

DATE: April 23, 2009

SUBJECT: Making Opportunity Affordable - Tennessee Policy Audit

ACTION RECOMMENDED: Endorsement

BACKGROUND INFORMATION: Tennessee is among the eleven states selected to participate in the 2009 “learning year” of Making Opportunity Affordable (MOA), a national Lumina-funded initiative designed to increase the certificate and degree productivity of state higher education systems. Tennessee’s successful proposal was predicated on: framing the 2010-2015 Master Plan around the need to increase educational attainment levels in Tennessee; tying productivity goals to fiscal incentives in the public higher education funding formula and the Performance Funding program; and reaching out to under-participating populations, particularly adult students.

Each MOA state was required to complete a policy audit -- a systematic review of state policies and practices affecting student access, student success, and system efficiency and productivity. THEC engaged the National Center for Higher Education Management Systems (NCHEMS) for this work. Aims McGuinness, Senior Associate at NCHEMS, will present findings and recommendations from the policy audit, which included data analysis and compilation, document review, and extensive interviews with campus personnel, the Tennessee Business Roundtable, Governor’s staff, and legislative leadership. The policy audit is a diagnostic activity that will inform the work of strategy groups convened around the funding formula, Performance Funding, and adult student participation.

RECOMMENDATION: It is recommended that the Commission formally endorse the policy audit as the direction-setting document outlining planning assumptions and policy priorities for the 2010-2015 Master Plan.

To: Dr. Richard Rhoda, Executive Director
Tennessee Higher Education Commission

From: Dennis Jones, Aims McGuinness
National Center for Higher Education Management Systems

Date: April 13, 2009

Subject: Next Steps for Making Opportunity Affordable – Tennessee

Aside from actually conducting the policy audit for the Making Opportunity Affordable (MOA) initiative, you requested that the NCHEMS staff involved in the work in Tennessee provide you with our suggestions regarding the next steps to be taken by THEC in addressing key points raised in the audit. This memo is our response to that request.

The priority action steps as we see them are as follows:

1. Continue to focus on the Master Plan with MOA as a contributing activity but not a project in its own right. At this point it is appropriate to start talking about the Master Plan and play down MOA. It is useful to invoke MOA as a way to keep the leadership team engaged, but for external consumption, we would talk about something that is indigenous to Tennessee – the statutorily required Master Plan.
2. Make increased education attainment the centerpiece of the new Master Plan. This “macro” goal:
 - Is easily communicated
 - Has a ready basis for benchmarking
 - Resonated with the different audiences with which we met
 - Can be easily tied to workforce issues – an important consideration when dealing with both employers and political leaders
 - Can be applied regionally should you choose to do so

Because so much of what needs to be done in Tennessee focuses on the community colleges and technology centers, it would be useful to establish goals by award level – certificates, associates, baccalaureate – as a way of creating expectations for different kinds of institutions. The Student Flow model provides a tool that will let you set targets in a “stretch” but believable way.

Clearly there have to be some other goals – particularly around research and economic development – as a way to ensure that all institutions see a way to connect their core missions to the Plan’s priorities.

3. Make clear the accountability measures that you will use to assess progress toward goal achievement. In essence, design the annual report to the Governor, legislature, Business Roundtable, and the people of the state, as a companion piece to goal definition. You might take a look at the Minnesota publication, *Minnesota Measures*, as an example [Minnesota provides a good example of stating the “what” and the “whether” and leaving the “how” to the governing boards.]



4. Work proactively to build broad consensus around the goals and the measures. In our conversations we got two clear messages:

- Prior plans were viewed as THEC plans. Policymakers had no commitment to them.
- Policymakers are very interested in being engaged in the process of goal definition.

As a consequence, it would be useful to rather quickly:

- Establish a set of goals and accompanying measures, clearly labeling them as drafts.
- Review them with a broad array of audiences
 - Institutional leaders
 - Governing boards
 - Legislative groups – joint committees, education oversight, etc.
 - Business Roundtable
 - The Governor and key staff
 - Editorial boards

It might also be useful to do regional reviews with groups like Memphis Tomorrow and any other such groups whose members can be friends in court when friends are needed.

The purpose is to create a broad understanding of the issues facing Tennessee and higher education's focused response to those issues, creating a set of expectations that will frame the debate about all other policies.

In this process you can also get policymakers to understand the key points of intervention.

5. Focus on a limited number of implementation initiatives. These became evident in the course of conducting the policy audit. Indeed, you have already starting moving on them. Our suggestions – drawing from all we heard in our discussions around Tennessee – are to focus on:

- a. K-12/Postsecondary alignment. It became clear that higher education is sending a very fuzzy message to school teachers and students concerning what it means to be college-ready. This is an area in which THEC can play a key academic leadership role in the P-16 context, working with groups of secondary and postsecondary teachers to develop a clear statement of college readiness standards (knowledge and skills) and the means by which they will be assessed. You might want to look to the Texas Higher Education Coordinating Board's work in this arena for illustration of both process and product.
- b. Education of adults. The data make clear the need for Tennessee to successfully educate many more adults if the state is going to attain a globally competitive workforce. The policy audit discussions pointed to many barriers to adults being successful in pursuit of a college degree. We recommend that a Task Force be named to address a broad range of issues affecting education of adults and charged with recommendations by November 2009 – prior to the 2010 legislative session. The topics to be addressed should include:
 - Approaches to encouraging adults to participate in postsecondary education

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- Workplace oriented assessment of acquired skills – for purposes of both placement and credit for prior learning
 - Size and nature of vocational programs needed to response for workforce demands
 - Assuring articulation/transfer of credit equivalents between TTCs and CCs.
 - Design of a funding model for CCs and TTCs.
 - Tuition and student financial aid models supportive of adult student success.

It is our understanding that this Task Force has already been named and its work is beginning with staff support from THEC.

- c. Do an assessment of the availability and utilization of postsecondary education (particularly community college) services in all regions of the state. This assessment will provide a baseline for information for use by THEC in taking a more proactive stance regarding the delivery of services. The results could reveal needs for:
 - A much more aggressive program of workforce literacy education
 - Expanded program offerings by some institutions
 - Collaborative delivery of services – inter-institutional delivery of programs on another institution’s campus or at a learning center
 - Creation of new institutions – as a last resort

The approach to this assessment has been discussed with THEC staff. We will be pleased to help in any additional ways you deem appropriate.

- 6. Improve both the design and the implementation of the financing mechanism
 - a. Base component of the funding model
 - Move, in stages, to course completions rather than course enrollments
 - Include all courses completed in a fiscal year; move away from the fall term as the basis for allocations
 - b. Performance component of the funding model
 - Create a separate pool of resources for the performance component. Do NOT comingle in times of reductions
 - Add a performance component specifically tied to program completions. Consider giving added weight to graduation of individuals, identified as of primary importance in the Master Plan
 - Students who started with academic deficiencies
 - Adults
 - Underserved populations
 - STEM field majors.

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- c. Tuition
 - Ensure presence of low-priced point of access to postsecondary education in Tennessee
 - Attempt to limit tuition increases to increases in household income
 - d. Student Financial Aid. Throughout Tennessee we heard concerns about the absence of need-based aid – particularly for adults and community college students. Rather than tackle this problem head-on by doing another “work-around” of the existing programs, we suggest that you:
 - Examine the Oregon Shared Responsibility Model to get a sense of the residual cost to the state if that model were implemented in Tennessee.
 - Determine whether or not existing programs could be integrated with this approach. What would have to be modified in the Lottery Scholarship methodology to make them compatible?
 - Do the same with the need-based grant program and Wilder-Naifeh.
 - Develop a series of recommendations that would:
 - Better align student aid programs with state priorities
 - Remove economic barriers for more students
 - 7. Build consensus around the general approach to the financing mechanism. It doesn’t matter how well designed the finance models are if they aren’t implemented. As a result, we suggest that:
 - Legislators and legislative staff be fully informed (and involved to the extent they will be) about the design of the financing mechanism
 - Ties to the Master Plan be explicit and communicated to policymakers at every opportunity.

We hope our sense of the important next steps is useful to you. Let us know if you have questions or want further explanation of any of this.



Making Opportunity Affordable:
Tennessee Policy Audit

Submitted to:
Tennessee Higher Education Commission

April 8, 2009

DRAFT

A. Introduction

The Tennessee Higher Education Commission (THEC) asked the National Center for Higher Education Management Systems (NCHEMS) to conduct a review of the state policies and practices affecting higher education access, success, and productivity in Tennessee. In responding to this request, NCHEMS:

- Compiled data about the education attainment of Tennessee’s residents, the education pipeline in the state and the productivity of the state’s system of postsecondary education.
- Reviewed a variety of materials – master plans, funding models, accountability/performance reports, board policies, etc.
- Conducted interviews with postsecondary education leaders in all parts of Tennessee, with representatives of the Business Roundtable, key legislators and their staff members, Governor’s staff, and with the THEC staff.

These latter activities were particularly important in that they

- a.) Identified major gaps between policies as written and as implemented, and
- b.) Served to point out unintended consequences of some policies.

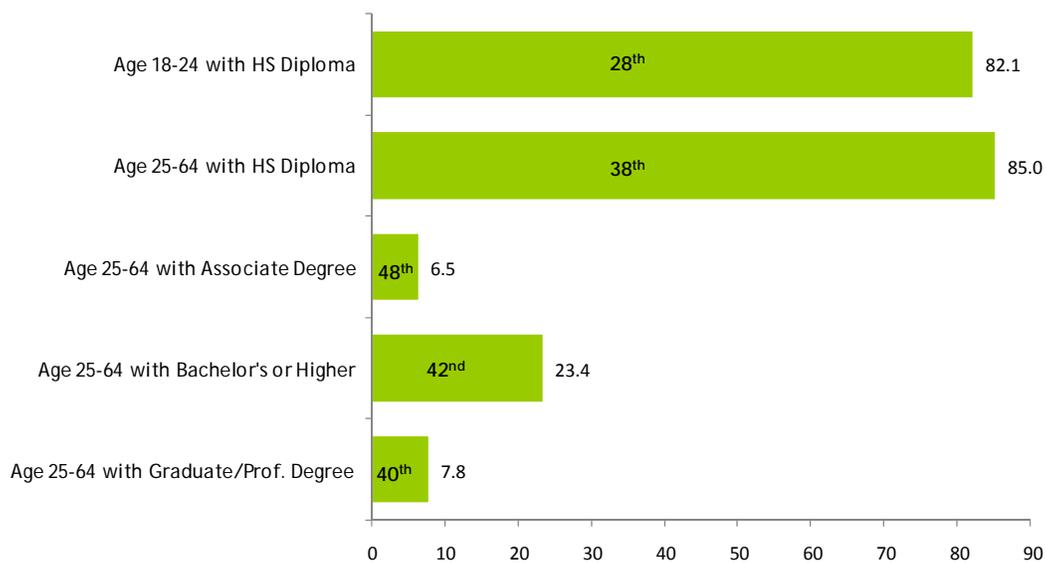
The results of these activities are presented in this report.

B. Findings from Analyses

The Making Opportunity Affordable (MOA) activity in Tennessee is integral to THEC’s Master Planning activity. NCHEMS’ analyses were conducted with this relationship in mind. Analytic findings particularly germane to MOA and the Master plan are as follows:

1. The postsecondary education attainment levels of Tennessee’s resident adults are well below the national average. For adults, Tennessee places in the bottom quintile of states. (Figure 1)

Figure 1. Educational Attainment and Rank Among States Tennessee, 2006 (Percent)



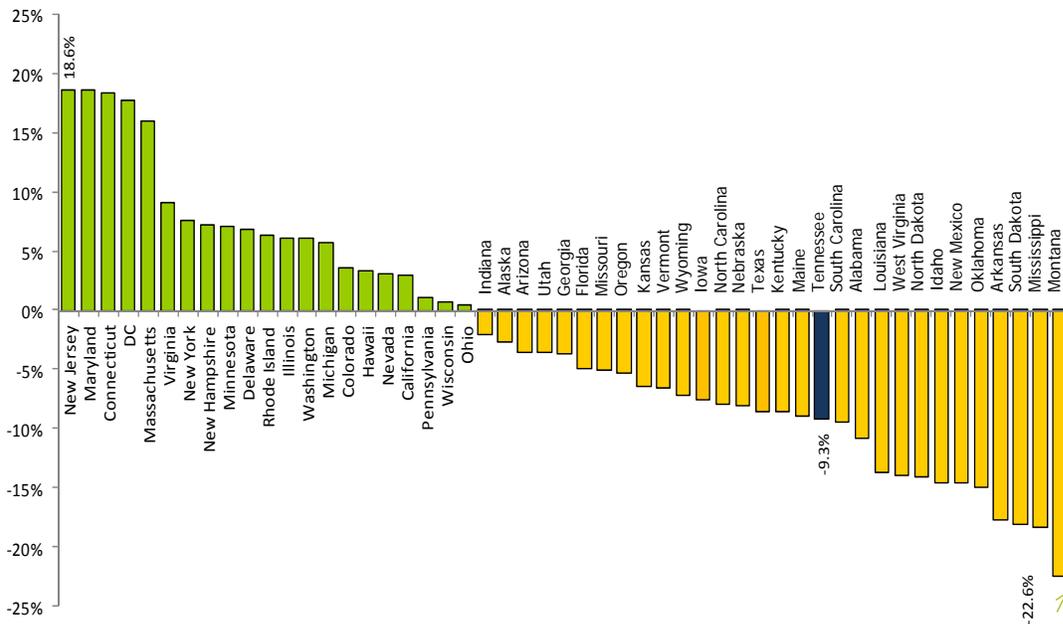
- Education matters greatly in determining workforce participation, more so in Tennessee than in the U.S. as a whole. (Figure 2)

Figure 2. Percent of Civilians Age 25-64 Not Participating in the Workforce by Education Attainment, 2005

	<u>U.S.</u>	<u>Tennessee</u>
Less than High School	37.0	45.2
High School	24.7	25.9
Some College	21.0	21.3
Associate Degree	17.4	16.9
Bachelor's Degree	16.5	17.5
Graduate/Prof. Degree	13.9	13.1

- The education attainment levels of the working age population in Tennessee are such that employment is characterized by low wage jobs. Far more Tennesseans have jobs that pay low quartile salaries than high quartile salaries (Figure 3)

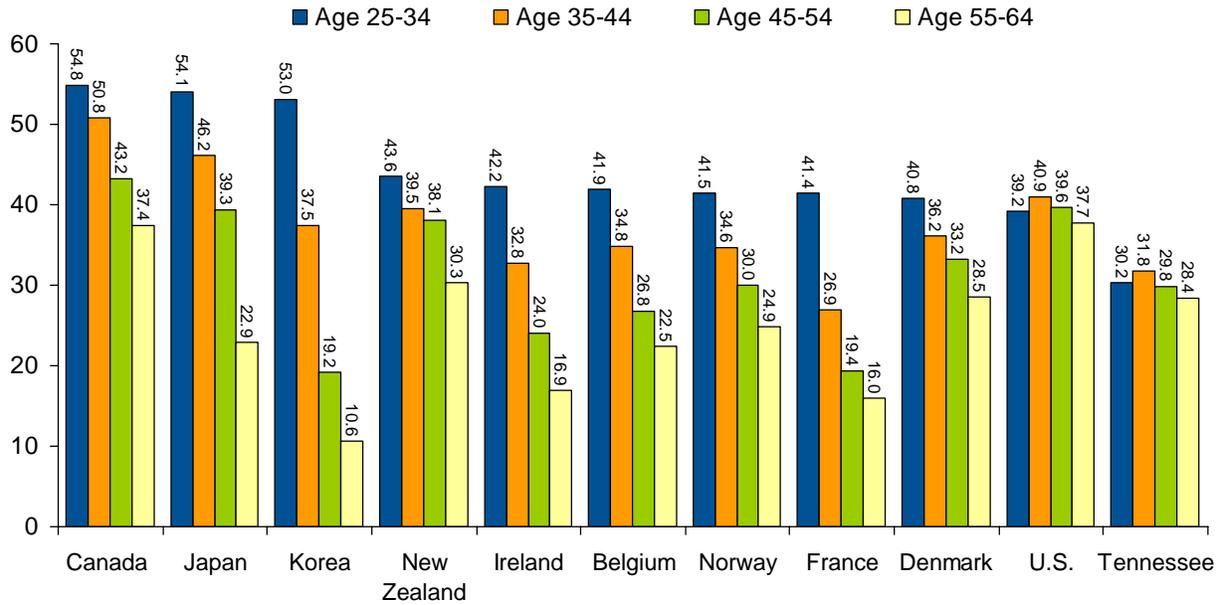
**Figure 3. Percentage of Full-Time Employees with Earnings in the U.S. Quartiles (2006)
(Percent in high quartile minus percent in low quartile)**



4. The education levels of Tennesseans are:

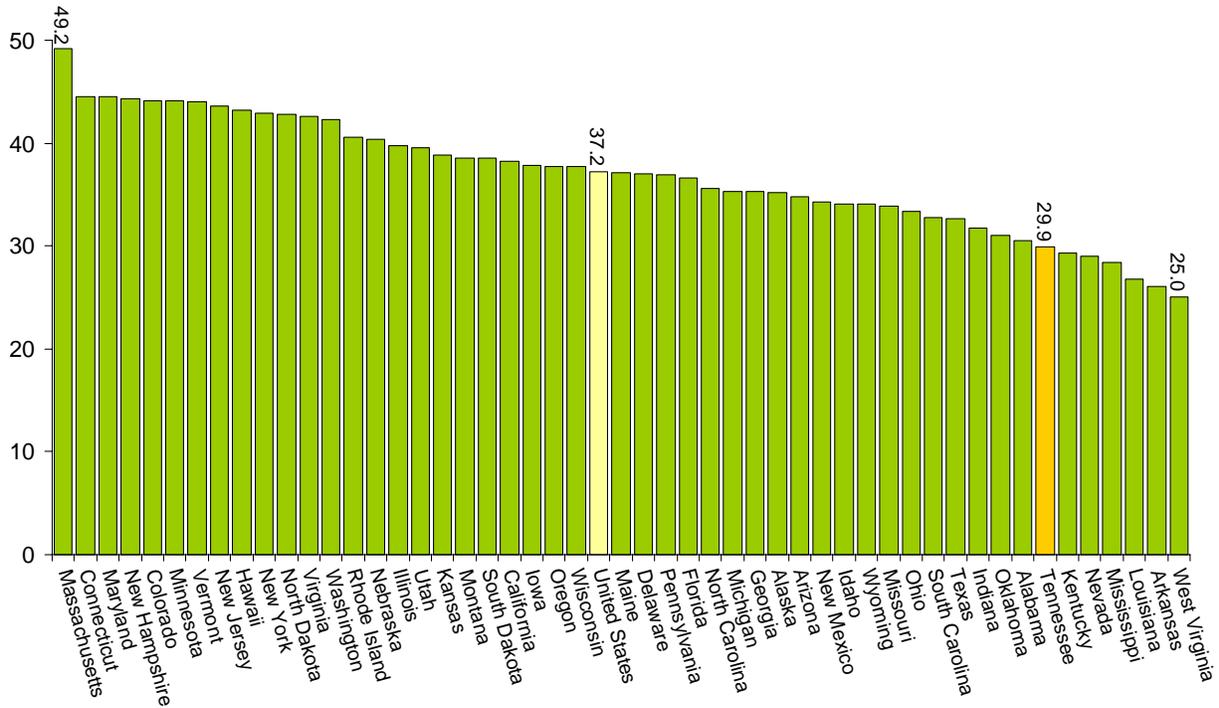
- Much below the U.S. average
- Even more below best-performing international competitors (Figure 4)

Figure 4. Percent of Adults with an Associate Degree or Higher by Age Group - Tennessee, U.S. & Leading OECD Countries



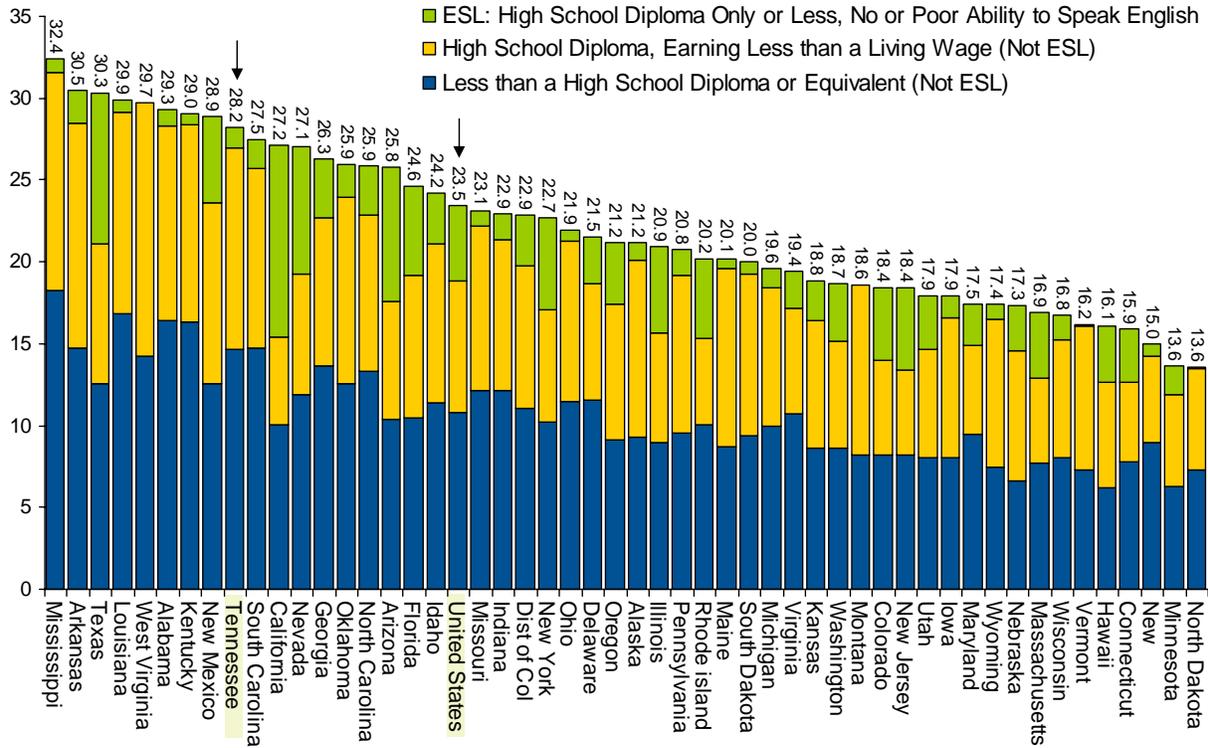
5. Only six states have a working age population with a lower proportion of college graduates than Tennessee. (Figure 5). In addition, these degree holders are distributed very unevenly across the state.

Figure 5. Percent of Population Age 25-64 with an Associate Degree or Higher, 2006



6. More than a quarter of Tennessee adults have insufficient knowledge and skills to equip them for living wage jobs (Figure 6). About half of this group has less than a high school education.

**Figure 6. Adult Education & Literacy
Target Populations as a Percentage of All Adults Age 18-64, 2005**



7. The education pipeline figures show that Tennessee:

- Graduates students from high school at a rate slightly below the national average (Figure 7)

Figure 7. High School Graduation Rates - Public High School Graduates as a Percent of 9th Graders Four Years Earlier, 2006

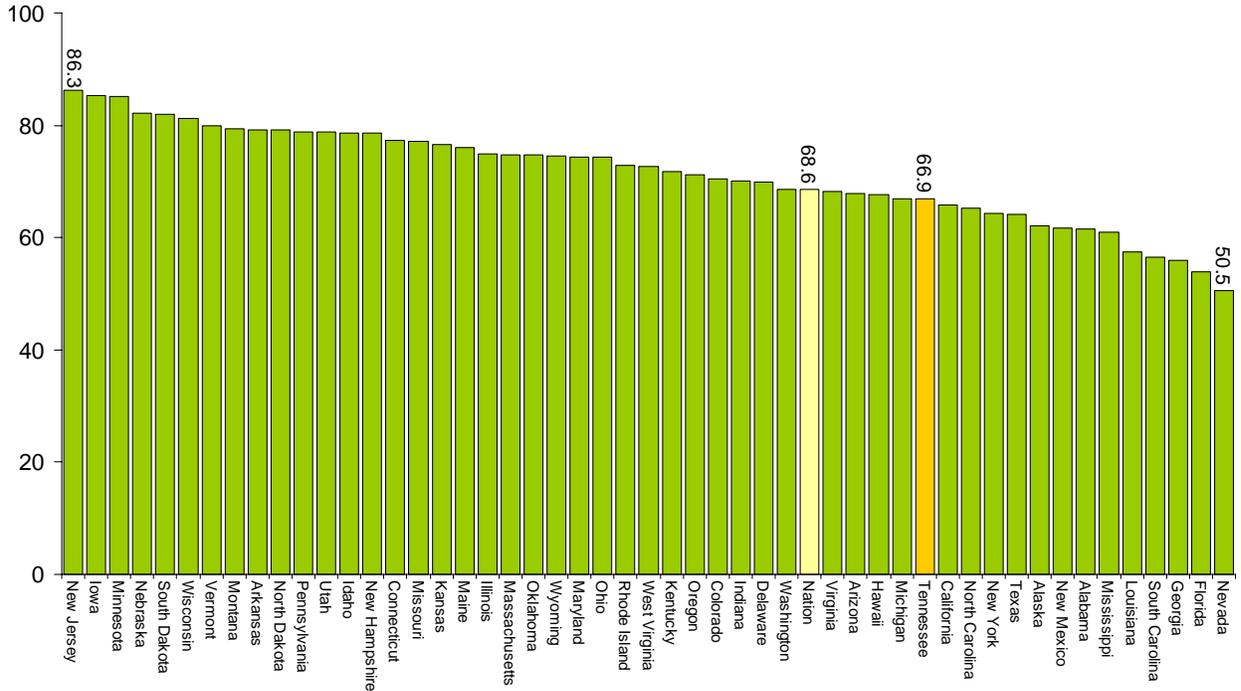
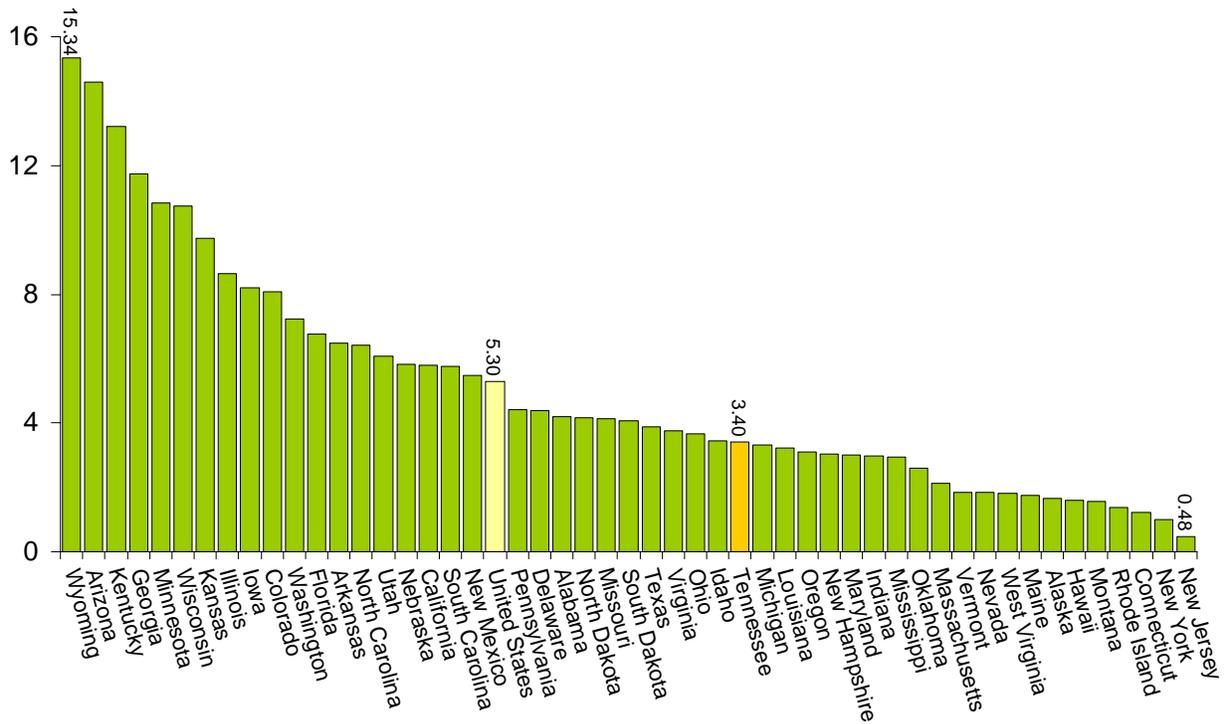
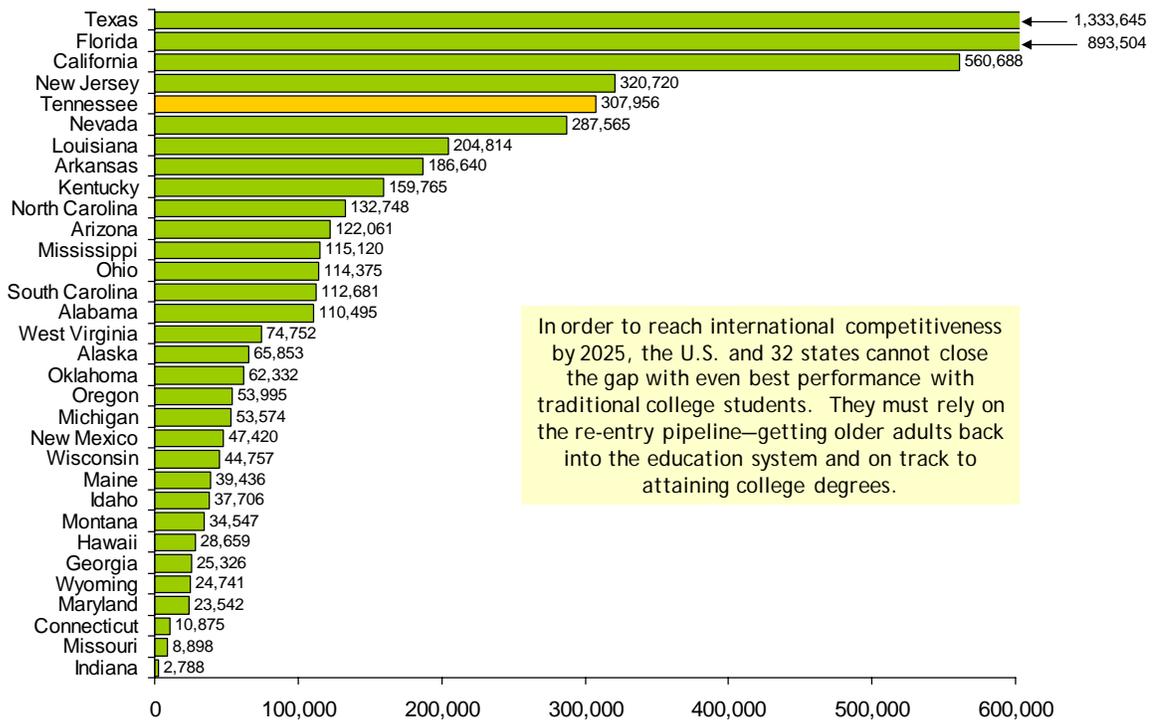


Figure 12. Certificates & Diplomas Awarded at All Colleges per 1,000 Adults Age 18-44 with No College Degree, 2006



- Even with national best performance at each stage of the education pipeline for traditional students, Tennessee would fall far short of levels required for global competitiveness. (Figure 13). The result is a requirement for the further education of a very large number of adults.

Figure 13. Even Best Performance with Traditional College-Age Students at Each Stage of the Educational Pipeline Will Leave Gaps in More than 30 States



- Tennessee’s public institutions produce far fewer degrees relative to funding per student than many other states (Figures 14-16). There is much room for initiatives that would yield productivity enhancements.

Figure 14. Performance Relative to Funding: Bachelors Degrees Awarded per 100 FTE Undergraduates (Public Research Institutions)

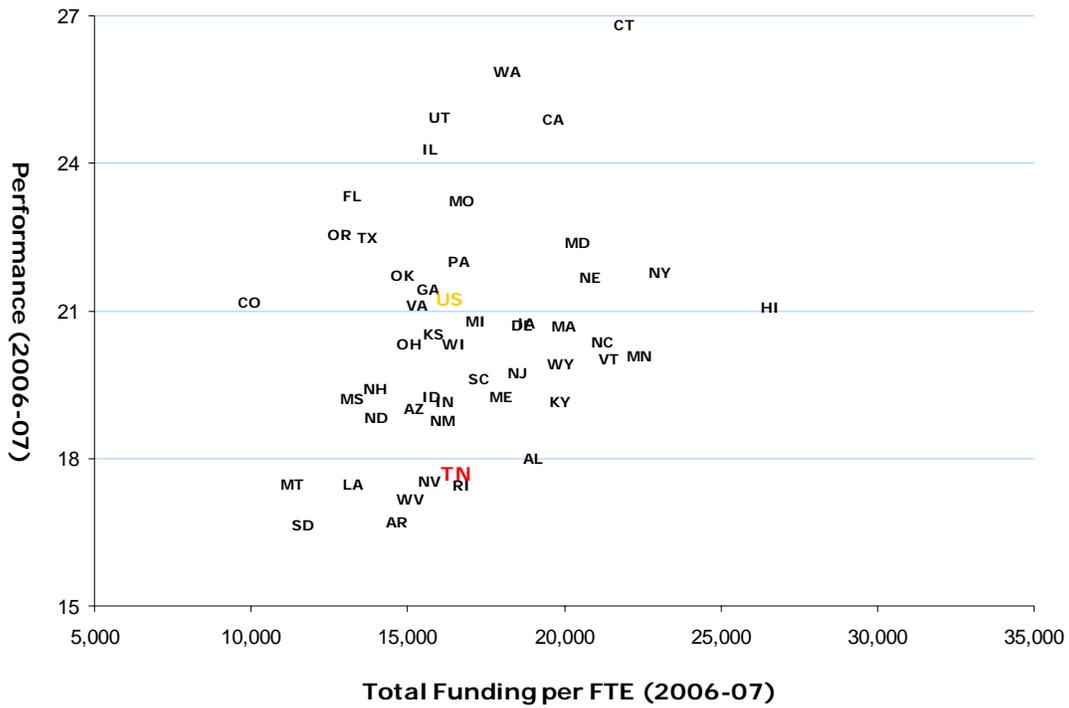


Figure 15. Performance Relative to Funding: Bachelors Degrees Awarded per 100 FTE Undergraduates (Public Bachelors and Masters)

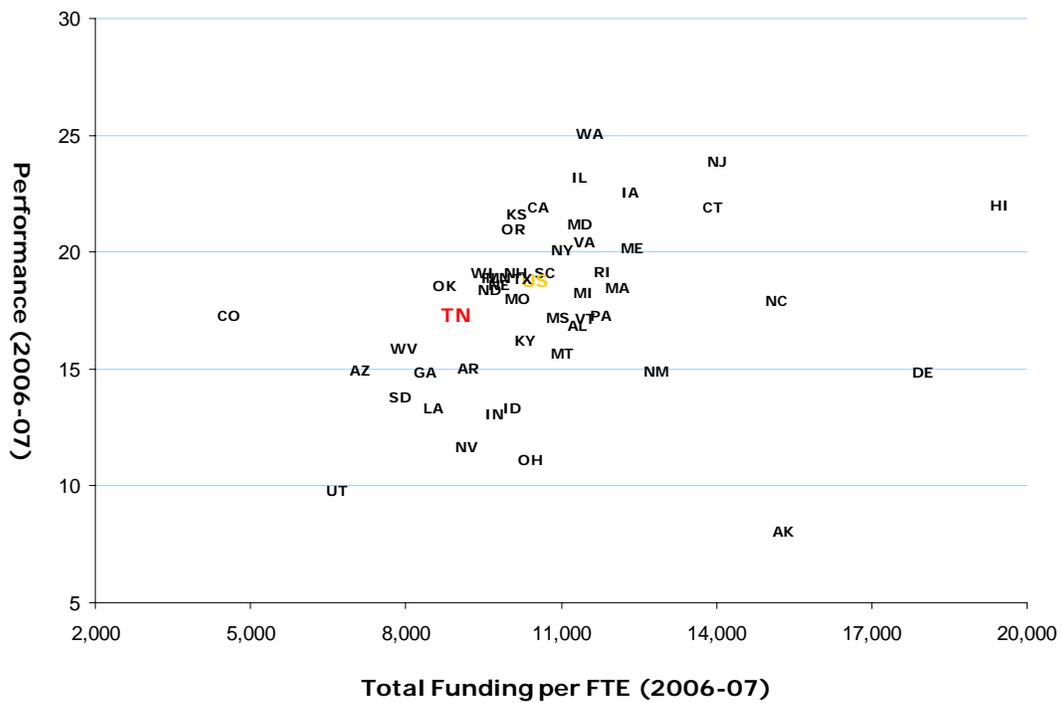
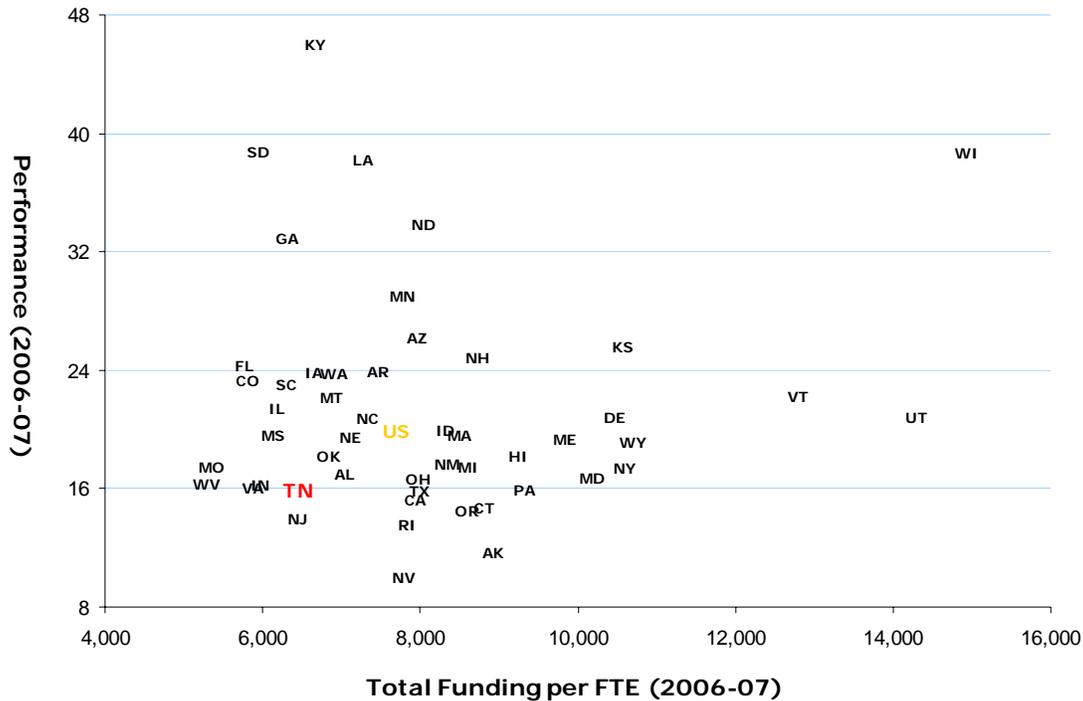


Figure 16. Performance Relative to Funding: All Credentials Awarded per 100 FTE Undergraduates (Public Two-Year Institutions)



These analyses draw particular attention to the need to significantly increase degree production and to serve many more adults in the quest to do so.

C. Findings and recommendations from regional discussions

As a result of the discussions held throughout the state of Tennessee, several important findings emerged. These are summarized below.

1. P-16/College Readiness

The State Board of Education has raised high school graduation standards to reflect added rigor in the high school diploma, especially in math and science. These changes have been guided by Tennessee’s adoption of the American Diploma Project’s student learning objectives. The change, effective for students graduating Spring 2013, should result in fewer students placed in developmental courses after college entry. The alignment issues between institutional admission requirements and student college readiness have not yet been overcome in that students may meet admission requirements but have academic deficiencies that diminish their chance for success and increase costs to the state for remediation. High school students also have expanded access to dual-enrollment college courses, through the funding of the lottery scholarship.

Recommendation: Admissions and placement expectations signaled through college placement exams should be considered. Increase access to dual enrollment and Advanced Placement.

2. College Placement

The TBR uses the ACT as its placement exam, with students who place below 19 on the Math and English components placed in developmental courses. Some institutions use additional exams for placement, finding that students who score 19 or above (including Hope Scholarship winners) may require remediation. This opens the possibility that colleges are not clearly articulating their expectations to their K-12 counterparts.

Recommendation: A new look at expectations regarding preparation for college level work and identification of an exam more appropriate for placement than admissions should be pursued.

3. System-level Developmental Education Courses

The TBR is investing in a system-wide redesign of their developmental education courses. When completed, this initiative should improve both student success and system productivity. The DSP system could also be applied to course redesign outside the scope of developmental studies.

Recommendation: Higher education should capitalize on the opportunity afforded by its partnership with K-12's Tennessee Diploma Project standards changes by revising expectations regarding college-level work. Specific actions should include:

- Revising university admissions requirements, effective Fall 2013, to recognize the more rigorous high school graduation requirements in math and science units.
- Revising expectations regarding college-level work by ensuring that first-year college math and English courses build on and do not replicated TDP student learning expectations.
- Revising university college-ready placement assessments to allow the high school anchor end-of-course tests (Algebra II and English III) to serve as alternatives to the ACT sub-scores (Math and English), effective Fall 2013.
- Instituting, with K-12, a broad-based communications campaign to inform students, parents, and the general public of the new 2013 high school graduation and university admission requirements.
- Working with K-12 to create a "bridge" course whereby students can be remediated in Math and English in the senior year in high school to enter higher education college-ready.

4. Transfer policies

TBR and UT already have limited to 120 the number of credits required for a baccalaureate degree. This contributes to both affordability and degree productivity. However, the number of hours the student has at graduation, on average, well exceed 120.

In the main, transfer policies are well designed. There is a 41 credit hour General Ed core that is designed to meet general education requirements anywhere in the system. This leaves 19 credits for pre-major work. Efforts are progressing on developing standard courses for the 19-hour pre-major courses to easily transfer into two of the most popular baccalaureate majors (business and psychology). These are positive steps that:

- Allow students to enter through either 2- or 4-year institutions

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- And not lose credits in the process

The question is whether or not the policy is being implemented as designed. There were assertions during the regional meetings that this policy was not being applied consistently across all institutions. It was also noted that:

- There are no incentives leading students to start in community colleges. The lottery scholarship could provide incentive, but instead close the gap in cost between universities and community colleges, making the monetary benefit of community college attendance very small.
- Articulation between TTCs and CCs occurs in very few instances. Transfers occur in a very few health fields and not elsewhere. There is a formal articulation policy whereby a diploma earned at a TTC transfers to a CC as 30 credit hours. TTC students currently still must meet the CC remedial and development placement exam requirements, although the TBR is working toward removing this obstacle.

Recommendation: Review how well articulation policies are communicated to students.

5. Adult Education

The data show that Tennessee must help more adults (ages 25+) attain college degrees if it is to develop a globally competitive workforce. Even if it were to educate youth as successfully as the best performing states, degree production would fall short of the projected need of 55 percent. Educating “re-entry” students - those who left school as high school or college drop-outs or who completed high school but chose not to attend college - will be a workforce imperative in Tennessee.

Higher education policy in Tennessee has been developed primarily with recent high school graduates - not adults - in mind. There is no cohesive body of higher education policy oriented specifically to adults. The net effect is a policy environment that impedes access and success for adult students. A few of the issues are:

- A disconnect between the Department of Labor and Workforce Development (responsible for GED and workplace skills development) and the higher education enterprise, especially the community colleges and the TTCs.
- Absence of community college services in some parts of the state.
- Courses are offered primarily during work days from 8am to 2pm.
- Limited access to grant aid, although adults are eligible for the Wilder-Naifeh grant if they attend a TTC. Low-income adults are eligible for the HOPE Non-Traditional Grant (after paying for 12 hours on their own) and TSAA (although the program is underfunded).
- Non systematic attention to pathways from fields of study to careers and job placement.
- Although all institutions have policies in place for assessing knowledge and skills and translating them to credit hours, these policies vary by institution. The transfer of these credit hours is unclear. A tuition scheme (in block tuition) that works to the disadvantage of part-time students.

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- Administrative rules and statutes that fly in the face of adult sensibilities - requirements for proof of measles and mumps vaccinations and the need to furnish placement exam scores, high school transcript, etc.

Recommendation: THEC should undertake activities designed expressly to develop policies that would encourage the enrollment of adult students and promote the success of these students in attaining a college degree or certificate.

6. Geographic Access/Site Locations

Access to educational offerings is determined largely by

- The accident of historical location of institutions
- The programs approved for delivery at those institutions
- Institutional initiatives regarding off-campus sites and centers

This results in programmatic access being very different in different parts of the state. The typical array of community college services is not available throughout the state - being notably absent in places like Clarksville. This puts four-year institutions in the position of playing this role (at more expense and with less effectiveness than might otherwise be the case) or having needed services that are not provided. The “service area” concept employed by TBR for community colleges also serves to limit the array of offerings in some parts of the state as institutions protect their service area turf. Previous state studies have comprehensively evaluated the portion of the service area population being served by each institution.

Recommendation: It is important for THEC to take a more proactive stance regarding the assurance of appropriate programmatic access through all parts of Tennessee. This would involve:

- An initial assessment of actual student attendance patterns as a way of identifying those parts of the state currently most underserved by Tennessee’s higher education system
- Development of a strategy for dealing with areas of greatest need. The question of the need for an additional community college presence should be addressed explicitly.
- Adoption of a “responsibility area” - as opposed to a “service area” - philosophy. This means that regional institutions would be responsible for ensuring that priority needs are met, but not necessarily through that institution’s own offerings. They would “invite” delivery from other institutions. Success for such an arrangement requires a fiscal mechanism that rewards institutions for collaborative delivery.
- Increasing the availability of co-location of four-year institutions (upper division work) on community college campuses, which are currently created on a limited and ad hoc basis. Institutions view these partnerships positively, but they lack the physical space necessary on community college campuses for future partnerships.
- Fostering mission differentiation in order to ensure that institutions provide comprehensive regional access without duplication of mission with neighboring institutions. Currently, institutions create their own missions and notable gaps and overlaps throughout the state are evident. Providing access in this context includes opportunities for a variety of degree levels and areas of study.

- Incorporating on-line delivery in an appropriate way. While the TBR Regents' Online Degree Program is a major step forward, the faculty-student interaction and student support services needed for truly effective use of this delivery system is not yet fully developed. The University of Tennessee system is absent in the on-line delivery of courses, but should be involved if on-line course delivery is to efficiently contribute to degree production.

7. Two-Year Institutions/Programs

Just as most of the higher education policy is focused primarily on recent high school graduates, so is it focused primarily on the four year institutions. There is nothing about the way that community colleges and TTCs are governed and administered that promotes these institutions as effective deliverers of the typical array of community college services (see exhibit 1). Some observations:

- The TTCs have a Vice Chancellor that provides both leadership and visibility to these institutions. The community colleges have no counterpart. As a result, the latter are governed much as if they were universities. The result is a culture more junior college than the comprehensive colleges that Tennessee needs for its workforce and community college purposes.

Community & Technical College Services	Clients			
	In-school Youth (Secondary Education)	Recent High School Graduates	Adults	Employers
Remedial and Developmental Education				
General Education				
Transfer Preparation				
Career Preparation				
Customized Training, Rapid Response Workforce Development				
Community Service (Non-Credit and Other Services to the Community)				
Brokering and Serving as a Delivery Site for Other Providers				

- There is little connection between community colleges and TTCs. They are, in most parts of the state, trains on their own tracks.
- Tuition and student financial aid policies for these two sectors do not reflect a coherent approach to assuring affordable access to community college services.
 - With Wilder-Naifeh funds, TTCs are, for all intents and purposes, tuitionfree to enrollees
 - Community colleges have relatively high tuition with little in the way of need-based aid to mitigate these costs.

The combination of tuition and aid policies does not necessarily make community colleges the affordable option for Tennessee residents.

- d) The array of community college services is not uniformly available in all parts of the state.
- e) The funding mechanism for the TTCs does not allow for expansion to meet demand, even in areas of identified workforce shortages.
 - While the THEC formula provides TTC program funding on the basis of either FTE or program, whichever is greater, we heard that the allocation within TBR is on a strictly program basis.
 - The result is a.) waiting lists for higher demand vocational programs, b.) with no mechanism to expand capacity to meet demand. A new program at a new site gets new money. Additional students at an existing site do not receive the same level of accommodation.

Despite the established transfer policy, there is an academic wall between TTCs and community colleges. Except for selected health professions (e.g., the TTC's LPN program connecting to the CC's RN programs), there is no academic connection between programs in the two kinds of institutions.

Recommendation: In light of these findings, THEC and TBR should collaborate to:

- a) Develop a plan for providing access to the full array of community college services in all parts of Tennessee.
- b) Create a policy context for the community colleges and TTCs consistent with that of a comprehensive community college system;
 - Affordable
 - Responsive to workforce needs and demands
 - Aligned with transfer requirements to universities
 - Incorporating policies for adult learners
 - Uses competency assessments (like WorkKeys and Key Train, the accompanying basic skill training software) to allow movement from TTC diplomas and certificates to Associates Degrees.
- c) Develop a funding model to encourage co-offerings.

8. Funding Formula - Design

In many ways, the design of the funding formula employed by THEC is exemplary. On the positive side, it reflects different costs of different disciplines and, more important, it provides strong incentives for student retention, especially for Freshmen and Sophomore retention where the bulk of the funding incentive is programmed into the formula model.

However, it has a major design flaw which has unintended consequences with potentially distorting effects on how institutions structure courses and program offerings - the use of the 14th day of the fall term as the census date for which the enrollment "drivers" for the formula are established. This particular feature serves to reduce institutional performance in that:

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- It reduces the incentives for institutions to effectively use the entire calendar year as a time when instructional resources can be used to deliver educational programs.
 - It creates disincentives for institutions to employ non-standard instructional calendars (any format that doesn't have enrollments on the 14th day of the fall term). Some institutions have become inventive in how they "beat the system" but a well-designed system should not force institutions to resort to subterfuge.

Recommendation: Consideration should be given to utilizing end of term enrollment, rather than census date enrollment. Also, year round enrollments (or at least inclusion on spring semester enrollment) may be more appropriate than basing the entire funding formula on fall enrollment.

9. Formula Funding - Implementation

While there are several desirable features in the design of the funding formula, these design features are largely negated in the implementation process because:

- a) The formula's use is often limited to the budgetary request step of the budget process.
- b) Its use in the actual allocation is blunted by:
 - Hold harmless provisions - institutions that lose money in the calculation are protected against actual reductions.
 - Legislative requirements that salary enhancement money be allocated to all employees in a uniform way

The formula is used to allocate whatever new money remains after these two prior claims are satisfied. In most years, this amount is virtually zero.

- c) The net effect is that the formula is seldom used to actually allocate funds. It is instead limited to allocation of new funding only. This results in a situation in which:
 - The incentives for good performance included in the formula never "kick in." As a consequence, it provides virtually no leverage on internal institutional behavior.
 - Growing institutions don't get the resources they need and institutions that are decreasing in size don't get penalized for providing less access. This problem is particularly acute when state appropriations decline for several years, as institutional growth and performance are not recognized by the current distribution methodology and philosophy.

Recommendation: Consideration should be given to reducing or removing the impact of the hold harmless and faculty salary provisions.

10. Performance Funding Design

Like the funding formula itself, performance funding as it now stands has numerous positive features, the most important of which is the extent to which the measures reflect good institutional practice regarding continuous improvement in provision of academic and student support services. In the hands of a skillful academic leader, the performance funding model provides important leverage for internal change. It is also a useful tool for SACS accreditation.

However, there are shortcomings in this component of the overall funding model as well. Among them are:

- a) Complexity. While it is understood that the Performance Funding standards are broad-based in scope to incorporate many key institutional effectiveness factors, its overall coherence with a single overarching goal is not clearly communicated to legislators and other external audiences.
- b) Limited redistribution effects. Those that do best and those that do worst are separated by a very small distance in the absolute scores. This means that performance funding can be largely ignored in some institutions, and it is. While some institutions use it as a tool for change, others treat it as a compliance exercise that takes too much time given the returns.
- c) Absence of an overarching goal. At the end of the day, the real objective is to graduate more students. It is possible to engage in good practices (improving graduation rates, etc.) and not increase graduation numbers. Specifying this ultimate goal clearly and building rewards around it was viewed in the interview process as a generally desirable modification.

Recommendation: In view of these findings it is recommended that:

- The performance funding as it currently exists be kept in place, although at a somewhat reduced funding level. It is proving too useful in some institutions to summarily discard.
- Create an additional pool of performance funding money to be allocated on the basis of year-to-year increases in numbers of degrees or (industry recognized) certificates awarded. Additional weights could be given to awards:
 - In certain fields
 - To students who started in developmental education
 - To underserved populations

11. Performance Funding - Implementation

Performance funding loses all of its communicative powers when budgets are being cut. In such times all institutional funds (base funds + performance funds + tuition and fees) are rolled into a single number and reduced proportionally.

Recommendation: The process would be improved if performance funding were maintained –in times of budget cuts by reducing performance funding allocations by some percentage share, but no more than the reduction in base funds plus tuition revenues. For example, if the overall budget is to be cut by 5 percent, then performance funding would be cut by 5 percent, base funds by 5 percent, and so on.

12. Student Financial Aid - Alignment with Tuition Policy

Tennessee has three predominant financial aid programs:

- a) The Hope Scholarships - the largest of the programs and one which is largely a merit-based program directed at students who are recent high-school graduates. While there are ways in which other students can gain access to these funds, the program is primarily designed to serve recent high school graduates who attend college full-time.

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- b) A smaller need-based student aid program (Tennessee Student Assistance Award), which awards funds on a first-come first-serve basis and expends all funds well before the published application deadline.
 - c) Wilder-Naifeh Technical Skills Grants. These grants essentially pay the full tuition (with a small amount paid by students) for enrollment in a diploma or certificate program at a TTC campus. There are no prior academic performance requirements for eligibility.

The combination of these programs serves university students (since the majority qualifies for Hope Scholarships) and TTC students very well. They do not serve community college students as well. As a result, the net costs of attending a community college are substantial.

Recommendation: A thorough review of the package of student aid programs should be undertaken with the objective of ensuring that affordability for low income students is sustained.

13. Overall Tuition Policy

Tuition is basically established at comparable levels for all undergraduate students in a particular type of institution. This creates an incentive for institutions to enroll as many students as they can without reference to their ultimate success (and therefore system productivity). It is also noted that students, not the state, are now the largest contributors to institutions' base funding.

Recommendation: Recognizing this, it may be worthwhile to build incentives for student progression into the price structure as well as into the funding formula. This could be done in such a way that:

- a) Prices at the lower division could be held down in order to ensure affordability through the first two years - the years when students are most likely to drop out for financial and other reasons.
- b) Prices increased at the upper division level to encourage
 - Retention
 - Transfers
 - Revenue generation from students most likely to stay engaged

Recommendation: Study tuition policies that promote productivity and allow for flexibility.

14. Tuition Policy - Out-of-State Students

Tennessee has a very well-defined, but narrow, policy with regard to eligibility of out-of-state students for in-state tuition rates. While understandable from a general economic perspective, there are at least three situations in which the existing policy is questionable.

- a) The military. We heard that tuition policy with regard to the military is different for different institutions.
- b) On-line students residing out-of-state. The marginal cost of enrolling additional students in these courses should be well below marginal revenue at a much lower tuition level than full out-of-state rates. The SREB Electronic rate of 150% of in-state tuition is an option.

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- c) Students in other states that are part of an in-state regional economy. For example, the MSAs of both Memphis and Chattanooga incorporate counties in other states. There may be similar examples in other parts of the state. Limiting out-of-state tuition waivers to 3% of the student body restricts the extent to which Tennessee institutions can truly serve the integrated economic regions in which they are located. The limit on out-of-state tuition waivers does not impact the number of out-of-state students an institution may enroll. Several institutions have agreements in place with out-of-state border counties to charge residents of those counties in-state tuition.

Recommendation: A review of out-of-state tuition policy is in order, with the objective of improving the revenue stream to institutions and better serving regional economics. A comprehensive review of tuition policy for residents of border counties just outside Tennessee state lines may be prudent.

15. Block Tuition

Currently, the UT charges block tuition prices (per credit hour charges except for hours 12 through 18 which are one “full-time” price) and the TBR has voted to charge per credit hour for all students. Arguments are being advanced that tuition should be established on a per credit hour basis since such a step would a.) generate more revenue and b.) be fairer to part-time students. The contrary argument is that the current policy encourages students to enroll for more courses and complete their studies more quickly.

Choosing among the alternatives would be informed by analyses of the following questions:

- a) Do students who enroll for more than 12 hours per semester complete in a shorter period of time?
- b) Do they accumulate more or fewer credits in attaining their degrees?
- c) Are they more or less prone to dropping courses (that don’t cost them anything) thereby reducing course completion rates?

Recommendation: Analyses of alternatives to, and effects of, tuition caps.

16. Lottery Scholarships - Technical Issues

While the Lottery Scholarship program contributes to the access, success, and productivity of the Tennessee higher education enterprise, there are some flaws in its design that keep it from being as effective as it could be:

- The fact that the scholarships cannot be used for summer term enrollments
- The requirement that low income adults must successfully complete 12 SCH before gaining eligibility.

Recommendation: Further study lottery scholarship policies that impede access, success, and productivity.

17. Administrative Regulations

While not directly affecting either access or success, the discussions during the site visits did identify several administrative procedures (specifically within TBR) that affected the operational efficiency of institutions. Chief among them were:

- a) A “one-size-fits-all” orientation
 - Two year and four year
 - Institutions with fully developed administrative capacity of their own versus institutions for which TBR provides that capacity
- b) This manifests itself in policies that have important consequences
 - A requirement that anyone promoted to full professor have a PhD. This means that many qualified faculty in community colleges and TTCs cannot achieve this rank (faculty in vocational programs where experience is more important than a degree).
 - Rules that keep the summer term from being treated as a third semester (allowing faculty to teach spring and summer versus fall and spring for example).
 - Slow program approval processes. Why not focus on programs that affect mission rather than all new programs?
 - Contracting. Reportedly, other state agencies can sign a contract that TBR won't. Why?
 - Institutions with mature administrative capacity treated the same as those for whom TBR provides the staff capacity. This leads to a “double” process at the former type of institution. Is relief from TBR involvement possible for these institutions?

Recommendation: Remove unnecessary administrative obstacles.

D. Summary Table

Policy Content Area	Access	Student Success/Completion	System Productivity/Efficiency
1. P-16/College Readiness	+	-	-
2. College Placement Exams	+	-	-
3. Developmental Education Courses at System Level	+	+	+
4. Transfer Policies	±	±	±
5. Adult Education	-	-	-
6. Geographic Access/Site Location	-	-	-
7. Two-year institutions/Programs	-	-	-
8. Funding Formula - Design	±	±	±
9. Funding Formula - Implementation	-	-	-
10. Performance Funding - Design	±	±	±
11. Performance Funding - Implementation	n/a	±	±
12. Student Financial Aid - Alignment with Tuition Policy	±	±	±
13. Overall Tuition Policy	+	-	-
14. Tuition Policy - Out-of-State Students	-	-	-
15. a. Block Tuition – FT Students	+	+	+
b. Block Tuition – PT Students	-	-	-
16. Hope Scholarships - Technical Issues	±	±	±
17. Administrative Regulations	n/a	n/a	-

Key: + on the whole, policies in this content area contribute to improved access, success, or productivity

- on the whole, policies in this area pose barriers to improvement

± results are mixed