

Report on
EFFICIENCY AND INNOVATION
Prepared for the CPE Strategic Agenda Work Group

Introduction

Public postsecondary institutions depend on two major sources of financial support: state support (in the form of general appropriations and state financial aid dollars) and tuition revenue. Over the last decade, despite strong advocacy efforts, state appropriations have not kept pace with enrollment growth, putting pressure on institutions to raise tuition and lower costs. When HB 1 was enacted in 1997, Kentucky was a low-tuition state; the system could afford some level of tuition increase without compromising affordability and access. Given current and projected state budget shortfalls, Kentucky will find it increasingly difficult to sustain the current rate of tuition increases while maintaining access and affordability. As a result, colleges and universities are being called on to operate more efficiently, contain costs, and generate alternative sources of revenue.

The Council on Postsecondary education has identified efficiency and innovation as one of the four focus areas of the 2011-15 strategic agenda to send a powerful message that postsecondary education is committed to being a good steward of public funds. To assist the CPE Strategic Agenda Work Group in developing the strategic plan, a subgroup of university, adult education, and state government experts was asked to recommend actions the state could take to increase institutional efficiency and innovation while continuing to provide educational services of a quality and quantity to meet the state's needs. The subgroup was co-chaired by Joe Graviss and Dan Flanagan. It met twice in Frankfort—on May 17 and June 22, 2010—and communicated electronically via a SharePoint site. This report reflects the rich discussions and conversations that have occurred. Members of the subgroup are listed in Appendix A.

Problem Overview

The current economic downturn is increasing demand on Kentucky campuses at the same time state funding to support this demand has been cut by \$78 million since fiscal year 2007-08. Net state appropriations per full-time equivalent (FTE) student reached a high of \$10,038 in FY99 but have been declining ever since; in the most current fiscal year (2010), the amount was \$6,758, a \$3,280 decrease from FY99. The effect on state budgets, institution budgets, and students' ability to pay has already been felt and will most likely intensify in light of current and projected state revenue shortfalls, at least through the next biennium (2012-14).

Jane Wellman, executive director of the Delta Project on Postsecondary Costs, Productivity and Accountability, is widely recognized for her work in state fiscal policy and higher education. Writing for the New England Board of Higher Education, Wellman debunks the idea that academic institutions are insulated from the tough economic realities faced by the private sector: "Public perceptions to the

contrary, higher education leaders are no strangers to budget cutting” (Wellman 3). Wellman observes that the dominant response to revenue shortfalls has been cost shifting and one-time budget cuts, with the inevitable consequence of higher student tuitions and a slow erosion of resources to support core academic programs and services. Wellman cautions that many of the easiest operating efficiencies to realize (the “low-hanging fruit”) have already been implemented. The deeper work to permanently reduce spending—through changes in staffing and benefit structures, faculty workload, and achieving greater economies of scale for academic and institutional support—must now begin.

Kentucky’s ability to compete in the global economy will require increased levels of educational attainment. Kentucky must attend to issues of educational inequality that disadvantage minority, first-generation and low-income students; increase the number of graduates within available resources; and improve or preserve quality. Kentucky institutions have been successful in enrolling more first-generation and non-traditional students, but these students typically require extra support services to achieve successful outcomes. They are also the most price-sensitive and least able to weather tuition increases or decreases in student financial aid.

Finally, the campuses operate an aging infrastructure, with great demands for capital renewal and ongoing maintenance, diverting operating funds away from mission-specific activities related to instruction, research, and service. Institutions must become even more efficient and innovative with current resources as well as capturing new sources of revenue in order to meet educational attainment goals of the state.

Recent Statewide Strategies and Initiatives

The Council is involved in two initiatives related to institutional efficiency that will likely inform the development of the strategic agenda over the next few months. First, the Council is convening a statewide summit on cost containment in conjunction with the annual Trusteeship Conference on September 13 of this year, as recommended by the Governor’s Higher Education Work Group. Several professional and institutional organizations provided research and expertise in a series of papers and discussion notes focused on four topics: academic productivity and student success; efficient business practices; facilities construction, operations, and management; and human resource management. After the summit, these papers will be condensed into one executive summary and available on the Council’s Web site.

Second, the University of Kentucky’s Martin School of Public Policy and Administration is leading a team of researchers from Kentucky universities to study approaches for the future funding and delivery of postsecondary education in the Commonwealth. The project will consider policy alternatives for financing postsecondary education, alternative delivery models, and other factors influencing the successful completion of admitted students. These research papers will provide additional background information for the strategic agenda planning process.

Proposed Statewide Objectives and Strategies

The current economic crisis, although difficult, does present a window of opportunity when policy makers, administrators and faculty are willing to consider major changes that would not normally be on the table. The Efficiency and Innovation Subgroup discussed a range of objectives and strategies to ensure Kentucky's postsecondary and adult education systems operate as efficiently and effectively as possible while continuing to make progress toward the educational goals of the state. The subgroup focused on those academic and administrative areas ripe for innovation and change; for every objective, appropriate metrics must be developed to monitor progress and results moving forward.

The Efficiency and Innovation subgroup is recommending that the CPE consider the following objectives and strategies for potential inclusion in the 2011-15 strategic agenda:

Objective 1: To establish a statewide system of measurements and incentives to promote greater institutional efficiency.

Potential Strategies

- Develop common metrics for measuring productivity and efficiency.
- Provide performance funding to reward institutions for the achievement of institutional efficiency goals and link funding to improved outcomes.

Potential Metrics

- Educational expenditures per FTE enrollment
- Educational expenditures per degree
- Educational expenditure differentials by discipline and by level
- Degrees per 100 FTE
- Persistence rates and graduation rates

Objective 2: To optimize administrative operations through collaboration, outsourcing and more efficient space planning and utilization.

Potential Strategies

- Expand joint purchasing agreements with public and independent Kentucky institutions.
- Explore options for consolidating and/or outsourcing back-office and non-academic operations.
- Create partnerships with independent colleges and universities and non-higher education entities—state government, K-12 school districts, and city/county governments—to achieve economies of scale and eliminate duplication.
- Establish goals to meet or exceed national space utilization standards, and take into account the addition of online and/or blended classes to reduce the need for new classroom space.

- Strongly consider the cost benefit of renovation of existing space over new construction.
- Consolidate space usage to reduce energy costs.
- Explore sharing space with other public and independent institutions and K-12 education.
- Consider a policy that would require students to acquire some percentage of their credit hours off campus.

Potential Metrics

- Number of joint purchasing agreements negotiated
- Cost savings achieved by institutional efficiencies
- Space planning and utilization metric TBD

Objective 3: To better align academic programs with the current and future needs of the Commonwealth.

Potential Strategies

- Revise CPE's process for program productivity reviews and approval of new academic programs to minimize duplication, increase mission differentiation, and ensure the adequate provision of programs from both public and independent institutions to meet statewide needs.
- Consolidate, eliminate, or modify low productivity programs and services.
- Establish an incentive program for course redesign that leads to more efficient course development and delivery.
- Encourage institutions to reward faculty in their promotion and tenure process for work with innovative application of technology to teaching and learning.
- Consider policies and guidelines to shorten program hours to help students finish in four years.
- Provide financial incentives or disincentives for the student in order to shorten students' time-to-degree.

Potential Metrics

- Number of institutions with pedagogical technology in promotion and tenure process
- On-line course delivery
- Credits to degree

Appendix A
Members of the Efficiency and Innovation Subgroup

Co-Chairs: Dan Flanagan, Member, Council on Postsecondary Education and
Joe Graviss, Member, Council on Postsecondary Education

Jay Box, Chancellor, Kentucky Community and Technical College System

Gary Cox, President, Association of Independent Kentucky Colleges and Universities (AIKCU)

Mike Dale, Assistant Vice President Academic Affairs and Provost's Office, Western Kentucky University

Mason Dyer, Director of Communications and Research, Association of Independent Kentucky Colleges and Universities (AIKCU)

Allyson Hamilton-McIntire, Manager, Public Affairs, Kentucky Chamber

Shannon Harr, Morehead State University, Undergraduate Research Representative

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

Charles Holloway, Chief Diversity Officer, Morehead State University, Campus Diversity Coordinator Representative

Bill Huston, President, St. Catharine College

Vince Kellen, Chief Information Officer, University of Kentucky

Hinfred McDuffie, Vice President for Administration, External Relations and Development, Kentucky State University

Peg Munke, Coalition of Senate and Faculty Leadership (COSFL) Chair

Frank O'Connor, Professor, Economics, Eastern Kentucky University

Carl Prestfeldt, Director of Fiscal Planning and Analysis, Budget Office, Murray State University

Terry Pruitt, Senior Associate, Administrative Services, Kentucky Adult Education

Jill Ratliff, Director Institutional Effectiveness, Morehead State University

Allen Rose, Vice President for Business and Government Relations, Jefferson Community and Technical College

Bill Swinford, Assistant Vice President for Financial Operations, University of Kentucky

Jason Tomlinson, Assistant Vice President for Finance, University of Louisville

Dianna Waddle, Scott County Program Director (Scott County Public Schools), Kentucky Adult Education
Local Provider

David Walters, Senior Associate, Kentucky Adult Education

Mixon Ware, Eastern Kentucky University, Coalition of Senate and Faculty Leadership (COSFL)
Representative