and North Carolina; 2015 for Arizona, Maine and New Mexico and 2016 for California. Also, competition for funds remains fierce.

Looming issues like unfunded pensions and other liabilities, replacing federal stimulus funds, further budget cuts, and structural budget gaps will continue to contribute to that volatility.

Scott Pattison and Corina Eckl present the current economic outlook for the states to the Conference.

Scott Pattison provided some additional revenue data to round out the states' fiscal health picture. His data showed a 10.6% decrease in the states' share of higher education costs over the past 15 years, with the exception of a peak in FY 2000. Those funding rates fell to a low in fiscal year 2010 although not significantly different from 2009 which was affected by American Recovery and Reinvestment Act funding (1/3 of state funding came from the federal government in the Recovery Act.

Even though overall revenue numbers have increased, Pattison predicted that states will not likely fund higher education at the same rates that they have been able to historically. This is because of volatility and the established patterns of states cutting higher education when revenues are low and increasing spending when revenues are high. Looming issues like unfunded pensions and other liabilities, the loss of federal stimulus funds, and further budget cuts, will continue to contribute to volatility. Seventeen states surveyed they are concerned about their financial outlook, down from 30 last year.

Pattison and Eckl also emphasized the idea of structural budget gaps, which are not cyclical in nature and more entrenched since normal growth is dunable to cover current spending levels. According to their data, 30 states have identified structural gaps in 2012.

The conversation then turns to potential fixes for these ongoing problems that do not seem solely attributed to the economic downtown, but by a new financial environment marked by systemic inefficiencies and changing trends. Pattison outlined three ways to improve higher education:

- Improve efficiency and avoid duplication
- Tie resources to income
- Determine ways to provide more predictable income to higher education, by planning for volatility

As respondent, Brit Kirwan also emphasized that states' revenue outlooks were not rosy. He cited a recent *New York Times* article about the crisis and the most recently-released employment numbers that showed a slight increase in unemployment.

Kirwin outlined five ways to improve higher education in the current fiscal environment:

- Greater accountability
- Better conversations between states and institutions in order to find lower-cost ways to deliver a high quality education, especially critical since states are in fiscal crisis and dealing with an education deficit and loss of competitiveness
- Look to community colleges as a crucial component in solving problems of cost and degree attainment
- Technology use to lower costs
- Improved communication with K-12, especially in science, technology, engineering, and math (STEM), to embrace uniform

college readiness standards that actually prepare high school students for success in college

In the comments that followed, many participants called for a major paradigm shift, since higher education will likely be underfunded and because a "one size fits all" model no longer works for the wide array of schools now in place—community colleges, 2 year and 4 year colleges, research universities, and for-profit universities, etc.—not to mention the new generations of students pursuing a higher-education degree at these various institutions.

Participants recommended that a new model should propose the following:

- Greater flexibility and deregulation for institutions receiving decreased levels of funding
- Greater institutional freedom—although still with accountability measures
- Better understanding of the views and interests of the various sectors—the public must be more explicit about what it wants to buy; business sector must make their views and needs clear
- Clients will have to pay more so will need to have greater institutional choice
- Emphasis on the importance of higher education as a public good and investment, not just a cost

Corina Eckl

Scott Pattison

- Funding mechanisms should favor institutions that serve growth populations, such as first-generation students and students of color
- Prioritize goals by rewarding financially schools that achieve goals. Metrics for performances should reward overall degree completion and academic performance

The consensus among participants seemed to be that state funding could no longer be counted as a stable revenue stream, so university systems and state legislators must figure out ways to accomplish more with less by working with optimal efficiency.

These university systems must also adapt the ways of judging performance in order to accommodate a changing higher education environment and student body.

Defining Attainment and Policy Responses to Improve Performance

Session 2

December 6, 10:30–11:45 a.m.

Dennis Jones
President, National Center for Higher Education Management

Respondent
Julie Davis Bell
Education Program Director, National Conference of State Legislatures

Session Description

Despite recent reductions, state general funds are the single largest revenue source for most public colleges and universities and states are rightly asking serious questions about outcomes related to public priorities. States will need to be clear about the expectations for certificate and degree completion and provide policy support for institutions to improve performance. What attainment levels are necessary to meet state and national workforce needs? What policies should be in place to drive completion in higher education?

Session Notes

To kick off the session, Dennis Jones talked about how improvement in economics correlate with levels of degree attainment, since the likelihood of employment is much higher (as is likelihood of getting a "better" job). Almost 40% of the population that hasn't finished high school also is not in the work force, and there are the additional costs of the unemployed such as increased reliance on social services, corrections and other costs to society.

Almost 40% of the population that hasn't finished high school also is not in the work force, and there are the additional costs of the unemployed such as increased reliance on social services, corrections and other costs to society.

For the U.S. to sustain its national economic competitiveness,55–60% of the working age population must have a college degree. We are behind that ideal by about 15–20%, and the retirement of a huge chunk of baby boomers will only exacerbate the problem as they take away a huge chunk of our national educational capital when they retire—and our retirees numbers will grow much faster than other countries who are already outpacing the U.S. in degree attainment.

The U.S. needs 3–4% growth every year for 20–25 years to maintain its competitiveness, and it must accomplish this in an increasingly difficult environment in the following ways:

Dennis Jones presents policy responses to improve performance.

- **Demographics.** The fastest-growing population (except in California) is overwhelmingly students of color, and these students are the least successful. Additionally, states with the smallest educational gap, such as Colorado, have a huge equity gap which makes progress more difficult.
- **Changing funding sources.** One third of funding for higher education is public and two-thirds is private funding. All states will have a structural deficit in the next few years.
- **Economics of a growing population.** Two out of every five young people live in a family making less than a living wage.

To enact policies that effectively address these issues, Jones says that priorities must lead decision making and will require political will and leadership. New policies should include:

- Clear articulation of goals
- Unambiguous definition of metrics and transparency regarding results
- Removal of regulatory barriers—"clearing of underbrush" through a policy audit process
- Alignment of fiscal policies with goals

Julie Davis Bell then talked about the higher education focus of state legislatures. According to Bell, it is unprecedented that higher education has become one of the top three issues for legislatures. This priority is being driven by budget and funding issues but also by the emphasis on college completion. Bell emphasized that state legislators are aware of the linkage between education attainment and economic development but a lack of choice and short-term pressures have led to decisions that cause higher education to suffer.

She also said that state legislators tend to think that higher education is unwilling to change on its own and not full participants in their futures. To combat that thinking, she suggests that strategies for improvement need to come from the higher education community itself and need to include metrics (since legislators are savvy about metrics as data management systems as they have become increasingly prevalent). Performance-based funding, she said, was very attractive because it incentivizes achievement and performance. Tennessee and Ohio were mentioned as leading states in this regard.

Overall, Bell said legislators are a diverse population—both politically and in their knowledge and thinking about education—and may or may not have bought into the notion of higher education as being in serious need for funding. Regardless, she expected they would be most interested in policy suggestions focusing on new models and innovation.

The session was then opened up to the audience, who spent some time trying to define how performance-based funding might work. In the past, it meant enrollment-based funding that was consistent with the access goals of the previous 30 years instead of the new student success goals that have become the current focus and mission. Audience members suggested shifting concepts of performance and success away from graduation rates to attainment rates, so that moves toward selectivity do not limit college access and total degree production.

The group said the emphasis on "success" must also include some revised metric of what that means. Funding models have to be financially sustainable, and they must address enrollment and credential improvements.

Various members of the audience brought up new models and the challenges that they are confronted with, such as:

- Community colleges are operating in a completely new environment where increasing number of students are unprepared and are not completing the programs. There is a lack of good developmental programs since only 1 in 4 students placed in those programs persists to graduation. These students are not passing gateway courses, but there has been success in some pilot course redesigns that lead to higher learning outcomes at a much lower cost.
- Online learning. Carnegie-Mellon is an example of innovation that has been successful, even though there is a negative bias with traditional faculty. The program is interspersed with activities and artificial intelligence, and either scales up or down depending on whether or not a student correctly answers a question. This format mirrors the way students learn today since it is technology-based, active learning
- Western Governors University. This university curriculum redefines competencies for college readiness and allows for nontraditional students with significant life experience. The curriculum's individual assessments identify competencies that are then coupled with mentoring and remediation.
- New Student Assessments. Northern Kentucky University employs a college readiness math test, now used state-wide for students to determine their math competency before matriculation.

NCSL's Julie Bell provides the response to the paper.

Participants also identified three conflicts over core values in higher education:

- Access vs. completion
- State-wide control vs. individual autonomy
- Cost-based thinking vs. value to society-based thinking

The session closed with a question about the relevancy of states since disinvestment in higher education leaves states with less ability to affect institutional policies. The final question raised was whether defining attainment was about leadership or fine-tuning and nuance. Many seemed to agreed that making changes is not so much a technical exercise as one that is about leadership, priorities and political will.

Keynote Address

Nebraska Governor Dave Heineman, NGA Vice-Chair

Governor of Nebraska NGA Vice-Chair and ACHIEVE board member Dave Heineman delivered the conference's keynote address emphasizing the importance of education to ensure success for Americans and stressing the urgency with which change and innovation in education system must be pursued.

Governor Heineman highlighted the fact that a high school education is no longer sufficient for an American to sustain or improve his or her economic position or fully participate in society as an informed citizen. Without an educated workforce, he warned that jobs could leave American communities and imperil the quality of life. He proposed two ways to combat this: first to truly make a solid education accessible to all children, and second, to pursue change in the education field with urgency and purpose.

Increasing access to college-credit courses for qualified students and adding hours and days to the school year were ways he proposed to make a quality education more accessible. He also mentioned the idea of adapting to changes in the circumstances of current students; for example, there is a new need to encourage donors to sponsor recurring scholarships instead of the constructing buildings, especially since increasing number of students are enrolled remotely.

Collaboration, compromise and a clear sense of what is at stake are essential to making important changes to the education system.

Collaboration, compromise and a clear sense of what is at stake are essential to making important changes to the education system, according to Heineman. He spoke personally about his close working relationship with the president of the University of Nebraska system, and the advantages that collaboration between divisions offers on important decisions. He also called for collaboration between the business community and educators so that bridges that will provide professional opportunities for qualified graduates.

Governor Dave Heineman delivered the Conference Keynote, drawing on his own experience with innovation in higher education.

A clear and compelling message about why education is so important must be articulated to people, so that all citizens—not just insiders—can understand it.

…government can not continue to pay for services and systems that do not work…[we must] look at old funding practices with new eyes.

Finally, Heineman said that government can not continue to pay for services and systems that do not work. He encouraged policymakers to look at old funding practices with new eyes. In particular, he talked about recent changes in Nebraska which allowed government institutions to "save it and spend it later" as opposed to the "spend it or lose it" standard under which most universities operate. That shift, Heineman said, actually led to university savings of over $7 million. With the more flexible funding practice, the universities were able to keep that money for future projects.

He summarized his points by stating that the real goal of education is for graduates to secure high-paying jobs, and to do so, we must adapt the education systems in place to the realities of time, which he believes is possible with "with talent, wisdom, and expertise in this room…and all across America".


JANE WELLMAN

Efficiency and Effectiveness in Higher Education

Session 3

December 6, 1:00–2:30 p.m.

Part A
Improving Cost-Effectiveness: Leadership Challenges for Public Higher Education

Jane Wellman
Executive Director, Delta Cost Project

Ellen Chaffee
Senior Fellow,
Association of Governing Boards

Part B
Metrics for Efficiency and Effectiveness in Higher Education: Completing the Completion Agenda

William Massy
President,
The Jackson Hole Higher Education Group

Session Description

Both states and higher education institutions need to think creatively about ways to better use the money currently available to them. States will need to rethink the policy tools at their disposal to leverage institutional change. To reduce costs and enhance productivity, colleges and universities may have to fundamentally restructure how they deliver educational services and conduct daily business operations while sustaining or increasing quality. How do we best define productivity in higher education? How do higher education metrics differ from or relate to productivity in other sectors? What are some of the more promising developments occurring in institutions and states to improve productivity? What policy tools (e.g. monetary incentives, greater flexibility) will lead to innovation and productivity gains?

Part A Notes

Jane Wellman began by stating that attainment is the biggest challenge ahead in the higher education world at public policy level, since funding policy is not systematic or seriously integrated and also lacks political buy-in. For example, attainment is deemed critical, and steps are made in that direction with the goal in mind but there isn't integration of attainment goals in the implementation strategy or funding policies. And this kind of synergy requires the attention to management between the states and higher education.

People in support of agenda need to stabilize leadership—haven't discussed this enough—and there needs to be an ongoing process of dialogue to support the cultural change process.

The question then becomes, where should this attention be focused? Wellman stated sustained focus is needed, especially in light of the following challenges:

- **Instability in Leadership.** Turnover of state system heads, institutional presidents and state coordinating executives is too frequent. People in support of the attainment agenda need

Ellen Chaffee and Jane Wellman discuss attainment and funding policy.

to stabilize leadership and there needs to be an ongoing process of dialogue to support the cultural change process.

- **Increased emphasis on results.** There has been a shift from historical process to investment in results and public need for education, not higher education's classic desire for education for education's sake.

Wellman asked: what about the funding model is unsustainable? How do we stabilize funding driven by state budgets? She identified instability and a lack of predictability in funding as the major stumbling blocks.

She turned to the following area of cost that requires attention:

- Faculty compensation
- Employment benefits: they are goingto take 4% more a year in new money if they are not controlled.

Wellman states that we have been trading off salary for benefits and states need to pay attention to benefits or all money will go ther

In sum, Wellman called for a process that focuses on the attainment agenda, stabilizes resources, and finds ways to deal with employee benefits; without a revised process, institutions are not going to be able to fund their operations.

In her presentation, Ellen Chaffee took up the university perspective and identified some important paradoxes:

- **Flexibility paradox.** The best way to make institutions do something is to free them to do it.
- **Governance paradox.** We all feel the urgency yet change takes time.
- **Diversity paradox.** Some state and system policies are driving institutions into opposing directions of homogeneity and uniqueness.

It is understandable when states and legislative officials say "we can't." There are limits on what they can do, so innovation is essential to achieving more quality at less cost on the academic side, and it requires faculty buy-in. Some policy approaches to explore include:

- Partner with and support university leaders who advocate a public agenda to find common purpose nd language.
- Create a consistent, synergistic policy environment. Provide governors and legislators with a framework options so they can complement or supplement existing systems.
- Employ multi-year funding strategies that balance cost-effectiveness with new revenue.
- Communicate goals and performance, especially to presidents who serve as nexus between donors, alumni and state constituencies. The message should be that we need scholarship money and unrestricted funds, not money for new buildings.

More broadly, universities should try to increase capacity using technology, provide incentives for cost saving, fund their highest priorities first before seeking more money for less important initiatives, and show legislatures that they are flexible and willing to make sacrifices and compromises.

Part B Notes

Travis Reindl spent time defining a number of key terms and metrics used to craft education policy. Metrics serve goals and policy by identifying problems, diagnosing deficiencies and selecting alternatives.

He further explained *efficiency vs. productivity:*

- **Efficiency:** *Increase or decrease of unit cost.* Unit cost is a necessary part of the conversation but it is not sufficient. It reveals the question: why is unit cost fluctuating? We need to know more.
- **Productivity:** *Rate of output per unit of input.* If we have an increase in education, we have to define what the outputs are, such as credit accumulation and degrees. How should we measure the inputs: labor? capital you put into it? The metric needs to be held constant and changes made as necessary. These measures aren't ever going to be perfect, but we can't let the perfect become the enemy of the good.

His point is that quality is essential and that productivity measures cannot leave out considerations of quality. Quality can be measured by labor market (wage salary differentials), direct quantitative measurement (collegiate learning assessment), or academic audit (using agreed upon principles to measure quality).

In sum, Massy's paper proposes the essential importance of considering unit costs. We must have both input and output to consider where to redirect energies in the system.

Ray Scheppach, Leonard Sandridge, and Brit Kirwan during the Efficiency and Effectiveness Panel

Audience comments stressed the importance of dialogue between higher education stakeholders and governors/state legislators. State governments are focused on budget reductions. Key faculty must be engaged in these critical issues and also weigh in on educational delivery models and other aspects of policy-making.

To achieve success in higher education reform, participants suggested clearly linking reform goals to the future of the states; targeted investment and re-allocation of funds instead of only cost-cutting; systematic accounting of accreditation; and most importantly, a mechanism for higher education to regain legitimacy, engage the public, and slowly work its way up the political agenda.

Bringing it All Together

Session 4

December 6, 3:00–4:00 p.m.

Gordon Davies
former Director of the State Council of Higher Education for Virginia and former President of the Kentucky Council on Postsecondary Education

Session Description

The conference convened the final session to discuss the strategies for developing and mobilizing a state public agenda, particularly one focused on improving retention and degree completion and enhanced educational quality in a time of fewer public resources.

Session Notes

Gordon Davies identified the following salient points and strategies from the previous sessions:

- Need for collaboration
  - Talking together, understanding each other
  - Data is vitally important, including tuition increases and increased spending over years; older data can also be compelling
  - Need to achieve clarity—it is easy to talk about productivity and attainment but we must parse attainment vs. completion.
- Educational entities need to do work differently and improve how they do business on both administrative and political levels:
  - On a political level, the importance of higher education must be conveyed to elected representatives, as a component of the economic well being of our nation, not just an issue of education
  - Between political establishments and institutions—governing bodies. If public education is a public good, we need to define this and tell states what their money buys. We also need to tell the students what they get with their purchase
- Recognize that one size does not fit all. Institutions are at different points, and the higher education community should encourage differentiation with a sustainable change agenda, while also developing the need for partnerships

Gordon Davies facilitated the group to develop strategies.

Davies identified a variety of policy options that may lead higher education in the right direction:

- Realigning funding models to provide subsidies to higher education institutions
- Greater efficiency
- Realigned funding and missions of institutions and current infrastructures to better clarify and define roles

The underlying dilemma is a "new normal" that changes the way we do business in higher education. That new normal must be created even in the midst of a financial dilemma—for the next 2–3 years budget cuts are inevitable. A crisis in public trust and certainty about the need for education also exists.

Once Davies identified the problem and a variety of ways to address it, he then turned to the issue of prioritizing and finding a way to make the message clear for different audiences and what their role is—while still allowing for flexibility. Along with reclaiming the idea that higher education as a public good and ensuring transparency, we must also discuss what we think our money is buying. States may have different perspectives on this topic.

Institutional leaders, presidents especially, must be aligned with these public policy initiatives. Presidential leadership (and the expansion of the roles of established leaders) must be demonstrated.

Some ideas and considerations that were discussed included:

- Collaboration between 2 and 4 year schools and the K-12 sector. We have an opportunity with the common core standards to take the lead to bridge the gulf between secondary and post-secondary education. The economic crisis is yielding an opportunity to force greater collaboration.
- The responsibility and role of private institutions for meeting a national agenda on college completion needs to be considered.
- Jobs must be viewed as partnerships between the education and business communities. We cannot lose sight of the interplay between business and higher education policy.
- Prioritizing today, especially in light of current capacity and pricing problems, means dealing differently with current institutions. Efficiency alone is not enough. We must instead diversify resources and sustain public trust throughout.

In his closing comments, Governor Baliles raised a number of issues and also briefly touched on the future of the project.

- What do we do with the outcome of today's discussions? How do we raise the public consciousness of a serious issue?
- It is difficult to persuade legislatures to see the importance of this during these tumultuous times.
- How do we package a clear and distinct message that can be sent on to the rest of the nation?
- We need to tell the story of the crises that higher education faces and then ask: Where do we need to go?
- We will provide a catalogue of approaches—must carefully package a report that will be marketed at every level of society

Our report should be bold and controversial, like "A Nation At Risk," which came out in the 80s. It must contain a carefully crafted message and be clear, concise; and compelling to acquire the necessary attention. He said it started today with debate of the crisis. The responsibility of the Miller Center is to create a clear and distinct message and an outline for improvement that will then be disseminated to key players in the discussion.

Darryl Greer

Joint Meeting Agenda

December 5–6, 2010

Miller Center at the University of Virginia Charlottesville, Virginia

Raising the Bar for Higher Education in a Time of Fiscal Constraints

A Jointly Sponsored Meeting

Sunday, December 5

Jefferson Ballroom, Omni Hotel, Charlottesville

5:30 p.m. **Registration and Reception**

6:00 p.m. **Welcome and Introduction to the Miller Center**

Governor Gerald L. Baliles, *Director of the Miller Center*

Welcoming Remarks

President Jamie Merisotis, *Lumina Foundation*

Monday, December 6

All sessions were held in the John and Rosemary Galbraith Forum Room, Miller Center.

7:40 a.m. **Shuttle Transportation**
from the Omni Hotel to the Miller Center

8:00 a.m. **Breakfast**

8:30 a.m. **Opening Plenary**

Introductions and Framing

Governor Gerald L. Baliles

Rick Legon, *President, Association of Governing Boards of Universities and Colleges*

The June 2008 collaboration between the Miller Center and AGB resulted in a call for higher education leaders to address a public agenda containing several societal challenges. The need for higher levels of degree attainment served as a backdrop to our discussions. The imperatives of a public agenda of student access, success, research and innovation must continue to advance in spite of long-term fiscal constraints and significant changes in gubernatorial leadership. For this to occur, state and higher education leaders must find ways to collaborate on developing new policy responses to fiscal and demographic realities.

Leonard Sandridge, Brit Kirwan, and George Nolen

9:15 a.m.	**Session I** *Brief Presentation Followed by Facilitated Group Discussion*	

A New Funding Paradigm for Higher Education

Corina Eckl, *Fiscal Program Director, National Conference of State Legislatures*

Scott Pattison, *Executive Director, National Association of State Budget Officers*

State and higher education leaders must recognize a mutual problem,—limited state revenues, several competing priorities, sharply increasing tuition levels, increasing levels of student debt, federal mandates, and a large portion of the state budget which is non-discretionary. How bad is it, how much worse might it get, how long will it last, and is there any way out of this?

10:15 a.m. Break

10:30 a.m. **Session II**

Brief Presentation Followed by Facilitated Group Discussion

Defining Attainment and Policy Responses to Improve Performance

Dennis Jones, *President, National Center for Higher Education Management Systems*

Despite recent reductions, state general funds are the single largest revenue source for most public colleges and universities and states are rightly asking serious questions about outcomes related to public priorities. States will need to be clear about the expectations for certificate and degree completion and provide policy support for institutions to improve performance. What attainment levels are necessary to meet state and national workforce needs? What policies should be in place to drive completion in higher education?

11:45 a.m. **Lunch and Governor's Address**

Governor Dave Heineman, *Governor, Nebraska*

Muriel Howard

1:00 p.m. **Session III**

Brief Presentations (2) Followed by Facilitated Group Discussion

Improving Cost-Effectiveness: Leadership Challenges for Public Higher Education

Jane Wellman, *Executive Director, Delta Cost Project*

Ellen Chaffee, *Senior Fellow, Association of Governing Boards*

Metrics for Efficiency and Effectiveness in Higher Education: Completing the Completion Agenda

William Massy, *President, The Jackson Hole Higher Education Group*

Both states and higher education need to think creatively about ways to better use the money currently available. States will need to rethink the policy tools at their disposal to leverage institutional change. To reduce costs and enhance productivity, colleges and universities may have to fundamentally restructure how they deliver educational services and conduct daily business operations while sustaining or increasing quality. How do we best define productivity in higher education? How do higher education metrics differ from or relate to productivity in other sectors? What are some of the more promising developments occurring in institutions and states to improve productivity? What policy tools (e.g., monetary incentives, greater flexibility) will lead to innovation and productivity gains?

2:30 p.m. Break

3:00 p.m. **Session IV**

Bringing it Together

Gordon Davies, *former Director of the State Council of Higher Education for Virginia and former President of the Kentucky Council on Postsecondary Education*

We will discuss the strategies for developing and mobilizing a state public agenda, particularly one focused on improving retention and degree completion enhanced educational quality in a time of fewer public resources.

4:30 p.m. **Adjourn**

Shuttles to the Omni Hotel and Charlottesville airport

Darryl Greer


CONDUCTION
Convection
Radiation.
Hydrometer

A New Funding Paradigm for Higher Education

White Paper

By Corina Eckl and Scott Pattison

Corina Eckl
Fiscal Program Director,
National Conference of State Legislatures

Scott Pattison
Executive Director,
National Association of State Budget Officers

The state fiscal landscape has changed dramatically in recent years. Undermined by the impacts of an 18-month recession—often dubbed the Great Recession—state budgets faltered. With revenue collections actually falling in most states, funding for many programs, including higher education, was cut. Always a target during economic downturns, higher education is now facing an entirely new funding crisis wrought by record state budget gaps and forecasts of anemic revenue growth. Although recently improving revenue performance could mitigate the funding squeeze, the environment for state higher education support might be permanently and unalterably different from the past.

Indeed, funding for all areas of state government is evolving, out of necessity. State spending is likely to grow more slowly than in past decades, with some areas, like higher education, possibly falling as a funding priority. More than ever, therefore, public higher education institutions and state officials will need to work together to ensure improved access and performance.

The State Budget Crisis in Perspective

Even before the Great Recession began in December 2007, many states were experiencing budget problems. Feeling the collapse of the residential real estate market earlier than others, states like Arizona, California, Florida and Nevada, were the tip of the proverbial iceberg. As the effects of the recession hit with full force, states across the nation saw revenue performance collapse. Every major tax source was affected to some extent. According to the Rockefeller Institute of Government, the personal income tax—a key revenue source in 41 states—fell the most (see figure 1, on next page).

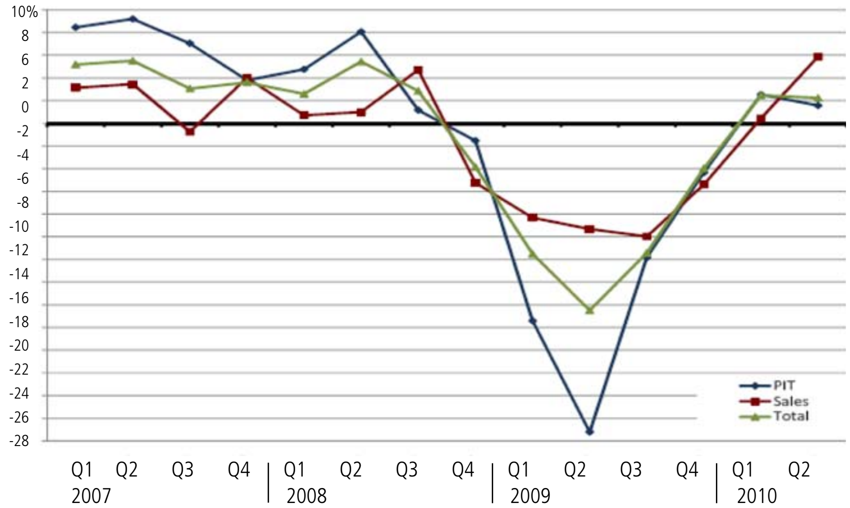
As job losses mounted and consumer spending fell, sales tax receipts in the 45 states levying the tax also declined. Other sources, from business taxes to real estate transfer taxes, also stumbled. The impact was far reaching: Every state except North Dakota saw year-over-year revenues fall. This occurred despite three-quarters of the states raising taxes at some point during the recession.[1]

These declining revenues generated massive state budget gaps. From FY 2008 through the initial forecast for FY 2011, states faced and largely resolved a cumulative gap exceeding $400 billion (see

Figure 1

Year-Over-Year Percent Real Change in Major Taxes

Percent

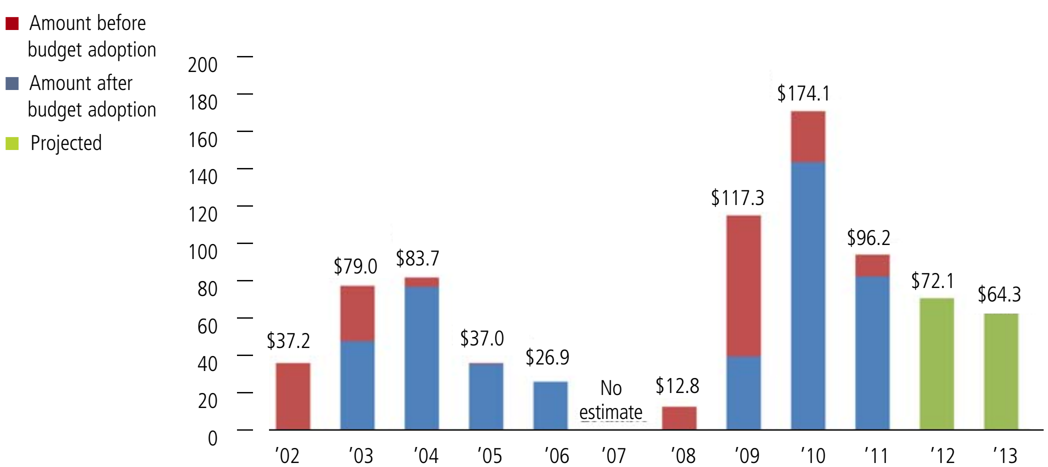


Source: The Nelson A. Rockefeller Institute of Government. State Revenue Report, August 30, 2010

Figure 2

State Budget Gaps FY 2002–FY 2013 (projected)

$ in billions



Source: NCSL survey of state legislative fiscal offices, various years.

figure 2). Although the recession officially ended in June 2009, many states continue to forecast budget gaps in FY 2012, FY 2013 and beyond.[2]

Despite many looming challenges (discussed later in this paper), state lawmakers are starting to see some positive news on the revenue side of the ledger. In some states this means that the rate of revenue decline has slowed, but in others, nominal growth is occurring in one or more tax categories. With nearly every state forecasting improvement in FY 2011, it increasingly appears that FY 2010 was the trough for state collections.[3] While this long-awaited news is welcome, it must be considered in the context of a bigger revenue picture. Specifically, it is important to consider how far revenues fell and when they are projected to return to their pre-recession levels.

Most states saw general fund revenue collections peak in FY 2008. Some of the key exceptions were Michigan (FY 2000), New York (FY 2006) and Arizona, Florida, Nevada, Oregon and South Carolina (FY 2007). Based on current law—that is to say absent any tax changes—state revenues have a long way to go before they return to pre-recession levels.

Twenty-eight states currently have projections for when general fund revenues will return to peak levels. As shown in figure 3, forecasters in three states (New Hampshire, Oregon and Texas) expect the rebound to occur in the current fiscal year. Eight others put the date as FY 2012 and another eight are looking at FY 2013. Estimators in four states (Florida, Georgia, Idaho and North Carolina) expect revenues to recover in FY 2014. Another four states (Arizona, Maine, Montana and New Mexico) do not foresee a return until FY 2015. At the far end of the projection spectrum is California, where officials do not expect revenues to hit pre-recession levels until FY 2016. {See figure 3.)

The good news about improving revenue performance is obviously tempered by the length of time it will take before collections return to their peak levels. Exacerbating this concern is the phase out of federal stimulus funds from the American Recovery and Reinvestment Act (ARRA) of 2009. These funds will largely disappear by FY 2012. State officials do not see revenue performance recovering strongly enough to replace these lost funds. In fact, many state officials report the end of ARRA money is contributing to projected budget gaps in the coming years. Higher education budgets are feeling the impact as well.

According to preliminary figures, at least $5.3 billion in ARRA funds went to higher education in fiscal years 2009 and 2010. [4] In addition to these funds, the Recovery Act provided $16 billion in funding for student aid: $15.5 billion for Pell grants and $500 million for work study programs. With these extra federal funds scheduled to expire soon, higher education institutions face additional challenges. Not only are they losing general support, funding for financial aid programs to help cushion rising tuition levels is ebbing. It is unlikely that state revenue growth will be able to make up the difference for several years, if ever. With federal deficits expected tobe high for years to come and state resources scarce, it is likely that future growth for general operations and financial aid will be limited at best.

The Evolving Landscape for Higher Education Funding

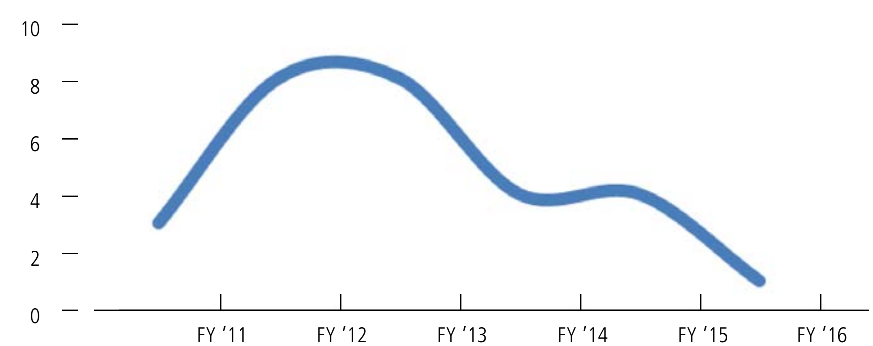
Although state higher education funding has increased over time, its share of state funds has decreased somewhat in recent years. The percentage of total state funds devoted to higher education over the last 15 years averaged 10.6 percent, peaking at 11.4 percent in FY 2000—the height of the dot com boom—and falling to a low of 10 percent in the economically troubled recovery year of FY 2010.

Considering only general funds (money from revenue sources like state sales and income taxes), the share of general funds devoted to public universities averaged 12.2 percent over the last 15 years. Higher education's share of general funds peaked at 13.1 percent in FY 1998. It was 11.3 percent in FY 2009 and 11.9 percent in fiscal FY 2010.[5] Higher education is in stiff competition for state funds and its share of the budget has been affected by significant funding increases for large and high priority budget items like health care programs, especially Medicaid. General fund spending for Medicaid increased from 14.4 percent of the state budget in FY 2000 to 15.4 percent in FY 2010. K-12 education, which often is protected during economic downturns, actually saw a decline from 35.7 percent of the budget in FY 2000 to 35.3 percent in FY 2010.

Figure 3

Projected Return to Peak Revenue Collections

Number of states

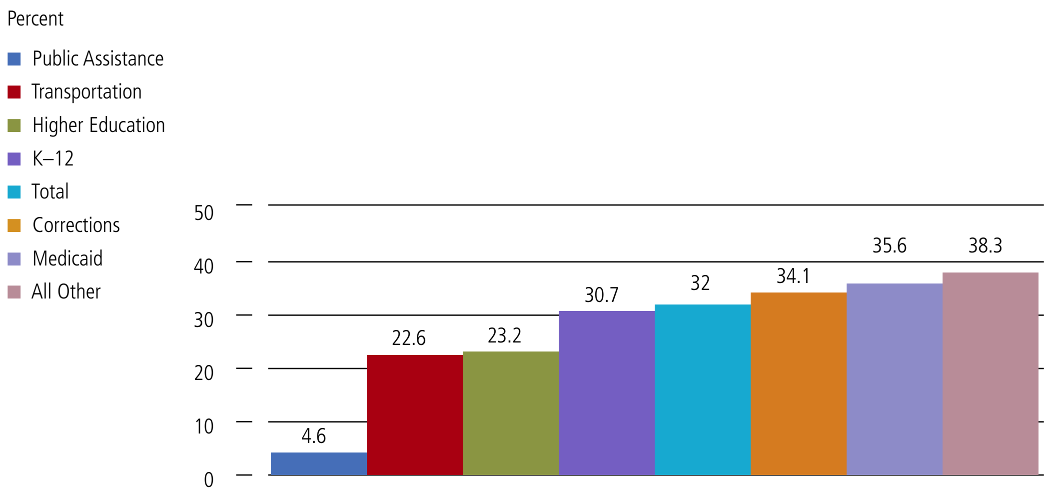


Note: 20 states do not have return-to-peak forecasts.
Source: NCSL survey of state legislative fiscal offices, Summer 2010.

As the chart below shows, some parts of state general fund budgets increased faster than funds for state higher education. In 10 years, funding for K-12 education increased by 30.7 percent and funds for Medicaid grew by 35.6 percent. Funds for higher education rose by 23.2 percent. Overall general funds increased by 32 percent over this period.

Although the share of state funds devoted to higher education has decreased, it is important to note that the overall amount spent on higher education has increased. States spent $58.1 billion FY 2000, and this amount increased to $71.6 billion in FY 2010. All areas of state budgets have seen increased funding over the last 10 years. K-12 education saw an increase of $211.9 billion in FY 2010 from $162.1 billion in 2000. Funding for Medicaid grew from $67.9 billion in FY 2000 to $92.1 billion in FY 2010.

Figure 4
Percentage Growth in Spending Categories Between FY 2000 & FY 2010 (General Funds)



Sources: NASBO 2001 and 2009 State Expenditure Reports

Funding for public higher education has been volatile over time. States usually are generous tohigher education in good fiscal periods, only to cut significantly during severe revenuedownturns. In fact, state funding to higher education experiences outright declines during recessionary periods. For instance, state spending for higher education was nearly $62 billion in FY 2002, but dropped slightly to $61.6 billion in FY 003 and was down to roughly $60 billion in FY 2004. Affected again by the latest recession, state higher education spending is estimatedto total $71.6 billion in FY 2010, down from $74.8 billion in FY 2008. Recessions have led toan unfortunate—and almost unique—cycle of state funding for higher education. A long time budget director in Ohio and Illinois, the late Hal Hovey provided analysis in the 1990s about this volatile cycle in state budgeting. According to Hovey, states use higher education as a "balancewheel" during economic downturns. Essentially, states cut higher education funding in bad fiscal times (allowing significant tuition increases to make up for the reductions) but then dramaticallyincrease higher education spending when state revenues rebound. A group convened by theNational Center for Public Policy in Higher Education (NCP-PHE) put it more starkly when they said in a 2009 statement, states "follow past patterns of responding to revenue shortfalls by shifting the financial burden [of higher education] to students and their families and by shutting out undergraduate students. Even when growth returns, states will still face structural budget deficits."[6] More recently additional data on this issue of cyclical funding for higher education has been analyzed by William Doyle of Vanderbilt University and Jennifer Delaney of the University of Illinois at Urbana-Champaign. They analyzed data on state support for higher education between 1979 and 2007 and demonstrated the volatility in higher education funding. Echoing Hovey's point, they write, "When state revenues are low, higher education is an attractive option for heavy cuts because it has the ability to collect fees for its services (an ability lacking in most other state spending categories). When states revenues are high, higher education is a politically attractive area on which to spend money."[7] This past recession has been no different with declines in state support for higher education (along with significant cuts to nearly all parts of state budgets) and increases in tuition.

Key Concerns Looking Ahead

Will the historical pattern of higher education funding hold true this time around? It is impossible to consider this question without looking at the bigger state fiscal picture and thepressures on state budgets. As already noted, two key concerns are the length of time beforerevenues rebound and how to replace receding federal stimulus funds. Lawmakers also face other, equally compelling, claims on limited state resources.

Some Broad Issues. Recessions generate new spending demands as more people become eligible for safety net programs like Medicaid and Temporary Assistance to Needy Families. Even programs like these have not been immune to budget cuts as lawmakers have attempted to close massive budget gaps.

Another concern is the impact of further budget cuts on state programs. Higher education funding is certainly an example. Many lawmakers are concerned that more cuts—which are likely given looming budget gaps—will ultimately undermine programs so dramatically that they will lose their effectiveness or ability to reach intended recipients.

Unfunded pension liabilities and other retiree costs are yet another growing pressure point in state budgets. Recognizing that these unfunded obligations are significant and needed to be addressed, many states began chipping away at the liabilities when revenue performance was strong. But the recession's impact on state revenues has all but ended these efforts.

The Feasibility of Raising Taxes or Other Revenues. Three-quarters of the states raised taxes since 2008. Now that the recession is over and collections are starting to pick up, it will be increasingly difficult to raise taxes again—even though many states still face large budget gaps. Some believe that tax increases will undermine a fledging recovery or simply are not needed. This will concentrate gap-closing actions on the spending side of the budget.

The Competition for Scarce Resources. With the prospects of further tax increases low and anemic revenue performance high, state revenues will remain tight for the foreseeable future. The competition for these limited resources will continue to be fierce, with programs that have other sources of revenue—higher education, for instance—likely to lose priority in allocation decisions.

With the prospects of further tax increases low and anemic revenue performance high, state revenues will remain tight for the foreseeable future.

The Impact of Voter-Approved Ballot Measures. Nearly half the states allow the initiative or referendum process. Voters in 21 states considered passage of several significant fiscal ballot measures in November 2010. Several of the measures that passed will necessitate new gapclosing decisions in the short term. Others impose new or higher spending commitments without providing new sources of funding. These are important developments because they underscore the influence of the electorate in making major state fiscal policy decisions, in some instances overturning delicately negotiated legislative-executive decisions.

Federal Actions Affecting States. States are affected by federal fiscal policy decisions because they receive federal aid and often tie their tax provisions to the federal code. But there is a heightened potential for state impacts as federal officials focus renewed attention on addressing the federal deficit. The National Commission on Fiscal Responsibility and Reform is scheduled to release its initial report on Dec. 1. State lawmakers are bracing for recommendations from the Commission—or in the President's February budget submission—that could adversely affect state budgets.

What's Ahead for State Higher Education Funding?

If the funding environment for higher education is evolving into something new—and evidence suggests it is—what does that mean for the future of public higher
education and the relationship between states and public higher education
institutions? What opportunities for reform and streamlining does a new funding environment encourage?

Tuition at universities has increased roughly 2 percent to 3 percent faster than the rate of inflation over at least the last decade.

With the fiscal situation so dire for states going forward, the higher education funding model is unsustainable. The states' ability to be generous to higher education in times of economic growth may recede. Even with a stronger economy and a better fiscal situation for states, the increased demand for funds—for unfunded pension liabilities, health care, corrections and other parts of the state budget—will make it difficult for recent higher education cuts to be restored.

Indeed, stepping back to view state budgets in a larger context, many state budget experts anticipate "a new normal" of state spending growth that will be much lower than what states were accustomed to in the past.

On a nominal basis, state spending growth has averaged 5.5 percent annually over the last few decades.[8] Economic forecasts for slower growth—the new normal—make this scenario unlikely to continue. Average spending growth may actually be closer to 3 percent to 4 percent on a nominal basis, in line with slower national economic growth. Consequently, even if states want to be generous to higher education, they may not be able to be. With resources even scarcer, lawmakers are going to be asking administrators tough questions about state-supported programs and this will include higher education. State officials will be reluctant to provide funding increases unless they know how the money will be spent and that there will be an improvement in program performance.

Some of the questions finance officials will be asking are:

- How can higher education be more efficient?
- How can increased funding be tied to increased performance?
- Can duplicate or similar programs be consolidated?
- Are there too many public higher education institutions in the state?
- Are senior higher education employees adding value?
- Are all degree programs at each school necessary?

State officials, for example, will be less patient with universities that have empty classrooms for significant portions of the day, or that cannot accommodate all of the students who want a particular course.

State officials also will be less patient with institutional duplication. Too often, each separate institution within a public university system wants to do what its peers are doing, leading to extensive duplication. When the institutions are able to complement each other rather than duplicate, funds can be allocated more efficiently. Increases in appropriations for the institutions will need to lead to increased performance in some way.

Tuition at universities has increased roughly 2 percent to 3 percent faster than the rate of inflation over at least the last decade. Granted, in some cases universities are simply replacing lost state dollars, but state officials still want to understand whether this is always necessary and when institutions should seek to be significantly more efficient. One major concern among state officials was raised by a recent study that found that much of the new incoming revenue to institutions was not necessarily spent on educating students or producing degrees. As Jane Wellman with the Delta Project states, "the funding problem in American higher education is as much about focus and priority as it is about revenue."[9] She and others propose a serious commitment among state and education policy leaders to set goals, align spending with those goals, improve degree productivity and improve public accountability. Goals need to be based on the public's needs not necessarily on the interests of individual public institutions.

Funding has rarely been tied directly to results and performance in the case of higher education but the scarce resource environment at the state, and ultimately at the federal level, may cause this to change. More and more officials are focusing on the importance of accountability. There will be opportunities in the states to adopt different approaches to this dilemma and in fact there are some examples to examine. Mississippi, for example, is working to align spending with set goals. The University of Maryland has embarked on an efficiency initiative that has many successes so far. There are many other state examples of seeking to improve institutional performance and ensure the money is being spent wisely.

The bottom line is: Money will be tight for all areas of state government. The ability of states to fund higher education at previous growth rates may be limited and in many states not possible. The old pattern of making up for significant cuts with generous increases to higher education when good times return may no longer be possible. With resources so scarce, state officials will increasingly expect improved efficiency and funding tied to outcomes and results. Working with university systems, state officials can improve the situation by determining ways to provide more predictable revenue to higher education. At the same time, public university officials will need to understand and acknowledge the "new normal," and determine ways to improve efficiency and performance.

Endnotes

1 NCSL *State Tax Actions,* various years.

2 NCSL, *State Budget Update;* July 2010 (Preliminary Report).

3 NCSL *Fiscal Brief: Projected Revenue Growth in FY 2011 and Beyond.*

4 U.S. Department of Education. *American Recovery and Reinvestment Report: Summary of Programs and State-by-State Data.* (Nov. 2009).

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6 The National Center for Public Policy and Higher Education. *The Challenge to States: Preserving College Access and Affordability in a Time of Crisis*. (March 2009)

7 Delaney, Jennifer. A. and William R. Doyle. "The Role of Higher Education in State Budgets." *The Challenges of Comparative State-Level Higher Education Policy Research.* Kathleen M. Shaw and Donald E. Heller (Sterling, Virginia: Stylus, 2007). 55–76.

8 National Association of State Budget Officers. *The Fiscal Survey of States.* (June 2010).

9 Wellman, Jane V. "The Higher Education Funding Disconnect: Spending More, Getting Less." *Change Magazine.* (Nov.–Dec. 2008).

What is Attainment and Why all the Fuss

White Paper

By Dennis Jones

Dennis Jones
President, National Center for Higher Education Management

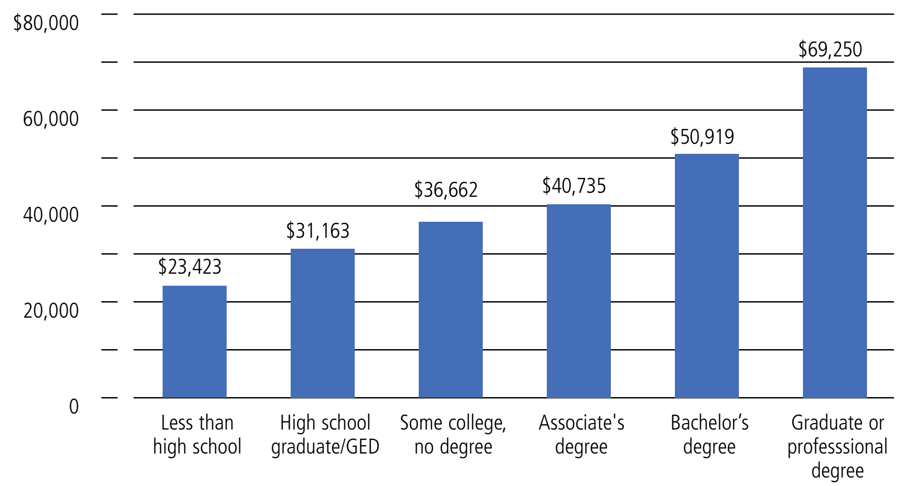
NCHEMS

Education attainment is the shorthand way of describing the educational capital inherent in a population—the level of knowledge and skills possessed by residents of a nation or state. In the best of all worlds, we would have direct measures of knowledge and skill, information about how many citizens know certain things and can do certain things. In the absence of such direct measures, we must rely on surrogates. The surrogate measure for educational capital is the proportion of the population (especially the working age population, those 25–64) who have various levels of educational credential. To be sure, in any large group of individuals, one can find highly educated incompetents and poorly educated geniuses. But as a rule, the more education one has, the more that person knows and can do and the more readily that person can acquire new knowledge and skills when a rapidly changing world demands it.

While the surrogate measures of educational capital may be imperfect, the marketplace recognizes their reliability and validity. Employers don't ordinarily spend more than absolutely necessary to acquire the kinds of talent their companies need. The fact that they consistently pay higher salaries to individuals with more education means that they recognize and reward the value of knowledge and skills added to their employees by increased levels of education attainment (see Figure 1) in the appendix to the paper. And it's not just remuneration that is affected by levels of education; participation in the workforce (having a job at all regardless of salary) is also directly related to education attainment (see Figure 2).

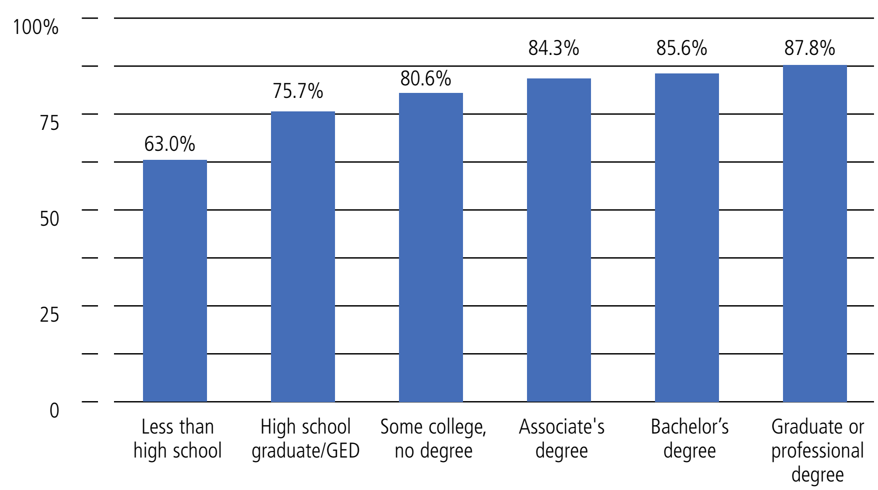
Talent congregates in states and urban centers that provide the kinds of employers that can utilize—and pay for—that talent. In this regard, some states fare far better than others. (See Figure 3.) For many states a single-minded focus on education attainment will not improve their long-term prospects; they will end up exporting many of their highly educated citizens. Workplace, as well as work*force,* development is key in these states. An emphasis on economic development (the creation of high wage, high skill jobs, not just any jobs) and the role that higher education can play is often well placed.

Figure 1
Income By Level of Education, National



Source: U.S. Census Bureau, 2008 American Community Survey PUMS File.

Figure 2
Workforce Participation by Education Level, National
Percent



Source: U.S. Census Bureau, 2008 American Community Survey PUMS File.

The drive to increase education attainment levels can be justified on economic grounds alone, from the perspectives of both the individual and the polity, but the rationale doesn't stop there. The data tell us that highly educated citizens have a higher quality of life and contribute to society rather than take from it. They have fewer health problems (and have insurance to cover whatever issues they do have), they are better able to cope with the complicated choices being forced down to the individual level (retirement, health care, etc.), they do not end up in the corrections system or become dependent on social services, and they engage much more actively in the civic life of their communities. As never before, our democratic society requires a populace educated to levels that allow them to effectively participate in shaping responses to large and complicated state and national problems. Without an educated citizenry the capacity to have a government that is *of* the people and *by* the people, not just *for* the people will erode and the nation's position in the global scheme of things will continue to deteriorate.

The Nature of the Challenge

Regardless of how the attainment gap is calculated—by comparisons with global competitors, by estimating future workforce needs, or by closing achievement gaps across racial groups—the result is fundamentally the same; the gap is large, too large to ignore.

For illustrative purposes in this paper, I've settled on an attainment goal of having 55% of the working age population have a higher education degree or certificate of value by the year 2025. There is no "right" goal, but a goal stated in this way has several virtues:

- It would make the U.S. globally competitive.
- It would produce a workforce consistent with projected needs.

- It brings the further education of adults into the equation; the goal can't be reached solely by educating more recent high school graduates.
- It creates the necessity to educate more minorities; the goal can't be met without narrowing the achievement gap.

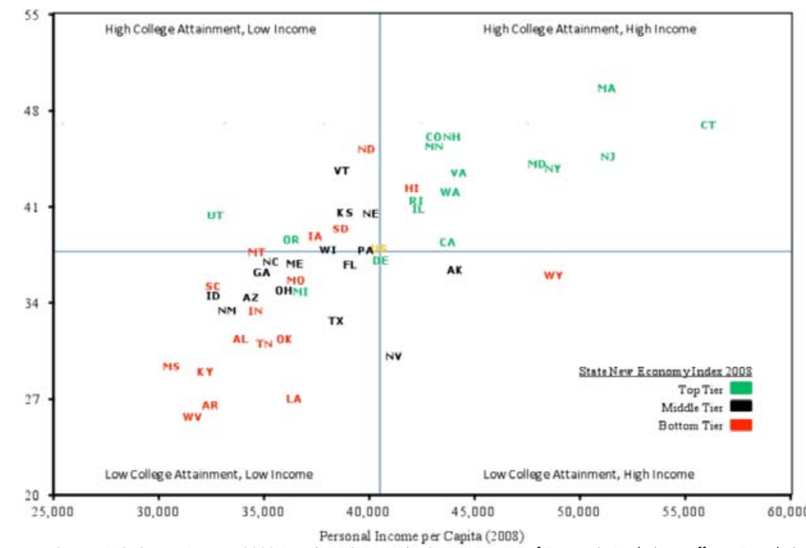
Meeting this challenge will require degree production in the country to be about 14.3 million degrees higher than current rates of production will yield—.2% higher each year than it was the year before and to keep up this rate of improvement every year until 2025. States with low education attainment rates and growing populations will have to achieve higher rates of improvement while states that already have highly educated population and low growth rates will be hard pressed to make the smaller contributions required of them. NCHEMS estimates indicate that state requirements will vary from 2.5% to 4.2% (Figure 4). These are clearly stretch goals, but goals that should be achievable if pursued with intentionality and within a supportive policy environment.

Significant barriers will have to be overcome if this goal is to be met. The students who will have to be well-served are going to be more diverse and poorer than the students colleges and universities have successfully served in the past. In most states the entire increase in the numbers of college-age residents will be individuals of color; precisely those subpopulations that have lagged in education attainment (see Figure 5 and Figure 6). The numbers of Anglo students will be smaller in absolute terms, not just as a proportion of the population. These students will come disproportionately from poorer families. In all states, a high proportion of families with children who will reach college-going age in the next few years are families at the very low end of the family

Figure 3

The Relationship Between Educational Attainment, Personal Income, and Economic Strength

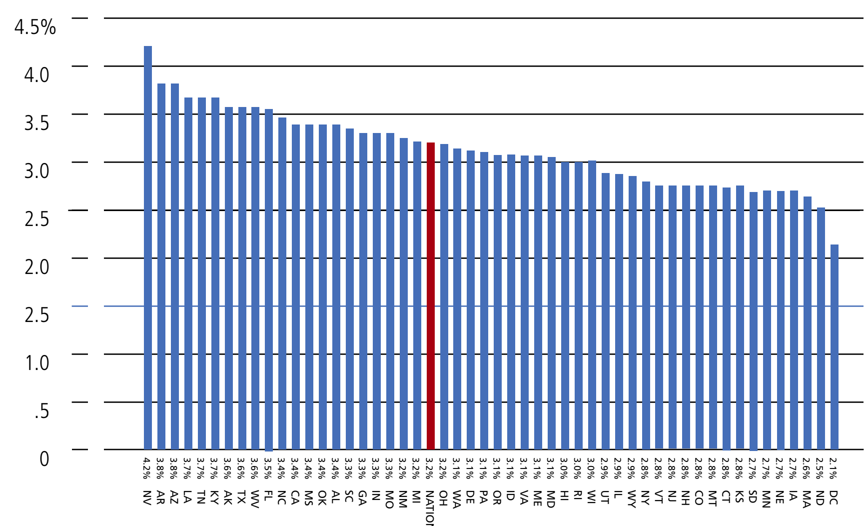
Percent of Adults 25 to 64 with college degrees



Source: U.S. Census Bureau, 2008 American Community Survey; Bureau of Economic Analysis, Kauffman Foundation

Figure 4

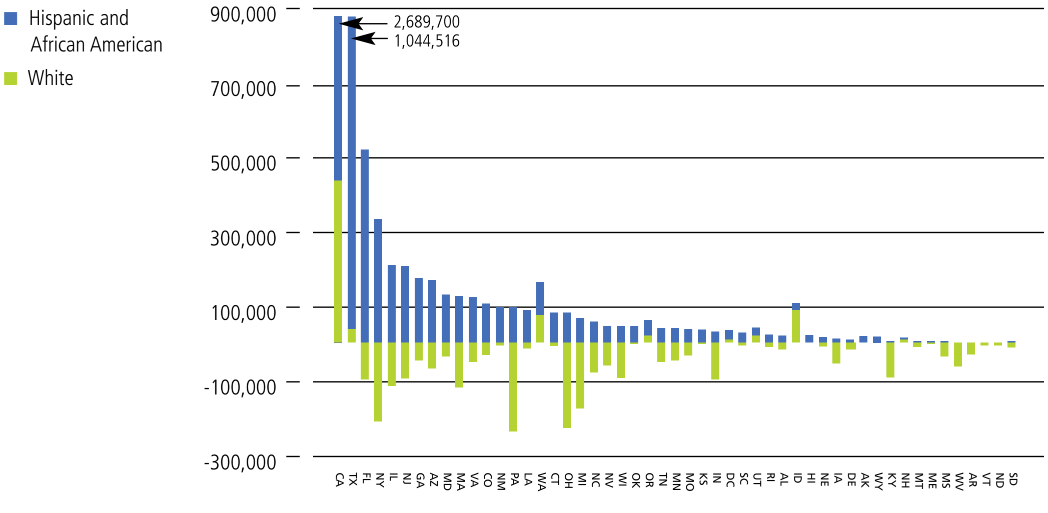
Average Annual Percentage Increase in Degree Production Needed



Source: 2008 American Community Survey; 2007–08 NCES, IPEDS Completions Survey

Figure 5

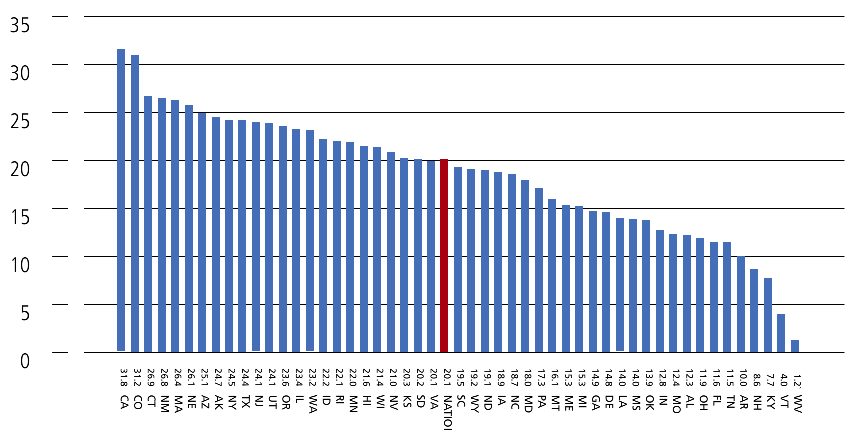
Change in Population Age 25–44 by Race/Ethnicity, 2005–2025



Source: The U.S. Census Bureau

Figure 6

Average Annual Difference in College Attainment Between Whites and Minorities, 2006–08



Source: U.S. Census Bureau, 2006–08 American Community Survey (ACS) Public Use Microdata Sample (PUMS) File
Note: College attainment (Associates and higher) for population age 25–64. Minorities include Hispanic, Black, and Native American/Alaska Native

income ladder (see Figure 7). Children of affluent families can be expected to go to college. The needed increase in students will have to come from the ranks of families in which parents are not college graduates and whose economic means are limited.

These conditions will challenge education systems—and policies—that have been designed to serve a more homogeneous, college-savvy, and economically advantaged group of 18 year olds. They will be further challenged to serve the large numbers of adults who will have to acquire a credential if goals are to be met. Even if every state improves its success in serving 18-year-olds to levels of current best performing states, a gap between production and the 55% goal would still exist. At a minimum the gap would be 1.3 million graduates. To the extent that states fall short of best state performance, the size of the gap will grow. If this gap is to be closed, it must be closed by bringing adults back into the system and getting them to the point of program completion. These students:

- Will have different expectations, being more interested in acquiring credentials that can give them short-term help in the labor market. Pursuit of baccalaureate degrees will not be a high priority.
- They are parents and employees first and students second. Education will have to be delivered to them in ways that accommodate the other parts of their lives.
- They may have resources not available to 18 year-olds (such as employer tuition reimbursement funds).

The good news is that most states have large numbers of adults who attended college but did not complete a degree or program. These numbers are especially high in those states that will have to increase degree production the most to meet attainment goals (see Figure 8).

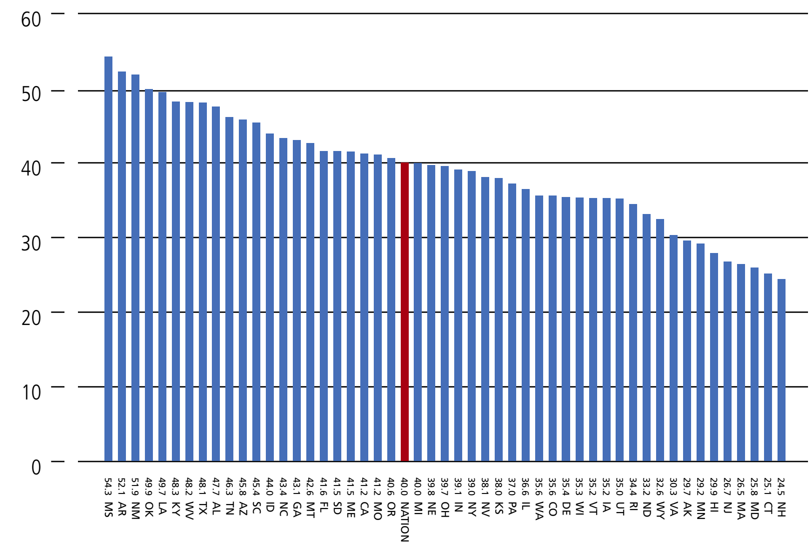
The economic environment also provides a serious challenge to an educational enterprise that is being asked to do more. States have been cutting support to higher education even in the face of burgeoning enrollments and the likelihood for a turnaround anytime soon is slim. Even if states could balance their budgets using recurring revenues (not federal stimulus funds, one-time moneys or accounting wizardry), all 50 states would be faced with structured deficits; they would not be able to maintain current services on the basis of the current tax structures. Figure 9 shows the differing levels of pressure states will be under; the more pressure, the greater the likelihood that higher education funding will be adversely affected.

The institutional reaction to decreasing state funding has been—and continues to be—an increase in tuition that affects all or a significant portion of the state funding shortfall. That strategy has limited utility as one looks to the future for two important reasons. First, students and their parents have been at least as affected by the recession as state governments. If taxpayers had money, the state would, too. Second, the students the state needs to enroll are from economically disadvantaged families. Increasing tuitions may price out of the market the very students that need to be brought under the tent.

While lack of funding may be an impediment, it can't be allowed to become the excuse for inattention to the goal of increasing student access and success. There is already a lot of money being devoted to higher education in this country. The U.S. spends a considerably larger portion of GDP on higher education than any other country in the world (see Figure 10). Further, there is evidence that, in most states, the

Figure 7

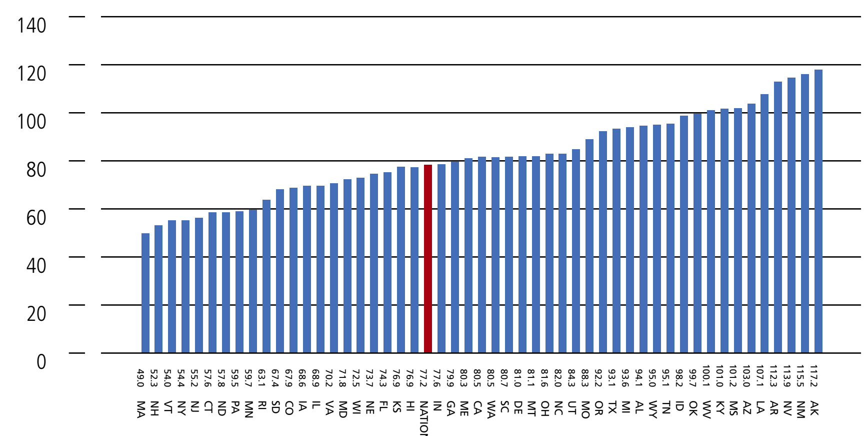
Percent of Children Ages 0 to 17 Living in Families with Less than a Living Wage, 2007



Source: 2007 American Community Survey (Public Use Microdata Samples)

Figure 8

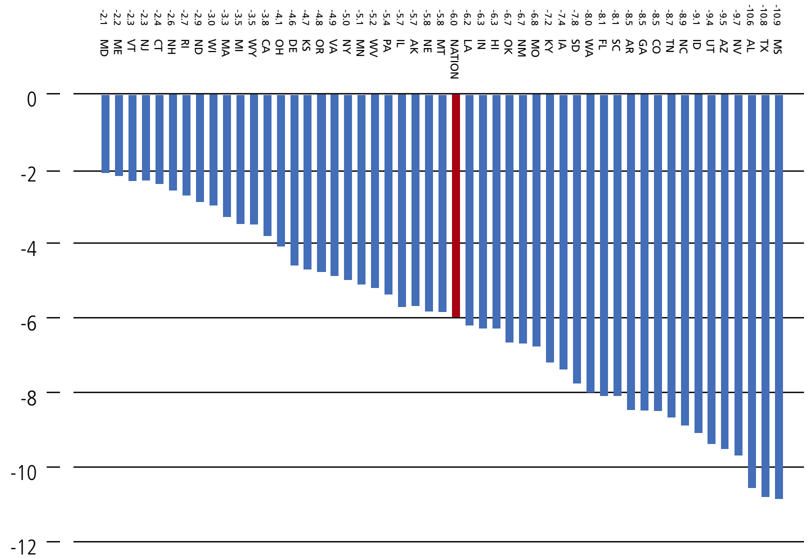
Residents Aged 25 to 44 with Some College, No Degree as a Percentage of those with Associate and Bachelor's Degrees



Source: U.S. Census Bureau, 2008 American Community Survey

Figure 9

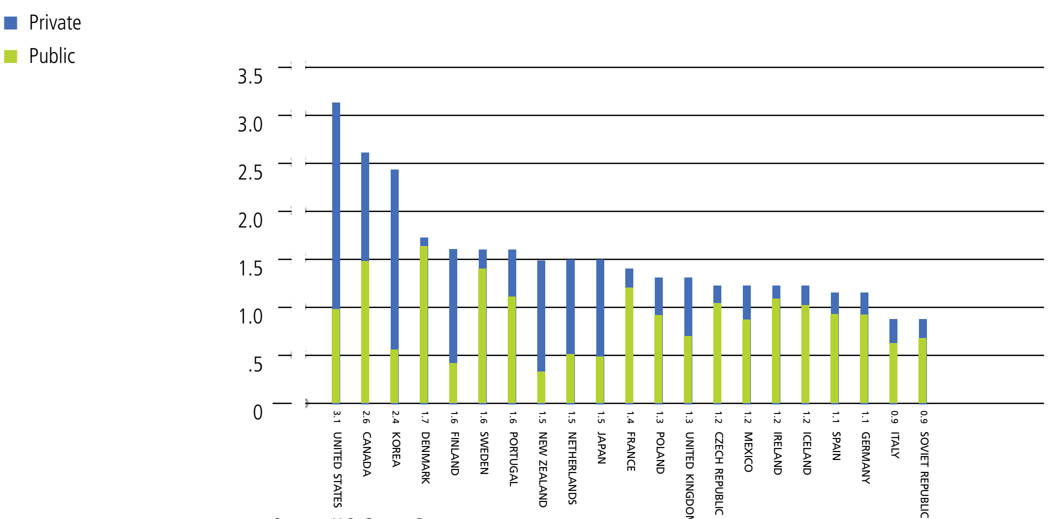
Projected State & Local Budget Surplus (Gap) as a Percent of Revenues, 2016



Source: NCEHMS; Don Boyd (Rockefeller Institute of Government), 2009

Figure 10

Expenditures on Tertiary Educational Institutions as a Percentage of GDP, by Source of Fund, 2007



Source: U.S. Census Bureau

higher education system should be able to produce more graduates—in some cases, considerably more graduates—with resources already in hand (see Figure 11, if states aren't performing on the "efficient boundary" of this chart, one can argue that they should be able to produce more credentials with resources they have). Clearly, no state can close the attainment gap without an infusion of new state investments; productivity improvement can be only part of the solution. But the investment required can be much less than it would be were it calculated on the basis of business-as-usual.

The scenario described asks a lot of colleges and universities; they will be expected to do more, to do it well, and to do it with fewer resources. But much will necessarily be asked of states as well. They must rethink and rebuild their relationships with higher education and align their policy mechanisms with both the attainment goal and economic realities in mind.

Necessary Policy Responses

There are several steps that state governments must take if they are to pull their share of the load in ensuring that attainment goals are reached. These steps are briefly described in the balance of this section.

A. Articulate the Goal

The need to increase educational attainment levels is given rhetorical attention in many states, but in very few states has a hard-edged goal been stated, a goal with specific targets for educational attainment and with a specific year by which those targets are to be met. Examples of states that have established such goals are:

- **Kentucky** in the late 1990s established a goal of reaching the U.S. average by 2020. That goal was later translated into a goal for four-year institutions to “double the numbers” of baccalaureate degrees produced annually by the end of that time period.

- **Texas** produced a report in 2000 entitled Closing the Gap (revised in 2005) that included specific targets for enrollments and degree production to be reached by 2015. Conversations are already underway to establish a new (higher) set of goals to be put in place after Closing the Gap has run its course.
- **Oregon** has a stated goal of 40/40/20—40% of the working age population having a baccalaureate degree or higher, 40% an associate’s degree or certificate, and 20% at least high school—by 2025. It is likely that this goal will be codified in the 2011 legislative session.
- **Arizona**, like Kentucky, has a “double the numbers” goal. It was stated in 2007 and extends to 2025.

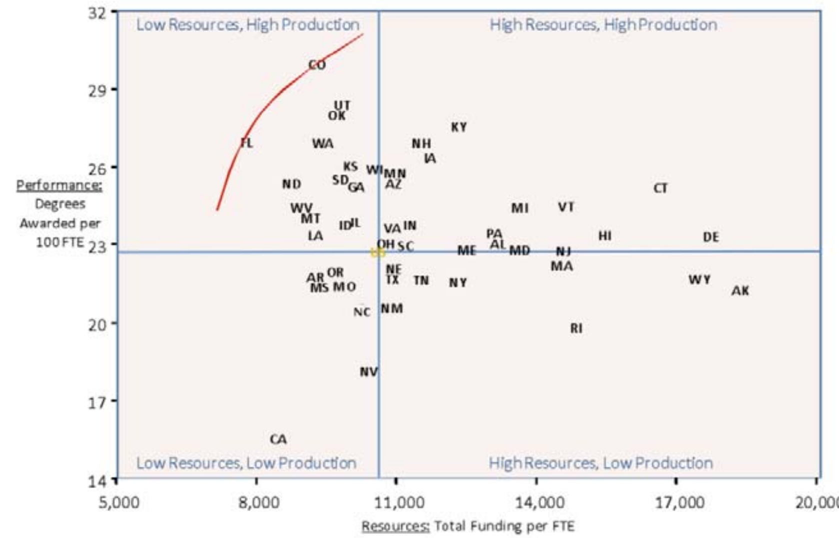
Other states that have stated goals with generally similar clarity are Ohio, Indiana, and Tennessee.

There are several features of these goals that are worth noting. First, they are stated with great clarity. There is no ambiguity about what is intended, nor is there ambiguity about when the goal is to be met. Second, the goals are adapted to the needs of each state, rather than being borrowed from the federal government, another state, or a philanthropic organization. Finally, they are all labeled with a catchphrase that can be remembered; you don’t have to remember specific target numbers and dates to remember “double the numbers.”

The important part of the labeling is the communication value. Goals only have value if they are widely understood and accepted by people in all walks of life—politics, business, education, the media—and if the leaders in these arenas consistently act in furtherance of the stated agenda. Important in the states identified is the fact that the goals are broadly recognized (largely through the label) and are routinely invoked in any policy discussions about higher education. This level of recognition and acceptance does not occur by accident, and it does not occur by dint of sound analysis (although good analysis is a useful prerequisite). It occurs because someone in a position of state leadership, most appropriately the Governor, becomes convinced of the central importance of the issue and engages in a campaign to build consensus around the goal—using the bully pulpit and every opportunity with the media and in private conversation with key leaders outside the education branch to make the case for the goal. At the outset, it isn’t necessary to have all the answers about how to reach the goals, but it is important that leaders from all walks of life agree about the goals and can defend them in their own way to the audiences with which they normally

Figure 11

Degrees & Certificates awarded per FTE vs. Total Funding per FTE, 2006–2007



Source: SHEEO State Higher Education Finance Survey 2008: NCES IPEDS Completions Survey interact. The questions of "how" to reach the goals are addressed in part every time a higher education issue is debated and a decision made.

B. Establish Metrics and be Transparent About Results

Experience indicates that even the most clearly articulated goals will be misinterpreted if there is any possible way that they can be. As a result, it is important that the statement of goals be accompanied by a definition of the metrics to be used to measure progress toward achievement—not just a label or a phrase, but data sources and calculation routines that will guide the work of the data specialists who, at the end of the day, will have to produce the numbers. This level of attention to detail not only provides technical guidance, but serves to interpret the goal in an unambiguous way. For this reason, it is important to nail down the metrics early in the process, not after all affected parties take steps to act on the goals as they choose to interpret them.

Being clear about the metrics is but the beginning. As follow-up it is important to:

- Produce an annual report that describes progress toward goal achievement and contains related diagnostic information indicating where attention needs to be focused. Are certain institutions or types of institutions not making the necessary contribution? Are particular subpopulations being left behind? It helps to establish a clear assignment of responsibility for preparation of this report and to set a required submission date. Putting this requirement in statute is generally prudent. The state higher education agency is the obvious choice as the responsible agency.
- Make sure the annual report gets media attention.
- Annually convene a broadly representative group of leaders to revisit the data that drove the goal-setting (as a way of orienting newcomers to the discussion and sustaining the agenda), reviewing the annual report and discussing problems identified, and determining policy steps that need to be taken to deal with any areas where lack of performance can be highlighted.

The annual report can't just be a report. It must be the centerpiece and occasion for continuing dialog.

C. Make a Concerted Effort to Identify Barriers

State policies and regulations that affect higher education are buried in myriad places within the bureaucracies of any state's government, not just in those parts of statute or related regulation dealing specifically with higher education. Rules concerning purchasing and contracting, personnel, workmen's compensation, welfare, elementary and secondary education, use of Workforce Investment Act funds, education within the corrections system, and licensing agencies for various professions all can determine how (some piece of) higher education behaves. These policies have emerged through many years of accretion, usually put in place to preclude a repeat of some unhelpful or embarrassing action, much less often to actively promote achievement of a particular goal. In many cases, no one can remember the origins of the rule and the proponent has long since left political office. Yet standard operating procedures keep them alive, reports are routinely churned out, and time and energy get diverted to activities that don't matter. Like barnacles on a boat they slow forward progress and impede maneuverability.

In any state it is good practice to periodically review the policy environment in which higher education is obliged to function, to identify those policies that are serving as barriers to progress, and to eliminate as much unnecessary baggage as possible. Conduct of such a "policy audit" is particularly important in times of severely constrained resources. When states are pushing institutions to be ever more productive, the last thing states need is to be (legitimately) revealed as the cause of low productivity. In addition, the removal of barriers sends an important message about the state's willingness to be a partner in intentional improvement.

The conduct of a policy audit is a fairly straightforward activity, consisting of:

- A review of statues, policies and regulations, with an eye toward those that send signals or require actions directly antagonistic to the attainment agenda being pursued.
- Visits with a broad array of individuals, primarily on the campuses, who live their daily lives performing tasks required (or influenced) by the extant array of polices and rules. For them the questions are "what is there about the policy environment in which you work that impede getting more students into and through the institution?" "Are there policies that need to be put in place to promote success"? An example of the former is restrictions on the kinds of students eligible for need-based aid. Of the latter, an absence of mandates to solve articulation and transfer problems that have been lingering for years, if not decades.

It is usually best that such an audit be performed by individuals who have no skin in the game—that is, someone from outside either higher education or state government. The expected result should be an agenda for action, a prioritized list of steps to be taken to clear the regulatory underbrush.

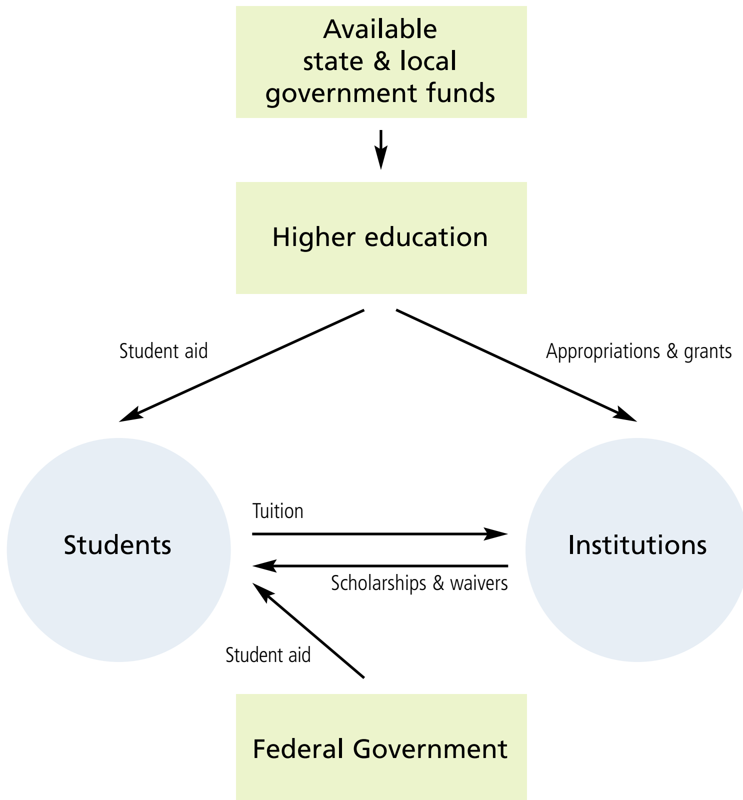
While what is described is a fairly mechanical task, it sets the stage for a critical discussion about the nature of the relationship between institutions of higher education and the state. It raises the key question of whether or not the state can be content with setting goals and enforcing accountability without getting into the "hows" of accomplishing the agreed upon goals. This is the real test of the seriousness with which the state views the goals. To the extent that government insists on management control, it undermines any authority it might exercise in insisting on results.

The importance of high-level attention to the nature of the state/higher education cannot be overstated. Most of the structures and rules that define this relationship were developed during the1960's and '70's. At that time, their purpose was to rationalize the growth of higher education systems, to prevent undue duplication of programs, and to help government allocate resources in ways that treated institutions "equitably." In short, the task was to shape the creation of capacity. Now, capacity is largely in place. The emerging task is to ensure that this capacity is utilized in ways that address state priorities, and student success being chief among them. Neither institutions nor states can rely on business as usual to accommodate these new expectations. In most states, governance structures will not have to change; but the relationships between governments and those structures will. States will have to pay much more attention to goals and accountability (being clear about expectations and paying attention to progress) and relinquish operational decisions to the higher education enterprise. The enterprise will have to recognize the legitimacy of the public agenda and act accordingly.

The emerging task is to ensure that this capacity is utilized in ways that address state priorities, and student success being chief among them.

Figure 12a

The Domain of Finance Policy



D. Align Finance Policy with Goals

The key elements of finance policy in higher education are depicted in the following diagram.

The diagram rightly suggests that the financing of higher education is a complex business with many moving parts—and the diagram is substantially oversimplified to allow focus on the parts that directly affect funding for the core educational functions of colleges and universities. (A more complete diagram is included as Figure 12.) As reflected in the diagram, the major components of finance policy are:

- Appropriations to institutions for general operations
- Tuition policy
- State student aid programs
- Policies, if any, dealing with institutional student aid and fee waivers

Not shown on the diagram is an additional element, the capital budget. While uniformly referred to as the "capital budget," this component is more appropriately viewed as the investment fund for creating and maintaining the necessary educational capacity in a state.

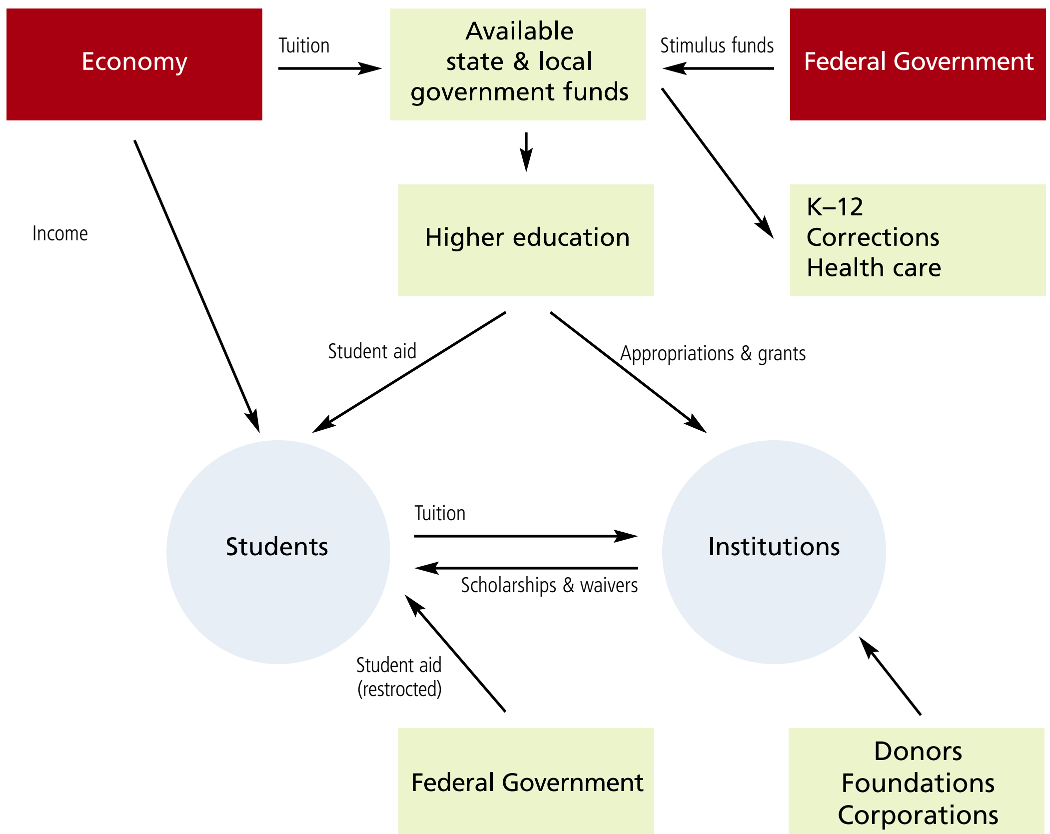
Three points concerning financing policies must be remembered. First, finance policy is the most powerful lever policymakers have to steer institutional (and student) attention and behaviors toward achievement of priority goals. This is the policy mechanism that sends the messages to which recipients of funds pay the greatest attention. Other tools are available, for example, regulations and mandates, accountability, and changing the allocation of decision authority. All are important, but none of the others have the power to leverage change in the ways that funding can. It should be noted that the real power of the tool lies not in the determination of how much money flows, but in the determination of how it flows; specifying the factors that determine the distribution of whatever resources are available among the eligible recipients. Second, whether intentional or not, all financing policies have embedded in them incentives for behavior. Most policies by which funds are allocated to institutions were established with the goals of adequacy and equity of institutional funding, not student success, as the priorities. This has resulted almost uniformly in making student enrollments, not program completion, the key drivers in the allocation mechanism. This reinforces goals of student access. It can have the unintended consequence of working against the goal of student completion; after all, the way to maximize institutional revenues is to keep students in college and taking more classes, not graduating them. They key to institutional revenues is to maximize, not minimize, demands students place on the institution or system. If the incentives buried in the allocation mechanism are not purposefully aligned with the college completion and attainment goal, that goal will most assuredly not be achieved; it may not even be pursued.

Third, all of the components of finance policy must be aligned with each other as well as with the goal if maximum benefit is to be achieved. This is a tall order. In most states, the component policies are decided by different decision making bodies (governing boards in some areas, the legislature in others), on different time lines and often with conflicting purposes (student aid policy designed to maintain affordability and tuition policy designed to maximize institutional revenues). Perfect alignment may not be possible; but policies that directly counteract each other must be avoided at all costs.

No state can be pointed to as a shining example of how to effectively pull all the pieces together in a mutually-reinforcing, goal-directed way. However, some states have made great strides in getting some of

Figure 12b

The Flow of Funds



the separate pieces right. Indiana and Ohio have changed their models for allocating state funds to institutions in ways that create clear incentives for institutions to focus on program completion. Ill-designed state student aid program; it effectively links tuition and student aid policy and takes maximum advantage of federal programs. Tennessee, Texas, and a few other states are in the process of redesigning elements of their overall funding model with the student completion goal in mind. To the author's knowledge, no state is undertaking a comprehensive review and redesign of its higher education finance model.

In the end, crafting sound finance policy is tedious, technical work, but for this work to be fruitful, it must be conducted within the framework of clear policy guidelines.

While the differences in states' histories, circumstances, systems of higher education and political cultures make prescription of the "right model" impossible (and inadvisable in any case) it is possible to suggest design criteria for state-specific models. These include:

- Design each of the components so that they are aligned with state goals. As a diagnostic tool, ask: "If the funding beneficiary of this policy were to maximize their benefits under this policy, what would they do?"And then ask, "Is this behavior consistent with pursuit of the stated goal?" If the answer to the first question is ambiguous, and the answer to the second is no, then policy alignment has not been achieved.
- Design each of the components so that they align with each other. There are many obvious examples of misalignment; one of the more common is legislative approval (directly or indirectly) of large tuition increases while at the same time reducing funding for need-based student aid.
- Avoid unfunded mandates. Make sure that fiscal implications of decisions are known ad that impacts on funding flows are explicitly recognized. An increasingly prevalent practice is for the legislature mandate that institutions waive tuition and fees for certain groups of students (e.g., veterans of the conflicts in Iraq and Afghanistan). This allows benefits to be awarded without any obvious direct costs. But there are fiscal consequences; institutions lose revenues. These consequences should be explicit and not hidden.
- Construct the model with affordability—both for students and the state's taxpayers—in mind. Recent history makes it clear that this design principle is being violated more often than not; tuitions are becoming less affordable while the burden is not being shared by taxpayers. One of the best arguments for alignment of all the pieces is that it allows consideration of how to best use all of the limited resources in ways that will yield greatest benefits.
- Make productivity a part of the conversation. Finance policy shouldn't be allowed to become focused solely on money. It must also be focused on results obtained in return for the investment of that money. Productivity metrics should be established and utilized in such a way that savings achieved through improvements in productivity are treated as a discernible source of revenue in the overall calculation.
- Use the capital budget as the investment fund for needed capacity. Success goals can't be attained in most states without increasing access. The question of how growth is to be accommodated becomes central. Is new on-campus capacity a necessity, and if

so, where? Can technology provide at least part of the answer? If so, how and at what cost? The important point is that capital budget decisions have to be aligned with goals in the same way as those decisions dealing with operating funds. There are numerous recent examples of failure of such alignment—states making huge investments in institutions that will make minimal contributions to the attainment goal.

In the end, crafting sound finance policy is tedious, technical work, but for this work to be fruitful, it must be conducted within the framework of clear policy guidelines. This is the necessary role for policymakers; it cannot be delegated to the technicians.

Final Thoughts

Hopefully, the messages that come through from this paper are 1) that the access/success/attainment agenda is critical to the future of the nation, its constituent states, and its citizens, and 2) that ultimate success will be determined by the leadership given to the cause. This is not a technical task. Goals must be articulated and communicated and steps taken to build consensus and broad understanding around them. Progress must be monitored and occasions created to ensure that commitment is sustained. A mutually reinforcing relationship between the state and higher education must be forged; some old practices will have to go away and (a few) new ones put in place. Clear guidelines for finance policy must be developed and promulgated and monitored for effective implementation. The goals established are daunting but not impossible; and they most assuredly will not be reached without hands-on leadership at the highest levels.

Improving Cost-Effectiveness: Leadership Challenges for Public Higher Education

White Paper

By Ellen Chaffee and Jane Wellman

Jane Wellman
Executive Director, Delta Cost Project

Ellen Chaffee
Senior Fellow,
Association of Governing Boards

Raising the rate of educational attainment in public institutions requires new approaches to financing that support greater access and degree production, beginning with how states allocate resources and extending to campus-level management. That is easier said than done in the current fiscal and political environment, where almost every state and many public universities and colleges experience changing leadership and suffer chronic budget instability. In state after state, budgetary pressures are leading toward less rather than more attainment through reductions in enrollments, program elimination, and tuition increases.

The funding problems facing most institutions can be addressed through explicit, sustained, collaborative attention to the intersection of academic and fiscal policies by state policy makers, public governing boards, institutional leaders, and faculty and staff. Although the political and fiscal environments make a sustained focus very difficult to achieve, the consequences of continued declines in attainment are too monumental to allow.

Public governing boards will be particularly important to defining this equation, especially where they can develop appropriate partnerships with governors and legislatures. Public governing boards have the statutory responsibility to balance the public agenda with institutional goals and can maintain an agenda that lives beyond changes in political or institutional leadership. The most effective states will have boards that operate at a strategic level, demonstrating mutual respect and a strong partnership with their institutional presidents or chancellors.

The most effective policy changes will recognize key dynamics and circumstances at the institutional level. These include:

1. **Double jeopardy: productivity and budget cuts.** In most states, a significant portion of any savings must go to budget reduction in ways that may not even maintain, let alone increase, productivity. Furthermore, not all productivity strategies aimed at attainment result in institutional savings—some produce savings for students but not institutions; some would cost institutions a good deal more.

2. **No silver bullets.** States have different starting points, including types of institutions, state funding levels, tuition elasticity, and state regulations. Institutions differ due to state circumstances but also due to their own mission, history, and efforts (often with state exhortation) to differentiate themselves. Policies that have a major impact in one place may have no relevance to another.

3. **New dynamics, new partners.** In some cases, events of the last 5–10 years have already changed the institutional incentive structure dramatically (e.g., no additional state funding for enrollment growth or new programs, and competition in the institution's traditional service area from distance delivery by others). Institutions are much more market-driven and subject to much more change than before. Institutional leaders more readily understand and accept responsibility for helping achieve state goals. In many cases, institutional leaders would be policy-makers' best allies in finding and pursuing policy approaches that will be most effective.

4. **The flexibility paradox.** Achieving the attainment goal requires having institutions that are as strong as possible, not weakened by institutionally inappropriate requirements, excessive reporting, and unfunded (even negatively funded) mandates. In today's constrained resource environment, incentives are powerful to the extent that decision-makers have the flexibility to respond in the best ways for their institution. Carrots and sticks only work if leaders and organizations have sufficient latitude to move accordingly. Even better, shared goals and planning can make carrots and sticks a concept of the past, replaced by mutually workable ways of doing business going forward.

5. **The governance paradox.** Many of the most significant changes absolutely require faculty leadership. Students will not benefit from a communications program designed by a biologist provost any more than a patient will benefit from a wellness protocol designed by a hospital administrator. Policies that treat campus administrators or faculty as change-resistant opponents cannot be nearly as effective or efficient as those that foster mutual understanding and partnership.

6. **The diversity paradox.** Institutions in many states have long experienced conflicting pressures from their states and university systems. A fundamental example is to expect institutions to be unique while also requiring common courses, near-universal transfer of credit, identical academic calendars, and across-the-board state funding changes. Productivity policy initiatives will work best if the institutional policy environment is at least moderately coherent.

Improving access, attainment, and cost-effectiveness requires simultaneous attention to the agenda, the metrics for enforcing it, and the strategies to link together internal and external interests. We suggest attention to four specific areas where new thinking is needed:

1. An explicit agenda for managing cultural change;
2. Creating a multi-year funding strategy, built around strategic investments rather than annual budget-balancing;
3. Funding strategies that include explicit attention to cost effectiveness as well as new revenues, including a political willingness to tackle major cost drivers; and
4. Continuous attention to internal and external communication about goals and performance.

Managing cultural change: finding common purpose, language, and values. The new funding realities require cultural and political changes in historic approaches to funding, beginning with a willingness to move beyond stubbornly held views about the connections between spending, access and quality, or what some refer to as the "iron triangle."[1]

Higher education values have long equated quality with resources, which means that spending cannot be managed without sacrificing either access or quality. Although some economic theories about the unique cost structures of the non-profit sector are consistent with these views, reality simply cannot support them. The times demand greater access and equal or greater quality despite a long, difficult recession. Furthermore, the Iron Triangle assumptions are not supported by research. Research shows a very weak relationship between spending and performance, measured not only by degree attainment but also by the level of the state population obtaining access, retention and degree production, and production of graduates who remain in-state to fill high-demand jobs.[2] To be sure, measures of reputation—such as admissions selectivity, or proportions of faculty with terminal degrees, or spending on athletics and endowment earnings—all correlate with money. But for the most part these measures have little to do with the public priority to increase degree attainment. The Iron Triangle is a set of false assumptions that contribute to the fractured dialogue among higher education constituencies.

Research shows that the public, state policy makers, faculty members, and college presidents all perceive the "cost problem" and its potential solutions very differently. This creates enormous tensions within institutions about the strategies needed to move forward, making the challenge of institutional leadership extraordinarily difficult. Table 1 captures the fractured conversation about college costs, summarizing

Can We Break the "Iron Triangle"?

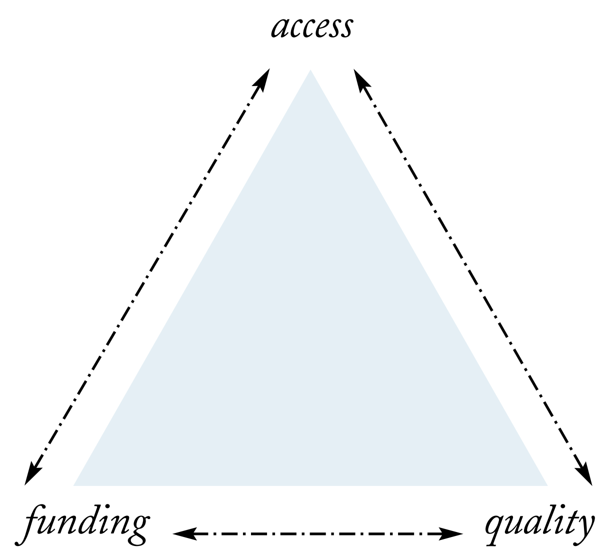


Table 1

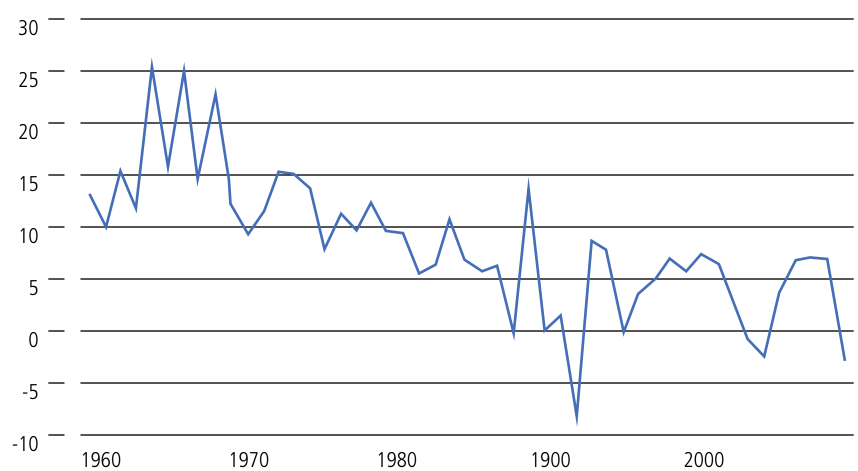
The "Fractured" Dialogue about Higher Education Costs[3]

Stakeholder group	Definition of the "college cost" problem	Preferred solution to the "college cost" problem
Public	Caught between growing importance of higher education and decreasing access and affordability. Believe institutions value their own 'bottom lines' over public priorities.	Protect access! Keep tuitions from going up!
State financial officials (and legislators)	Need more college graduates. Institutions have enough money to do the job; they don't spend it well.	Increase productivity! Increase retention and degree production!
Faculty	Big problem isn't academic or program costs, it's the deteriorating quality of students, and runaway spending on administration and frills. Costs can't be cut without hurting quality.	Raise standards, improve K-12 education, and stop talking about productivity!
College Presidents	Caught in an "iron triangle" between access, costs and quality. See it impossible to reduce costs without hurting quality or reducing access.	Reinvest in higher education!

focus group research whereby different groups were asked how they viewed the college cost problem, as well as how best to solve it.

Like the proverbial blind men and the elephant, different perceptions reflected in the fractured language about college costs are not wrong even if they are not consistent. Inconsistencies among multiple truths are a common reality of most complicated human endeavors. More dialogue among different audiences will help to find common ground. It will not address basic differences in values about future priorities, but it can help resolve common misperceptions or half-truths about funding that get in the way of change, such as the belief that more revenues equates with quality, or that tuitions are going up because institutions are spending money on climbing walls and other amenities.[4]

Figure 1
Annual Percent Change in State Appropriations for Higher Education, 1960–2009[5]
Percent



For public institutions, boards need to manage this discussion rather than try to avoid it, by creating a visible space on their agendas for ongoing dialogue about the future and how to meet it. This may require a separate task force on strategic financing or attainment. Visible public processes need to be put in place to address how university systems or institutions will accomplish these goals, including dialogue about teaching and learning, and attention to ways that costs will be managed. Higher education leaders need to use these forums as a way to stimulate institutional learning, to put information about costs and spending into context, to educate institutional leadership, faculty, students and public policy officials about where the money comes from, where it goes, and what it buys.

Creating a multi-year funding strategy. Whether state appropriations for higher education go up or down, public institutions typically remain captives of the year-at-a-time funding dynamics created by state budgets. This results in a planning horizon that is too short to sustain any serious effort to restructure costs. While some institutions have tried on occasion to address this, they are often held hostage to state regulations that effectively penalize them for trying to move past the state agency funding model. As just one example, institutions that try to build up budget reserves to shield against drops in revenues subject themselves to year-end "sweeps" from the legislature. In some states (New York is an example), this effectively means that state funds and even student tuition revenues are being captured by the state and redirected to pay for general fund obligations like prisons and highways.

The result is that—far more than nonprofit or for-profit providers—public institutions operate in a revenue environment that is highly unstable, with large and unpredictable fluctuations from year to year in what is typically the single largest source of discretionary revenue (see Figure 1). The problem of instability in resources is probably more harmful to long-term repositioning of cost structures than the revenue levels themselves.

There's no easy fix to the problem of instability in state funding. Legislatures cannot statutorily commit future legislatures to long-term funding policies. Funding agreements with the governor alone can be hard to enforce in the legislature. And even with legislative and gubernatorial support, stakeholder politics—including public sector unions and students—can trump good policy. This has led some to conclude that the only way for higher education to insulate itself is to seek greater regulatory distance from state government, or even to look for constitutional protections for funding that can survive over multiple years. Both options carry the risk of even greater policy disaffection for higher education, and policy makers could conclude that they no longer are responsible for higher education funding.

Despite these long odds, leaders can build support for an investment approach to public finance through marketing of multi-year strategies built around attainment goals and efficiencies. They can present and defend these strategies as part of a funding compact between the state and the institutions, with mutually agreed upon goals for access, attainment, state funding, tuition, and cost management all explicit parts of the agreement.

Funding strategies that balance cost efficiencies with new revenues. Estimates of finances required to meet attainment goals vary from state to state, but analysts project an overall need for approximately three to four percent per year in constant dollars. Prior to the recession, public higher education was seeing increases in state and local appropriations averaging about 2.5% per year, which still required annual increases in tuition of more than double the rate of inflation. Clearly, the revenue options and spending habits are chronically mismatched. Long-term funding solutions must incorporate much more attention to cost effectiveness along with requests for new resources.

Cost effectiveness does not mean just budget cutting, it also means increasing productivity through parallel attention to cost management and performance:

1. by reducing spending strategically in areas that are least damaging to access and attainment;
2. by increasing the proportion of students who complete degrees, and reducing the production costs (such as credits to the degree) required to obtain the degree; and
3. by reinvesting in core academic capacity, to put cost savings into areas that are strategic priorities for the institution.

Many public institutions have already taken the immediately available cost-cutting and efficiency measures, but more is required in many states and institutions. Public universities and multi-campus systems in particular have opportunities to achieve cost savings across member institutions in administrative and support functions, through consolidation of functions, centralization of business and back-office functions, and taking advantage of economies of scale that produce long-term savings.

Achieving additional productivity requires difficult change—terminating some activities and doing others in very different ways. A recommended approach is through strategic finance—aligning all of the institution's resources with its mission, vision, and strategic plan.[6] Through this process, institutional leaders develop much greater insight into their cost structures, cost and revenue drivers, and trend lines of revenue and expense. They are better able to make decisions on the basis of evidence and cost as well as anticipated benefit.

Addressing benefit costs may be the single most important area where policy officials and governing board members need to work together to address cost control. Benefit costs in public institutions have been rising more rapidly than all other spending areas, driven primarily by costs of health care but also by growing liabilities in defined-benefit retirement programs. If growth in benefits is not addressed, estimates are that funding current programs alone will require somewhere between 4–6% per year in base funding increases. This means that every new dollar in tuition revenue and state appropriations will go just to pay for benefits—not for new enrollments, not for improvements in teaching, not for program enhancements. In many states, this will require joint action with state policy leaders, as higher education leaders do not unilaterally control benefits. It may also require decisions to be reached through collective bargaining.

Addressing benefit costs may be the single most important area where policy officials and governing board members need to work together to address cost control.

Each institution will find different routes to greater productivity, but all will require a balancing of attention to the academic/program side of the house as well as administrative costs. Many of the short-term curriculum productivity measures result in savings for students. These include dual enrollment, credit for experience or examination, and reducing the total number of credits for a degree through curriculum streamlining.

Academic restructuring that produces savings for both students and institutions is also available, such as streamlining curriculum by reducing alternative choices for students especially in general education, moving groups of students through the curriculum together in cohorts, merging or eliminating programs, and sharing curriculum with partner institutions. Changes to reduce cost must maintain or improve the quality of learning outcomes—otherwise the cost-effectiveness ratio will not improve.

Most important and often overlooked, it is academic innovation that will differentiate between those that achieve state and national goals and those that continue to struggle. The parties responsible for academic innovation are the faculty, and they cannot do it without considerable support (especially time to identify, develop, vet, and learn new approaches). Academic innovation is usually incremental and slow due not only to its intrinsic requirements but also because of limitations in accreditation requirements, risk of jeopardizing ease of transfer, risk of being unable to recruit new faculty or fund their period of adjustment to a new teaching-learning approach, and lack of venture capital (time or money) to develop, test, and implement new ways. Enterprise software may not easily accommodate innovations in administrative functions such as scheduling, pricing, or student progress tracking. Policies that encourage and support academic innovation will differ among states and institutions and are a potential high-payoff area for collaboration among institutions, systems, and states.

Internal and external communication about goals and performance. Shared governance in higher education—where authority for decision making is shared between state policy makers, institutional boards, campus leaders, and faculty—demands continuous attention to communication and documentation. Although most public institutions do a good deal with financial reporting, these reports seldom extend to transparency about spending. Instead, most public accountability reports focus on student tuition and financial aid with no mention of how the resources are used, or the role of tuition in the larger context of institutional revenues and spending. In today's environment, transparency for spending must include much better evidence about where the money comes from, where they money goes, and what the money buys. Financial reports historically restate budgets, with presentations of total revenues and expenditures including auxiliary enterprises, hospitals and clinics, research institutes, dormitories and sometimes—not often enough—athletics. This approach exaggerates the amount of money that is available to go to core instructional purposes by as much as 50% in some institutions, since spending for auxiliary enterprises, athletics, hospitals, and many research activities are restricted to those purposes. Small wonder that policy makers and faculty both believe the institutions have a lot more money than they really do.

Effective accountability for productivity begins with data and metrics, but cannot end there. Data must be put into context to be meaningful, and framed to be relevant to the different audiences that will be reviewing it. Context can also come from showing patterns over time, and by comparing spending across multiple institutions. Institutions also need to translate funding into language that makes sense to all stakeholders—including prominently both legislators and faculty—by showing trade-offs and by the consequences of different funding decisions. As just one example, spending presentations should always show both dollars and percentages, with budget calculators to help all stakeholders to put numbers into perspective, such as what each 1% in student tuition revenue nets versus 1% in state appropriations, or the trade-offs between spending on salaries and benefits, or the cost of benefits compared to tuition revenues. Spending reports do not need to include details about every single area of spending, but should instead concentrate on a few benchmarks that relate back to goals and performance.

Each state has the greatest potential for success on its higher education agenda when constituents at all levels within the state have specific shared goals for access, attainment, and quality produced by dedicated institutions that are strong enough to achieve those goals. Such goals, along with good data, absolute transparency, highly effective communication across constituencies, and a willingness to deal with or suspend pre-existing mistrust in favor of sincere efforts to appreciate each constituency's circumstances are the foundation on which effective public policy will arise.

Although most public institutions do a good deal with financial reporting, these reports seldom extend to transparency about spending.

States and institutions that are moving forward

A few years ago the University System of Maryland was virtually alone in promoting 'efficiency and effectiveness' as visible public agendas, but now a number of states and systems are doing this work. While none among them would claim victory at this point, the work is deeply engaged and potentially far-reaching. A few examples follow:

1. The University System of Maine and its "bend the trends" initiative, is working to put together a multi-year funding strategy capable of meeting its strategic plan priorities. The work started with a new strategic plan that serves as the basis for setting priorities and making funding decisions.
   They have built multi-year funding plans, beginning with an assumption that they will see NO growth in state revenues for the foreseeable future. Along with student tuition increases, they have put in place cost reductions in employee benefits (reducing by half the unfunded liability for retiree health benefits),

consolidation of administrative functions, and reductions in academic programs.

2. The West Virginia Higher Education Policy Commission has led a system-wide effort to put policies and procedures in place to incorporate regular attention to cost savings as part of its plan to increase degree attainment without new investments of state resources. In addition to the usual attention to administrative efficiencies, the West Virginia plan incorporates special attention to system ways of benchmarking costs and measuring progress in reducing spending. They also have developed broad targets for improvements in productivity along with cost cutting, through reductions in student attrition and sin excess credits earned en route to the degree.

3. Public university systems in Ohio and Wisconsin have both put together comprehensive initiatives built on improving the contributions from higher education to their States' economic futures. Unlike most system-level planning efforts, these two state 'systems' are notable for approaching this work with the future needs of the state as the driving force for system-level planning. The work encompasses attention to increasing degree attainment necessary to build jobs and regional economic growth in the future. Both include attention to administrative cost reductions, streamlining in the delivery of academic programs, and more effective use of low-cost options including regional universities and community colleges.

A number of institutions are working through planned reductions in degree offerings, through identification and potential consolidation or closure of high cost or under-performing degree programs.

4. A number of institutions are working through planned reductions in degree offerings, through identification and potential consolidation or closure of high cost or under-performing degree programs. The Pennsylvania State System for Higher Education is one example. They have adapted long-standing policies for program review to trigger state-level reviews of programs found to have low levels of degree production or enrollment. Programs that are 'triggered' for review are not automatically eliminated, but must undergo a second-layer of review to determine if they meet criteria for quality and sustainability to continue in the future.

Endnotes

1 John Immerwahr, Jean Johnson, and Paul Gasbarra, "The Iron Triangle: College Presidents Talk about Costs, Access, and Quality," A Report from the National Center for Public Policy and Higher Education and Public Agenda, October 2008.

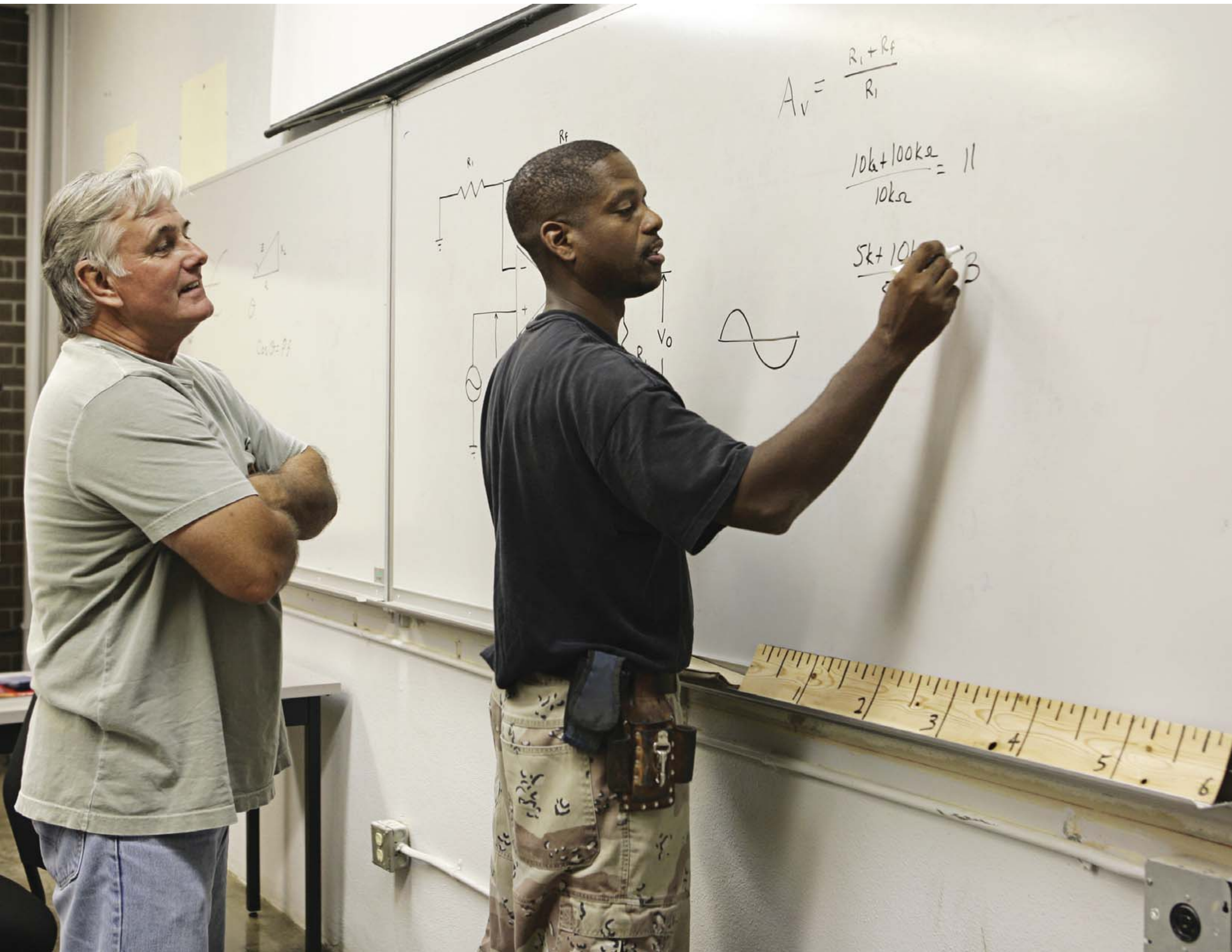
2 Patrick Kelly, "The Dread "P" Word," issue paper prepared for the Delta Cost Project, available at http://www.deltacostproject.org/resources/pdf/Kelly07-09_WP.pdf; Jane Wellman, "Connecting the Dots

3 Based on research by Public Agenda, "Squeeze Play" 2009 and 2010; available at http://www.publicagenda.org/pages/squeeze-play-2010.

4 For more examples of ways to dispel common myths about college costs, see Jones, Dennis and Wellman, Jane (2010) 'Breaking Bad Habits: Navigating the Financial Crisis', *Change: The Magazine of Higher Learning,* 42: 3, 6–3, available at http://dx.doi.org/10.1080/00091381003730169

5 Author's calculations, based on Doyle/Delaney analysis of funding trends, updated with more recent appropriation data from the State Higher Education Finance Officers. See: William Doyle and Jennifer Delaney, Playing the Numbers, Higher Education and the New Normal, July–August 2009. State Higher Education Finance data from http://www.sheeo.org/finance/shef/SHEF_FY_2009.pdf

6 Ellen Chaffee, "The Possibilities of Strategic Finance," Trusteeship, March/April 2010, 8–14.



Av = (R1 + Rf) / R1
(10kΩ + 100kΩ) / 10kΩ = 11
Rf
R1
Vo

Metrics for Efficiency and Effectiveness in Higher Education: Completing the Completion Agenda

White Paper

By William F. Massy

William Massy
Prof. emeritus, Stanford University, and consultant to higher education

The efficiency and effectiveness of America's colleges and universities has become a major issue for policymakers in this time of constrained resources. A penny saved through better efficiency and effectiveness is a penny that can be used to further another worthwhile objective, either within the higher education sector or for the taxpayers generally. This is consistent with the philosophical argument that efficiency in pursuit of worthy causes should be viewed as a moral goal because such efficiency is the antithesis of waste, which is "manifestly immoral."[1]

NGA's "Completion Agenda"[2] proposes reliable and comparable Outcomes and Progress Metrics to enable better tracking of degree and certificate completion. NGA is now in the process of developing Efficiency and Effectiveness Metrics that include, among other things, cost and quality. It is expected that these metrics will complement the findings of Lumina Foundation's Productivity Metrics Working Group and the National Research Council's Panel on Improving Measurement of Productivity and Higher Education.[3]

My purpose in this paper is to discuss efficiency and effectiveness metrics on certain key principles and issues. I'll cover the following topics: (1) terminology; (2) design considerations; (3) quality matters; and (4) policy development.

Terminology

Policymakers and university leaders now recognize the importance of performance metrics. What is less well recognized are the important distinctions among productivity, effectiveness, cost per unit of output, and efficiency. These tend to be used interchangeably, but the resulting confusion has led to a proliferation of overlapping and sometimes-inconsistent proposals. The result is a defocused measurement agenda, more difficult benchmarking, unnecessary resistance on the part of institutions and professors, and more risk of unintended negative consequences.

The problem of terminology is particularly important when, as in the present case, some of the terms are heavily value-laden. More is always better when talking about productivity, effectiveness, and efficiency, but this is not necessarily true for many of the metrics being discussed under these rubrics. Compare productivity with time to degree, for example. Knowing that a university has low productivity automatically signals the need for improvement, whereas lengthy times to degree may or may not indicate a problem. The longer time to degree may be driven by student characteristics or part-time attendance, which stem from institution's mission and student access goals, rather than any inadequacy in performance.

The problem of terminology is particularly important when, as in the present case, some of the terms are heavily value-laden.

To avoid confusing the situation further, it's important that NGA adopt clear terminology that is consistent with best professional practice. Furthermore, the organization's effort presents an opportunity to educate higher education institutions and stakeholders about performance measurement.

Productivity v. Effectiveness

Universities and their faculty believe they have high "productivity" when students learn what's intended and research receives positive peer reviews—in other words, when they are effective in producing outputs desired by stakeholders.

Economists and those responsible for allocating public resources, on the other hand, use a different definition: the "ratio of outputs to inputs." Institutions that waste resources may be very effective (though not as effective as they could be) but they are not productive by the economist's definition. The confusion may stem from the fact that dictionaries offer two definitions for "productivity."

> **Productivity:** "Having the power of producing or bringing forth; creative; generative." (Oxford English Dictionary, Compact Edition, 1971).
>
> **Productivity [special usage]:** "Effectiveness, especially in industry, as measured in terms of the rate of output per unit of input." (New Oxford American Dictionary, Second Edition, 2005)

The special usage definition is the one used by economists.

It's no wonder that universities and economists/resource allocators often talk past each other. The former seek more resources in order to become more "productive" by the first definition and the latter focus on the special usage definition as they try to get more "bang for the buck." In all cases, of course, it's necessary to add the caveat that the outputs being produced are the ones actually desired by stakeholders.[4] From now on I'll refer to the first dictionary definition as *effectiveness* and the special usage definition as *productivity*, and I urge the working group to do likewise.

Productivity v. Unit Cost

Common sense suggests that high productivity means the same as low unit cost but, once again, economists have adopted a more nuanced view. They define productivity as the ratio of *physical* quantities: i.e., units of output divided by units of input. In higher education we can use credit hours and/or degrees or certificates awarded as outputs, and faculty/staff ful-time equivalients (FTEs) plus physical capital usage and purchased products and services as inputs. Technology, know-how, and plant and equipment determine the productivity ratio's maximum possible value at any given time. An organization or industry is said to be "fully productive" if it achieves this maximum value.

In its pure form, the productivity ratio does not involve dollars in any way. It is a purely technical concept. Price changes have no bearing on productivity in the short run because they do not affect the technical relationships. Relative prices may be used as weights for aggregating multiple outputs and/or inputs, as in the aggregate dollar value of purchased products and services (discussed below), but the underlying model remains in the domain of engineering rather than cost accounting. Therefore, productivity metrics are designed so their weights change slowly if at all: e.g. by using smoothed rather than current input prices as the basis for aggregation.

Estimates of cost per degree or enrollment, on the other hand, are intended to change with each shift of input prices. We'll see that unit cost provides a measure of efficiency, but this doesn't allow one to judge productivity because constantly-changing prices mask the underlying technical relationship between inputs and outputs. The implication is that productivity measurement should not be regarded as an extension of cost accounting. For example, the Delta Project on Postsecondary Education Costs, Productivity, and Accountability analyzes unit cost but does not measure productivity as such. We need both productivity and cost metrics but it's important not to confuse the two.

Productivity v. Efficiency

I noted above that the productivity ratio combines inputs using constant or near-constant weights, whereas unit costs are calculated using current prices. Now suppose that input prices change, so one can substitute a lower-cost input for a higher-cost one with the same productive capacity. Failure to exploit the change will make unit costs larger than necessary, which will reduce "efficiency" even though the technical methods of production (and thus "productivity") remain constant.

Such inefficiencies can be corrected by changing the labor mix, outsourcing some activities, smarter purchasing, and the like, whereas productivity improvement requires innovation of a more fundamental kind. Productivity improvement requires the identification and adoption of unfamiliar practices or, even more difficult, the invention of new practices. This is why unit costs usually change more frequently and rapidly than productivity statistics.

Why should policymakers care about the distinction between productivity and efficiency? The main reason is that measures like cost per credit hour and cost per degree mask the more fundamental relationships associated with productivity. One can't know, for example, whether cost movements are caused by price changes, productivity changes, or a combination of the two. The distinction is crucial. State and federal policies should encourage universities to make the innovations needed to become more productive, but progress can't be tracked without a proper measure of productivity. It may be, for example, that productivity is in fact improving but this is obscured by price escalation. Alternatively, institutions may claim that cost increases are caused by price escalation when in fact they stem from falling productivity.

State and federal policies should encourage universities to make the innovations needed to become more productive, but progress can't be tracked without a proper measure of productivity.

NGA's Metrics

It is instructive to review NGA's proposed metrics in terms in light of these concerns. In the "Common College Metrics" paper, I would say degrees and certificates awarded, enrollment in remedial education, success beyond remedial education, success in first-year college courses, credit accumulation, and course completion are, arguably, effectiveness metrics. Graduation rates, transfer rates, time and credits to degree, and retention rates, though useful for policy purposes if applied carefully, are not proper measures of effectiveness, efficiency, or productivity. As NGA sets out to establish efficiency and effectiveness metrics, I would observe that measures such as degrees relative to the needs of the labor force certainly reflect effectiveness. However, measures such as degrees and certificates awarded relative to enrollment and cost per completion capture important information elements that will be needed in constructing productivity and efficiency measures, but by themselves they can't serve as such metrics without additional information. I'll say more about this in the next section.

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Design Considerations

Productivity and efficiency measurement in nearly every industry must cope with the problem of multiple inputs and outputs. Products come in different sizes and quality levels, for example, and there are different kinds of labor and raw materials. The same is true in service industries, of which higher education is a quintessential example. Decades of economic analysis and practical experience with productivity measurement have yielded good ways of dealing with such complexity.

I've already noted that productivity measurement is, at root, a physical rather than a financial concept and that weighted "market baskets" of physical units are used to combine multiple outputs and/or inputs. The key idea is that, for outputs, the weights reflect relative value to end users and, for inputs, relative value in production—values that are likely to change slowly if at all. Schemes with constant or near-constant weights ensure that changes in the productivity metric will be attributable to production methods and capital deployment rather than, as in the efficiency metric, to a combination of productivity and price changes.

Output Measures

The first step in metric design is to agree on the physical output and input units to be considered. The two prime output candidates in higher education are credit hour production and degrees or certificates awarded. These two quantities must be combined into a single, comprehensive, measure of output that reflects the value of what colleges and universities produce. Unfortunately, some of the more popular measures fail to do that. Looking only at degrees and certificates, for example, ignores the educational value of the learning acquired on route to the degree—which is inconsistent both with common sense and the results of labor force studies. Likewise, looking only at credit hours produced will ignore the very real benefit of attaining the credential. It's likely the weights will have to be determined, at least in part, by applying some kind of judgment. Making such judgments is difficult in a politically-charged environment, but failure to do so guarantees a wrong answer by asserting that the value of one of the two output components is zero. Either answer risks significantly distorting incentives.

Outputs at different levels, such as associate, bachelors, and first professional degrees, need to be differentiated, as do the various kinds of institutions (two-year, four-year, etc.) that make the awards. The data also should control for the field in which the award is made, so that enrollment shifts between high and low cost fields will not be confused with productivity changes. Student transfers to other schools should be reflected in outputs for individual institutions, but these inter-school transactions will be consolidated out for the sector as a whole and even, in some cases, for individual states.

Input Measures

On the input side, the prime candidates are FTE faculty, other teaching staff, other professional staff, other exempt and non-exempt staff, purchased materials and services, and physical capital usage. Once again, these must be combined using some kind of weighting scheme. For productivity, the weights should be the same for institutions of the same type as well as relatively constant over time. For unit costs one can use current prices—either averaged over institutions of the same type or for particular institutions, depending on the purpose.

I said earlier that productivity calculations don't fall under the rubric of cost accounting, but there is one sense in which accounting methods are required. While many colleges and universities produce research as well as instructional outputs, discussions of productivity and unit cost focus mainly on the instructional domain. There are some good reasons for this. One can measure enrollments and degrees with reasonable reliability and validity, but it's difficult to do the same for research outputs. (I have built models based on publication counts and citations, for example, and can testify that the approach is fraught with difficulty.) Furthermore, most states are more interested in the productivity of instruction than of research. Probably this is because most research is funded by the federal government and foundations, with the residual being viewable as a byproduct of the educational process.

Cost accounting can separate the inputs that go to instruction and research. Faculty FTEs charged to grants and contracts should not be included as inputs to education, for example, and university overheads should be allocated as well.[6] Expenses attributable to the so-called "departmental research" function (which isn't segregated in University accounting systems) present some special issues that are beyond the scope of this paper, but they aren't showstoppers. Despite the fact that cost accounting may be used to allocate inputs among the University's various "product lines," the allocated inputs are considered to be physical quantities, not costs, for purposes of productivity measurement.

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Other Considerations

While the lists of output and input data may seem daunting, one must keep in mind that they are only intermediate variables. The finished *productivity* metric will combine the data into just two statistics: the weighted sum of outputs and the weighted sum of inputs. (The National Research Council Panel on Measuring Higher Education Productivity, due to report in 2011, will describe how the calculations might be accomplished.) *Cost per unit of output* is computed by dividing the weighted output measure by the weighted sum of inputs using current prices as weights. The two metrics are designed to further different objectives, both of which are important.

The ability of selective institutions to charge high prices stems more from scarcity and reputation derived from research than the actual delivered quality of education for the majority of students.

To be meaningful, the metrics should be calculated separately for each type of institution and then aggregated to the state level and the sector as a whole. Controlling for institutional type is necessary because of differences in mission and student characteristics. For example, institutions that must do significant remedial teaching will have lower productivity ratios than those that admit only students with strong academic qualifications, even though both may be operating with maximum effectiveness and efficiency. Failure to control for these differences will make the statistics meaningless and, worse, will distort resource allocations.

Comparing the productivity and unit cost data within institutional categories will provide policymakers with a sense of *why* costs are changing as they are, and whether the institutions are in fact responding to productivity-enhancing incentives.

Quality Matters

The quality of education is the "elephant in the room" in most discussions of college and university performance. Many schools and professors believe the very ideas of productivity and efficiency are somehow antithetical to quality, but nothing could be further from the truth. The developers of such metrics definitely need to control for quality in some way, because failure to do so will produce even worse consequences than a poor selection of quantitative input or output measures. Institutions and professors are right to resist "productivity" measurement programs that turn a blind eye to quality. On the other hand, the well-known problems of quality assessment in higher education should not be used as an excuse to downplay the productivity and efficiency metrics. How can we square the circle?

Prices as Proxies for Quality

The most widely used approach is to adjust inputs and outputs by their relative market prices. Prices can serve as measures of value when the transactions that generate them occur in well-informed competitive markets, but it's hard to argue that prices in uncompetitive or poorly informed markets reflect the kind of value information needed for weighting productivity and efficiency metrics.

The issue of poor or incomplete information is particularly problematic in higher education. For one thing, the price umbrella provided by highly selective private universities and the widely varying state policies and subsidy levels that apply to the public ones hopelessly distort the market's ability to reflect differences in output quality through prices. The ability of selective institutions to charge high prices stems more from scarcity and reputation derived from research than the actual delivered quality of education for the majority of students. Prices on the public side are heavily conditioned by state subsidies and tuition ceilings, coupled in many cases with missions that value access over selectivity. Whatever one's political and philosophical beliefs about the efficacy of markets in general, the facts in higher education severely limit the use of market prices as surrogates for the value of output.[7]

The situation is better on the input side, but distortions occur there as well. The salaries of professors versus student teaching assistants and "casual-payroll" adjunct faculty provide a good example. While the situation is complex, it seems likely that the difficulty of measuring relative teacher effectiveness plus professorial influence in university governance prevent salaries from reflecting marginal productivity. Despite the problems with input prices in higher education, however, it does seem reasonable to use them as proxies in defining the relative values of different kinds of labor.

Direct Quality Measures

An alternate approach is to measure quality directly and use the results to adjust the inputs and outputs. Outputs are adjusted to reflect their relative values to users and inputs are adjusted to reflect their relative values in production. Institutions or groups of institutions could define their own output-quality measures, but this would complicate the comparison of productivity and efficiency statistics. Therefore, national quality metrics will have to be developed before direct quality adjustments can be made comparable across states and thus used for benchmarking and accountability.

Efforts to develop output-quality measures have resulted in metrics like the Collegiate Learning Assessment (CLA), The National Survey of Student Engagement (NSSE), the ETS Proficiency Profile, ACTs CAAP, and certain discipline-based testing regimens. These have been embraced by the Voluntary System of Accountability (VSA) and they are starting to prove useful within institutions, but there is little likelihood that a consensus on "reliable and comparable" (to use the NGA's terms) output quality metrics for whole institutions, states, and the nation will emerge anytime soon. This need not be fatal for productivity and efficiency measurement and accountability, however, as will be described in the next section.

Policy Development

Recognizing the aforementioned difficulties, one of the options left for NGA is to address quality only insofar as it can be captured by indicators of labor market demand, while encouraging states to engage the issue of measuring student learning outcomes. Although this conclusion is understandable, I believe it doesn't fully address the issue. Unfortunately, the universities' track record doesn't lead one to be optimistic about their ability to maintain quality in the face of countervailing forces without a significant change in public policy.[8] The NGA has an opportunity to influence such a policy change.

Universities have demonstrated their ability to manage quality when funding increases but there is reason to doubt their effectiveness when—as is so often the case today—funding declines. Such situations call for doing more, or at least as much, with less money: i.e., for the improvement of productivity and efficiency. But the lack of direct quality measures coupled with flaws in the higher education marketplace raise the specter that institutions will simply "do less with less"—by cutting back on quality if they are unable to reduce student numbers. There is much anecdotal evidence that, because reform and reengineering are exceedingly difficult in traditional universities, this does indeed happen in a great many cases.[9]

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As when coping with budget cuts, the easiest way for universities to maximize unadjusted output per unit of input and minimize cost per credit hour is to let quality slide—not overtly, perhaps, but in dozens of little ways that accrete over time. Greater emphasis on productivity and efficiency metrics, however laudable, is likely to worsen the situation.

The answer is not to deemphasize productivity and efficiency metrics, but rather to supplement them. Specifically, we need to couple the further deployment of quantitative productivity and efficiency metrics with a robust externally-driven procedure for "looking under the hood" of university quality assurance and improvement processes to ensure not only that institutions are "doing the right things" but also "doing them right" or at least working diligently toward improvement.[10]

Governors could charge their state higher education executive officers (SHEEOS) with implementing academic audit, either directly with state resources or by outsourcing—perhaps to the accreditation agencies.

Such an approach would convert the "quality problem" from one of designing formulas for adjusting productivity and efficiency metrics (which, as noted above, is a daunting task) to a constraint on how the metrics are used. It would sidestep the need for quantitative output-quality adjustment, at least for the time being, without simply kicking the can down the road.

What States Can Do

How could governors enforce such a quality constraint? The NGA's outcome and progress metrics can provide clues about whether quality is being maintained, but the evidence will at best be indirect. Reports from the institutions can't be considered probative either, partly because the tendency to spin always is present and partly because institutional leaders may not know whether rank-and-file academics are seeking out, adopting, and continuously improving on best practice as applicable to their fields. In my experience, presidents and provosts truly believe their faculty are on the cutting edge of quality provision when departmental practice is in fact mediocre—a misperception that limits their ability to report accurately and, even more importantly, to drive change within their institutions.

There is a straightforward way to get the needed look under the hood. Doing so does not involve rocket science, and the process need not be intrusive or expensive for either the state or the institutions. The approach goes by a variety of names, of which the most descriptive is "academic audit." It has been applied over the past two decades in Australia, Hong Kong, the UK and Sweden,[11] and in the U.S. by the Tennessee Board of Regents and to some extent the University of Missouri system and the professional and regional accreditation agencies. Governors could charge their state higher education executive officers (SHEEOs) with implementing academic audit, either directly with state resources or by outsourcing—perhaps to the accreditation agencies.

Academic Audit

Audit works like traditional accreditation except (and this is a big difference) that the questions focus on *how institutions assure and improve educational quality*, especially for undergraduates, rather than of their capacity to achieve quality or assertions that it has in fact been achieved.[12] Great emphasis is placed on specificity: e.g., the identification of examples of what departments have done, how they've done it, what the results have been, and how they have been used (or not used) to generate improvement. Other questions explore student learning assessment policies, the institution's outcomes measures and data systems, and (importantly) how the chief academic officer holds the deans accountable for insuring departments are paying the right kind of attention to quality. Unsupported statements that research begets education quality and professors "know quality when they see it" are not acceptable.

The process starts with a self-study, followed six to nine months later by a visit from the audit team. The process is guided at every stage by protocols that describe what's meant by education quality assurance and improvement, benchmarking, student learning assessment, and (in a fully modern approach) cost and productivity. Further protocols describe how the self-study should be constructed and how the team will conduct the visit. (Unlike many accreditation and program review exercises, careful team training is a "must" for audit.) Augmenting audit's data collection role is a mantra that it should be supportive of institutional initiatives wherever possible (i.e. it should be formative as well as summative) and that respondents should find the process useful. The experience in Tennessee, Hong Kong, and Australia demonstrates that these objectives can be achieved. Academic audit shares the fundamental characteristics of financial audit, although the word "audit" also carries negative connotations ("I'm from the IRS…"). Auditors aren't allowed to substitute their judgment on qualitative matters for that of the institution and its faculty. For example, they might cite a lack of clear educational goals or evidence about the quality of outcomes, but they would not pass judgment on whether teaching was good or bad. They might question an institution's ignorance about or refusal to consider manifest good practice but, so long as such consideration appeared diligent, they would not second-guess the judgments stemming it. Such examples are analogous to financial audit. Such audits include tests of whether reporting practices meet "Generally Accepted Accounting Principles" (GAAP)—tests that do not substitute auditor for management judgment providing the broad principles are met.

The cost of academic audit is manageable because the self-study need not be particularly long or involved and the audit visit need not exceed a few days. (Both require a smaller commitment than the typical accreditation exercise.) Institutions don't have to collect reams of data or perform detailed analyses and auditors don't have to pore over lengthy arguments and exhibits. Instead, the auditors simply ask what the institution does or should do routinely as part of its ongoing operations. Audit's probative power and parsimony stem from the fact that respondents find it difficult to sustain a coherent story about something that isn't happening in the face of focused questioning.

The Way Forward

I mentioned that parts of the audit methodology have been adopted by some regional and professional accreditation agencies. This provides a good platform on which to build, but I believe a more comprehensive approach is needed. Such an approach would develop and propagate a nationwide (eventually worldwide) set of "Generally Accepted Education Quality Principles," analogous to GAAP, for colleges and universities, together with protocols and a body of expertise for auditing performance against these principles. States could outsource the audits to their regional accreditation agency, providing the agency meets stated requirements for content, consistency, and transparency.[13]

The cost of academic audit is manageable because the self-study need not be particularly long or involved and the audit visit need not exceed a few days.

The short run objective would be to extend the NGA's completion agenda as described earlier. In the longer run, academic audit would spur institutions to develop and report outcomes and progress measures that are both appropriate to their missions and comparable across institutions with similar missions. Once such measures are in hand, a continuing role of audit would be to assure governors, legislators, and the public, that the data mean what they purport to say—just like financial audits assure stockholders that a company's financial reports accurately reflect reality.

Moving from our current fragmented system of quality assurance to a more comprehensive one will not be easy, but it seems to me that state governors are in a good position to further the effort.

Moving from our current fragmented system of quality assurance to a more comprehensive one will not be easy, but it seems to me that state governors are in a good position to further the effort. They "own" and help finance their states' public universities and in some cases fund scholarships for private ones. Hence they can legitimately seek to influence the sector. Furthermore, action at the state level does not carry the baggage of federal action. I hope the working group will think seriously about whether to recommend such an approach—to "complete the NGA's completion agenda."

Endnotes

1 Harry Brighouse, University of Wisconsin-Madison, "Ethical leadership in hard (and easy) times: a partial audit" (Forum for the Future of Higher Education, Aspen Symposium, June 2009).

2 "Compete to Complete: Common College Completion Metrics" (Working Draft, NGA: 2010–2011).

3 I serve on the NRC panel, which operates under a grant from Lumina Foundation and is expected to report in 2011.

4 "Resource diversion" from teaching to research can be a problem in universities, but that is beyond the scope of this paper. See, for example, Chapter 4 of William F. Massy, *Honoring the Trust: Quality and Cost Containment in Higher Education* (Anker/Jossey Bass, 2003).

5 Delta Project, "Trends in College Spending 1998–2008: Where does the money come from? Where does it go? What does it buy?" (www.deltacostproject.org)

6 See for example the Delta Project and Office of Management and Budget (OMB) Circular 8–21.

7 William F. Massy, "Cost and Pricing in Higher Education." In Edward Fiske and Helen Ladd, *Handbook of Research and Educational Finance and Policy* (New York: Routledge).

8 Weakly monitored delegation of quality assessment responsibility to the universities was tried in the so-called "assessment movement," which generally has been regarded as disappointing (Massy (2003, chapter 8). See also my reference to the "dog that isn't barking" in William F. Massy, "Creative Paths to Boosting Productivity" (in *Reinventing the American University: the Promise of Innovation in Higher Education,* American Enterprise Institute and Harvard Education Press, forthcoming in 2011).

9 Two examples illustrate these concerns. The first is a recent news report that described how a microeconomics course was being delivered to students via streaming video in their dormitory rooms. Streaming and archiving lecture material may be a good idea, but in this case it was aimed at accommodating a huge demand with minimal resources and existing teaching methods, not a course redesign aimed at improved learning. There is reason to believe it will generate less student involvement and thus less or shallower learning, yet the method will show up as a big reduction in cost per credit hour. A second example is the English department at a campus I visited recently, which showed a similarly large decrease in unit cost. Administrators and, I presume, state government officials were delighted. What I found by looking at departmental operations was a pattern of increased class size and use of adjunct faculty, less interaction between faculty and students, a drastic reduction in the number and depth of writing assignments, and conversion from essay to multiple choice examinations. This was in an English course, where the changes could in no way be reconciled with any reasonable interpretation of educational mission and goals.

10 A new study by McKinsey and Company, sponsored by the Gates Foundation, illustrates the potential for improvement ("Winning by degrees: the strategies of highly productive higher education institutions," McKinsey and Company, November 2010.) Using IPEDS and other sources, the researchers stratified two- and four-year institutions according to their unit costs. They found that top-quartile institutions cost 17-38% less than the average of all institutions in their category and the bottom quartile cost about 10-20% more than their average. Then, through site visits and the study of documents, they analyzed eight of the high-performing institutions to learn what makes them so productive. While finding no "silver bullet" for productivity, the findings identified five practices that contribute significantly to it: (i) promoting higher degree productivity; (ii) reducing non-productive credits; (iii) redesigning the delivery of instruction; (iv) reengineering core services, and (v) shrinking non-core services whenever the institutional mission allows. Delivering on these practices required creation of new and streamlined operating processes, upgraded formal management systems and structures, attention to attitudes and behaviors that determine faculty/staff commitment to productivity, and in some cases the removal of barriers to productivity created by Federal, state, and systems policies. These results are consistent with experience at the National Center for Academic Transformation (NCAT), which has worked on course redesign with 150 institutions since 1999. NCAT found that, on average, costs were reduced by 37% in redesigned courses, with a range of 9 to 77%, while learning outcomes improved in 72% of cases with the remainder showing no learning degradation (Carol A. Twigg, "Improving Quality and Reducing Costs: the Case for Redesign," Lumina Foundation, 2005, pp. 46, 48). Despite these successes, however, it remains difficult to generate interest in course redesign within most institutions.

11 Because the UK and Swedish approaches have been plagued by politics, they have experienced a series of starts, stops, and changed directions. This has resulted in some negative perceptions, especially on the part of academics, that are not applicable to the audit methodology described here.

12 For a detailed description see William F. Massy, Stephen W. Graham, and Paula Myrick Short, *Academic Quality Work: A Handbook for Improvement* (Anker/Jossey Bass, 2007). Readers that material will see that audit can readily ascertain whether an institution is doing the kinds of things McKinsey and NCAT have identified as being important.

13 The usual accreditation cycle of ten years between visits is too long for academic audit. However, a state could fill in with its own audit half-way between the accreditations. This would have the added advantage of keeping the SHEEO involved with institutional quality on a first-hand basis. Another requirement, alluded to in the text, is that the accreditation report be made public.

Biographies of Panelists and Speakers

Governor Baliles is Director of the University of Virginia's Miller Center of Public Affairs, a leading public policy institution at the University of Virginia. Governor Baliles previously served as a Virginia legislator, Attorney General and as Governor from 1986 to 1990. During his tenure as Governor, he served as Chairman of the National Governors Association. As a partner at the law firm of Hunton and Williams, he chaired the section on international law, and practiced aviation law, as well as chaired such national and regional entities as the Presidentially-appointed Commission on Airline Competitiveness, the Southern States Energy Board, the Chesapeake Bay Blue Ribbon Panel, the Education Quality Committee of the Southern Regional Education Board, the AGB Commission on Academic Presidency, and the AGB Commission on the State of the Presidency in Higher Education. He earned his bachelor's degree from Wesleyan University in Connecticut and his law degree from the University of Virginia School of Law.

Julie Davis Bell is the Education Group Director for the National Conference of State Legislatures (NCSL), where she oversees the 12 person Education Program staff and is responsible for setting Program priorities, responding to constituent needs and requests, developing new education projects, and interfacing with other national education policy organizations. She also serves as NCSL's expert on post-secondary/higher education issues. She has been with NCSL for 20 years and has directed the Education Program for 17 years. Prior to joining NCSL, she was a Policy Associate with the Center for Policy Research in Denver and taught political science courses at the University of Colorado. She earned her doctorate in political science from the University of California at Davis.

Governors Heineman andBaliles

Ellen Chaffee is Senior Fellow at the Association of Governing Boards of Universities and Colleges and director of its Lumina Foundation funded project on Governance for Student Success. She is past president of Valley City State University and Mayville State University, and past President in Residence at Harvard University. She chaired the board of a major health care system, was president of two national professional associations, and served on the national accrediting board for pharmacy education. She has held leadership positions in executive, academic, student affairs, research, and equal opportunity in research universities, comprehensive universities, and a state system. She earned a Ph.D. in higher education administration and policy analysis at Stanford University.

Gordon Davies was the former Director of SCHEV and former President of the Kentucky Council on Postsecondary Education. He currently serves as a senior adviser to a Lumina Foundation project, Making Opportunities Affordable, and to the Miller Center. From 2002 through 2006, he directed a project to improve state higher education policy making that wsas funded by The Pew Charitable Trusts. Mr. Davies has taught at Yale University, Richard Stockton State College, and the Teachers College of Columbia University. He earned his bachelor's, master's and doctoral degrees from Yale University.

Corina Eckl is Director of the Fiscal Affairs Program at the National Conference of State Legislatures (NCSL). She regularly provides information on state budget conditions and other fiscal matters to members of the national print and television media. She also has served as a consultant on NCSL's evaluations of legislative organization and staff operations and has done work in numerous states and internationally. She is also the NCSL liaison to the Hawaii Legislature. She earned her bachelor's and master's degrees from the University of Colorado and is a graduate of the Legislative Staff Management Institute, a program co-sponsored by NCSL and the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota.

Julie Bell

Ellen Chaffee

Governor Dave Heineman has served as Nebraska's 39th Governor since 2005. He is also Vice-Chair of the National Governors Association. He is a strong proponent of local control of schools and a quality education for all children and also supports high academic standards and increased parental involvement in education. He serves on the Board of Directors of Achieve, a bipartisan, non-profit organization working with states to improve education. Prior to being sworn in as Governor, he served more than three years as Lieutenant Governor and nearly seven years as State Treasurer of Nebraska. Governor Heineman is a graduate of the United States Military Academy at West Point and the Army's Airborne and Ranger Schools.

Dennis Jones is President of The National Center for Higher Education Management Systems (NCHEMS), a nonprofit research and development center founded to improve strategic decision-making in institutions and agencies of higher education. A member of the staff since 1969, he has written many monographs and articles on these topics, has presented his work at many regional, national, and international conferences, and has consulted with hundreds of institutions and state higher education agencies on management issues of all kinds. Prior to joining NCHEMS, Mr. Jones served as an administrator in business and in institutional planning at Rensselaer Polytechnic Institute. He earned his graduate and undergraduate degrees in the field of management engineering from Rensselaer Polytechnic Institute.

Richard Legon serves as the 4th president of the AGB. He frequently is called on to work with system, campus, and institutionally related foundation boards to address responsibilities, structure and development, and effectiveness and was instrumental in developing AGB's portfolio of services for public college and university foundations. In that capacity, he coordinated the development of AGB's handbook for foundation boards and is the editor of the association's book. In the first year of Rick's leadership, the association launched a year-long strategic planning process and several initiatives. Former Governor Tim Kaine appointed him to the Board of Visitors for the Virginia State University. He holds a master's degree from George Washington University.

Jamie Merisotis is President and CEO of Lumina Foundation for Education. He is employing a strategic, outcomes-based approach in pursuing the Foundation's mission of expanding college access and success. He previously served as Founding President of the Institute for Higher Education Policy, where he helped to establish the Alliance for Equity in Higher Education, an unprecedented coalition of national associations whose members include Historically Black Colleges and Universities, Tribal Colleges and Universities, and Hispanic-Serving Institutions. He has also served as Executive Director of the National Commission on Responsibilities for Financing Postsecondary Education and authored the commission's final report, *Making College Affordable Again.* Many of the commission's recommendations became national policy during the 1990s.

Scott Pattison is Executive Director of the National Association of State Budget Officers. He is also Chair of the ITIB's Finance and Audit Committee. He previously served for four years as Virginia's State Budget Officer. Prior to that, he headed the Regulatory and Economic Analysis section of the Virginia Department of Planning and Budget. He also


Gordon Davies and James Weaver


Corina Eckl


Dennis Jones


Jane Wellman

served on the Virginia Debt Capacity Advisory Board, College Building Authority and Performance Management Advisory Committee. He is a principal with the Council on Excellence in Government and also serves on the board of Old Dominion University. He earned his bachelor's degree from George Washington University and a law degree from the University of Virginia.

Travis Reindl is Program Director of the Postsecondary Education Division of the National Governor's Association. He is responsible for overseeing the Education Division's postsecondary education work area, and his concentration is postsecondary access and completion. He is also the lead on the 2010–2011 NGA Chair's Initiative, which focuses on increasing college completion and productivity. Prior to joining NGA, he served in various roles as State Policy and Campaigns Director, CommunicationWorks, L.L.D.; Program Director for Jobs for the Future; Director of State Policy Analysis for the American Association of State Colleges and Universities and Government Relations and Institutional Research for the South Dakota Board of Regents. He earned his bachelor's degree from University of Notre Dame and a master's from the University of Maryland-College Park.

Jane Wellman is the Executive Director of the Delta Project on Postsecondary Costs, Productivity and Accountability, and, as of November 2010, the Executive Director of the National Association of System Heads (NASH). Prior to beginning the Delta Project, Wellman served as a Senior Associate with the Institute for Higher Education Policy and was Vice President for Government Relations with the National Association of Independent Colleges and Universities, Deputy Director of the California Postsecondary Education Commission, and Staff Director of the California Assembly Ways and Means Committee. She began her career in higher education finance and planning at the University of California Office of the President and obtained her Master of Arts and Bachelor of Arts degrees from the University of California—Berkeley.

Participants

Sandy Baum
Independent Higher Education Policy Analyst;
Professor of Economics Emerita, Skidmore College

Cheryl Blanco
Vice President of Special Projects,
Southern Regional Education Board (SREB)

Sarah Hardesty Bray
Editor-In-Chief, Trusteeship and Director of Publications,
Association of Governing Boards of Universities and Colleges (AGB)

Molly Corbett Broad
President, American Council on Education (ACE)

Patrick Callan
President, National Center for Public Policy and Higher Education

Heather Mullins Crislip
Special Assistant for Policy Programs, Miller Center,
University of Virginia

Glenn DuBois
Chancellor, Virginia Community College System

Fred DuVal
Vice Chair, Arizona Board of Regents;
Chair, Academic Affairs and Strategic Planning Committee,
Lumina Foundation

Charlie Earl
Executive Director, Washington State Board for Community
and Technical Colleges

Karen Elinski
Vice President and General Counsel, TIAA-CREF

Donald Finley
Executive Director, Virginia Business Higher Education Council

Laura Fornash
Deputy Secretary of Education, State of Virginia;
Executive Director of the Commission on Higher Education Reform,
Innovation, and Investment, State of Virginia

Juliet Garcia
President, The University of Texas at Brownsville (UTB) and
Texas Southmost College (TSC)

Governor Jim Geringer
Founding Governor, Chairman of its Board of Trustees.
Western Governors University

Leslie Goldstein
Washington State Legislature

Darryl Greer
Founding CEO and Executive Director,
New Jersey Association of State Colleges and Universities

Thomas Haas
President and Professor of Chemistry, College of Liberal Arts and Sciences,
Grand Valley State University

Muriel Howard
President, American Association of State Colleges and Universities
(AASCU)

Susan Whealler Johnston
Executive Vice President, Association of Governing Boards of Universities and Colleges (AGB)

Stephen Jordan
President, Metropolitan State College of Denver

Clifford Kendall
Chairman, Board of Regents, University System of Maryland;
Council of Board Chairs, Association of Governing Boards of Universities and Colleges (AGB);
Chairman, Board of Computer Data Systems, Inc.

Brit Kirwan
Chancellor, University System of Maryland

David Longanecker
President, Western Interstate Commission for Higher Education

Aims McGuinness
Senior Associate, National Center for Higher Education Management Systems (NCHEMS)

David Miles
President, Iowa Board of Regents;
Principal Owner, CEO, Miles Capital, Inc.,

Randy Moffett
President, University of Louisiana System

Sue Hodges Moore
Vice President for Planning, Policy, and Budget,
Northern Kentucky University

Erin Munley
Press Secretary, Communications Office of the National Governors Association (NGA)

Noreen Myers
Vice Chair of the Board of Trustees, Grand Valley State University

George Nolen
Rector, Board of Visitors, Virginia Polytechnic Insititute and State University

Rich Novak
Senior Vice President for Programs and Research and Executive Director, Richard T. Ingram Center for Public Higher Education Trusteeship and Governance, Association of Governing Boards of Universities and Colleges (AGB)

Eduardo Padron
President, Miami Dade College (MDC)

William Pound
Executive Director, National Conference of State Legislatures (NCSL)

Charles Reed
Chancellor, California State University

Travis Reindl
Program Director, Postsecondary Education Division,
National Governors Association (NGA)

Ryan Reyna
Senior Policy Analyst, Education Division, National Governors Association Center for Best Practices (NGA Center)

Gary Rhoades
General Secretary, American Association of University Professors (AAUP)

Leonard Sandridge
Executive Vice President and Chief Operating Officer,
University of Virginia

William Sederburg
Commissioner of Higher Education, Utah

Ray Scheppach
Executive Director, National Governors Association (NGA)

Jamie Merisotis

Laura Fornash and John Walda

Molly Corbett Broad

Winfred Sibille

Chair, Board of Regents, University of Louisiana System

Jeffrey M. Stanley

Associate Vice President, State Higher Education Executive Officers (SHEEO)

Charles Steger

President, Virginia Polytechnic Insititute and State University

Cristin Toutsi

Assistant for Policy Analysis, Association of Governing Boards of Universities and Colleges (AGB)

John Walda

President, National Association of College and University Business Officers (NACUBO)

Garrison Walters

Executive Director, South Carolina Commission on Higher Education

James Weaver

Board Chair, Association of Governing Boards of Universities and Colleges (AGB); Chief Executive Officer, Weaver Consulting & Asset Management, LLC

Emily Webb

Special Assistant to the Secretary of Education, Office of Governor Robert F. McDonnell, Viriginia

Nancy L. Zimpher

Chancellor, State University of New York

Acknowledgments

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Gordon Davies served as the primary author of the recommendations and was particularly helpful in leading this project to conclusion. Davies also deserves special thanks for facilitating the discussions throughout the meeting and leading the final deliberative section. He was instrumental in turning the conversations from the group into a compelling and achievable set of recommendations that can be presented to educators and policymakers. We benefited from his leadership of this conference, as we did in our 2008 conference, and are indebted to him. Davies was assisted in developing the recommendations by a dedicated group of advisors, which included Julie Davis Bell, Patrick Callan, Heather Mullins Crislip, Dennis Jones, Mark Musick, Rich Novak, Travis Reindl, and Jane Wellman.

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The support of Lumina Foundation for Education was essential in assembling this distinguished group to discuss the future of higher education. We are grateful for the Foundation's support and hope that our recommendations contribute to an important national discussion.

Colophon

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Juliana Bush
General Editors

Anne Chesnut
Designer

Worth Higgins & Associates, Inc.
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The Association of Governing Boards of Universities and Colleges is the only national association that serves the interests and needs of academic governing boards, boards of institutionally related foundations, and campus CEOs and other senior-level campus administrators on issues related to higher education governance and leadership. It strengthens and protects the United States' unique form of institutional governance through its research, services, and advocacy and is committed to citizen trusteeship of American higher education.

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