

**TESTIMONY OF**  
**TENNESSEE BOARD OF REGENTS CHANCELLOR JOHN G. MORGAN**  
**“IMPROVING COLLEGE AFFORDABILITY: A VIEW FROM THE STATES”**  
**COMMITTEE ON HEALTH, EDUCATION, LABOR AND PENSIONS**  
**UNITED STATES SENATE**  
**SEPTEMBER 13, 2012**

The combination of passage and implementation of the Complete College Tennessee Act and the First to the Top Act have propelled Tennessee to the forefront of the national conversation about education reform.

In January of 2010, the Tennessee General Assembly enacted the Complete College Tennessee Act (CCTA). The CCTA is arguably the boldest attempt by any state in the country to focus the energies and resources of its public higher education enterprise on meeting the state’s development needs. Together with the First to the Top and Race to the Top initiatives, Tennessee has enacted a range of measures designed to spur improvement in Tennessee’s education pipeline — specifically, improving student performance and graduation rates at both the high school and college levels. The central idea of the CCTA, advanced by the prior administration and readily embraced by Tennessee Governor Bill Haslam, is that in order for Tennessee to thrive in the global economy, the education and skill levels of Tennesseans must improve significantly. Implicit within the CCTA is the acknowledgement that the higher education funding structure must support the state’s new priorities.

If successfully implemented, the CCTA will prove to be the most transformative and visionary legislation affecting Tennessee’s public higher education systems in recent times. History has proven that a more educated citizenry results in a society with faster economic growth and a more stable democracy. Today, more than ever, we need a renewed focus on higher education.

Options available to students abound with the growth of proprietary schools. Unfortunately, while the for-profit institutions are growing, the public institutions that fueled the growth of college credentials after World War II have suffered through years, sometimes decades, of state-level funding cuts. Many are no longer state-funded, but state-supported. Total state support for higher education nationally fell by 7.6 percent from the 2011-12 fiscal years, according to a report from Illinois State University and the State Higher Education Executive Officers. The report also indicates a reduction in the per-student spending by states – to reach the lowest point in some 25 years. (Chronicle of Higher Education, “State Support for Colleges Falls 7.6% in 2012 Fiscal Year,” 2012.)

In Tennessee alone, state funding for public colleges, universities and technology centers decreased by almost 30 percent for the Tennessee Board of Regents (TBR) universities since 2008, shifting more of the funding burden to students. At all 46 institutions, including community colleges and technology centers, funding has been cut an average of 24 percent. As state support for higher education has declined and, despite improved efficiencies, the share of the cost paid by students has increased -- thus, so has the price. Tennessee students now cover about 67 percent of the cost of their education at public universities, and some 60 percent at

community colleges. The implication of this trend, if it continues, will be detrimental for all Tennesseans.

This is the reality of today's economy and today's funding climate, and therefore the new "fiscal reality" of the operating environment for Tennessee's public higher education. In the past several years in the TBR alone, we have opened the door to access for more students. Enrollment in our six comprehensive universities and 13 community colleges has grown 26.4 percent from 2001 to 2011.

To meet the demands of serving more students with fewer resources, greater operating costs, changing technologies and greater expectations, Tennessee's institutions look dramatically different than in years past. Within the last two years alone, our universities have eliminated, among others, degree programs in foreign languages, English, music education, Africana studies, women and gender studies, human sciences, aerospace education, and industrial engineering, and they have terminated dozens of concentrations or certificates to address decreased funds and changing demands. While student fees have increased at the institutions, growth in enrollment, declining state funding, and cost inflation have combined to produce real reduction in funds available to the institutions to pay for educational services. At the TBR, we have become more efficient and effective in delivering our services. In fact, on average, the total revenue per student (before inflation) at our universities in 2011 was 4 percent less than in 2008. During the same period, the impact at our community colleges was even greater, averaging almost 9 percent less per student. In other words, students are covering more of the financial burden for their education at public colleges and universities in Tennessee than ever before, even as our institutions are becoming more efficient.

Yet, as resources have diminished, expectations for the outcomes of our system and the institutions have grown. The result of the convergence of these circumstances is to require every decision about resource allocation at every level to be viewed through the lens of its impact on outcomes. Every day, at every TBR institution, including the central office, the focus is on deploying resources in a way that will make a real difference and lead to real results.

We are on the right track. With the right resources and the right conversations – like the one we're having today – Tennessee can lead the way in workforce development and economic growth.

Tennessee's Governor has set a clear goal to increase the number of post-secondary degrees awarded annually by 26,000 by 2015. Today that goal is more important than ever. Unless Tennessee can make progress toward achieving a more educated population, the skilled and high-wage jobs we need for our economy to grow will likely move to, or more likely be created in, other places that have the best prepared workforce.

In order to meet this challenge, the CCTA included several important elements aimed at transforming our public higher education system into a more efficient, effective and outcome-oriented enterprise. Many of these elements have direct impact on college affordability by improving operating efficiencies, reducing time to degree and focusing resources on strategies that lead to greater success.

For example, the University of Tennessee and TBR systems have together developed and implemented the Tennessee Transfer Pathways, a transfer policy that ensures community college students can readily transfer credits in defined programs to public universities. The TBR has evolved our community colleges into a comprehensive system, thereby enhancing the statewide role that community colleges can play in providing post-secondary education for recent high school graduates and adults. The new system for Tennessee's Community Colleges will, over time, result in significant cost efficiencies as well as educational programming that is more effective and responsive to economic and workforce needs. TBR's public universities have a more defined focus on institutional mission to help avoid future unnecessary program duplication.

But perhaps most importantly, the CCTA called for the creation of a formula to allocate available state funding to public higher education based on outcomes like increasing the numbers of degrees, diplomas and certificates awarded. The Tennessee Higher Education Commission has developed a Public Agenda for Higher Education centered on improving student outcomes and created changes to support its implementation -- most notably developing the new outcomes-based funding formula. Funding for public higher education is now heavily weighted toward student success measures like these.

Attachment A lists the outcomes that are incorporated in the outcomes based formula for our universities and community colleges. As can be seen, the outcomes for both groups of institutions are heavily influenced by student progress and success. The outcomes are the same for all of the state's universities, however the weights assigned to each outcome for each university can vary based on the mission of the institution. For example, the weight assigned to the research outcome for the University of Tennessee at Knoxville is 15 percent while research is only weighted at 10 percent for Austin Peay State University. Similarly, as the example shows, outcomes are weighted differently among the community colleges.

The outcomes-based formula has created the most tangible and strongest incentive for our institutions to focus on strategies that contribute to student success and to align financial resources to fund those strategies.

As a result, virtually every activity taking place at the TBR central office and at each of its institutions is centered on improving the outcomes that have been identified by the THEC Public Agenda and the CCTA. It is no longer sufficient for the Board of Regents to view its responsibility as one of policy management and the safe guarding of assets. On the contrary, ultimately, the Board is responsible for the system's success in achieving the goals of the Public Agenda.

The CCTA and the Public Agenda establish clear linkages between the economic development needs of the state and the legitimate aspirations of the state's public higher education systems. In short, the Public Agenda declares that by 2025, the state's workforce must have levels of educational attainment at least equal to the national average. The Public Agenda assigns expectations for contributions to this goal from the TBR, UT and the private/proprietary higher sector.

For TBR to meet its current expectation, the system as a whole will need to produce 43,202 credentials in 2025. This represents an almost 60 percent increase in annual awards over our 2010 baseline. To achieve this goal, the system must increase its outcomes by roughly 3 percent

per year, particularly challenging in light of demographic trends that reflect a changing population with an increased number of the types of learners who face the greatest challenges.

- More low-income students will be entering our schools. From 2007-2011 median annual household income declined by 9.8 percent nationwide. Hispanic and white households saw a 4.9 percent and 4.7 percent decrease, respectively, while Black household median annual income decreased 9.4 percent (Sentier Research, "Household Income Trends During the Recession and Economic Recovery," 2011.).
- Demographic projections predict major growth in underrepresented minority groups. Nationwide, it is projected that the Latino and Black populations will grow by 137 percent and 15 percent, respectively, between 2010 and 2050 while the White population will decrease by 9 percent (National Population Projections, U.S. Census Bureau. Released 2008; NCHEMS, Adding It Up, 2007).
- White individuals (aged 25-29) attain bachelor degrees at twice the rate of black individuals and three times the rate of Hispanics (39 percent vs. 20 percent and 13 percent, respectively), and young people from the highest income quartile earn bachelor's degrees at seven times the rate of children from the lowest income quartile (79 percent vs. 11 percent by age 24). (Sources: NCES, *Condition of Education*, 2010 and U.S. Census Bureau, Educational Attainment in the United States: 2011.; Postsecondary Education Opportunity, "Bachelor's Degree Attainment by Age 24 by Family Income Quartiles, 1970 to 2010.")

Simply put, for TBR and its constituent institutions to be successful in meeting their goals, every institution must be more successful with students who have historically been least successful reaching their education goals, particularly low-income first generation students, adult learners and under-represented minorities.

Helping these students will require more hands-on, high-touch and high-tech efforts, all of which also translate to high cost. Tomorrow's successful students will require more direct and personal attention – advising, counseling and directing them toward the successful completion of their goals.

TBR institutions are learning from success stories within the system. The Tennessee Technology Centers, for example, have always served these underrepresented demographic populations to a larger extent. Yet the Technology Centers have demonstrated dramatic success in helping students complete their academic programs through a variety of techniques that are now being piloted at other programs around the country:

1. Most students enroll in defined cohort-based programs with strong structures and limited options. Students register for programs, not courses. Class schedules are pre-determined and set daily so students can plan outside work and life commitments around a set daily time commitment. Students don't have to pick and choose which classes they take and when, so they only take the courses they need. As a result, more finish and finish faster.
2. Students are provided a cost list including books and supplies, so they aren't surprised with unexpected expenses.

3. More than 80 percent of the Tennessee Technology Center students are eligible for state or federal grants, or both, which covers the cost of their education and often provides additional money for living expenses. The TTCs don't participate in the loan program, and the students graduate debt free.

Similar cohort programs are being tested at Tennessee's community colleges and may be considered for public universities as well.

And as important as increasing the numbers of students with credentials is ensuring quality. Academic standards, integrity and quality must continue or be enhanced. It's quality of the workforce that will drive the economy, not just the number of people with degrees. Implicit in Public Agenda's attainment goal is the need for the credentials to be a result of high quality instruction and relevant to the needs of Tennessee's 2025 economy.

In some ways, having a clearly established, albeit aggressive, goal is liberating. The system and its institutions are able now to pay attention to efforts that matter. Priorities are realigned. For the TBR system office, this means that the focus now is on empowering staff to engage in activities that will promote outcomes. The result is an evolving redefinition of the relationship between system and institution. The system interest is less about regulating and more about helping each institution meet its goal of increasing relevant, high quality, outcomes.

Among the changes implemented so far, the TBR has:

- Established progress toward completion goals and improved outcomes under the new funding formula as the basis upon which performance of university and college presidents will be assessed.
- Joined with 10 other higher education systems and multi-campus institutions as members of the Education Delivery Institute, a joint effort of The Education Trust and Achieve, Inc. designed to assist in the successful implementation of higher education reform agendas.
- Created within TBR the Completion Delivery Unit, a small group focused on assisting TBR system operating units and institutions with the development of their "completion plans," identifying strategies to be pursued, establishing expectations of results for each strategy and providing a framework for the campuses and the system to monitor progress in meeting delivery goals in near "real-time."
- Through a partnership developed with the Tennessee Business Roundtable, Complete College America, Tennessee Higher Education Commission and the University of Tennessee, enabled 16 TBR institutions and two UT institutions to voluntarily participate in first in the nation state-level College Completion Academies, a convening of teams from the institutions, national experts and facilitators designed to engage institutions in the development of completion plans incorporating best practices. Governor Haslam addressed the first academy and facilitated a session in the second academy.
- Embarked upon the development of a central data repository and data warehouse that will put real-time information in the hands of managers throughout the system with which they can make decisions and evaluate performance. This has been identified as an essential pre-requisite to system and institutional success.

- Began system-wide, institutional participation in the Access To Success (A2S) initiative. A2S is a joint effort of the National Association of System Heads and the Education Trust that works with 22 public higher education systems that have pledged to cut the college-going and graduation gaps for low-income and minority students in half by 2015. TBR has been part of this initiative since 2007 but has not, until recently, engaged institutions in the initiative. The goals of A2S align well with the needs of the TBR system to address future challenges as demographic characteristics of our populations change.
- In collaboration with THEC and UT, developed 49 universal transfer pathways in 29 academic disciplines providing our community college students with clear and certain transfer opportunities to public (and many private) four-year institutions.
- With assistance from Lumina Foundation grant funding, engaged in a series of pilot programs designed to expand the use of cohort programs and block schedules in community colleges as contemplated by the CCTA. Early indications are that where feasible, utilizing cohorts and block schedules will result in significant improvements in retention and completion. Expansion of this effort into the four-year environment may be warranted.
- Established the Office of Community Colleges and named a Vice-Chancellor for Community Colleges to manage the process of evolving the community colleges into a comprehensive community college system. Also, with the help of a Gates Foundation grant, TBR conducted a "business process analysis" designed to identify opportunities for process standardization across the community college system using best practices. As this effort continues, it is expected to result in significant efficiencies and will help position the community college system as the primary source for significant increases in enrollment and affordability in public higher education in Tennessee.
- Developed programs that will drive more students into the lower-cost options available at the community colleges first, then encourage the continuation of educational achievement by making defined program course transfers seamless from community colleges to universities.
- Encouraged the creation of innovative programs to help with student success. For example, Austin Peay State University developed the Degree Compass software and application that uses technology to successfully pair current students with the courses that best fit their talents and program of study for upcoming semesters. Using predictive analytics, the system recommends a course which is necessary for a student to graduate, core to the university curriculum and their major, and in which the student is expected to succeed academically. Recently, the system gained national attention and played a central role in Tennessee's successful Completion Innovation Challenge application, which received a \$1,000,000 award from Complete College America and the Gates Foundation to support implementing Degree Compass at three other campuses in Tennessee.

The passage of the CCTA creates an environment wherein effectiveness, efficiency and sustainability of high quality results are essential if the TBR and its institutions are to thrive. The outcomes-based formula creates an absolute incentive to pursue only those activities that are believed to produce results. Constant evaluation of performance in real-time and a willingness to abandon, or modify, strategies that aren't working is becoming the "normal course of business" for Tennessee's institutions.

The outcomes-based formula introduces an entirely new dynamic in terms of transparency. How well each institution is performing will be readily apparent as a result of THEC's funding allocation recommendations each year. Historically, accountability within the higher education environment has been elusive. This is no longer the case in Tennessee.

The historical need for the TBR and THEC to monitor and encourage elimination of low-producing programs has been eliminated. There is no incentive to continue to allocate resources to a low-producing program or a non-productive service unless there is a very real indirect benefit to the institution as a whole and a return on investment that justifies the expense.

In this environment, the role of the system office is one of helping institutions in creating and utilizing systems and frameworks for continuing evaluation and in helping identify interventions that might help improve the outcomes of any given strategy. The system office also has an interest in making sure that institutions don't engage activities such as unnecessary duplication of programs that will result in inefficient use of resources on a system-wide basis.

Implicit in the CCTA and the outcome formula approach is that if colleges and universities can improve their results, funding will follow. But there is no guarantee that will hold true.

The result of today's new fiscal reality is that higher education will continue to be in a difficult funding environment. Although understandable in context, the system's historical practice of relying on tuition and fee increases to meet institutional spending needs is unlikely to be sustainable.

It appears that Tennessee, like other states, has reached a point at which tuition increases that exceed general inflation rates will be counter-productive to achieving completion goals as a system. The potential political response to further significant fee increases is concerning as well. Current political and economic environments make it more likely that government-imposed limitations (whether at the state or federal level) may be seriously considered. While there is a legitimate government oversight role in the management of the public higher education systems, statutory solutions to complex and multi-dimensional financial issues – just some of which are mentioned here – are not likely to give full recognition to the unintended consequences that uniformly applied policies will hold for individual institutions.

## **SUGGESTIONS FOR HOW THE FEDERAL GOVERNMENT CAN ENCOURAGE AND SUPPORT STATES IN EFFORTS TO INCREASE EDUCATION ATTAINMENT WHILE ENSURING AFFORDABILITY**

**1. More need-based funding available to students at both the state and federal level is needed.** Aid allocations reflect that scholarship and grant aid is gradually shifting from fewer need-based awards to more merit-based awards. In Tennessee, approximately \$90 million is awarded from lottery scholarships to students from households whose expected family contributions exceed full cost of attendance. A similar amount would cover the gap to fully fund assistance for eligible need-based students. As the number of students who need financial support grows, we see a shift to more funding going to students whose families have demonstrated the ability to pay, and a growing number of students whose families do not have the means to pay cannot afford to enroll without expensive student loans.

**2. Federal incentives for states to keep their funding for public higher education stable or increasing is needed.** The federal requirement of state maintenance of effort funding for American Recovery and Reinvestment Act dollars provided a real benefit to colleges and universities. Ever-shrinking state funding levels threaten to reduce the amount of money available in the funding formula, creating an environment where institutions are competing in a zero-sum game for a piece of an ever-shrinking funding pie instead of striving for growing funding incentives.

**3. Federal financial aid policies need to more closely align with best educational practices at the states levels.** Military veterans who require learning support are often blocked from receiving funding for the types of support and techniques that have proven more effective than traditional classroom-based developmental courses because they are considered “independent study programs.” Individual study incorporated into a for-credit class that is supplemented by technology support taught in laboratories with instructors should qualify for Veterans Administration support, but it currently does not. And regular financial aid policies structured solely around traditional semesters and terms don’t conform well for alternative scheduling that successful cohort-based programs sometimes require – allowing students to start and stop at different intervals. Those “non-standard terms” result in aid award difficulties.

**4. Federal recognition that increasing prices and tuition rates greater than the rate of inflation are the result of decreasing state funding allocations is needed.** Statutory solutions to complex and multi-dimensional financial issues – just some of which are mentioned here – are not likely to give full recognition to the unintended consequences that uniformly applied policies will hold for individual institutions.

**ATTACHMENT A**

**Formula Outcomes and Example Weights  
Based on Institutional Mission**

<b>Universities</b>	<b>APSU</b>	<b>UTK</b>
Carnegie Classification	Masters Medium	Research University/Very High Activity
Students Accumulating 24 hrs	3.0%	2.0%
Students Accumulating 48 hrs	5.0%	3.0%
Students Accumulating 72 hrs	7.0%	5.0%
Bachelors and Associates	25.0%	15.0%
Masters/Ed Specialist Degrees	20.0%	15.0%
Doctoral/Law Degrees	0.0%	10.0%
Research and Service	10.0%	15.0%
Transfers Out with 12 hrs (good academic standing)	10.0%	5.0%
Degrees per 100 FTE	10.0%	10.0%
Six-Year Graduation Rate	10.0%	20.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

<b>Community Colleges</b>	<b>Dyersburg</b>	<b>Nashville</b>	<b>Average</b>
Carnegie Classification	Associates/ Rural Medium	Associates/ Urban Multi-Campus	
Students Accumulating 12 hrs	6.0%	4.0%	5.0%
Students Accumulating 24 hrs	7.0%	5.0%	6.0%
Students Accumulating 36 hrs	7.0%	6.0%	6.0%
Dual Enrollment	5.0%	5.0%	7.0%
Associates	10.0%	20.0%	15.0%
Certificates	10.0%	20.0%	13.0%
Job Placements	10.0%	10.0%	9.0%
Remedial & Developmental Success	20.0%	10.0%	12.0%
Transfers Out with 12 hrs (good academic standing)	15.0%	10.0%	13.0%
Workforce Training (Contract Hours)	5.0%	5.0%	6.0%
Awards per 100 FTE	5.0%	5.0%	8.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>