

# University Success Task Group Draft Report

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

## Background

**Purpose:** The task group was formed in October 2018 to recommend a framework that will be used to measure university success in support of the sharing system envisioned for the future. Under the new system operating model, university success will mean something quite different from what it does today. As a result, success metrics will also change materially.

The success of our universities is critical to the success of our students as well as to the ability of the communities and regions the universities they serve to thrive into the future. Further, the State System as a whole will be integral to the future health of the Commonwealth.

### Student Success Task Group - Invited Participants:

Name	Stakeholder Group
Guilbert Brown	Staff
James Dillon	OOO Staff
Lois Johnson	OOO Staff ( <i>ex officio</i> )
Bobbi Kilmer	Trustee
Michael Malcolm	Faculty
Jairus Moore	Student
Dale Pehrsson	President
Janet Yeomans (TASK GROUP CHAIR)	Board Member
Brian Zimmerman	Faculty

**Context:** The University Success Task Group believes that long term university success will be characterized by:

- financial strength and stability of each university, thereby assuring the financial strength of the System as a whole;
  - successful development of alternative revenue streams will contribute to financial health
- agile and resilient operating models that are continually updated to improve efficiencies and respond to changing opportunities and challenges; and,
- data-based decision making to optimize resource deployment and instill a strong culture of accountability and collaboration.

These characteristics are designed to be the foundation for a sharing system in which each university seeks to maximize the success of its students while contributing to student and university success overall.

We conclude that reliable data and consistently applied metrics will provide the foundation on which performance expectations will be set.

**Guiding principles for the consideration of measures:** The University Success Task Group was guided by following characteristics in considering all potential metrics:

- Impactful—presenting meaningful information about the financial health of the organization;

- Valid and Reliable—consistently measuring the same thing;
- Comparable—consistent across all universities in the System and, whenever possible, comparable to external data;
- Accessible and Understandable—meaningful to all audiences; and
- As few in number as possible.

### **Assumptions:**

The following assumptions were identified in the development of financial dashboard options:

1. Individual university actions will be driven by the redesigned system structure
2. Absolute numeric targets should not be established but rather acceptable ranges will be set within which a university will be expected to operate. A snapshot taken at a point in time is not a reliable indicator of an effective operation. Falling outside the range (either above or below) will prompt an appropriate intervention by the System.

### **Research:**

The task group began by ensuring that all members have a consistent understanding of the financial data available within the State System and of the financial analysis currently deployed and available for use. Of particular interest were the analytics available through Business Intelligence, and the financial ratio analysis and financial risk assessments performed annually for each university and for the System.

Although there has been significant national research on data-informed decision making in higher education, most national studies regarding financial information tend to focus on student affordability issues and instructional costs for a student or academic program. For example, the Postsecondary Data Collaborative (<http://www.ihep.org/research/initiatives/postsecondary-data-collaborative-postsecdata>), as reflected in its report “*Answering the Call*,” has developed a set of metrics related to student success that include metrics on affordability (net price, unmet need, student loan debt, etc.) and efficiencies in educating a student (time to credential, cost of excess credits, expenditures per student, student share of cost, etc.). The task group supports the use of such measures and expects that these areas will be addressed in the work of the Student Success Task Group.

National research is more limited in the use of university financial dashboards identifying the leading financial indicators which effectively inform decisions, policies, and strategies for long-term university success. Given the limitations in national higher education studies, the task group reviewed the financial analyses of higher education institutions that are conducted by bond rating agencies and researched other system websites for financial dashboards and reports that others produce. Although some systems publicly track some components of their universities’ financial health, we could find no precedents for setting performance targets/goals for financial indicators.

As the task group began meeting, the State Higher Education Executive Officers Association released a white paper: [Monitoring and Assessing the Financial Health and Risk of Colleges and Universities](#), which outlines various financial metrics utilized by systems to understand the financial strength of institutions to ensure they are financially viable, and good stewards of their public resources.

Both this new report and the research on other systems revealed the emerging use of a composite financial index, based on a model created by Prager, Sealy, & Co., KPMG, and Attain (Prager/KPMG). The Composite Financial Index (CFI) creates one overall financial measurement of the institution’s health based a blend of four core ratios: primary reserve ratio, net operating revenues ratio, return on net position ratio, and viability ratio. Beginning fall 2018, the Middle States Commission of Higher Education began requiring universities to annually report on certain financial ratios, including a CFI that is different from the Prager/KPMG CFI. Bond rating agencies typically do not use a CFI in their analyses, as it tends to limit the understanding of institutions’ financial strengths and weaknesses and hampers the recognition

of what steps may be required to ensure financial viability and success.

A university's financial strength is key to its success, sustainability and ability to support student success. The University Success Task Group concluded that financial strength rests on two pillars:

- Revenue generation, with traditional sources being tuition, state funding, donations and grants, and funds provided by public/private partnerships; and,
- Expense optimization through minimizing fixed costs and financial obligations, achieving maximum efficiencies, and investing to build assets that will grow in value over time.

In addition to financial strength, the task group believes that university success indicators should address the following dimensions:

- Leadership and a culture that is collaborative, agile, innovative and united in pursuit of System goals;
- Strength and extent of community partnerships and public/private partnerships that open doors to entrepreneurial opportunities;
- Consistent achievement of student success goals as defined by the Student Success Task Group; and,
- Contributions to the success of the system that meet or exceed established goals.

## PROPOSED MEASUREMENT FRAMEWORK

### Financial strength and sustainability

For each university, the following will be used to gauge financial strength:

- Primary Reserve Ratio—measures unrestricted financial resources to annual operating requirements. Answers the question of how long a university can operate without any new revenue;
- Net Operating Revenues Ratio—measures the difference between annual revenues and expenses. Answers the question of whether the university spent more or less than the revenue it received in one year; and,
- Viability Ratio—measures unrestricted financial resources compared to outstanding debt. Answers the question of how much of the university's debt could be paid off today.

In addition to these financial metrics, the System will continue its current practice of monitoring trends in various financial data and ratios, including funding and expenditures per student and by source/function/object.

### Building alternative revenue streams

Create a metric that combines the following measures of private support (source: Carnegie Community Engagement Certification).

- Revenue raised per full-time equivalent (FTE) student from individual and community donors in the current operating year and historically. The goal will be to have a steadily growing base of contributions from long term relationships.
- Foundation and Grant Support—amount raised per FTE student in the current operating year and historically. The goal is to build long term relationships that reliably provide a steady and growing stream of support.
- Public/private partnerships—number of active partnerships in the current operating year and historical data. A growing base of such partnerships will be encouraged as demonstration of an entrepreneurial culture that seeks opportunities outside traditional channels.

### Affordability

The task group believes student access is critical to university success. As such, it supports monitoring the following metrics regarding the financial capability of students to attend a System university.

- Net price—the average in-state undergraduate cost of attendance less grant aid; and,

- Unmet need—average net price minus average expected family contribution.

### **Consistent achievement of student success goals**

Since improved performance on the metrics recommended by the Student Success Task Group are key to both university and System success, the task group supports measuring university student success results.

- Measure on a scale of 1-5 the extent to which student success goals as defined by the Student Success Task Group were met. (3=generally consistently met, 4=consistently met and sometimes exceeded, 5=far exceeded, 1=rarely met, 2=sometimes met but not consistently)
  - Pro: broad and non-prescriptive, allowing each university to find its own path to success,
  - Con: necessarily requires some element of subjectivity. A process by which the rating of each university is determined would need to be established. A possibility, borrowed from the private sector, is to have each university present its self-assessment for the past year with supporting examples during its plan/budget presentation for the coming year. One benefit is the open discussion required for the final assessment.

### **Contributions to the success of system goals**

- Use a 1-5 scale to capture each of the following attributes.
  - University alignment with and contribution to system goals and strategies.
  - Degree of university collaboration across the system.
  - Impactful innovations resulting in best practices that can be replicated by other universities and leveraged to benefit the system as a whole.
  - The pro and con of this approach are as described above in the section on “Consistent achievement of student success goals.”

## SUMMARY

As a member of a sharing system, a university will be deemed successful if it places student success as a top priority, optimizes its operations, and consistently acts to maximize the value of its contributions to the success of the System as a whole. In so doing, it will necessarily also meet or exceed the goals established by the System for measures that are adopted from the Student and University Success Task Groups. Operating in the proposed framework, an individual university will have no incentive to act solely in its own interest. It will be part of a large system with considerable aggregate resources that will be optimally allocated to maximize the success of its students and the financial health of its universities individually and together. In a sharing system, a financially struggling university will—with a high degree of guidance and oversight—receive assistance from the System to shore it up until its financial health is restored. In the sharing system, financially strong universities will be incentivized to further improve their performance. In general, the System will choose to invest in selected opportunities presented by individual universities to capitalize on projects that will build System resources and strength over time—all focused on ensuring student success.

The sharing system model underlies many enterprises in both the public and private sectors that have enjoyed long term success. As the status quo is no longer sustainable, it is time for State System to adopt a sharing model tailored to its particular goals.