System Redesign Overview

Presented to the PASSHE Board of Governors at its meeting on January 16-17, 2019

Pennsylvania's State System of Higher Education comprises 14 universities, enrolling a combined 100,000 students and serving as the Commonwealth's only truly public university system. With some important exceptions, these institutions are regional, comprehensive universities that are deeply embedded in the communities they serve—drawing the majority of their students from immediately adjacent counties and maintaining lasting connections with regional government, industry, etc. They provide an excellent education that is highly personalized, offering a significant level of faculty engagement and programming that is increasingly workforce-aligned. The majority of new programs introduced over the last five years have been in the high-growth, high-demand areas of science, technology, engineering and mathematics (STEM), healthcare and business.

While striving to meet the educational needs of students and their future employers, the State System is facing many of the same challenges confronting U.S. public higher education in general; perhaps more acutely and in even higher doses here in Pennsylvania:

- Pennsylvania ranks 48th in the nation in *per capita* funding for higher education
- Public investment is lagging, forcing tuition increases that have depressed enrollments
- Enrollments are down nearly 20% since 2010, with the biggest declines among students from families earning less than $110,000 per year, and are expected to continue but slow for another year or two.

There are several contributing factors that are compounding these challenges: The number of high school graduates in the state is declining; the higher education marketplace in the state is overcrowded; public resources are thinly spread; and statutory and regulatory constraints are imposing additional costs and creating inefficiencies that are constraining universities' agility in responding to rapidly changing market conditions.

The net result, as identified in two recent studies (NCHEMS and RAND) that factor into the System's strategic planning, is that the System is in need of a fundamental transformation; one that will reimagine public higher education, not only in the Commonwealth of Pennsylvania, but nationally.

There is enormous potential—perhaps unique nationally—for the State System and its universities not only to succeed in overcoming all of these challenges, but also to lead a transformational effort that will redefine higher education in a way that the System could become a national model.

The case for transformational change has been made, and there is an appetite for it at every level and with every internal and external stakeholder group—students, faculty ,staff, trustees, and beyond. That is rare in U.S. higher education.

The System is moving into its second year of a System Redesign initiative launched by the Board in 2017, with real momentum behind it and a solid commitment to continue it. University leadership has the relevant skills and experience and the passion needed to actively pursue the kinds of innovations necessary to improve and enhance student success in a sustainable way. In fact, they already are, and their efforts are showing promise.

The System and its universities also already have world-class student, financial, workforce, general population, and education data they can use to plan, execute, and evaluate initiatives in a data-driven fashion—there's no need to fly blind. As examples, the data the System already has allows it to:

- o calculate cost, revenues earned, and student outcomes for every course and degree program offered;
- o know where students come from, where they go when they leave, where they land in the workforce, and what they earn (available in detail according to the usual student demographic characteristics); and
- o track demographic, education, and workforce trends and predictively identify and then target sources of student and employer demand for higher education.

The Board of Governors, trustees, and elected leaders at all levels are supportive of and eager to see a vision and path forward for a public system that offers affordable, high value, workforce relevant postsecondary education.

Where are we going? A framework for System Redesign

1. Leverage the State System's operating scale and distributed capabilities to build a "sharing system" of universities

Serving 100,000 students, the universities of the State System comprise one of the largest higher education providers in the United States. By taking advantage of their collective scale, the universities can:

- Fundamentally expand opportunity for students and enhance the value that the System's 14 universities offer to PA
- Reduce overall cost per student by operating with maximum cost efficiencies through aggressive use of shared academic, business, and administrative functions, and aligning capacity with enrollments
- Grow revenues by:
  - o restructuring pricing models to ensure affordability as required to stabilize and then grow enrollments
  - o improving student retention by working in a coordinated fashion at regional and state-wide levels to accelerate scaled adoption of proven industry best practices
  - o increasing enrollment of new students by working together to break into new student markets, notably through workforce aligned and short-course credentialing programs targeting adult-degree completion, reskilling, and upskilling, and mounted on regional and statewide levels, potentially in partnership with other education providers and employers
  - o engaging in a whole new generation of public-private partnerships (in all aspects of work) and in aggressive donor and alumni development

2. Implement tools that enable an outcomes-oriented approach to enterprise management

These tools will include:

- Measurable System goals focused on student and university success that ensure sustainable, affordable, quality, workforce-aligned education
- An agreed to understanding of universities' respective contributions to the goals
- University-level and System-level strategies and budgets that support progress toward the goals
- An accountability framework that enables transparency, drives continuous improvement, and underpins individual and institutional performance management
- An intentional and deliberate strategy for identifying, addressing, and making measurable progress in improving internal cultural issues that impede progress

3. Retool budgeting and investment practices enabling us to:

- reorganize and reprioritize the use of System resources, freeing investment funds to support growth while ensuring stability for the affordable, high quality programs that the people and economy of the Commonwealth require
- ensure continuing student affordability
- make strategic budget trade-off decisions where necessary at a System level

4. Strengthen governance structures and amplify and integrate communications and advocacy efforts

Begun in 2017, work on governance focuses on:

- Clarifying roles, responsibilities, accountabilities, and performance expectations of the Board of Governors and its members, the councils of trustees and their members, the chancellor and the university presidents
- Strengthening shared governance

Continuing work on strategic communications and advocacy seeks to integrate and align efforts at universities and System levels in order to:

- Demonstrate to students and prospective students alike why there has never been a better time than now to attend a great State System university. Not only do the universities represent the most affordable, high-quality, career-relevant option in Pennsylvania, they are a living laboratory where students will be an integral part of a close-knit community and experience and contribute to the energy and creativity involved in student-centered innovations that are taking place
- Demonstrate the return on both public and private investment in the System and its universities
- Enhance public trust and understanding of the role the universities play in contributing to the economic, social, and cultural well-being and health of the people of the Commonwealth

5. Restructure the State System office

Building a high-performing leadership team that focuses transparently on and demonstrates value in:

- Change leadership through its reliance on data-driven, consultative approaches to strategy and execution, and on university connectivity as required of a "sharing system"
- Effective client-oriented execution of centrally managed services

- Alignment and integration of strategic communications and advocacy efforts
- Effective interface with elected and appointed officials and with statewide and national entities in key business, education, government, philanthropic, and other sectors
- Support for universities as necessary to ensure adherence to necessary state and federal laws, rules, and policies as stewards of the public trust

6. Work in partnership with key stakeholders in the state, and the business and education communities to address critical structural and public policy issues
Success of this transformation is contingent on addressing issues that lie outside the Board of Governors' span of control including:
- Statutory and regulatory constraints that add cost and/or impede the universities' and the System's responsiveness to rapidly changing market conditions and workforce and educational needs
- Education public policy and public investment strategies that spread scarce resources too thinly, thereby endangering economic development by weakening education-workforce pipelines

Taskforce recommndations

Executive Summary

Phase 2 of System Redesign began in October 2018 with the Board of Governors establishing three task groups—1) Student Success, 2) University Success, and 3) Systemness. The purposes of the task groups were to:

- Identify measures around which the System will set goals—and universities identify contributions to those goals—in order that they may transparently report progress, establish feedback loops that enable continuous improvement, and build an accountability system that drives individual and institutional performance management (task groups 1 and 2).

- Recommend an operating model for the State System that will sustainably provide affordable, relevant higher education for all Pennsylvanians; expand opportunities for all regions and for populations at risk of being priced out of higher education and the pathways to sustaining careers it offers; meet the Commonwealth's rapidly changing workforce development needs (task group 3).

The task groups included representatives who were invited from the following stakeholder groups: Board of Governors, Councils of Trustees, the System leadership, university leadership, faculty, staff, and students.

The process gave careful consideration to unique and distinctive qualities of the System's 14 universities, including:
- the intimate nature of the education they offer;
- their central importance to the communities they serve;
- their responsiveness to workforce needs; and
- their ability to cultivate a combination of technical skills required for initial post-graduation employment and the higher-order soft skills that enable graduates to pursue successful careers, contribute to their communities, and participate effectively in the 21st century economy.

The process also was informed by data on the System's current performance—both financially and with respect of its students' success—as well as at challenges looming on a ten-year horizon that foretell a number of unsettling trends:
- demographic—decline in the size of the high-school leaving population coupled with growing adult demand for degree completion, re-skilling, and upskilling;
- workforce—where there is evidence of considerable mismatch between the projected kinds of graduates colleges and universities are producing and the kinds of graduates Pennsylvania employers need to fill jobs;
- economic—probability of a recession at some point in the next decade; and political.

The task groups' work has led to recommendations that *contemplate nothing short of a fundamental transformation in how the State System operates while providing a route map for the redesign of public higher education generally in this country*. These recommendations are not motivated out of fear with respect of the challenges, but out of optimism that the State System can extend opportunity for individual mobility and enhance its contribution to the state's economic competitiveness.

Stated succinctly, the recommendations include the development of a **sharing system** where universities work interdependently—leveraging their combined scale to maximize students' access to academic programs, experiential learning opportunities, career placement, and more by:

- expanding the breadth of programs they offer, including the development of new degree and certificate programs that are directly responsive to workforce demands;
- improving students' outcomes around measurable goals while enriching the quality of their experience;
- partnering with employers and employer groups, but also with schools and other higher education institutions to ensure the construction of educational pathways that efficiently lead students into sustaining careers;
- significantly reducing operating costs through the extensive use of deeply shared infrastructure; and
- developing new revenue streams through the use of public/private partnerships and expanded support from donors and other funders.

The task groups also are recommending measures for which the System will build goals and then use to incentivize progress through accountability and performance management systems and routine budget allocation, tuition setting, and one-time investment decisions. Recommended measures reflect stated System priorities established during Phase 1 of the System Redesign:

- Student success – how well students progress towards a credential and how well they fare in the labor market after graduation (measures to be disaggregated by student group)
    - students' credit completion ratio;
    - students' graduation rate; and
    - students' salary (earnings thresholds) achieved by graduates.

- University success – how effectively and efficiently universities operate, ensuring they allocate the maximum share of every dollar earned in support of students' success as well as their financial viability and that of the System as a whole
    - student affordability (e.g., average unmet need and average net price);
    - university financial strength as evident in ratios having to do with its primary reserves, net annual operating revenues, and debt levels; and
    - university progress building alternative revenue streams (e.g., through donor funding, public/private partnerships).
    - university participation in meeting student success goals and contributions to the overall success of the sharing system.

In the coming year, measures will translate into System goals and the development of university contributions toward those goals. Additional measures will be developed related to the System's success in implementing and ultimately delivering results from its proposed operating model.

The task groups recognize the audacity of these proposals and the complexity for implementation— given the System's history, culture, governance process, existing statutory and regulatory burdens, lagging state funding, as well as the challenges emerging from the broader educational and political ecosystems. The task groups draw confidence from four sources:

- While the operating proposed model has not been tried at any scale, exemplary representations of each and every one of its key aspects exist somewhere in U.S. higher education. In other words, the System can draw on the work of others to identify and seek to adopt emerging best practices.
- The System's long history is marked by periods of massive and successful transformation, i.e. in the transition from normal schools to state universities.
- The grit, determination, and creativity of the System's faculty and staff and the support of the communities that the universities serve.
- The simple fact that the *cost of not acting boldly and with courage will assure terminal decline and exact a price on the people of Pennsylvania that is unacceptably high*.

The challenges will be great. They will require fundamental shifts in how the System thinks, how it acts—shifts in its very culture. Key among these transformational shifts are:

SHIFTING FROM:	TO:
Universities aggressively compete with each other for scarce students, and human, financial, and other resources	Universities collaborate to serve existing students better and compete more effectively within Pennsylvania's vibrant and crowded post-secondary educational ecosystem
Barriers to student academic progress exist through misaligned information systems and cumbersome bureaucracy	Students, credits and revenues flow freely maximizing student academic progress
Universities have high overhead costs and constrained program breadth and revenue opportunities	Universities aggressively leveraging combined operating scale to expand opportunities and revenues growth while lowering overhead costs
Decision makers at all levels relinquish authority to do what's best for students due to political and other pressures	Decision makers at all levels exercise authority in the best interest of students in the face of political and other pressures
The central office functions for the state as a compliance and administrative organ	The central office focuses on strategy, data-driven outcomes, and shared service connectivity for universities
The system asks for state allocation each year based on claims about the role and importance of public higher education and references chronic funding gaps	The system presents an investors' prospectus to the Governor, Legislature, and other stakeholders—focusing on providing measurable return on investment to the state, economy, and people of PA

Next Steps

The task groups recommend that the Board:

- Affirm the sharing system operating model—charging the Chancellor with
  - developing an implementation plan including cost-benefit analyses of implementation options; enabling policy changes; budgetary, investment, and other incentives and other structures that enable the significant cultural, organizational and behavioral shifts that are required; as well as timelines and key milestones; and

- Affirm measures of student and university success—charging the Chancellor with translating measures into System goals including agreed university contributions to those goals, and using the above to implement:
  - an accountability framework that enables routine reporting and review of progress towards goals; and
  - individual and institutional performance management system that fosters continuous improvement.

With Board oversight and affirmation at key milestones, the Chancellor is responsible for the System Redesign in consultation with key stakeholder groups. Unless otherwise indicated, task groups and teams that contribute to it are appointed by and advisory to the Chancellor based on recommendations received from key constituencies (e.g., university presidents, union presidents, Board members, and Trustee leadership). Progress of System Redesign can be followed online at www.passhe.edu/SystemRedesign.

1. Leverage operating scale to grow revenue and operate with maximum cost efficiency

Responsibility: Chancellor in consultation with the Council of Presidents

Work package	Consultation path (staff and other supports)	Date for initial deliverable
Academic policies enabling cross university programs/ instruction	Faculty team (TBD)	Q3/4 2019 – recommended changes with implementation plan/timeline
Digitally enabled and distance learning	Cross-functional team with outside expert (TBD)	Q4 2019 – options projecting role(s), goals, ROI in the sharing system, operating scope, service models(s) and implementation path(s), timeline/milestone to launch, investment (cost)
Scaling best practice in student advising to drive retention	Cross-functional team with outside expert (CTO)	Q4 2019 – options projecting goals and ROI in the sharing system, and strategies for accelerating time to impact, timeline to full implementation, investment (cost)
Accelerating development of workforce aligned credentialing programs	Cross-functional team with outside expert (CTO)	Q1 2020 – options projecting role(s), goals, ROI in the sharing system, and implementation paths, timeline/milestone to launch
Shared services (statewide and regional opportunities with business, administrative, and academic related functions) and other strategies for aligning costs with enrollments	Cross-functional team (CFO, third party consultant)	Multiple to Q4 2019 including (Q3 2019) prioritized, costed shared services implementation plan with ROI, milestones and timelines

NOTE: Each deliverable will require analysis of the financing options and mechanisms necessary to move these strategies

2. Develop/implement enterprise management tools that drive towards above objectives

Responsibility: Chancellor in consultation with the Council of Presidents

Work package	Consultation path (staff and other supports)	Date for initial deliverable
System goals and university contributions to them	Cross-functional team (EBI)	Iterative to Q1 2020 with preliminary System goals Q3 2019 to include template and guidance for planning; reporting dashboard
Strategic Financing: Retooled university and System budgeting, budget approval, and allocation processes, and tuition setting policies and practices	Team (CFO with consultant)	Multiple recommendations and implementation plans with dates TBD 1) for university adoption of common budgeting practices and definitions 2) for aligning university budgets with university strategies and related goals 3) ensuring system wide budgets grow directly, transparently, and automatically out of university budgets 4) For developing / allocating system level pool of investment capital 5) For guidance on budget/investment actions resulting from university/System over- and under-performance against goals
Strengthen System capacity and outreach	Team (Leadership team members with outside experts)	Increase confidence in the System office 1. Onboard new management teams 2. Streamline processes 3. Rebuild and enhance relationships with key constituencies 4. Enhance strategic communications & advocacy

Performance management and accountability	Team (LR/HR with expert)	Multiple recommendations prioritized with implementation plans (to Q4 2020 with initial report Q2/3) 1) For cascading outcomes oriented performance management across system with training and staff/faculty development supports 2) For gathering baseline data on cultural issues and using them to drive culture/ performance improvement

NOTE: Each deliverable will require analysis of the financing options and mechanisms necessary to move these strategies

3. Clarify governance structures

Responsibility: Chancellor in consultation with the Pennsylvania Association of Councils of Trustees

Work package	Consultation path (staff and other supports)	Date for initial deliverable
Board of Governors	TBD	Multiple recommendations with implements plans (to Q3/4 2019) 1) Liaison role on the Board (Faculty, PACT) 2) Expectations of and selection criteria for Board members 3) Board member onboarding
PACT	TBD	Multiple recommendations with implements plans (to Q3/4 2020) 1) COT system advocacy and branding 2) COT system engagement 3) Expectations of, selection, and evaluation of trustees

NOTE: Each deliverable will require analysis of the financing options and mechanisms necessary to move these strategies