Systemness Task Group Preliminary Recommendations

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

Background

The task group considered six operating models for Pennsylvania's State System of Higher Education (Appendix A), evaluating each with respect of:

1) mission to provide affordable, high value, and relevant postsecondary education for all of Pennsylvania including in regions and with populations that are underserved and/or at risk of being priced out of higher education and the pathways it offers to sustaining careers, effective participation in the 21st century economy, and meaningful community contributions;
2) impact on student success (student outcomes, cost, the student experience);
3) cost and degree of difficulty of implementation; and
4) selected other considerations (e.g., positioning for the State System in a competitive higher education ecosystem, implications for university and system brands and brand identity).

Work was informed by financial forecasting based on budget, demographic, and other trend data that was used to predict financial sustainability of different system models (Appendix B).

Having settled on a recommended operating model, the task group also evaluated key changes that the State System would need to make in order to implement the new model (Appendix C). This resulted in concrete implementation steps that are also included in the body of this document.

Comments on these recommendations have been invited to be submitted through the System Redesign website (www.passhe.edu/SystemRedesign) prior to the Board of Governors' meeting on January 16-17, 2019.

Systemness Task Group - Invited Participants:

Name	Stakeholder Group
Elisabeth Burton	Staff
Milissa Bauer	Trustee
Sheleta Camarda-Webb	Staff
Shelby Chepress	Student
Ray Feroz	Faculty
Chris Fiorentino	President
Randy Goin Jr.	OOC Staff
Dan Greenstein (CHAIR)	OOC
Don Houser	Board Member
Ken Mash	Faculty
Tim Moerland	Provost
Rob Pignatello	President
Art Seavey	Outside advisor
Ann Womble	Trustee

Recommendation

The task group recommends fundamental transformation of the State System's operating model as required to sustain its mission while reversing its financial decline. Specifically, it recommends the development of a ***sharing system*** in which universities work interdependently

to leverage their combined massive operating scale in order to efficiently and nimbly sustain—even expand—the breadth of degree and certificate programs, to improve and enrich the quality of experience for all students wherever they are located and in whichever university they are enrolled, and maintain its overall student affordability. By advancing degree and certificate programs on state-wide and regional bases – the sharing system will respond effectively to changing educational needs, including those resulting from evolving workforce demands. Key features of the sharing system and next steps are summarized below.

Transforming System Operations	
Key features	**Key actions**
Students have access to the full breadth of educational opportunities available across the State System, irrespective of where—at which university—they are located	Develop policy and systems environments that enable cross-campus instruction (e.g. course credits, transcript records, course catalog information etc., flows freely between universities) Integrate consistent best-of-class approaches in digitally enabled learning and distance learning, supporting them with scaled implementations of operating platforms and supports
Universities coordinate in the development of selected degree and certificate programs in order to distinguish their respective brands, compete more effectively in a complex education ecosystem, including in workforce aligned credentialing and programming in high-need areas	Revise program development and review processes to give greater visibility and foster greater alignment and coordination across universities Create funding and other incentives that reward regional and state-wide coordination; pursue additional state investment to address high need areas Partner with employers and employer groups regionally and on a state-wide basis in high need areas (e.g. to develop: competency maps that inform credentialing programs; internships, coops, apprenticeships and other service-learning programs that can be mounted on a state-wide basis, etc.; corporate training opportunities, etc. Partner in program design with "feeder" schools and two-year colleges) Convene professional communities of practice across the system to identify and accelerate adoption of industry best practices and operating environments that support innovative workforce
	aligned programming Revise policy environment(s) and systems infrastructure where necessary

Coordinate outreach to selected student groups recognizing their distinctive infrastructure and other needs (e.g. adults with some college interested in degree completion, reskilling or upskilling, veterans, international and out of state students)	Jointly conduct market research, needs assessment, etc. and market to selected underserved groups
Systemically scale identification/adoption of evidence-based best practices that demonstrably improve student retention	Convene professional communities of practice regionally and on a statewide basis to identify and accelerate adoption of industry best practices and operating environments in high-potential areas (e.g. student advising, remedial/developmental education)
Diversify and grow alternative revenue streams	Coordinated at university, regional, and system levels and with foundations to grow public-private partnerships, enhance donor support, etc., addressing structural and policy impediments as necessary Build economic development partnerships with local and regional governments to drive the development of new business and industry

Investing in transformation	
Key features	**Key actions**
Reorganize and reprioritize the use of State System resources, freeing investment funds necessary to develop sharing system	Aggressively extend shared services to reduce operating cost and manage risk, focusing on business and administrative functions that can more effectively be shared on regional and statewide bases (e.g. data warehouses, financial aid packaging, etc.) Create funding and other incentives to drive adoption of shared services and to improve overall efficiencies in university operations Use state appropriations and other State System resources to strategically and appropriately invest in and incentivize new initiatives and progress toward goals, to support successful university initiatives, and to help universities surmount challenges
Foster shared accountability among all stakeholders for the financial performance of the sharing system and its constituent universities (critical given the financial interdependence of our universities – each is impacted directly by the financial successes and failures of the others)	Create an investment committee involving key stakeholders, charging it with: • aligning budget and budget reporting practices across universities to ensure consistency, comparability, transparency • reviewing university budgets and making recommendations to the Board of Governors

Use funding incentives to drive transformation and the development of a sharing system	Create an investment pool, including from resources that are saved through efficient operations and use of shared services Charge the investment committee with reviewing investment proposals and recommending responses to them by the Board (through the Chancellor)
Build a prospectus that demonstrates the return on both public and private investment in the sharing system.	Ramp up and align evidence-based advocacy efforts by integrating university and state wide efforts Work in coordinated fashion at university, system, and state-wide levels and with foundations to grow public-private partnerships, enhance donor support, etc.

With respect of university governance and decision-making structures, the recommendation assumes progress along the paths already begun through the System Redesign process and identified in the Board's October 2018 resolution and including:

- an outcomes- and goal-oriented approach to System and university strategy, budgeting, and resource allocation mechanisms;
- a higher degree of university autonomy with respect of decision-making coupled with a higher degree of accountability for the universities, System leaders, and the Board to each other;
- an accountability system that ensures transparency and supports greater individual as well as institutional performance management from the Board, through the Chancellor's Office, Council of Trustees, Presidents, faculty and staff; and
- further clarification about roles, responsibilities, and expectations of Council of Trustees (a subject being considered by the Pennsylvania Council of Trustees with recommendations to be presented at the January 2019 Board of Governors meeting).

Consideration is also being given to mechanisms that may strengthen faculty liaison with the Board. Presently these issues are being addressed within the bounds of Act 18

Next steps

The task group recommends that the Chancellor establish the following teams to develop detailed implementation plans including milestones, timelines, and cost-benefit analyses. Work of the teams will be undertaken transparently, based on rigorous use of data and analysis, and reported regularly through the System Redesign website and normal consultative channels. As appropriate, information gathered by the teams will be taken into discussion with union leadership for consideration with respect of Collective Bargaining Agreements.

Team 1. Academic policy, program review, and coordination - recommend change in policy, practices, and systems infrastructure as necessary to achieve educational objectives specified for the sharing system. The team will comprise leads of and provide oversight and coordination to specialized sub-teams.

- *Academic policy* – consisting of faculty and recommending policies that facilitate cross-campus instruction. The group also will 1) nominate from among its members a faculty liaison to the Board of Governors who shall serve for a period of time determined by the

Board Chair, and 2) recommend options to the Board for an enduring mechanism for consultation at the statewide level around faculty issues. Note that recommendations envisaged under (1) and (2) are not intended to alter the role that APSCUF plays with respect of faculty under the terms of the Collective Bargaining Agreement (CBA), nor shall any potential liaison to the Board speak for the faculty on matters pertaining to the CBA.

- *Digitally enabled and distance education* – will recommend policies, practices, and systems infrastructure requirements as necessary to achieve the objectives outlined for the sharing system, ensuring performance at or above the levels attained by industry leaders.

- *Advising* – will recommend policies, practices, and systems infrastructure as necessary to improve retention as an essential means of achieve objectives outlined for the sharing system, ensuring performance at or above the levels attained by industry leaders.

- *Programs review and collaboration* – analytically identify high-targets of opportunity for degree and alternative credentialing programs mounted on a statewide or regional bases, potentially in partnership with high schools, colleges, and/or employers, recommending changes in policy, practices, incentives, and systems infrastructure as necessary to facilitate their development.

Team 2: Investment in the sharing system – grounded in careful analyses, the group will focus on changing the trajectory of projected cost and revenue curves for the System. It team will comprise leads of and provide oversight and coordination of specialized sub-teams which may review:

- *Shared services* – recommending prioritized and sequenced implementation plans for the development of shared services, mounted on regional or state-wide bases, and taking account of opportunities with business, administrative, and academic and academic-related functions (the latter in collaboration with Team 1).

- *Investment strategies* – will make recommendations about:
  o common university-based budgeting practices that will be required in pursuit of the above objectives;
  o the construction of budget policies that support cross-university instruction and multi-university academic programs; and,
  o the development and use of an investment fund that will be required to develop the sharing system.

- *Revenue growth strategies* – will make recommendations about potential for:
  o greater regional and statewide collaboration in developing alternative revenue streams;
  o expansion of degree and credentialing opportunities working with underserved student groups and/or in undersupplied workforce aligned credentialing programs (in collaboration with Team 1).

Appendix A. Taxonomy of operating models

1. Purely market driven (sink or swim)
Universities are entirely self-sufficient financially, wholly responsible for their P&L. Public allocation is distributed on a normalized basis (e.g., by FTE) and not weighted for any other characteristic.
Goal: sustainability of student opportunity at financially successful universities; brand differentiation

2. Modified market driven

As above, only a range of shared services are available from the commons on an opt-in basis to help universities achieve cost efficiencies in back-office functions and common administrative functions (e.g. labor relations, payroll, procurement). Shared services are mandatory and/or offered on an opt-in basis. The model more or less represents the system in its current state of operations.

> Goal: as above, only leveraging lower back-end cost structures in order to potentially lower the cost to students (and serving a broader demographic) while boosting the institutional survival rate; thereby, sustaining greater regional relevance or identifying a niche

3. Regulated market driven

As above (under either 1 or 2), except that the public allocation is distributed in a "weighted manner" that is driven by specific proprieties (e.g., advantage small colleges, reward certain outcomes).

> Goal: as above, also optimizes around sustaining some historic regional or niche institutions at the cost of brand differentiation

4. Single Hub and Spoke

A flagship institution provides academic and back-end business and administrative functions that are utilized by branch campuses to support students in region (WGU, several for-profits e.g., Career Ed, Penn State to a limited extent)

> Goal: optimize for regional breadth of affordable high quality higher education but with limited local variation/distinctiveness and brand

5. Multiple Hubs and Spokes

As above, only with regional flagships or hubs with their own satellite campuses (Arizona, CN)

> Goal: as above, only with a greater degree of localization as possible within broad region (e.g., western PA)

6. Interdependence

In this model, universities are largely independent entities responsible for their own trajectories and brands, but not for managing the full stack of academic, administrative and business operations. Instead, they source academic, administrative, and business functions from third parties (including those managing shared services), to meet the needs of their students and communities with respect of cost, programming, etc.

> Goal: as hub and spoke only ensuring greater brand differentiation

Appendix B. Financial forecasting

Financial forecasting entailed modelling the State System's cost and revenue profiles to 2027/28 and their impacts on unrestricted net assets—the cash reserves that are available. Forecasts were based on historic trend data for key revenue and cost drivers (e.g., enrollments, tuition, and state appropriations on the revenue side; salary and benefits and annuitant health care obligations on the cost side) and were supported with a simple modelling tool simulating impacts of different assumptions (e.g., about changes in state appropriation or enrollments).

Financial forecasting is a directional tool not a precision instrument, but showed convincingly that absent fundamental transformation of its operating model the System and its universities will continue in financial decline—undermining their ability to serve students, employers, communities, and the state.

The forecasting also demonstrated that

- universities are financially interdependent; the financial strength and sustainability of any one rests on the financial strength and sustainability of all of the others;
- universities have to work together on both costs and revenues, as cost cutting itself will not be sufficient to ensure financial sustainability; and,

- university closure is neither an efficient nor plausible means of achieving financial sustainability; given the revenue and cost structure of the State System's universities, the option would require extensive closures that would cause significant socio-economic disruption in impacted communities and impose extensive costs on the state (obligation for all bonded indebtedness; increased social services costs resulting from regional socio-economic dislocation, etc.).

Appendix C. Analysis of key changes required of the State System to move from its current state to the preferred operating model

	FROM	TO	ASSUMPTIONS
MISSION	A) A system designed primarily to sustain fourteen universities	A system designed primarily to ensure success for all of PA's students, regardless of zip code and background	These two models are fundamentally different with different implications for mission, funding, operations, and outcomes; the former requires students to organize their lives around the System/universities; the latter requires the System/universities to organize in support of students
MISSION	B) A culture built on distrust and competition—suffering from competing cross-cutting messaging deployed through multiple advocacy networks	A culture built on a shared sense of mission, trust, clarity around decision rights, inclusive consultation, transparency, and leverage of multiple and highly aligned advocacy networks	It is easier to align advocacy efforts than to overcome the political nature of the governance structure
MISSION	C) A system in which the ultimate decision makers relinquish authority to do what's best for students due to political pressure	A system in which decision makers exercise authority in the best interest of students in the face of political pressure	Political interests impede the State System from making difficult decisions and contribute directly to the overall deterioration of the State System with respect of student success and financial health
VALUE	D) A system that asks for state allocation each year based primarily on claims about the role and importance of public higher education and referencing chronic funding gaps	A system that presents an investors' prospectus to the Governor, Legislature, and other stakeholders—focusing on providing a measurable return on investment to the state, economy, and people of PA	To build support for the State System, we need to demonstrate its value to PA in concrete terms

VALUE	E) A system of universities aggressively competing with each other for scarce students and human, financial, and other resources	A system in which universities collaborate to serve existing students better and compete more effectively with non-system institutions in PA's crowded higher education ecosystem	Universities (a) will always compete to enroll students but should not compete to support their students; and (b) can compete more effectively in PA's crowded higher ed ecosystem by collaborating to recruit in selected student markets
VALUE	F) A system where universities are highly regulated from Harrisburg	A system in which universities have a high degree of autonomy/responsibility in determining their development paths with a high degree of shared accountability (cost, management, quality of education, etc.) to one another	Universities know best how to serve their students because of their deep understanding of local market conditions, student needs, and other institutional contextual issues
VALUE	G) A system of universities with high overhead costs and constrained program breadth, operating largely independently of one another	A system of universities aggressively leveraging distributed resources and expertise to expand program breadth and lower overhead costs	Economies of scale at play
VALUE	H) A system that is the subject of public scrutiny and concern	A system providing leadership in the state and nationally about the role, purpose, and performance of public higher education	The challenges we're facing are not unique to PA, and the solutions will be informative to higher education
PROCESS	I) A system that includes barriers to student academic progress through misaligned information systems and cumbersome bureaucracy	A system that enables the free flow of student credits and revenue to maximize student academic progress	Students are served better when they have access to the State System's combined academic resources in a seamless way
PROCESS	J) A system's central office designed and organized primarily to function for the state as a compliance and administrative organ	A system's central office reconfigured to focus primarily on strategy, data-driven outcomes, and shared service connectivity for universities, while providing support for universities to ensure adherence to necessary state and federal laws, rules, and policies as stewards of the public trust	Systemness is less about authority and central decision making and more about connectivity