

Measuring Performance in Higher Education

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Executive Summary

During the past decade, many states have tightened the accountability measures in higher education, as well as general government. Higher education officials, in a survey conducted by the State Higher Education Executive Officers, listed higher education “effectiveness and accountability” as one of their top five issue priorities in 1999. Many states have included higher education in broader performance-based budgeting or performance reporting systems. Others have accountability systems unique to higher education. In 2000, the higher education systems in eight states, including Tennessee, had performance funding; 17 had performance based budgeting; 10 states have both. Thirty states require reporting of higher education performance.

This paper was prepared to stimulate discussion about the potential costs and benefits of increased planning and performance measurement efforts in Tennessee’s higher education system. Tennessee took the lead in the 1970s by including performance funding as a component of its higher education funding formula. The funding formula generates the request for most operational funding at public postsecondary institutions, and is based largely on enrollment, previous expenditures, inflation, and faculty salaries at peer institutions. Institutions can earn up to an additional 5.45 percent annually, however, by demonstrating “exemplary performance levels achieved on [ten] selected assessment areas.”¹

In recent years, however, chronic state funding problems have focused attention on use of funds, as well as Tennessee’s ability to stay competitive, raising questions—What should higher education’s roles and responsibilities be in relation to the state as a whole? What are the potential benefits and costs of requiring greater accountability for performance? How might differences in the missions of the various higher education institutions be better recognized and used in the planning process? Recent reports have cited Tennessee’s low education levels and participation rates, and problems with setting and accomplishing goals.

Because of these and other concerns, the General Assembly in Public Chapter 994 (the 2000 Appropriations Bill) directed the Comptroller’s Office of Research, the Office of Legislative Budget Analysis, and the Budget Division of the Department of Finance and Administration to conduct a joint study of Tennessee’s higher education performance and accountability system. The study is to address “potential outcome measures and performance benchmarks that could be used to measure progress toward specific goals for access to, and utilization, quality, and competitiveness of, Tennessee’s higher education system.”

The report concludes:

- **Tennessee’s population is undereducated, which will likely affect its economic future. The state’s colleges and universities have a vital role to play in improving the state’s educational attainment levels.** (See page 13.)

¹ Performance Funding Standards 2000-01 through 2004-05, Executive Summary, p.1, Tennessee Higher Education Commission.

- **Tennessee’s performance funding system has been used as a model for other states. And it constitutes a higher proportion of funding than in other states. However, higher education officials report mixed results on its effectiveness.** Although they cite some indicators that are “very appropriate” or “appropriate,” others may need to be revised or added. Some state officials expressed concern that performance funding may have lost some of its effectiveness in spurring genuine improvement of programs for a variety of reasons, ranging from a need to use the funds for basic operational expenses to staff proficiency at completing needed reports. Most people believe performance funding should be continued, but should be reviewed. (See page 14.)
- **Tennessee already has some parts of a comprehensive accountability system in place, but would need to revise and add to it. Also, some performance information that could be helpful to policy makers is collected, but not reported.** (See pages 6 and 15.)
- **The current funding formula may contain incentives and disincentives that discourage improvements in performance and accountability.** Because of the heavy emphasis on enrollment, various officials believe that the formula creates a disincentive to graduate students in a timely manner; and results in poor articulation agreements and less efficient course offerings. Concerns were also raised about incentives to increase square footage through new buildings and satellite campuses. (See page 16.)

Comparison to an Accountability Model

Based on the components of a Model Higher Education Accountability System, developed by the staff working group, the report further concludes:

- **To date, Tennessee’s higher education accountability system has had limited consequences related to performance.** Several other states have begun to more directly tie budget decisions to accomplishment of planning goals and objectives. If implemented in Tennessee, policy makers might, for example, review THEC’s *Master Plan* goals in deciding whether to grant increases in funding. Conversely, a system of rewards could be considered for those institutions that demonstrate exemplary performance. Presently, because every school receives some level of performance funding, failing to perform would result in only a small decrease. (See page 17.)
- **Tennessee’s higher education planning, budgeting, and reporting could benefit from increased integration.** THEC and the Board of Regents have taken steps in the past year to improve the coordination of planning. Even so, many of Tennessee’s budget formation and allocation processes are separate from its planning and accountability efforts. And, most of the formula components are not based on established priorities, but rely heavily on enrollment and peer salaries. Performance funding, a relatively small proportion of total funding, is the only element which specifically links performance, accountability, and funding.

Historically, planning and performance information has not been provided to the Governor or General Assembly with budget requests. As a result, policymakers cannot easily base financial decisions on performance and priorities, and must rely instead on more incremental means to make appropriations. Last year the first step was taken to integrate planning and budgeting in the Governor's budget improvement items.

To achieve better integration of these systems, a state's higher education coordinating board, governing boards, and institutions should work toward the same statewide goals and objectives. In Tennessee, systems may plan and establish priorities without regard to statewide higher education goals. Except for reports produced by THEC, institutions and governing boards may report planning, performance, and expenditure information in various ways, making analysis and comparison difficult. In addition, higher education should reflect statewide needs for workforce development, labor demands, economic trends, K-12 education, and legislative and executive priorities. (See page 17.)

- **Some of Tennessee's higher education indicators measure results and outcomes, while others measure effort or process.**

Many performance indicators used in performance funding are based on results. Student scores on general education and major field tests, job placement rates of graduates, and retention and graduation rates are all results-oriented measures used in performance funding. THEC's *Status of Higher Education* and TBR's Report Card also use some outcome measures such as licensure passage rates, program accreditation, and expenditure information. However, planning documents could be more focused on results.

Many of THEC's *Master Plan* goals use words like "strive," "clarify," "address," and "implement." These words lend themselves to the evaluation of the effort made toward a goal or the process used to attain a goal, rather than the outcome of the process. (See page 18.)

- **Some of THEC's goals are too broad, making determining progress difficult.**

Many of THEC's goals are not specific enough to determine clear performance measurements to evaluate progress. For example, one goal in the *Status of Higher Education* report states, "By the year 2000, Tennessee will have improved both the quality and the quantity of research and public service so that the state is recognized for its superior research and service activities." This statement leaves many questions to be answered: How is the improvement to be measured? What entity will recognize Tennessee for its superior research and service activities?

Goals stated in THEC's *Master Plan* and the *Status of Higher Education* report are not easily measured. For example, one goal reads: "By the year 2000, Tennessee will be among the leading Southern states in providing college education to its citizens." None of the benchmarks and performance measures associated with this goal compare Tennessee to other Southern states. As a result, information is not available indicating whether the goal has been achieved. Instead, the benchmarks and measures provide information only on Tennessee. (See page 19.)

- **Various entities apparently have differing expectations as to whether goals should be measurable.**

A March 2000 performance audit of THEC stated that 17 of the 22 *Status of Higher Education* goals were not met. THEC's executive director, however, stated that the goals were meant to be aspirational. Management's comments to the audit report further state that there are "factors impacting the attainment of these goals (that are) highly dependent on circumstances beyond the control of the commission." Other officials, however, found such broad-based goals problematic because they cannot be measured.

In addition, THEC establishes goals that may be neither reasonable nor attainable. For example, the THEC *Master Plan* has a goal to "strive to be recognized as a national leader for quality research...." This may not be reasonable given that many other higher education systems have significantly more resources available for research, several professors from national academies, more highly ranked students, and greater amounts of state and private funding than Tennessee. Some officials argue, however, that higher education needs aspirational goals to challenge the system to continually improve. (See page 19.)

- **Some of higher education's planning documents establish benchmarks or baselines from which to evaluate progress; others do not.**

Benchmarks establish specific targets to achieve. In Tennessee's higher education accountability system, most benchmarks identified are merely strategies for meeting objectives, not specific levels of performance. The *Master Plan* establishes time periods in which to meet benchmarks, but they mean little without the ability to quantify performance benchmarks. (See page 20.)

- **THEC's indicators used in performance funding are not tied to *Master Plan* goals and objectives.**

According to THEC officials, performance funding is the state's major accountability system used to evaluate performance, yet it is not directly connected to the *Master Plan*. TBR's strategic planning goals and the *Report Card* performance indicators used also are not linked. UT does not publicly report progress toward goals. (See page 21.)

- **Within performance reports, definitions of performance indicators are clear and agreed-upon by parties participating in the process.**

In Tennessee, within each accountability report, such as the *Status of Higher Education in Tennessee* or TBR's *Report Card* there seems to be a common understanding of definitions of the indicators used. To ensure understanding of performance indicators, THEC provides training to institutional staff on the indicators it uses for performance funding. However, various performance indicators are used in the different reports. (See page 21.)

- **Tennessee's accountability system lacks comparative information, although comparability is improving.**

The model accountability system includes comparisons to in-state and out-of-state peers. In most cases performance results from the THEC's *Status of Higher Education* report are not compared regionally or nationally. TBR's *Report Card* is not compared to measures

for UT schools or regional or national performance data. More comparative data is available from Tennessee's newest performance funding indicators, adopted for the 2000-01 through 2004-05 cycle. Tests and other indicators must now be nationally "normed" allowing for comparisons. The increasing availability of national and regional data should improve Tennessee's use of comparative data. One such example is the University of Delaware's *National Study of Instructional Costs and Productivity*, which allows programmatic comparisons of costs between like institutions. (See page 21.)

- **Higher Education may need to consolidate reports on planning and performance.** Policy makers indicate they do not use higher education planning documents and performance reports in decision making. This may result from the various reports that they receive. The higher education entities may wish to consider producing one primary report containing key performance information that policy makers could use for reference. (See page 22.)

- **Except for the Board of Regents' Report Card, THEC has little performance and accountability information readily available to the public.** Currently, the *Status on Higher Education* report is on THEC's website, but includes no additional information about the performance funding measures used, or the institutions' performance. THEC has little information available on its website on the amount of funding received or spent for higher education. Several other states have performance information readily available to the public on the web. (See page 22.)

Recommendations

The report contains legislative and administrative recommendations that could improve accountability of Tennessee's public higher education system. Policymakers would, of course, also need to weigh the costs of providing additional measures to their benefit to the system. (See pages 23-28.)

Legislative Recommendations

The General Assembly may wish to:

- Require higher education to reflect the state's top priorities in its planning and reporting processes;
- require a single planning and performance document for all higher education entities in the state containing performance information specified by the General Assembly;
- limit new funding, outside that generated by the funding formula, to performance-based initiatives;
- require a review of the present funding formula and/or performance funding system to determine positive attributes as well as those that may need revision; and
- strengthen THEC's role in establishing priorities and requirements for higher education.

Administrative Recommendations

The report contains several administrative recommendations to strengthen higher education accountability. These include suggestions for better integration of planning, budgeting and reporting, as well as improved baselines and benchmarks. THEC should broaden representation in its strategic planning process to include the K-12 education system, labor and workforce development, and other areas that affect or are affected by higher education decisions.

To provide a more complete picture of higher education, Tennessee's higher education accountability system should include more performance information such as:

- student outcomes;
- the linkages between K-12 and higher education;
- comparisons to regional averages, national averages, and other like institutions; and
- financial resources and expenditures.

Such information should be made easily available to the public.

Table of Contents

Introduction	1
Methodology	2
Background	2
Performance and Accountability Systems.....	2
Trends in Higher Education Accountability	2
Types of Performance and Accountability Systems	3
Exhibit 1: National Conference of State Legislatures’ List of Advantages and Disadvantages of Performance Funding	3
Performance-Based Budgeting.....	4
Performance Reporting.....	5
Exhibit 2: Higher Education Systems’ Use of Performance Funding, Budgeting and Reporting	5
Higher Education Planning and Reporting in Tennessee.....	6
Tennessee’s Higher Education Funding	7
Exhibit 3: Changes in Sources of Revenue, Tennessee Public Four-Year Institutions of Higher Education	8
Performance Goals and Measurements for Higher Education in Other States	8
Exhibit 4: Higher Education Goals Identified in 18 States	8
Tennessee’s Goals for Higher Education.....	9
Most Common Performance Indicators.....	10
Indicators of Higher Education Performance Used in 18 States	10
Tennessee’s Performance Indicators.....	11
Analysis and Conclusions	13
Exhibit 5: Tennessee Compared to Top Performing States on Higher Education Affordability Indicators	14
Tennessee’s Present Higher Education Accountability System Compared to a Model Accountability System.....	16
Recommendations	23
Appendices	29
Appendix A: Language for Study in Public Chapter 994	29
Appendix B: Recent events in Tennessee Higher Education	30
Appendix C: Higher Education Goals from 18 States and Tennessee	31
Appendix D: Performance Indicators Used in Other States.....	35

Appendix E: Performance Indicators Collected in Tennessee.....	38
Appendix F: Performance Indicators Used by National Ranking Organizations, Federal Data, or Regional Data	41
Appendix G: Reporting Procedures in 16 States on Higher Education Performance and Accountability Reports	45
Appendix H: Tennessee's Higher Education Accountability System Compared to Model and Model States.....	48
Appendix I: Letters of Response from the University of Tennessee Board of Trustees, the Tennessee Board of Regents, and the Tennessee Higher Education Commission	56
Appendix J: List of Individuals Interviewed	63

It is reasonable to expect that higher education today should be able to establish clear goals; develop benchmarks and strategies to achieve those goals; report performance toward achieving goals; and create a mechanism to use that performance information to improve activities.

Mark Musick, President, Southern Regional Education Board (SREB)

Introduction

During the past decade, governments have expanded accountability systems at a rapid pace. Although these accountability systems take different forms with varying degrees of success, they share common aspirations:

- To more clearly set governmental agency and program priorities;
- To set goals according to priorities;
- To establish measures to evaluate performance toward meeting goals; and
- To allow decision makers to make more informed budgetary decisions based on performance.

Higher education has not been ignored in the push toward more public accountability. In many states, higher education accountability is included in governmentwide performance-based budgeting or performance reporting systems. In other states, accountability systems, such as performance funding in Tennessee, are unique to higher education.

In the past few years, Tennessee higher education officials and others have expressed concern about the chronic underfunding of Tennessee's public higher education system and the inability of Tennessee to stay competitive. More specific concerns were expressed by both higher education officials and the Governor's Council on Excellence in Higher Education over the state's ability to:

- recruit and keep exemplary faculty;
- keep the state's best and brightest students in Tennessee's institutions of higher learning;
- offer financial aid for college to all students who qualify;
- secure the state's economic future.

The Council on Excellence's report recommended:

- that Tennessee establish goals and performance targets in keeping with the systemwide mission;
- that the Tennessee Higher Education Commission be authorized to ensure that programs, institutions, and operating components are aligned with the established goals; and
- that the state strategically increase funding and link allocated revenues to performance goals.

In response to the Council's recommendations and other concerns, the Governor recommended a \$140.5 million increase in higher education in the 2000-01 budget. Legislators expressed reluctance to make such large increases in higher education funding until they had greater confidence in higher education's accountability. The General Assembly appropriated a \$57.6 million improvement for the 2000-01 higher education budget. The legislature, however,

required in Public Chapter 994 (the 2000 Appropriations Bill) this interdepartmental study of higher education goals and performance measures, particularly those of quality, accessibility, competitiveness, and utilization of public higher education in Tennessee. (See Appendix A.)

Methodology

This report's conclusions and recommendations are based on:

- A review of the current goals, benchmarks, and accountability and performance indicators used by the Tennessee Higher Education Commission (THEC), University of Tennessee (UT), and Tennessee Board of Regents (TBR);
- Interviews with higher education and other state officials;
- An examination of accountability systems and performance measures used in other states; and
- Analysis of federal and academic literature on performance and accountability systems.

Background

Performance and Accountability Systems

In the 1970s governments began widespread development of accountability systems to measure and report the performance of government programs. According to the Urban Institute, local governments were the first to introduce what it refers to as “governing for results.” By the mid-1990s, the International City/County Management Association reported comparative performance data from over 40 large city and county governments.¹

In the late 1980s and 1990s state governments also began creating performance and accountability systems. Hawaii, however, passed legislation creating performance-based budgeting in 1970. From 1988 to 1997, 30 states adopted performance-based budgeting legislation.²

The federal government has also focused on performance and accountability. In 1993, the federal government adopted the *Government and Performance Results Act*, requiring each agency to create a five-year strategic plan by 1997. By 1999 each federal agency was required to produce an annual performance report based on outcome targets including budget projections for the following year.³

Trends in Higher Education Accountability

Merl Hackbart, Professor of Finance and Public Administration at the University of Kentucky and former Kentucky State Budget Director, said that if there were a label for higher education in the 1990s it would be that of “accountability.”⁴ Results from a survey of higher education officials conducted by the State Higher Education Executive Officers (SHEEO) found that higher education “effectiveness and accountability” was listed in the top five issue priorities in 1999 and had consistently been a top priority since 1989.⁵ The National Association of College and University Business Officers (NACUBO) and the National Conference of State Legislatures (NSCL) have also been active in determining how higher education can increase accountability, while still allowing campus flexibility.

¹ Liner and Vinson, “Will States Meet the Challenge,” p. 2, Urban Institute, July 1999.

² Ibid.

³ Harry Hatry, Urban Institute, “Are We Governing for Results Yet,” First Tuesdays at the Urban Institute, transcript, December 7, 1999.

⁴ Presentation at the Accountability and Financial Support of Public Higher Education Conference, University of Georgia, May 2000.

⁵ *Issue Priorities and State Trends in Higher Education*, Alene Bycer Russell, State Higher Education Executive Officers, pp.2-3, January 2000.

The National Center for Education Statistics (NCES) is the primary federal entity for collecting, analyzing, and reporting data related to education in the United States. In 1994, the center established the National Postsecondary Education Cooperative “to promote the quality, comparability and utility of postsecondary data and information that support policy development, implementation, and evaluation.” Some of the research includes ongoing work to develop student outcome information for use in policy-making. Accrediting agencies, long thought of as the determiner of basic institutional and programmatic quality, are also rethinking many of their criteria to focus more on performance outcomes.⁶

In November 2000 the National Center for Public Policy and Higher Education released the first *State-by-State Report Card on Higher Education*. The report card evaluates how states perform on:

- *Preparation*. How well does the state prepare students to be eligible for and to benefit from opportunities for education beyond high school?
- *Participation*. How well does the state perform in providing opportunities for enrollment in postsecondary education?
- *Affordability*. How affordable is higher education for students and their families?
- *Persistence and Completion*. How well do students persist toward and complete certificates and degrees?
- *Educational Gains and Returns*. What are the economic, civic and social benefits that accrue to a state as a result of a more highly educated population?⁷

Types of Performance and Accountability Systems

Performance and accountability systems can take different forms. The most commonly used categories are performance funding, performance budgeting, and performance reporting.

Performance Funding

Higher Education performance funding is described as “the tying of specified state funding directly and tightly to the performance of public campuses on individual indicators.”⁸ According to a report by the National Conference of State Legislatures, using performance funding as an accountability system has both advantages and disadvantages.⁹

Exhibit 1: National Conference of State Legislatures’ List of Advantages and Disadvantages of Performance Funding

Advantages of Performance Funding

- Emphasis is on results/outcomes.
- Identifies and prioritizes goals.

Disadvantages/Limitations of Performance Funding

- It can create budget instability.
- Cost of implementation can outweigh the fiscal advantage of the system.

⁶ See *The Competency Standards Project: Another Approach to Accreditation Review*, prepared by the National Center for Higher Education Management Systems for the Council for Higher Education Accreditation, August 2000, p.3; and Beth McMurtrie, “Accreditors Revamp Policies to Stress Student Learning,” *The Chronicle of Higher Education*, July 7, 2000, A29 and A30.

⁷ *State-by-State Report Card on Higher Education: Prospectus*, March 2000, pp. 1-9. National Center for Public Policy and Higher Education. www.highereducation.org/reports/reportcard/reportcard/shtml .

⁸ *Performance Funding and Budgeting: An Emerging Merger? The Fourth Annual Survey, 2000*, p. 3. Joseph Burke, et al, The Nelson Rockefeller Institute of Government, State University of New York.

⁹ “Performance Funding for Higher Education,” Julie Bell, National Conference of State Legislatures.

- Increases accountability.
- Has potential to improve higher education.
- Provides discretionary money.
- Small incentives can have a large effect.
- It is difficult to measure results of higher education.
- Can erode institutional autonomy.
- Elected and campus leaders have different views on what constitutes success and quality.
- Institutional missions and quality may not fit into a few indicators.
- Goals may not transfer among states
- Developing assessment instruments can be confusing and costly.
- The percentage allocated is too small to have any real impact.
- State priorities can change.

Source: "Performance Funding for Higher Education," Julie Bell, National Conference of State Legislatures.

According to Joseph C. Burke's annual report, *Performance Funding and Budgeting: An Emerging Merger? – The Fourth Annual Survey*, 17 states had performance funding in 2000, compared to 10 in 1997. Many states implemented performance funding in the 1990s, making effects as yet unclear. However, Burke attempts to determine the impact of performance funding through an annual survey of state higher education financial officers. Six states' higher education financial officers indicate that performance funding has improved the performance of higher education to a "great or considerable extent." Three states' officials said performance funding improved performance to "little or no extent."

Performance Based Budgeting

Performance based budgeting is broadly defined as "a process of linking an agency's funding to its performance in achieving expected results, in order to improve performance and accountability."¹⁰ In the process, policymakers determine the level and quality of services a program is expected to provide. Agency managers track and report performance results, which policymakers evaluate and may consider in making budget decisions.¹¹ Performance budgeting also allows governors, legislators, and coordinating or system boards to consider campus achievement of performance indicators as one factor in determining campus allocations.¹²

Performance budgeting is not directly linked to funding as is performance funding. Instead performance information is reported to decision-makers, who may, but are not required to, use such information in making budgetary decisions. The time when certain performance information must be reported often coincides with strategic planning and governmental budgeting processes.

Twenty-eight states currently have performance budgeting systems. In Burke's 1997 review, 16 states had performance budgeting. None of the states' higher education finance officers surveyed say that performance budgeting has improved higher education performance to a "great extent." Finance

¹⁰ "Performance-based Budgeting and Accountability in State Government," Ronald Snell, National Conference of State Legislatures, Presentation before the Tennessee House Finance, Ways and Means Committee, March 21, 2000.

¹¹ Ibid.

¹² Burke, p.3.

officers think performance budgeting has “little effect” in 36 percent of the states, and “no effect” in 29 percent of the states with performance budgeting. In 2000, ten states had both performance funding and performance budgeting.

Thirty-five states have either performance funding, performance budgeting, or both types of accountability in higher education. Following is a table of these states and a designation of whether each uses performance funding, performance budgeting, or both in its higher education system.

Performance Reporting

Performance reporting is the accountability method most loosely linked to the budgeting process. Often it is a set of performance information required for the use of policymakers or the general public, but is not linked to strategic planning or budgeting processes. Agencies may prepare an annual report or a report card. Burke’s study found 30 states have performance reporting; some also have performance funding and/or budgeting. Half of the states that have neither performance funding nor budgeting have performance reporting.

Exhibit 2: Higher Education Systems' Use of Performance Funding, Budgeting and Reporting

State	Performance Funding	Performance Based Budgeting	Both Performance Funding and Budgeting	Performance Reporting
Alabama		X		X
Arizona				X
California			X	X
Colorado	X			X
Connecticut			X	X
Florida			X	X
Georgia		X		
Hawaii		X		X
Idaho		X		X
Illinois			X	X
Iowa	X			
Kansas			X	
Kentucky				X
Louisiana			X	X
Maine		X		
Maryland		X		X
Massachusetts		X		X
Michigan		X		
Mississippi		X		X
Missouri			X	X
Nebraska		X		
Nevada		X		
New Jersey			X	X
New Mexico		X		X
New York	X			
North Carolina		X		
North Dakota				X
Ohio	X			
Oklahoma			X	
Oregon		X		X

Pennsylvania	X			X
Rhode Island				X
South Carolina	X			X
South Dakota	X			X
Tennessee	X			X
Texas			X	X
Utah		X		X
Virginia		X		
Washington				X
West Virginia				X
Wisconsin		X		X
Wyoming				X
TOTAL	8	17	10	30

Source: Joseph Burke, *Performance Funding and Budgeting: An Emerging Merger?- The Fourth Annual Survey*. Rockefeller Institute of Government, 2000, State University of New York.

Higher Education Planning and Reporting in Tennessee

THEC is the state’s higher education coordinating board. Its focus is statewide and largely policy-oriented. The University of Tennessee Board of Trustees and the Tennessee Board of Regents are governing boards and are responsible for the management and operation of institutions. As such, THEC and the governing boards plan at various levels. TCA 49-7-202 requires THEC to develop a master plan for the “future development of public higher education in Tennessee.” In addition, TCA 49-5-5024 requires THEC, in consort with the two governing boards, to develop “long-term quantifiable goals for Tennessee higher education. Such goals should also reflect the qualitative improvements in public higher education.”

The *Strategic Master Plan for Tennessee Higher Education* fulfills the requirements of TCA 49-7-202. According to THEC the plan “outlines the goals and general objectives that are responsive to the postsecondary needs of the state and its citizens.”¹³ Each master plan covers a five-year period and is updated annually.

The Status of Higher Education in Tennessee fulfills the requirements of TCA 49-5-5024, which directs THEC to consider the goals established by the Southern Regional Education Board in its report, *Goals for Education: Challenge 2000*, when determining Tennessee’s goals. Since 1990, THEC’s *Status of Higher Education Report* has been released annually, and reports on progress toward the goals established in the report. Since the report’s goals were set to culminate by the year 2000, the report provided to the legislature in 2001 will be the last report using the current goals. New goals will have to be set for the years ahead.

The governing boards and institutions plan as well. The Tennessee Board of Regents (TBR) recently completed its new *Integrated Strategic Plan: 2000-2005*. It includes plans for the TBR system and specific plans for each institution. The Board of Regents approved these plans in June 2000. These new plans serve to guide the board and the institutions from 2000-2005 and include strategic goals. The plans for the individual institutions also determine a baseline and target for each goal. The TBR plan establishes five major goals for creating “An Educated Tennessee”:

- Academic Excellence through Improved Funding

¹³ *Statewide Master Plan for Tennessee Higher Education 2000-2005*, A message from the Executive Director, Tennessee Higher Education Commission.

- Access
- Accountability
- Articulation
- Work Force Development

TBR annually publishes a report card for each of its postsecondary institutions and a systemwide report card.

The University of Tennessee does not publish an official planning document, but submitted a list of indicators under consideration. The UT system, since the induction of a new president, has spent time reorganizing the university and establishing goals. The University of Tennessee reported some of its new goals to the legislature in February 2000. Many of the established goals were said to have been determined considering the recommendations from the Council on Excellence report. In addition, UT produced *A Report of Performance* in June 1999 that reflects performance in a number of areas. That report was not published in 2000; however, an April 25, 2000, report entitled *Committee on the Future: Report to the President* includes some new performance-based goals.

A comprehensive accountability system would integrate planning, performance, accountability, and funding in one system. Some of the elements of THEC's planning documents are linked to performance reports, but many planning goals are not tied to funding. TBR in its institutional strategic plans attempted to link its main goals to some of THEC's overall goals. According to the President of UT, "the UT system's goals are not in conflict with THEC's, nor are they aligned with them".¹⁴ The University of Tennessee publishes no standard performance report for public consumption beyond that required by THEC or by legislative request.

Tennessee's Higher Education Funding

Presently, most state appropriations for higher education are distributed through a formula based on operational cost estimates, not performance. TCA 49-7-202 (c)(2) gives THEC the authority to create a funding formula for the "fair and equitable distribution and use of public funds."¹⁵ The funding formula generates the request for the bulk of state operational funding for Tennessee's postsecondary institutions. The funding formula is based largely on enrollment, previous expenditures, inflation, and the faculty salaries at peer institutions in other states.

The only element of higher education funding affected by accomplishment of objectives is performance funding. Institutional scores are translated into dollars to improve performance. Performance funding began in the late 1970s in Tennessee as the first such funding system in the country for higher education. Through performance funding, a postsecondary institution has the potential to earn a supplement of up to 5.45 percent of the instructional component of its education and general budget by demonstrating "exemplary performance levels achieved on [ten] selected assessment areas."¹⁶

Limited availability of state resources has increased the focus on higher education's budget and increased the financial burden borne by students. Competition for limited new state dollars has come from other areas outside higher education such as the Medicaid/TennCare program and K-12 BEP

¹⁴ Interview with Dr. Wade Gilley, President and UT staff, October 13, 2000.

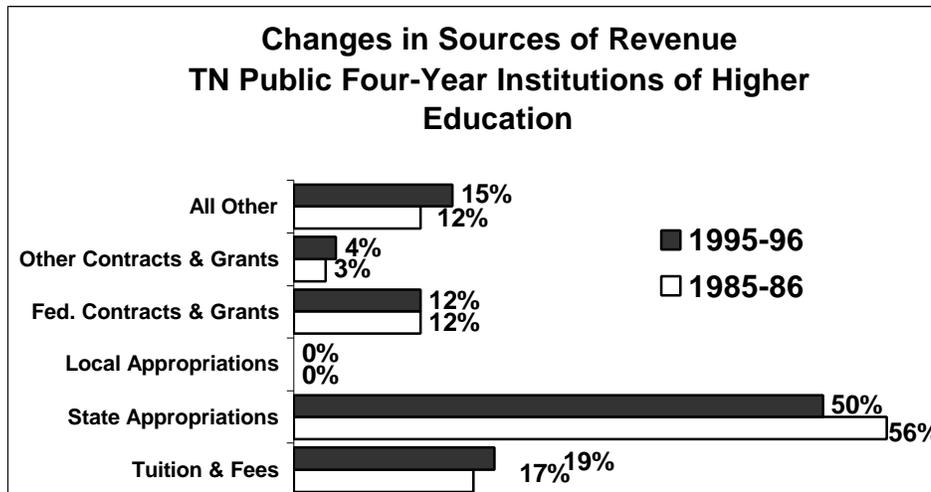
¹⁵ For the purposes of this study, the term "funding formula" in its singular form represents the variations of a single formula used to determine funding needs to higher education institutions that differ based on the type of institution.

¹⁶ Performance Funding Standards 2000-01 through 2004-05, Executive Summary, p.1, Tennessee Higher Education Commission.

funding. Being pitted against funding requests from other programs has forced higher education to provide more justification for requested improvements. Although higher education funding has increased in the last 11 years, it has not increased at the rate of other areas of state government. Between 1989-90 and 2000-01, higher education's portion of the state budget decreased from about 15 percent to 12 percent.

As Exhibit 3 illustrates, from 1985-86 to 1995-96 the portion of total revenue provided by the state for Tennessee four-year higher education institutions decreased more than six percent while the percentage of revenue from tuition increased.

Exhibit 3



Source: SREB Fact Book

Performance Goals and Measurements for Higher Education in Other States

Higher Education Goals in 18 States

To determine the components of other states' higher education accountability systems, staff examined the higher education goals, performance indicators, and reporting processes used in 18 states.¹⁷ These states were selected based on having performance budgeting, performance funding, or both and based on the availability of each state's information. Each state and, in some cases each institution within a state, has its own stated goals for higher education. Staff sorted states' goals according to the criteria listed in the language requiring this study: **quality, accessibility, competitiveness, and utilization**. A complete summary of these goals is provided in Appendix C. **Note:** This table does not judge whether goals are appropriate or met by the various states.

Exhibit 4: Higher Education Goals Identified in 18 States

Type of Goal	CA	CT	FL	ID	MD	MO	NE	NJ	NM	NY	NC	OH	OR	SC	TN	TX	VA	WA	Totals
Quality																			
Student Learning & Services	X	X	X					X			X	X			X			X	8
Overall & Program				X	X			X		X	X		X	X	X	X			9
Research			X		X	X	X	X						X	X				7

¹⁷ States include: California, Connecticut, Florida, Idaho, Maryland, Missouri, Nebraska, New Jersey, New Mexico, New York, North Carolina, Ohio, Oregon, South Carolina, Tennessee, Texas, Virginia, and Washington.

Type of Goal	CA	CT	FL	ID	MD	MO	NE	NJ	NM	NY	NC	OH	OR	SC	T N	T X	VA	WA	Totals
Assessment							X	X						X	X		X		5
Faculty								X		X						X			3
Accessibility																			
Underserved				X			X	X					X	X	X	X			7
General Information	X		X			X				X		X			X				6
Affordability/ Financial Aid		X			X		X	X							X	X			6
Use Technology to Improve Access							X	X							X			X	4
Competitiveness																			
Economic/ Workforce Development		X			X				X			X	X	X	X	X			8
National/Regional Excellence					X										X	X			3
Utilization																			
Efficiency		X	X	X	X	X	X	X		X	X			X	X			X	12
Utilize Higher Ed. to meet Societal Needs		X	X	X			X	X			X				X			X	8
Partnerships with Other Institutions or K-12		X			X		X	X							X	X		X	7
Partnerships with Business/Industry			X				X	X							X	X	X		6
Better use of Technology			X												X				2

Source: Compilation of data from states' websites and performance reports. The chart divides states' goals into subcategories. A state may have more than one goal in each category or subcategory.

Tennessee's Goals for Higher Education

When the goals of THEC, TBR, and UT are combined, Tennessee has over 30 goals to reach between 2000 and 2007. Appendix C includes Tennessee's goals for higher education. Many of THEC's goals, as indicated in its *Statewide Master Plan* and in the *Status of Higher Education Report*, focus on Tennessee's desire to become regionally or nationally competitive. In fact, goals state that Tennessee will be competitive—in research, public service, faculty recruitment, citizen access to higher education, teacher preparation, program and institutional assessment, program quality improvement, and economic growth. Other goals give public higher education significant responsibility for: elevating educational achievement, improving access through technology, impacting economic development, addressing societal and cultural needs, clarifying institutional missions, communicating with decision-makers, and obtaining adequate funding.

In contrast to THEC’s broad and sweeping goals, UT’s goals are more focused and include specific outcomes. UT’s goals, provided to the legislature in February 2000, seek to: elevate UT to be regionally and nationally competitive for students, faculty, and research; raise the access to higher education through distance learning; and establish financial accountability for funds raised and appropriated.

TBR’s goals focus on access to a greater degree than either the goals of UT or THEC. TBR’s goals offer education to “all Tennesseans”; emphasize increasing diversity; commit to strengthening transfer and articulation programs, and establish a numeric target for enrollment increases. Unlike UT and THEC, TBR does not establish goals for regional or national competitiveness. Instead, TBR goals focus on workforce development and program and financial accountability.

Most common performance indicators

According to a report by the National Conference of State Legislatures (NCSL) entitled *Performance Funding for Higher Education*, schools use several common indicators to evaluate higher education. Although the list of indicators below was derived from performance funding programs, it could be applicable for performance budgeting and performance reporting.

- Enrollment/graduation rates by gender, ethnicity, and program
- Degree completion and time to degree
- Persistence/retention rates by grade, ethnicity, and program
- Remediation activities and indicators of their effectiveness
- Transfer rates to and from two- and four-year institutions
- Pass rate of professional exams
- Job placement data on graduates and graduates’ satisfaction with their jobs
- Satisfaction of students
- Faculty workload and productivity in the form of student/faculty ratios and instructional contact hours.

Indicators of Higher Education Performance Used in 18 States

Staff evaluated the higher education performance indicators using the same 18 states previously identified. These measures could be used as part of performance funding, performance budgeting, or a performance reporting system. The indicators are divided into the categories of quality, access, competitiveness, and utilization, with subcategories to group similar indicators together. The subcategories most evaluated in 18 states are listed below along with performance indicators used. Appendix E contains a complete list of the performance indicators used.

Quality in higher education is commonly measured using the following indicators:

Program quality	accreditation rates, licensure exam passage rates, class size, retention rates, persistence to graduation, student and employer satisfaction (16 states)
Faculty quality	academic credentials, workload, publications, and awards (10 states)

Access to higher education is commonly measured using the following indicators:

General access	ease and frequency of transfers, increase in enrollment (8 states)
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Access of underserved groups	application and admission rates by ethnicity, gender; participation and success of minorities, disabled students, and first-generation college students (7 states)
Geographic access	credits earned from remote locations, geographic distribution (5 states)

Competitiveness of higher education is commonly measured using the following indicators:

Student competitiveness	employment after graduation, salary of graduates, percent of graduates remaining in state (9 states)
Institutional competitiveness	comparative cost, revenue, research funding, aid availability (8 states)

Utilization in higher education is commonly measured using the following indicators:

Efficiently utilizing institutions	use of space, duplication in staff and programs, percent of students taking more courses than needed to graduate, enrollment in non-credit courses (14 states)
Utilizing linkages to K-12	teacher education reform initiatives, number of teaching degrees awarded in needed areas, collaborative activities between universities and public schools (4 states)

Tennessee's performance indicators

A review of the performance indicators used in Tennessee, derived from THEC's *Status of Higher Education Report* and performance funding program and TBR's *Report Card* reveal that Tennessee collects a great deal of performance information, including many items reflected in the table above. The University of Tennessee System does not have a formal performance process or report from which to determine indicators. For a full listing of the performance indicators collected, see Appendix E

Performance indicators can be designated as input, outcome, or process indicators. According to the Government Finance Officers Association, input indicators measure an institution's "resources allocated for the execution of activities and work processes so that stated goals, objectives, and outcomes can be achieved." Process indicators measure how well an institution's "core business functions and work processes contribute to effectiveness, efficiency, and service quality." Outcome indicators measure the "intended results that should be achieved by a government or its departments responsible for undertaking a specific goal and objective."¹⁸

Inputs measured by THEC's *Status of Higher Education* report consist of: enrollment data by race and gender, percentage of courses taught by faculty at various levels, faculty salaries, distribution of financial aid dollars, number and percentage of students receiving financial aid, expenditures on research and public service, state appropriations for higher education, and the financial health of private institutions. Inputs measured by TBR's *Report Card* include: percent of students receiving

¹⁸Salomon Guajardo and Rosemary McDonnell, *An Elected Official's Guide to Performance Measurement*, Government Finance Officers Association, 2000, Glossary, pp. 70-72.

financial aid, tuition and fees collected, expenditures by category, staffing by category, and the amount of private giving.

Process indicators used in THEC's *Status of Higher Education Report* include transfer rates and persistence to graduation. Performance funding uses articulation and transfer results and retention/graduation rates. TBR's *Report Card* uses transfer rates, graduation rates, and faculty productivity.

Outcome indicators used by THEC and TBR include: passage rates for licensure exams; student scores on major field tests; results of program accreditation and review; results of student/alumni/employee satisfaction surveys; number of degrees/credentials granted; and job placement for two-year schools.

• **Some states collect more extensive performance information than Tennessee in certain areas.** Areas in which some other states collect more extensive performance information than Tennessee are listed below:

K-12 linkage	(collaborative activities between universities and schools, university volunteerism in schools, percent of graduates employed as teachers)
Faculty performance	(number of publications, frequency publications were cited, awards, grants, patents, post tenure review performance, credit hours produced per faculty member, student survey results, amount of public service)
Student outcome measures	(percent entering graduate school, average starting salary, salary after five years, rate of employment in field, proportion of graduates demonstrating proficiency in written communication and quantitative skills, percent of graduates remaining in state)
Economic/workforce development	(numbers of graduates produced in needed fields and geographic areas, number of partnerships with business, amount of training provided to business)

Tennessee uses several indicators to evaluate access. To evaluate general access, Tennessee uses enrollment, articulation, and transfer rates. To evaluate the access of underrepresented groups, Tennessee considers race, gender, and age. A few other states also include first generation college students, geographic distribution of students, disabled students, and students from low socioeconomic status when evaluating the access of higher education to underrepresented groups.

Tennessee probably collects the least performance information in the area of competitiveness. Tennessee collects information on job placement for graduates of two-year schools. Faculty competitiveness is evaluated by comparing Tennessee's faculty salaries to peer institutions.

Tennessee uses several utilization performance measures. Most indicators illustrate basic funding and expenditure information; overall institutional productivity such as graduation rates, retention, number of degrees granted; or utilization of higher education to meet the state's needs for teachers. In the area of quality Tennessee collects little data on faculty quality, and may need to consider additions to student quality.

Analysis and Conclusions

- **Tennessee’s population is undereducated, which may affect its economic future. The state’s colleges and universities have a vital role to play in improving the state’s educational attainment levels.**

According to data from the Tennessee Department of Labor, by the year 2008, approximately one in five jobs (21.5 percent) will require a college degree or management experience. Another 25.3 percent of all employment will call for postsecondary training of less than four years.¹⁹ In 1998, Tennessee ranked 48th in the nation of persons aged 25 or older with at least a high school diploma. That same year, only 17 percent of adults held a college degree compared to 21 percent in the Southeastern Region and 24 percent nationally.²⁰ Of Tennesseans age 25 to 65 with a high school degree, 21 percent have at least a bachelor’s degree, compared to 34 percent in the top performing states in the country.²¹ (Note: Preliminary Census figures for 2000 indicate improvement in the education level of Tennesseans; however, staff did not use these figures based on criticism that data may be inflated.²²)

In November 2000, the first national higher education report card was released. Higher education officials, however, point out that many of the factors in the report card are not controlled by the higher education system. For example, Tennessee received a D- for participation in higher education. Only two states, Georgia and Louisiana received a lower grade. Tennessee ranked 42nd of the 50 states in each of the three indicators used in the participation category:

- the percent of high school freshmen in 1992 attending college in 1996;
- the percent of high school graduates age 18-24 enrolled in postsecondary education from 1996 to 1998; and
- the percent of high school graduates age 25 to 44 enrolled in any postsecondary education part time.²³

In the same report, Tennessee earned a C on affordability of its higher education system. Even when financial aid is subtracted from the cost of higher education, Tennessee families must spend almost one-fifth of their family income for one family member to attend community college and almost one-fourth of family income to attend a public four-year school. And Tennessee uses fewer state resources to provide financial aid for the state’s low-income families than other states.

Tennessee’s colleges and universities should actively consider Tennessee’s overall needs and support them through research, policies, and practices.

¹⁹ *Tennessee Job Outlook 1998-2008*, Tennessee Department of Labor and Workforce Development, October 2000, p. 12.

²⁰ *Tennessee Trends and Forecasts at a Glance 1998/99*, Adults Educational Attainment Chart, Southern Regional Education Board, p.9.

²¹ *Measuring Up 2000: State-By-State Report Card for Higher Education*, Benefits Indicators, National Center for Public Policy and Higher Education, November 2000, p.145.

²² “Tennessee shows gain in educational levels; some experts say Census numbers too high,” *The Tennessean*, December 19, 2000.

²³ *Measuring Up 2000: The State-by-State Report Card for Higher Education*, State Comparisons: Index Scores in the Preparation category, November 2000.

Exhibit 5
Tennessee Compared to Top Performing States on Higher Education Affordability Indicators

Indicator of Higher Education Affordability	Tennessee	Top Five Performing States
Percent of family income needed to pay for community colleges expenses minus financial aid	19%	17% (Kansas, Kentucky, Louisiana, Mississippi, Oklahoma)
Percent of family income needed to pay for public 4-year colleges/universities expenses minus financial aid	23%	19% (Iowa, Kansas, Minnesota, Utah, Wisconsin)
Percent of family income needed to pay for private 4-year colleges/universities expenses minus financial aid	57%	30% (Alaska, Delaware, Michigan, North Dakota, Utah)
Percent of state grant aid targeted to low-income families as a percent of federal Pell Grant aid to low-income families ²⁴	16%	106% (Illinois, Minnesota, New Jersey, New York, Pennsylvania)
Share of income that poorest families need to pay for tuition at lowest priced colleges	13%	9% (Arizona, California, Nevada, New Mexico, North Carolina)
Average loan amount students borrow each year	\$3,609	\$3,094 (Idaho, Minnesota, North Dakota, South Dakota, Wyoming)

Source: Measuring up 2000: The State-by-State Report Card for Higher Education, Affordability Indicators, National Center for Public Policy and Higher Education, November 2000. (Data from federal sources from 1996 to 1999.)

Tennessee’s performance funding system has been used as a model for other states. And, compared to other states, it constitutes a higher proportion of funding. Joseph Burke notes that because Tennessee was the first state with performance funding, several other states considered it in implementing their own systems, although few adopted Tennessee’s indicators.²⁵

Tennessee’s higher education officials report mixed effects of performance funding. In September 2000, the Nelson Rockefeller Institute of Government at the State University of New York released survey results gathered from five states with performance funding, including Tennessee. Higher education chief executive officers, branch campus directors, chief academic officers, chief business officers, academic deans, and department chairs were surveyed. More than 55 percent of Tennessee respondents believed that performance funding had increased accountability. In a separate question, however, about 78 percent reported that performance funding has had “no change” or that they were unable to judge whether performance funding has influenced the Governor, the legislature, or business leaders on major decisions affecting higher education institutions.

More than 44 percent of Tennessee respondents indicated that performance funding has either “greatly increased” or “increased” the major decisions made by state coordinating boards and staff, university system officials, and senior campus administrators. A quarter of respondents said performance funding had “no change” on the major decisions of higher education staff. Performance funding reportedly had more influence on higher-level officials than on department chairs and faculty leaders.

²⁴ The \$9 million increase in the Tennessee Student Assistance Corporation’s budget for FY 2000-01 was not included in the analysis in the chart on the next page.

²⁵ Burke, p.5.

The largest advantages resulting from performance funding reports by Tennessee's officials were the emphasis on results and performance, and the campus discretion over performance funding money. In each of these categories at least 30 percent of Tennessee respondents said that each was a "very extensive" or "extensive" advantage of performance funding.

More than 60 percent of respondents "strongly agreed" or "agreed" that the following items constituted difficulties to implementing the performance funding program in Tennessee: changing state priorities, the choice of indicators, inappropriate criteria for institutional success, and measuring results of higher education. The greatest disadvantage Tennessee respondents reported from performance funding was budget instability (47 percent responded "very extensive" or "extensive" disadvantage).²⁶

Although performance funding has provided some accountability in Tennessee, some state officials expressed concern that, because it is a percentage of the formula, it grows from factors not related to performance. In addition, institutional personnel may have become proficient at reporting needed information for compliance, rather than using the criteria for genuine improvement of programs. The performance funding component should be reviewed to determine if it should be updated.

- **Tennessee Higher Education officials believe that many of the performance indicators used in performance funding are appropriate.**

In September 2000 the Rockefeller Institute of Government released survey results of Tennessee higher education officials on performance funding. The following indicators used by THEC's performance funding programs were reported as "very appropriate" or "appropriate" by over 70 percent of Tennessee respondents: accreditation, alumni, employer and student satisfaction surveys, external peer reviews, professional licensure exams, graduates' job placement, and standardized test scores. They also identified some indicators not presently used, including: administrative size/cost, faculty workloads, diversity of faculty/staff, diversity of students, retention/graduation rates, and undergraduate access.

- **Tennessee collects, but does not report, some information that might be helpful to include in a comprehensive accountability system.**

For example, THEC's performance funding system collects information on students' performance on college general education and subject tests compared to national scores. TBR collects a great deal of expenditure information, by performing its own cost study. This information can be used to compare programmatic and institutional costs within the system. In addition, some schools within UT and TBR participate in the University of Delaware's *National Study of Instructional Costs and Productivity*, referred to as the Delaware Cost Study. It allows for the comparison of expenditures and costs at like institutions and similar programs across the country. All of this information, if reported to policymakers, could be useful in understanding performance and establishing budget priorities.

Other comparisons used by national and regional organizations could also be helpful. For example, the annual rankings by *U.S. News and World Report* and *Kiplinger's Magazine* both provide useful comparisons to institutions beyond Tennessee's borders. The U.S. Department of Education collects higher education data through its National Center for Education Statistics (NCES) and through the Integrated Postsecondary Education Data System (IPEDS). Although these data tend to be less current,

²⁶ "Performance Funding Opinion Survey of Campus Groups (1999-2000)," www.rockinst.org. Rockefeller Institute for Government, State University of New York.

they provide comparative information that may be valuable to states developing accountability systems. The federal government collects data on student enrollment, faculty salaries and benefits, number of degrees awarded, and institutional revenues and expenditures.

Regional data from the Southern Regional Education Board (SREB) is distributed to Tennessee legislators and higher education officials, but is not regularly included in standard performance reports produced by Tennessee's entities of higher education. The SREB collects data on student enrollment, number and types of degrees awarded, tuition and financial aid information, and revenue and expenditure data.

Appendix F contains a list of available regional and national indicators.

- **The current funding formula may contain incentives and disincentives that discourage improvements in performance and accountability.**

Because so much of the formula is based on the fall semester enrollment, some higher education officials claim that schools are forced to increase course offerings and admissions for students in the fall semester. Board of Regents officials state that the reliance on fall enrollment inhibits community colleges and technology centers from offering specialized training courses for industry to enhance workforce development. Often industry requests specialized training for time periods that may not fit into a traditional semester. Others argue that the formula is not intended to support specialized training provided to industry, that such training should be self-supporting.

Some state officials expressed concern that the formula does not encourage schools to graduate students in a timely manner because of the significant need to increase the student body to generate funding increases. Policymakers questioned whether the formula encourages poor articulation agreements between colleges; increases in the number of hours required to graduate; and less efficient course offerings — hindering students' ability to graduate in four years.

Because the formula provides more funding for increased square footage of space, officials worry that institutions increase square footage through new buildings and expand the number of satellite campuses. The formula does not encourage more efficient use of existing space, distance learning, or alternative schedules.

Tennessee's Present Higher Education Accountability System Compared to a Model Accountability System

To evaluate Tennessee's higher education accountability system, staff examined information from other states, the federal government, higher education research entities, and budgeting organizations. None contained a full accountability model, so staff developed one using resources from the Finance Project; Southern Regional Education Board; the Government Finance Officers Association; the Managing for Results Conference at the LBJ School of Public Affairs; and *Measuring Up 2000: The State-by-State Report Card for Higher Education*. A summarized comparison of Tennessee's accountability system to the model is described below. The model's criteria are listed within the boxes; significant Tennessee comparisons follow each model area. A complete comparison of Tennessee's accountability system to each component of the model and a listing of model states are shown in Appendix H.

Model: Process of establishing a comprehensive accountability system

1. The overall accountability system begins by establishing broad goals to achieve.
2. Objectives are set by establishing specific benchmarks to be met by certain time periods.
3. Progress toward goals is measured by meeting objectives.
4. Performance indicators are established to accurately measure progress toward meeting objectives.
5. Performance is reported and used in planning, budgeting, and allocation decisions.
6. There are consequences related to performance.
7. The accountability system is evaluated regularly to refine and improve its effectiveness.

- **To date, Tennessee’s accountability system has had limited consequences related to performance.**

Present statutes and policies do not provide budgetary or other consequences for failure to meet planning goals and objectives, as is the case in some other states. Failure to meet *Master Plan* goals, for example, would not routinely be addressed in Tennessee’s budget process. Conversely, institutions that meet or exceed established goals are not rewarded, except through the performance funding component. In fact, an enrollment change is likely to affect an institution’s budget more than either exemplary or poor performance.

Model: Coordination of Overall Accountability System

1. Process Integration—Strategic planning, budget formation, accountability system, and appropriations decisions are integrated and coordinated.
2. Vertical Integration—State’s coordinating board, governing boards, and individual institutions should all operate from statewide goals and objectives. Entities should evaluate and report performance similarly. System and institution goals should correlate and not conflict with each other. Institutional goals should work to accomplish system goals.
3. Statewide Integration—A higher education accountability system should recognize that it does not operate in a vacuum. As such, the needs of workforce development, labor demands, future economic trends, needs and trends of K-12 education, along with gubernatorial and legislative priorities should be recognized when establishing goals, objectives, and performance indicators reported through an accountability system.
4. Boards and institutions should use commonly defined terms in planning, goal-setting, measuring performance, and reporting results.
5. An accountability system should measure results, outcomes, and performance, rather than effort or process.

- **Tennessee’s accountability system could benefit from increased vertical integration. The Board of Regents and THEC have moved to integrate their planning efforts.**

To achieve “vertical” integration within the state’s various levels of higher education, THEC, the governing boards, and individual institutions should operate from the same statewide goals and objectives, as well as measure and report progress using the same methods and indicators. In Tennessee, systems may plan and establish priorities without regard for statewide higher education

goals. At the institutional level, TBR ties goals to THEC's overarching goals, yet TBR's system-wide strategic plan is not linked to THEC's *Master Plan*. UT's new goals do not directly link to statewide priorities. Except for reports produced by THEC, systems may present planning, performance, and expenditure information in various ways.

To achieve process integration, a state's planning, budget, and accountability systems should be integrated. Most of Tennessee's budget formulation and allocation processes are separate from its planning and accountability efforts. Most of the components that THEC uses to formulate a budget for higher education are not based on established priorities. Instead, the formula components are heavily reliant on enrollment and peer salaries. Performance funding, a relatively small proportion of total funding, is the only element in the budget in which performance, accountability, and funding are officially connected.

Historically, planning and performance information has not been provided to the Governor or General Assembly with budget requests. As a result, policymakers cannot easily base decisions on performance and priorities, relying on more incremental means to make appropriations. Last year the first step was taken to integrate planning and budgeting in the Governor's budget improvement items. The improvement items identified specific goals from the *Council on Excellence in Higher Education* and designated recommended funding to achieve such goals.

To achieve statewide integration, higher education must link statewide needs of workforce development, labor demands, economic trends, K-12, and policymaker priorities in determining the goals and budget of higher education. The higher education *Master Plan* Task Force did not include representatives from K-12, labor or workforce development, the legislative branch, gubernatorial representatives, or members of the THEC, TBR, or UT boards. Outside of a planning and accountability system, THEC reviews employment indicators and workforce demands when making recommendations on proposed new program offerings.

Recent efforts by THEC bring hope that more statewide integration of higher education processes will occur in the future. The efforts include: establishment of a county-by-county educational needs index; efforts to fulfill federal requirements to work with the Department of Labor and Workforce Development; and actions to comply with a legislative mandate to increase involvement in teacher preparation. The Board of Regents' Strategic Plan also makes several references to its relationship to other government and business entities.

- **Some of Tennessee's higher education indicators measure results and outcomes, while others measure effort or process.**

Many performance indicators used in performance funding are based on results. Student scores on general education and major field tests, job placement rates of graduates, and retention and graduation rates are all results-oriented measures used in performance funding. THEC's *Status of Higher Education* and TBR's Report Card also use some outcome measures such as licensure passage rates, program accreditation, and expenditure information. However, higher education seems to have more difficulty developing planning documents to which results can be compared.

Many of THEC's *Master Plan* goals use words like "strive," "clarify," "address," and "implement." These words lend themselves to the evaluation of the effort made toward a goal or the process used to attain a goal, rather than the outcome of the process.

Model: Elements of Overall Accountability System

Goals

The Government Finance Officers Association (GFOA) in *The Best Governmental Budgeting* defines a goal as “a statement of broad direction, purpose or intent based on the needs of the community.”²⁷ A goal is a broad, general statement about what a program is supposed to accomplish in the future.

1. Goals should reflect statewide higher education priorities as agreed upon by higher education officials and decision-makers, i.e. governor, legislators, and members of state higher education coordinating and governing boards.
2. Goals should be clear.
3. Goals should reflect the expectations of accountability.
4. Goals should be reasonable and achievable, but boards and institutions should not set goals that the state already achieves. (To establish reasonable goals, higher education should recognize existing economic, geographic, and demographic dimensions of a state.)

- **Some of THEC’s goals are too broad, making determination of progress difficult.**

Many of THEC’s goals are not specific enough to determine clear performance measurements to evaluate progress. For example, one goal in the *Status of Higher Education* report is, “By the year 2000, Tennessee will have improved both the quality and the quantity of research and public service so that the state is recognized for its superior research and service activities.” This statement leaves questions to be answered: how is the improvement going to be measured and what entity would provide the recognition?

Similarly, the THEC Master Plan has a goal to “strive to be recognized as a national leader for quality research.” This is not necessarily a reasonable goal for Tennessee given that many state higher education systems have significantly more resources available for research, several professors from national academies, more highly ranked students, and greater amounts of state funding than Tennessee. A July 2000 report analyzing the top American Research Universities in the country ranked the University of Tennessee-Knoxville at 61st among public research institutions and 90th among public and private research institutions in total research expenditures for 1998. UT was the highest ranking Tennessee school spending \$93 million on research compared to the top ranking public institution, the University of Michigan at Ann Arbor, which spent over \$496 million in research expenditures. Goals should be reasonable and achievable. Although dollars spent may not be the only criteria by which to judge, officials need to determine appropriate criteria.

- **Various entities apparently have differing expectations as to whether goals should be measurable.**

A March 2000 performance audit report of THEC found that 17 of the 22 *Status of Higher Education in Tennessee* goals were not met. The executive director of THEC, however, stated that the goals were meant to be aspirational. Management comments from the audit report further state that there are “factors impacting the attainment of these goals (that are) highly dependent on circumstances beyond the control of the commission”.²⁸ In subsequent conversations with THEC staff about their new Master Plan goals for 2000 through 2005, it is clear that the new goals were established to be aspirational.

²⁷ Cited in Guajardo, Salomon A. and Rosemary McDonnell, “An Elected Official’s Guide to Performance Measurement,” Government Finance Officers Association, 2000, p.8.

²⁸ Performance Audit Report, *Tennessee Higher Education Commission*, Division of State Audit, March 2000, p.9.

Other government officials, however, find these broad-based goals problematic in that they are too broad to measure.

Model: Objectives

Goals require objectives that specify what a program should achieve. The GFOA defines an objective as “something that is to be accomplished in specific, well-defined, and measurable terms and that is achievable within a specific time frame.”²⁹

1. Identify objectives that are specific benchmarks with time periods to meet.

(A benchmark is an established desired level of performance that is forward-looking. For example, if a state has a goal of increasing the college participation rate of high school graduates, the objective might be to increase that participation five percent by 2005.)

2. Objectives should include baselines to evaluate progress.

(A baseline is the current status of a particular item. For example, if higher education had an objective to raise the college participation rate of high school graduates to 80 percent, it is helpful to know the current high school participation rate.)

3. Objectives should contain specific, achievable strategies to reach objectives.

4. Objectives should culminate to measure progress toward meeting the goals.

- **Some higher education planning documents establish benchmarks and baselines from which to evaluate progress; others do not.**

A benchmark is important to an accountability system because it determines a target an entity would like to achieve. In Tennessee’s higher education accountability system, most of the benchmarks identified are merely strategies for meeting objectives, not specific levels of performance. The *Master Plan* establishes time periods in which to meet benchmarks, but without the ability to quantify performance benchmarks, time periods mean little. Baselines help determine the progress being made toward a goal. Knowing the current status enables evaluators to determine the significance of progress made toward meeting an objective.

TBR institutions’ strategic plans contain specific benchmarks and baselines. For example, one of the University of Memphis’ goals is to increase the number of students entering the honors program. The 2000 baseline is 125 students and the 2005 target is 139 students (a 15 percent increase).

UT’s goals are specific enough that they are, in essence, objectives containing benchmarks. For example, UT is striving to become a top 25 public institution. Most rankings list UT around the 50 mark. Knowing where UT would like to be in a certain period of time helps establish planning and budgetary priorities. UT does not do as well at establishing baselines. UT plans state “The three undergraduate campuses will by 2005-7 enroll a total of more than 350 National Merit Scholars and National Achievement Scholars. UT (Knoxville, Memphis, Tullahoma) will enroll more than 300 of these.” For this to be a useful goal, one needs to know the current number of National Merit Scholars and Achievement Scholars at UT.

Model: Performance Indicators

“An indicator is a measure, for which we have data, that helps quantify the achievement of a desired result.”³⁰

²⁹ Guajardo, p.9.

³⁰ A Guide to Developing and Using Performance Measures in Results-based Budgeting, by Mark Friedman, prepared for the finance project, May 1997, p. 2.

1. The accountability system should establish performance indicators to measure progress toward meeting established objectives.
2. Definitions of performance indicators should be clear and agreed upon by all parties participating in the process.
3. Data from performance indicators should be valid.
4. Performance Indicators should include peer comparisons within the state and provide comparisons to other states.
5. Data from performance indicators should be consistent and comparable over time.

- **THEC’s indicators used in performance funding are not tied to *Master Plan* goals and objectives.**

THEC officials explain performance funding is the state’s major accountability system used by THEC to evaluate performance, yet it is not directly connected to the *Master Plan*. TBR’s strategic planning goals and the *Report Card* performance indicators used are not linked. UT has no standard annual process that publicly evaluates and reports progress toward goals.

Other states use performance measures to evaluate progress toward established priorities. The Connecticut Board of Governors established a Performance Measures Task Force to develop performance measures for each of the state’s higher education institutions. In identifying these measures, the group was urged to choose or develop measures that would be meaningful to external constituencies, including state policymakers, alumni and donors, and the general public. Specific measures were created under each of six statutory goal areas as well as measures that reflect specific internal strategic planning initiatives.³¹

- **Tennessee’s definitions of performance indicators are clear and agreed-upon by parties participating in the process.**

In Tennessee, within each accountability report used, there seems to be an understanding of common definitions of the indicators used. For example, THEC provides training to institutional staff on the indicators it uses for performance funding. Between accountability reports different sets of performance indicators are used. Some confusion remains regarding the definitions of expenditure indicators.

- **Tennessee’s accountability system lacks comparative information, although comparability is improving.**

A good accountability system includes comparisons with in-state and out-of-state peers. In most cases performance results from the THEC’s *Status of Higher Education* report are not comparable regionally or nationally. TBR’s *Report Card* is not compared to measures for UT schools nor regional or national performance data. More comparative data is available with Tennessee’s newest performance funding indicators. Tests and other indicators used must now be nationally “normed” allowing for comparisons. The increasing availability of national and regional data should enable Tennessee to use more comparative data. In addition, financial information could be improved by allowing comparison of expenditures to funding formula categories, as well as across similar programs in all institutions.

³¹ Board of Governors for Higher Education, Connecticut.

Model: Performance Reporting

1. The accountability system should report performance toward meeting objectives and goals established.
2. Performance information should be easily available to the public, decision-makers, and higher education officials.

(Examples could include: high school counselors, major employers, entering students, prospective students, elected officials, chambers of commerce, and other organizations' performance information. Performance indicators used and performance results could be posted on institutional or coordinating board web sites.

- **Higher education may produce too many reports on planning and performance.**

It may be confusing to the General Assembly and others to have a *Master Plan* and a *Status in Higher Education in Tennessee* report. Although it contains valuable information, it may also be confusing to the General Assembly to receive a TBR report card without any comparable data from the University of Tennessee. One *Master Plan* with one report on performance for higher education, produced annually by THEC in conjunction with the institutions, would be easier to use and understand than multiple reports by different entities of higher education. Similarly, a unified report could include useful comparative financial and performance information by both systems.

Most of the 18 states reviewed produce a formal report of higher education performance. Fourteen states create an annual report for various constituencies including the legislature, the governor, coordinating boards of higher education, and the general public. Of the 18 reviewed, eight states tie performance to the budgeting process.

- **Except for the Board of Regents' Report Card, Tennessee has little higher education performance and accountability information readily available to the public.**

The *Status of Higher Education* is presented on THEC's website, but no additional information about the performance funding measures used, the institutions' performance results, the amount of funding received or spent for higher education. Several other states have such information available to the public on the web, including: the indicators used for performance funding and/or performance budgeting; how the state higher education system has performed on the indicators; how individual institutions have performed; and how much money has been received by each institution.

Recommendations

Legislative Recommendations

- **To improve the performance of Tennessee’s higher education accountability system, Tennessee’s higher education system should establish goals reflecting the state’s top priorities.**

Including the planning documents produced by THEC, TBR, and UT, higher education has approximately 30 goals to achieve over the next five to seven years. With limited increases in funding to higher education, it is difficult to meet goals that are large in number and expansive in subject matter. It may better serve higher education to reestablish goals for higher education in the areas that are the most important and most agreed upon by the state’s decision-makers. Most people interviewed believe that there are two main goals that should be the focus of higher education in the near future: (1) increasing the education level of Tennesseans, and (2) producing graduates that meet the skill needs of the workforce. Targeting goals may give policymakers and higher education officials some confidence in planning, particularly if performance toward meeting goals is reported and rewarded.

To better recognize the state’s needs for higher education, THEC should include broader representation in its strategic planning process. This might include: members of THEC, TBR, and UT’s boards along with representatives from the Departments of Education, Labor and Workforce Development, the General Assembly, and the Governor’s Office.

THEC’s recent move to establish an Educational Need Index is a step in the right direction because it allows examination of county by county educational, economic, population growth, and market trends. This index will be helpful in determining goals for higher education and targeting funding to achieve goals. In creating the Need Index a THEC official said, “You can no longer do higher education planning in a vacuum.”³² Incorporating more individuals in the planning process who are outside the higher education staff level would provide broader input into the planning process.

- **To streamline information available on higher education, the Tennessee General Assembly may want to amend TCA 49-7-202 and TCA 49-5-5024 to require a single planning and performance document for higher education.**

The General Assembly may want to combine the planning and goal-setting requirements in both statutes into the production of one required document emphasizing specific targeted areas important to the legislature. Ideally, the document could be provided to the Governor’s staff and General Assembly prior to budget hearings, allowing policymakers the opportunity to use performance information in their budget decisions. Based on interviews with legislative officials and a review of recently adopted statutory changes related to higher education, the General Assembly may want the higher education system to focus on:

- raising the education level of Tennesseans;
- increasing workforce development; and
- increasing the linkages between K-12 and higher education.

A single document might reflect information from the Board of Regents, the University of Tennessee, and the independent colleges and universities on:

³² “State Assesses Education Needs,” *The Tennessean*, December 18, 2000, quote from Brian Noland, Assistant Director, Academic Affairs, Tennessee Higher Education institution.

¾ progress toward meeting *Master Plan* goals;

—the performance funding program;

—effectiveness of chairs of excellence.

—financial resources and expenditures;

—comparative performance of Tennessee schools to regional and national averages;

—progress on meeting the requirements of the settlement agreement for *Geier* suit; and

—the economic impact of higher education’s workforce development training, public service, and research activities.

- **To focus limited resources on making measurable improvements in higher education, the Tennessee General Assembly may want to consider limiting any new money, outside that generated by the funding formula, to performance-based initiatives.**

The Council on Excellence in Higher Education recommended that the state strategically increase funding and link allocated revenues to performance goals. Elected officials, higher education representatives, and other government leaders expressed a desire to reward institutions only for exemplary performance and target new monies in areas to achieve statewide goals. Because of the recognition of Tennessee’s underfunding of higher education, most do not believe institutions should be penalized by losing existing formula funding for not meeting performance goals. Increasing the amount of money available for performance funding while expanding the indicators used to link the state’s primary goals for higher education to performance may be worth considering.

One way to accomplish this is to remove performance funding from the funding formula and provide increased resources into a performance-based funding pool. Some states have created these pools and allowed institutions to compete for funds based either on proposed performance projects or on performance results. Another option is to encourage THEC to limit improvement requests outside the formula, capital projects, and maintenance to targeted areas. For example, in 2000 THEC requested improvement funds for research, equipment, and technology. These requests were made without reference to specific results that improved funding would achieve. The General Assembly may have more confidence that funding improvement requests would generate desired results if such requests were limited to targeted goals.

- **The General Assembly may wish to require a review of the present performance funding system.**

Although many have praised Tennessee’s performance funding methods, the criteria, methods, and amounts used should be revisited.

- **The General Assembly may wish to strengthen THEC’s role in establishing the priorities for and requirements of higher education planning, budgeting, and performance reporting.**

Currently, THEC has little authority to ensure that the higher education governing boards or individual institutions:

—plan according to the statewide goals for higher education;

—reach certain performance results; or

—distribute resources to meet most critical needs.

A recent example of THEC’s lack of authority is the ongoing reorganization of the University of Tennessee. UT’s administrative structure has changed, priorities were redirected, and research

concentrations were reconfigured. THEC has no official role over any of these changes, even though they will likely affect the system's planning, budgeting, and performance in the future.

The Governor's Council on Excellence in Higher Education also recommended that THEC be afforded discretion in the funding formula "to allocate annual operating funds consistent with system goals and contingent upon institutional performance." Expanding THEC's authority to further integrate planning and direct expenditures would make higher education more accountable. Such changes would also improve the performance of higher education and might better ensure that the state's limited resources are used most efficiently.

Administrative Recommendations

- **For Tennessee to have a comprehensive accountability system for higher education, THEC should integrate higher education's planning, budgeting, and accountability activities. The activities of the governing boards and institutions should also be considered in relation to each other.**

Currently, most of Tennessee's planning, budgeting, and accountability activities are separate. To improve higher education performance, meet planned goals, and best use resources these activities must be integrated and coordinated. The National Advisory Council on State and Local Budgeting recommends a direct link between planning, budgeting, and performance measurement. It suggests that government develop a budget consistent with achieving planned goals and use performance information to adjust budgets to better achieve goals.³³

At the higher education system and institutional level, some goals and performance data are aligned with the goals and accountability system established by THEC. However, in Tennessee, systems may plan and establish priorities without regard to statewide higher education goals. Coordinating boards, governing boards, and institutions should operate from the same statewide goals and objectives. This also would require that progress toward goals be measured and reported in comparable ways.

- **To evaluate progress, Tennessee's higher education accountability system should include measurable objectives, baselines and benchmarks. And higher education officials should report these to the public.**

Staff recognize that THEC performance funding includes employer surveys, as well as accreditation reviews. However, information on the performance of graduates, as evaluated by employers, is not readily available to the public and decision-makers. Staff also recognize that some two-year schools include business representatives in relevant fields on program boards. Expanding this practice to four-year programs and beyond may also be worth considering.

- **To provide a more complete picture of higher education, Tennessee's higher education accountability system should include more student outcome indicators.**

Officials from the Tennessee Department of Labor and Workforce Development state the importance of colleges in providing graduates with a needed set of skills. They encourage the development of means to evaluate graduates' job skills. The Massachusetts Board of Higher Education is developing a college exit exam aimed at evaluating a student's writing, critical thinking, and computer skills. If implemented, each student would have to perform at a defined level of competency to graduate.

³³ Salomon Guajardo and Rosemary McDonnell, *An Elected Official's Guide to Performance Measurement*, Exhibit 6-Linkage Between Performance Measurement and Budgeting, p. 46, Government Finance Officers Association, 2000.

Although this may seem an extreme indicator of student outcomes, an exit exam provides one way of determining that graduates have achieved a certain skill level.³⁴

Other student outcome measures recommended by those interviewed include:

- Salary information of new graduates and of graduates some years out of college;
- Rate of college graduates entering graduate school in related fields;
- Acceptance rate of recent graduates to graduate schools; and
- The percentage of graduates employed within a certain period in a related field.

Some of these suggested indicators are used in other states.

The recent national report card on higher education was not able to grade states on student learning because of the lack of available student outcome data available nationally. As Tennessee took the lead in the 1970s to create performance funding, this state could now take the lead in collecting and reporting a wide variety of student outcome measures. In fact, collecting more data on student outcomes would help THEC meet its third *Master Plan* goal which reads, [Tennessee will] “strive to be among the national leaders in the development and assessment of quality instructional programs based on student outcomes.” Meeting this goal by 2005 may provide better accountability for higher education than any other goal, because of the direct focus on student learning.

- **To provide a more complete picture of higher education, Tennessee’s higher education accountability system should include more performance indicators on the linkages between K-12 and higher education.**

Currently none of the performance funding indicators directly measure linkages between higher education and K-12. Performance funding addresses program accreditation and licensure exam passage rates, which indirectly link to K-12, by serving as quality measures of teacher education programs. These indicators are not specific linkages to K-12, but are standard elements of the performance funding system for all programs. Other types of indicators may improve the state’s ability to evaluate the linkages between higher education and K-12 such as:

- the extent to which college programs are providing qualified teachers;
- involvement of education faculty in continuing education for surrounding school systems;
- faculty involvement in the development of mentoring programs for student teachers and new teachers; and
- the amount of academic research produced and piloted in Tennessee schools.

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Beyond teacher preparation, there are other ways to measure linkages between K-12 and higher education such as:

- developing a tracking system of students who study a more technical or vocational high school curriculum and their articulation to technical institutes and community colleges in the areas studied in K-12.
- tracking students requiring remedial and developmental courses
- creating more opportunities for dual enrollment in high schools as a means to challenge students and give them exposure to higher education.

³⁴ “State board eyes college graduation test,” *Boston Globe*, B05, November 11, 2000.

Tennessee's public institutions have established direct linkages to K-12. For example, Nashville State Technical Institute established a middle college for Williamson County students who are not doing well in traditional high school. Yet, without a system to monitor and measure the linkages between K-12 and higher education, the prevalence of these linkages is not known.

- **To provide a more complete picture of higher education, Tennessee's accountability system should compare state institutions to regional averages, national averages, and similar institutions.**

THEC, TBR, and UT have goals to achieve regional or national stature. It is difficult to determine how well Tennessee higher education is performing if comparison of results to like entities, and regional and national standards is not available.

Many officials interviewed liked the idea of performance information that allowed comparisons:

- among Tennessee schools,
- between Tennessee's two higher education systems,
- of Tennessee's schools to regional and national averages,
- of Tennessee's schools to like institutions in other states, and
- of national rankings of Tennessee's schools.

Some performance funding indicators include performance on general education tests and on program-related tests compared to national student outcomes. This information, however, is not readily available to policymakers or the public. THEC plans to compare Tennessee's Educational Needs Index in the state's urban areas to similar urban areas in other states. This comparison could prove valuable in improving the state's higher education planning and accountability functions.

- **To provide a more complete picture of higher education, Tennessee's accountability system should include more financial reporting.**

As Merl Hackbart, Professor of Finance and Public Administration at the University of Kentucky and former Kentucky State Budget Director explained, higher education in many states operates with more fiscal freedom than other state agencies. As a result, legislators often seek greater fiscal accountability from higher education. Tennessee legislators and other government officials expressed concern at the lack of financial information available on higher education's use of its resources. Until 1994, THEC had conducted a cost study of Tennessee's public postsecondary institutions. The study provided information on various financial expenditures down to the program level. Information from the cost study was provided to the legislature and higher education officials. TBR continues to conduct a cost study, but comparable information is not available for UT system schools. Providing more financial information to policymakers would increase higher education's credibility.

One government official suggested that higher education could be more fiscally accountable by providing an expenditure spreadsheet to the legislature which compared expenditures to the categories of the higher education funding formula. School-to-school comparisons of expenditures for various programs could also be useful. Some performance indicators that may provide more financial accountability include:

- Direct and indirect cost of instruction
- Cost of administration
- Faculty instruction hours compared to other schools
- Amount of research hours generated

- Cost per credit hour delivered.

- **To provide financial comparisons to other states, Tennessee should consider participating in the Delaware Cost Study.**

Some Tennessee public universities participate in the University of Delaware's *National Study of Instructional Costs and Productivity* referred to as the Delaware Cost Study. The Delaware Cost Study allows a school to compare expenditure information to like institutions in other states. In October 2000, staff of TBR, its institutions, and THEC attended a meeting with the developer of the Delaware study to discuss the possibility of all Tennessee institutions participating. In some states, like North Carolina, all public universities participate in the Delaware study.

- **Tennessee should increase the public availability of performance information of Tennessee's higher education system.**

Like other states, Tennessee should include performance indicators, performance results, and financial information on THEC's website. Institutions should include institutional and programmatic information on their websites as well, such as: graduation rates, retention rates, enrollment diversity, and general education test scores.

- **State officials should consider whether the funding formula creates incentives and disincentives that run counter to improving higher education performance and accountability.**

Interviews revealed that the current funding formula might create unintended incentives or disincentives. Some argue that the formula encourages less use of colleges year round; less workforce development and specialized industry training; poor articulation agreements among colleges; and less efficient course offerings. Others disagree with these assertions providing explanations for formula components. Only an evaluation of the formula with a focus on unintended consequences would determine if it contains components that result in decreased performance and accountability of higher education.

Appendix A

Language for Study in Public Chapter 994

It is the legislative intent that the Office of the Legislative Budget Analysis, the Office of Research in the Office of the Comptroller of the Treasury, and the Budget division of the Department of Finance and Administration shall jointly undertake a study addressing potential outcome measures and performance benchmarks that could be used to measure progress toward specific goals for access to, and utilization, quality and competitiveness of, Tennessee's higher education system. The study shall consider the following:

- (1) Accountability measures and performance benchmarks used in other states and how such measures and benchmarks are related to budgeting and funding;
- (2) The recommendations of the Governor's Council on Excellence in Higher Education;
- (3) Current goals for higher education established by the Tennessee Higher Education Commission in its Challenge 2000 report;
- (4) The current performance funding system operated through the Tennessee Higher Education Commission;
- (5) The effect of current specific accountability measures within the higher education funding system;
- (6) The unique missions of Tennessee's post-secondary institutions; and
- (7) The relationship between higher education performance and K-12 education performance in Tennessee.

The study shall include input and consultation with the Tennessee Higher Education Commission, the University of Tennessee, the Tennessee Board of Regents, The Tennessee Association of Independent Colleges and Schools, and other state agencies as appropriate.

The results of the study and any recommendation contained therein shall be reported to the Select Oversight Committee on Education on or before February 1, 2001. Insofar as practical, the study should include:

- (1) Possible goals that could be established concerning accessibility, utilization, quality, and competitiveness of Tennessee's public higher education institutions;
- (2) Accountability measures and/or performance benchmarks that could be put into place relating to the goals of the council;
- (3) Potential performance incentives and disincentives for Tennessee's public higher education system.

Appendix B

Recent events in Tennessee Higher Education (Changes, Studies, etc.)

1972-The first formula developed and implemented.

1976-Formula changes implemented including realignment of expenditure categories, special funding for desegregation initiatives and adopting two-year average enrollments to smooth out effects of significant enrollment changes.

1979-Formula changed to include performance funding (awarding up to 2% of appropriations) and instituting a 2 percent fluctuation range for formula enrollment adjustments, again to address the implications of significant enrollment changes.

1982-Significant formula changes include expanding the enrollment fluctuation range to 5 percent and establishing the maintenance fee component to 31.5% for each university and 25.5% for two-year institutions.

1983-Formula for vocational-technical schools adopted. Performance funding maximum award increased to 5 percent.

1984-Adoption of formula using average salaries from peer institutions. Each set of peers includes ten institutions.

1990-One peer change was made in each peer group.

1993-Constitutional officers added as non-voting members of THEC to represent legislature. Formula changed to use peer group comprising Carnegie Classifications for SREB institutions only. Student/faculty ratios increased by five percent.

1994-Constitutional officers made voting members of THEC. A study committee representing higher education, the administration and the legislature examines the funding formula, resulting in the adoption of new peers. A comparative study using multiple factors used to help select the peers. UTK and UOM each have a separate set of peers. All the other universities have common core of seven peers and each institution has three institution specific peers. Common peer set selected for two-year institutions.

1995-Governor Sundquist established Commission on Practical Government that studied all areas of state government, including higher education. Recommendations addressed both financial and structural deficiencies.

1995-Legislature established study committee to examine higher education capital project ranking criteria and process. Previously, the legislature and governor had selected projects often inconsistent with THEC and the governing boards. **Result-**THEC created systematic way of ranking capital projects submitted by the two systems.

1997-Increased administration involvement in THEC Commission decisions elevated the activities of higher education to the General Assembly's attention.

1997-Governor Sundquist appointed the Governor's Council on Excellence in Higher Education, comprised of private citizens, higher education officials, and legislators to devise a plan to elevate the state's public colleges and universities into the nation's highest ranks. The recommendations addressed both financial and structural deficiencies.

1998 to 2000 - The General Assembly, dissatisfied with higher education's responsiveness on several key issues, exercised greater authority over higher education operations:

Legislation enacted on establishing off-campus sites. - 1998

Legislation enacted on higher education compensation reporting. - 1999

Legislation enacted on higher education articulation. - 2000

2000-Comptroller's Performance Audit on the Tennessee Higher Education Commission finds that 17 of the 22 benchmarks the commission set to reach from 1995 to 2000 had not been met.

2000-Legislature asked the Comptroller's Office, the Legislative Budget Office, and the Governor's Budget Office to conduct a study establishing the goals for higher education and measurable indicators of those goals.

Appendix C

Higher Education Goals from 18 States and Tennessee

I. Quality

A. Learning

1. To enhance student learning and promote academic excellence (CT, FL).
2. To increase degree production at all levels (FL).
3. Make student learning a yardstick by which we measure accountability, efficiency, and effectiveness (WA, CA).
4. Provide high quality academic programs and services for a population of increasingly diverse students (MD, SC).
5. Improve the effectiveness of the state's colleges and universities in educating students to become competent and successful throughout their student years and into their chosen endeavors and throughout their lives (OH, NJ, NC, TN).
6. Promote quality and flexible programs and services (NC, NJ).

B. K-12 Linkage

1. To join with elementary and secondary schools to improve teaching and learning at all levels (CT, MD, WA, TX, TN).

C. Research

1. To enhance graduate education and research (FL, MD).
2. Raise expectations regarding the quality of teaching, research, and public service offered by the state's colleges and universities (MO, NJ, NE, TN).
3. To expand postsecondary educational opportunities for residents, to recognize students' achievements and to encourage excellence in teaching and research by administering various higher education programs (SC).
4. Expand federal research and development grants and contracts in the next 5 years (TN).

D. Curriculum

1. Direct efforts continuously to improve the quality of education, training, rehabilitation and information/research services to gain program competitiveness, high-levels of achievement and a well-informed citizenry (ID).
2. Design new curriculum and update existing curriculum in alignment with most current business and industry needs (TX).
3. Strengthen existing quality of academic programs (OR).
4. Define distinct institutional roles (NE).

E. Assessment

1. Maximize the opportunities for strategic decision making at all public colleges and universities by promoting decentralization within a context of continuous quality assessment (VA).
2. Strengthen ongoing assessment of the programs and units at state colleges and universities by focusing on outcomes and value-added analysis (VA, SC, NJ, NE, TN).
3. All educational institutions will meet Regents high performance standards (NY).
4. To increase the quality of higher education and refine the Performance Funding process to assess it (TN).

F. Faculty

1. Maintain the best higher education faculty in the nation in targeted disciplines (TX).
2. The public will be served by qualified, ethical professionals who remain current with the best practice in their fields and reflect the diversity of the state (NY, NJ).

II. Access

A. General

1. To provide adequate access to undergraduate and graduate education (FL, CA).
2. To provide accessibility to state university programs and services for all (FL).
3. Increased access to a diverse array of high-quality, affordable, and accessible vocational, academic, and professional certificate, diploma, and degree programs through an integrated, balanced, and efficient system of public, independent, and proprietary postsecondary education designed to prepare graduates for the diverse workforce demands of employers – from auto mechanics to teachers to physicians (MO).
4. Eliminate barriers to provision of educational services (OH, TN).
5. To encourage the establishment of cooperative arrangements between academic and community agencies to increase access to programs and services (TN).
6. All students will meet high standards for academic performance and personal behavior and demonstrate the knowledge and skills required by a dynamic world (NY).

B. Affordability

1. To ensure access and affordability of higher education (CT, MD, TN).

C. Underserved

1. Provide individuals of all ages and abilities access to education, training, rehabilitation, and information/research services to develop their skills, knowledge and social awareness in order to be globally competitive workers, responsible citizens, and lifelong learners (ID).
2. Encourage development of programs to provide access to traditional and non-traditional students, to encourage greater diversity, to encourage flexibility to allow development of courses to meet changing society needs and job complexity (TX).
3. Have more citizens, especially minority students, receive an undergraduate degree (TX, NE, TN).
4. To assure access to and equality of educational opportunity among minority groups (SC).
5. Expand access by students of different circumstances (OR).
6. Seeks to expand educational opportunity, particularly for those students who are from underserved populations (NJ)

D. K-12 Linkage

1. Create a K-16 system with step-out and re-entry points with true articulation to four-year colleges (TX).
2. Improve access to higher education by improving students' academic preparation as part of the process (TX, NE).

E. Financial Aid

1. Full access to higher education for all qualified citizens regardless of ability to pay (TX).
2. Provides financial assistance commensurate with financial need to enable access for all students who can benefit (NJ, NE).

F. Information

1. Education, information and cultural resources will be available and accessible to all people (NY).
2. Empower citizens to make the best use of the available range of learning pathways (WA).
3. To maintain positive relations with the governor, the legislature, State agencies, parents, and students, to provide them and the general public with accurate information on higher education (SC, NJ, TN).
4. Generate and disseminate information to the public and institutions about the efficiency and effectiveness of institutions and their higher education system (OH).

G. Technology

1. Uses and advances technology to enhance the communication of ideas and improve access and efficiency of program delivery (NJ, NE, WA, TN).

III. Competitiveness

A. Economic Development/Workforce

1. To promote economic development of the state and help business and industry sustain economic growth (CT, MD, TX, TN).
2. To make the state a global leader by working with business and industry to foster higher education roles in economic growth and human development (SC, OH).
3. Enhance employability of graduates (OR).
4. Cultivate a competitive, high quality workforce (NM).
5. Ensure that the state is competitive in the global market place, through increased literacy rates of the entire population, improved math, science and technological skill levels, increased technology literacy, and an understanding of the international market place, including knowledge of various cultures (NM).
6. Strive for a sustained level of funding that will allow Tennessee citizens to reach their education objectives, attain cultural and social goals, and compete economically with the most progressive states in the region (TN).

B. National and Regional

1. Achieve and sustain a preeminent statewide array of postsecondary educational institutions that are recognized for their distinctiveness and their excellence nationally and internationally (MD, TN).
2. Establish the state as one of the most advanced states in the use of information technology to improve learning and access (MD).
3. Ensure excellence in nationally competitive graduate programs to provide faculty for state universities and colleges as well as innovators and researchers to fuel industry (TX).
4. Increase academic excellence at the two flagship universities so they are ranked in the top 10 of U.S. public research universities (TX).
5. Allow higher education institutions to be able to compete for the very best faculty and staff (TN).
6. Have each undergraduate campus enroll approximately the same percentages of top ten percent high school graduating seniors as its national peers (TN).
7. Increase graduation rates equal to the average of the top 25 public institutions (TN).
8. Achieve a top 25 ranking among national public research universities (TN).
9. Match peer states in all measures of quality and participation relating to education beyond high school; teaching students to learn; teaching people who pay bills that education is important (TX).

IV. Utilization

A. Efficiency

1. To ensure efficient use of resources (CT, MO, ID, NY, NJ, TN).
2. To prevent and eliminate unnecessary duplication of degree programs among the state's institutions (SC).
3. Clarify all institutional missions for greater distinctiveness, with programs, services, and resources aligned to support the mission (TN).

B. Partnerships

1. To enhance public-private partnerships to preserve and improve quality and to better serve business, industry and government (FL, VA, NJ, TN).
2. Encourage collaborative programming across institutions (VA).

3. Strengthen transfer and articulation programs among system institutions (TN).

C. Cost Effectiveness

1. To develop creative and cost effective programs without sacrificing quality (FL, OR, MD, TN, TX).

D. Technology

1. To broaden education, research, and advisement support through the use of technology (FL).
2. To establish policies, resources and incentives to support information technology initiatives (TN).
3. To establish a high-speed statewide electronic network (TN).

E. K-12 Linkage

1. Increase interaction between universities and the public school system (TX, NJ, NE).

F. Societal Needs

1. To respond to the needs and problems of society (CT, FL, NJ, NE).
2. Ensure education, training, rehabilitation and information/research services are relevant to the needs of the state's citizens, workforce, business, industry and local, state, and federal government (ID, WA, NC, NJ).
3. Improve the standard of quality of living for all sectors of society (NM).
4. Recognizes that the fundamental purpose of higher education is to better humankind – morally, intellectually, physically, and materially – and to educate leaders for a diverse and complex society (NJ).³⁵
5. Deliver high-quality education programs and services that provide all citizens with the knowledge, skills, cultural awareness, and attitudes they need to experience prosperous and rewarding lives (TN).

³⁵ Compiled from state websites of California, Connecticut, Florida, Idaho, Maryland, Missouri, Nebraska, New Jersey, New Mexico, New York, North Carolina, Ohio, Oregon, South Carolina, Tennessee, Texas, Virginia, and Washington.

Appendix D Performance Indicators Used in Other States

Summary

Staff compiled the performance measures used in 18 states for higher education.³⁶ These measures could be used as part of performance funding, performance budgeting, or a performance reporting system. The measures used are divided into the categories of quality, access, competitiveness, and utilization with subcategories to group like measures together.

Measures of Quality used to Evaluate Higher Education Performance

Student Quality

Entering students

- GPA, AP exam, SAT/ACT scores by race and gender, and number of valedictorians.
- Number or percent of students needed remedial and developmental courses.
- Number and percent of students who completed the college-prep. curriculum

Graduating students

- Proportion demonstrating written communication and quantitative skills
- Student performance on assessments of general education and in major fields of study.

Faculty Quality

- Percent of faculty full time
- Percent of classes taught by full-time tenured faculty
- Number of articles published
- Teaching load
- Number of complaints of unethical/unprofessional conduct
- Number of allegations of illegal practice referred for prosecution
- Number of patents, prestigious faculty awards, and research expenditures per faculty member
- Academic credentials of faculty
- Availability of faculty to students
- Post tenure review of faculty
- Performance review of faculty
- Student credit hours by full-time faculty

Facility Quality

- Student opinions of facility quality

Program Quality

- Passage rates on licensure and certification exams
- Class size and student/teacher ratios
- Proportion of programs accredited

Institutional Quality

- Persistence rates to graduation (4-yr students, 2-yr students, disabled students, transfer students)
- Retention of new, first-time, full-time degree seeking students.
- Student satisfaction survey results
- Percent of business and non-business employers satisfied with competence of graduates.

³⁶ States include: California, Connecticut, Florida, Idaho, Maryland, Missouri, Nebraska, New Jersey, New Mexico, New York, North Carolina, Ohio, Oregon, South Carolina, Tennessee, Texas, Virginia, and Washington.

- Percentage of students enrolled in graduate school upon graduation from undergraduate school.

Measures of Access used to Evaluate Higher Education Performance

Pre-college Access

- High school drop-out rates by gender and ethnicity
- Race, ethnicity, gender, and geographic distribution of high school graduates completing the college preparatory curriculum.
- Number of high school students identified as Limited English Proficient
- Number of public and private high school graduation rates geographically distributed.

Access through affordability

- Tuition and fees compared within the state and compared to national peers
- Amount of financial aid per undergraduate and graduate student.
- Percent of tuition income from financial aid.

Access of underserved populations

- Racial/Ethnic breakdown of first-time freshmen in the community college, university system, and private college system.
- Rates of application, acceptance, and attendance by race/ethnicity, by gender, and by geography in the university system at the undergraduate and graduate level.
- Number and proportion of student population from minority groups at the undergraduate and graduate level.
- Percent of baccalaureate graduates who were first generation college students.
- Percent of enrollment of disabled students

Access through technology

- Percent of library users accessing library on-line
- Distance education enrollment

Geographic Access

- Credits earned at remote locations/not on main campus.
- Percent of student in county enrolled in community college

Overall Access

- Amount of increase in number of students served
- Several measures on ease and frequency transfers

Measures of Competitiveness used to Evaluate Higher Education Performance

Student Competitiveness

- Percent of graduates remaining in the state
- Salaries of graduates
- Percent of graduates who obtain jobs in their field.
- Proportion of graduates employed in one year after graduation.

Institutional Competitiveness

- Research funding compared within the state and compared to national peers
- Cost and revenue compared to the nation
- Per capita costs of educating students within the state compared to other states.

- Number of students from out of state number of students from the state who go out of state to college.
- State and local support of higher education compared to nation
- Amount of merit based aid

Economic Competitiveness

- Change in state's productivity relative to the U.S. average.
- Change in the average wage and per capita income compared to national averages.
- Number of engineering, technology, computer science, mathematics, and science degrees awarded.
- Number of teaching degrees awarded in needed subject areas.

Measures of Utilization used to Evaluate Higher Education Performance

Utilizing linkages to K-12

- Percent of Graduates employed as Teachers
- Collaborative activities between Univ. and public schools
- University volunteerism in public schools
- Proportion of education students incorporating research into coursework
- Teacher education degrees in current shortage areas awarded.
- Financial support for reform in teacher education.

Utilizing linkages to business

- Number of partnerships with business-through internships, research, clinical placements.
- Shared use of technology, supplies, equipment, and programs with business.

Utilizing linkages to the community

- Amount of public service by faculty, student groups, and through publications.

Efficiently utilizing the postsecondary institutions

- Percent of students graduating with 115% of degree requirements and average credit hours earned by graduates.
- Undergraduate graduation efficiency index-number of credits earned, dropped, repeated, transferred, and required for graduation.
- Ratio of administration to total staff
- Space utilization rates of classrooms and labs
- Use of best management practices
- Financial expenditures in many different ways.
- Enrollment on non-degree, non-credit courses
- Elimination of administrative and academic duplication

Appendix E

Performance Indicators Collected in Tennessee

Below is a listing of the performance indicators used in Tennessee, derived from THEC's *Status of Higher Education Report* and performance funding program and TBR's *Report Card*. The University of Tennessee System does not have a formal performance system or report from which to include indicators. The performance indicators below are categorized in four main areas of Quality, Access, Competitiveness, and Utilization and divided into subcategories within each area. Indicators added in the 2000-01 through 2004-05 are noted as a "NEW" measure.

Quality Performance Measures

Entering Student Quality

- Percentage of high school graduates requiring remedial or developmental courses (THEC Status of Higher Education Report)
- ACT Comp and College Base scores (THEC Status of Higher Education Report)
- General education test scores (THEC Performance Funding)
- Pilot test of general education (THEC Performance Funding)

Program Quality

- Specific enhancements in program quality (THEC Performance Funding **NEW** measure) (*standard assesses how an institution has used performance funding information to implement improvements.*)
- Academic program assessment (major field) (THEC Performance Funding)
- Percentage of programs meeting peer review standards (TBR Report Card)
- Percentage of Accreditable programs accredited (THEC Status of Higher Education Report)
- Program accreditation/peer review (THEC Performance Funding)
- Percentage of Accreditable programs accredited (TBR Report Card)
- Percentage of courses taught by faculty at various levels (full-time faculty, part-time faculty, graduate assistant, other) (THEC Status of Higher Education Report)
- Licensure exam passage rates (THEC Status of Higher Education Report and TBR Report Card)
- Percentage of teacher education graduates passing the National Teacher Exam (Status of Higher Education Report)

Overall Quality

- Student/alumni/employee satisfaction (THEC Performance Funding-Employee satisfaction is a **NEW** measure)
- Student Satisfaction survey results (TBR Report Card)
- Alumni Satisfaction survey results (TBR Report Card)
- Standardized test scores-core knowledge and skills(4-yr and 2-yr schools) (TBR Report Card)
- Expenditures on library books (THEC Status of Higher Education Report)

Access Performance Measures

Overall Access

- Undergraduate enrollment of TN public and private postsecondary institutions (THEC Status of Higher Education Report)
- Undergraduate enrollment of recent Tennessee high school graduates in Tennessee's public and private colleges and universities (THEC Status of Higher Education Report)
- Technology Center enrollment (THEC Status of Higher Education Report)
- Enrollment in graduate and professional schools (THEC Status of Higher Education Report)
- Transfers to two-year schools, four-year schools, and to private schools. (THEC Status of Higher Education Report)
- Percentage of students completing the university parallel degrees at the two-year schools who transfer into baccalaureate programs at state universities (THEC Status of Higher Education Report)
- Articulation & Transfer results (THEC Performance Funding **NEW** measure)
- Transfer rates (TBR Report Card)

Access of underrepresented groups

- Undergraduate enrollment by gender (THEC Status of Higher Education Report)
- Enrollment by race at Technology centers, at the undergraduate level in public institutions and at the graduate level, and enrollment in private institutions. (THEC Status of Higher Education Report)
- Transfer rates by race (THEC Status of Higher Education Report)
- Persistence to graduation by race (THEC Status of Higher Education Report)
- Enrollment of students over 25 in higher education (THEC Status of Higher Education Report)

Access through affordability

- Number and percentage of undergraduates receiving financial aid at public technology centers, two-year schools, four-year schools, and private schools (THEC Status of Higher Education Report)
- Distribution of financial aid dollars to various levels of public institutions and private colleges (THEC Status of Higher Education Report)
- Percent of Students receiving financial aid (TBR Report Card)
- Tuition and fees (TBR Report Card)

Competitiveness Performance Measures

Competitiveness of Graduates

- Job placement for two-year schools (Performance Funding)
- Job placement (2 year and technology centers) (TBR Report Card)

Faculty competitiveness

- Faculty salaries compared to peers (THEC Status of Higher Education Report)

College Competitiveness in attracting the best and brightest

- Distribution of Ned McWherter Scholars at each public institution in Tennessee and private colleges (THEC Status of Higher Education Report)

Utilization Performance Measures

Efficient Utilization of Resources

- State appropriations for higher education (THEC Status of Higher Education Report)
- Expenditures on research and on public service from restricted accounts at public and private schools (THEC Status of Higher Education Report)
- Expenditures by category (TBR Report Card)
- State and institutional planning priorities (THEC Performance Funding **NEW** measure) (*measure evaluates the progress of an institution toward mission-distinctive goals and the state's strategic master plan goals*)
- Persistence to graduation rates for both public and private schools (THEC Status of Higher Education Report)
- Retention/graduation (THEC Performance Funding)
- Number of degrees/credentials granted (TBR Report Card)
- Graduation rates (TBR Report Card)

Utilization of Faculty and Staff

- Faculty productivity (class size, hours of instruction, research time (TBR Report Card)
- Staffing at institutions by category (TBR Report Card)

Utilization of Private Colleges

- Financial health and enrollment capacity of Tennessee's private colleges and universities (THEC Status of Higher Education Report)
- Amount of money distributed to TN private schools under the contract education program (THEC Status of Higher Education Report)

Utilization of outside funding to state schools

- Private Giving (TBR Report Card)

Utilization of Colleges to meet economic needs of state

- Distribution of students at each public and private school in the state who participate in the TN Teacher Loan/Scholarship program, the Minority Teaching Fellows program, and the TN Teaching Scholars Program (THEC Status of Higher Education Report)
- Number of teacher education degrees granted by race (THEC Status of Higher Education Report)

Appendix F

Performance Indicators Used by National Ranking Organizations, Federal Data, or Regional Data

Type of Indicator	Top American Research Institutions	U.S. News and World Reports College Rankings	Kiplinger Magazine's Rankings of the Top 100 Public Higher Education institutions	Federal Data (IPEDS or NCES)	Regional Data (SREB)
QUALITY					
Entering Student Quality	Entering freshman average SAT scores. Number of National Merit and National Achievement Scholars (minority academic scholarship) in an entering class. ³⁷	SAT/ACT scores. Acceptance rate.	None	None	None
Overall Quality	Number and type of doctoral degrees granted. Total amount of research expenditures.	Average freshman retention rate. Academic reputation. Average graduation rate in six years. Graduation rate performance (Difference between the actual six-year graduation rate and the rate expected based on entering test scores and education expenditures.)	Retention from freshmen to sophomore year. Graduation rates.	None	None

³⁷ There is also a national Hispanic scholars program, which was not used in the report because data does not track where recipients enroll in college.

Type of Indicator	Top American Research Institutions	U.S. News and World Reports College Rankings	Kiplinger Magazine's Rankings of the Top 100 Public Higher Education institutions	Federal Data (IPEDS or NCES)	Regional Data (SREB)
ACCESS					
Access of underrepresented groups	See item in "Entering Student Quality" category.	None	None	Fall Enrollment-Annual data on full and part-time enrollment by race or ethnicity and gender for undergraduates, first professionals and graduate students.	Enrollment- State by state profiles of full time equivalent students by type of college or university, college participation rates, headcount students by gender, age, race or ethnicity, level of institution, student level and attendance. Degrees Earned- State by state profiles of associate's, bachelor's, master's, doctoral and first-professional degrees awarded by gender, by race or ethnic group, and by broad field of study.
Access through affordability	None	None	Average cost for students with need after subtracting grants (but not loans). Average amount of debt a student accumulates before graduation. Percentage of financial need met for the average student with need. Total cost.	None	Tuition and Student Financial Aid-State profiles of median annual tuition and fees by type of college or university; Pell Grants, campus based, and guaranteed student loan allocations and recipients; and state scholarship and grant funds.

Type of Indicator	Top American Research Institutions	U.S. News and World Reports College Rankings	Kiplinger Magazine's Rankings of the Top 100 Public Higher Education institutions	Federal Data (IPEDS or NCES)	Regional Data (SREB)
COMPETITIVENESS					
Competitiveness of Graduates	Number of postdoctoral appointees to prestigious positions.	None	None	None	None
Faculty Competitiveness	Number of faculty members in National Academies. Number of faculty awards.	Faculty with Ph.D.'s or top terminal degree. Faculty compensation.	None	Detailed information on salaries, tenure, and fringe benefits of full time instructional faculty at certain degree granting institutions.	None
College Competitiveness attracting best and brightest	None	High school class standing of entering students. Yield (Ratio of students admitted that enroll.)	None	None	None
UTILIZATION					
Efficient Utilization of Resources	None	Expenditures per student.	Spending per student on instruction. Library spending.	Financial Statistics- Institution's current fund revenues by source; current fund expenditures by function; assets and indebtedness; and endowment investments, collected annually. Completions-Annual counts of associate's, bachelor's, doctor's and first-professional degrees and other formal awards.	College Budgets- State profiles of state/local government funding per FTE by type of college or university; state tax funds for higher education related expenses; revenue and expenditure distributions; and federal funds to colleges and universities, including research and development.

Type of Indicator	Top American Research Institutions Performance Indicators	U.S. News and World Reports College Rankings Performance indicators	Kiplinger Magazine's rankings of the top 100 public higher education institutions Performance Indicators	Federal Data (IPEDS or NCES)	Regional Data (SREB)
Utilization of Faculty and Staff	None	Student/Faculty ratio-Ratio of FTE students to FTE faculty for a single year. Proportion of full-time faculty. Class size (percent below 20 students and above 50 students).	Student-faculty ratios.	Fall Staff-number of institutional staff by occupational activity, full and part time status, gender, race, and ethnicity. National Study of Postsecondary Faculty-Data about faculty to postsecondary researchers, planners and policymakers. Includes institutional surveys, department chair surveys, and faculty surveys.	None
Utilization of outside funding	Amount of annual giving. Total endowment assets. Amount of federal research expenditures.	Percent of alumni giving.	None	None	None

Sources: U.S. News and World Reports information from-www.usnews.com/usnews/edu/college/rankings. Kiplinger information from WWW.Kiplinger.com. Top American Research Universities from John Lombardi et al, "The Top American Research Universities," Lombardi Program on Measuring University Performance, University of Florida, July 2000, P. 10. Federal information from IPEDS or NCES. Regional information from SREB

Appendix G

Reporting Procedures in 16 States on Higher Education Performance and Accountability Reports

I. California

The Postsecondary Education Commission develops an annual report to the citizens of California on selected performance indicators.³⁸

II. Connecticut

Each institution submits an accountability report that must tie to the budget process and resource allocation decisions. It is recommended that the first reports on the accountability measures be made in early fall to coincide with the submission of the biennial operating and capital budget requests to the governor. Annual reporting should be linked thereafter to the budget cycle, including any mid-biennial budget adjustments.³⁹

III. Florida

The 1994 Government Performance and Accountability Act directs state agencies to submit performance-based program budget requests, which include proposed performance measures and standards, to the Legislature for approval. The Legislature approves performance measures and standards, which are included in the General Appropriations Act. State agencies must annually report on performance against the standards to the Governor and the Legislature in legislative budget requests.⁴⁰

IV. Maryland

Each institution submits a performance accountability report to the Commission on Higher Education. Included is a summary of the institution's mission statement; four years trend data and benchmarks for each indicator; a short assessment of the institution's progress on the indicators including responses to questions raised by the Commission staff; a discussion of significant trends affecting the campus; and funding issues including significant cost containment actions adopted by the institutions and initiatives in the fiscal year budget. The consolidated accountability report is presented to the General Assembly and the Governor in two volumes.

Also, an annual review of the accountability process is directed by the public higher education sectors and the Departments of Legislative Services and Budget and Management to examine all facets of the accountability process. The commission also receives reports every three years from governing boards of public campuses regarding progress in the areas of students' outcomes and minority achievement activities.⁴¹

³⁸ California Postsecondary Education Commission, "Performance Indicators of California Higher Education."

³⁹ Board of Governors for Higher Education, Department of Higher Education, State of Connecticut, "Higher Education Counts: Accountability Measures for the New Millennium." Public Act 99-285 Progress Report, February 1, 2000.

⁴⁰ OPPAGA, "Review of the Community College System's Performance-Based Program Budgeting Measures and Incentive Fund" February 1998.

⁴¹ Maryland Higher Education Commission, 2000 Maryland State Plan for Postsecondary Education.

V. Missouri

Measures are reported annually in February and April to the staff of the Coordinating Board for Higher Education who identify potential changes in “Funding for Results” for the board’s consideration. These changes are presented before the board for approval in June. Funding for Results elements are used in the budget recommendation are presented in October. Each measure has a particular guideline for how the money is to be distributed that is broken down between two and four-year institutions.⁴²

VI. Nebraska

The comprehensive plan outlining the goals and accountability measures simply “encourages” institutions to measure the performance goals and create a database that can be accessed in the event anyone needs to know. No official performance report is submitted to the legislature.⁴³

VII. New Jersey

New Jersey produces an annual accountability report that goes to state policymakers, students and parents, employers, and taxpayers. A systemwide report is presented as well as reports from individual public institutions.⁴⁴

VIII. New Mexico

No annual report on performance is provided to either the Commission on Higher Education or the Legislature.⁴⁵

IX. New York

The measures are not reported to the legislature but rather fed into a statistical formula to determine how much money each institution receives based on their performance on certain indicators.⁴⁶

X. North Carolina

Each performance measure is reported at a different and specified time. However, it is collected annually and reported in the *Critical Success Factors Report*.⁴⁷

XI. Ohio

Ohio is currently developing an annual performance report that would be submitted to the governor and legislators.⁴⁸

⁴² Coordinating Board for Higher Education, Agenda Item Summary, Recommended Changes in FFR Budget for FY 2001 and Beyond, June 10, 1999.

⁴³ Coordinating Commission for Postsecondary Education, Comprehensive Plan

⁴⁴ New Jersey Commission on Higher Education, Accountability in Higher Education: The Fourth Annual Systemwide Report, January 2000.

⁴⁵ New Mexico Commission on Higher Education, “Policy for Accountable Post-Secondary Education for New Mexico.”

⁴⁶ Office of Provost System Administration, State University of New York, Task Force Report on Performance Indicators and Merit-Based Funding.

⁴⁷ North Carolina State Board of Community Colleges, Performance Measures and Standards and Performance Funding, July 10, 2000.

⁴⁸ Ohio Board of Regents, Proposed planning for College and University Performance Report, December 16, 2000.

XII. Oregon

A baseline performance report along with trend data is available to the legislature and public every year. A more detailed report is also available.⁴⁹

XIII. South Carolina

Institutions, along with all state agencies, are required to prepare an Annual Accountability Report, which includes performance measures, mission statements, and program objectives. Performance measures have been included in the Governor's Executive Budget for the last three years.⁵⁰

XIV. Texas

Texas has a performance budgeting system in which all state agencies, including higher education, participate. The performance monitoring part of the system requires agencies to provide performance data on a quarterly basis for key output and efficiency measures and on an annual basis for key outcome and explanatory measures. Non-key measures are reported annually in the agency's operating budget. Agencies also report explanations when actual performance of key measures varies five percent or more from targeted performance. Higher education also produces an annual report, which is widely used by the legislators and institutional administrators to compare performance of institutions with each other and over time. Texas also maintains an extensive database on Texas' postsecondary educational activities.⁵¹

XV. Virginia

An annual report is presented to the legislature, the governor, and made available to the public.⁵²

XVI. Washington

An annual accountability update is submitted to the legislature. Since Washington has a performance funding system, money is directly tied to the measures with no real input from the legislature. The Higher Education Coordinating Board evaluates each institution's achievements and notifies the Office of Financial Management by mid-November what portion of the institutions' reserve funds to release.⁵³

⁴⁹ Oregon University System, Performance Measures and Indicators: 1999 Baseline Performance and 2005 Improvement Targets

⁵⁰ www.nasbo.org/pubs/infobrf/highedbd.htm

⁵¹ General Academic Institutions Performance Measure Definitions, 2000-2001 Biennium

⁵² Definitions and reporting periods for Core Performance Measures for Higher Education

⁵³ Washington State Higher Education Coordinating Board, "Performance Funding and Accountability: Progress Report and Recommendations for the Future", December 1998.

Appendix H

Tennessee’s Higher Education Accountability System Compared to Model and Model States

Elements of a Good Overall Accountability System for Higher Education	Tennessee’s System	Model State
<p>Process Integration-Strategic planning, budget formation, accountability system, and appropriations decisions are integrated and coordinated.</p>	<p>THEC-THEC’s budget for higher education is not based on goals for higher education or established priorities. It is based on a formula. Performance funding is the only element in which performance, accountability, and funding are connected.</p>	<p>As of 1998, sixteen states with performance-based budgeting link performance measures and strategic planning in statute.⁵⁴</p> <p>“Arizona’s budget offers an excellent example of the use of performance measurement to improve the performance of state programs, and the overall management of the state budget.” The executive budget includes a one-page summary of performance measures for each agency. Its Program Authorization Review process, like performance audit, reviews program performance to determine if mission and goals are efficiently and effectively met. The review also determines if the program’s performance measures and targets used are the right ones.⁵⁵</p> <p>In Florida each agency submits to the legislature a budget requests, which include proposed performance measures and standards, to the Legislature for approval. The Legislature approves performance measures and standards and includes these in the General Appropriations Act.</p>

⁵⁴ Melkers, Julia and Katherine Willoughby, “Performance Based Budgeting Requirements in State Governments,” p. 2. Fiscal Research Program, Georgia State University, June 1998. www.frp.aysps.gus.edu/frp/frpreports/index.html.

⁵⁵ *A Guide to Developing and Using performance Measures in Result-based Budgeting*, Mark Friedman, May 1997, p. 21, The Finance Project.

Elements of a Good Overall Accountability System for Higher Education	Tennessee’s System	Model State
<p>Vertical Integration-State’s coordinating board, governing boards, and individual institutions should all operate from statewide goals and objectives. Entities should evaluate and report performance similarly. System and institution goals should correlate and not conflict with each other. Institutional goals should work to accomplish system goals.</p>	<p>TBR-at the institutional level attempts to tie goals to THEC overarching goals, but the TBR systemwide goals are not tied to THEC’s goals.</p> <p>UT-system does not determine its goals based on THEC’s goals for higher education.</p> <p>OVERALL- Tennessee does not have clear vertical integration. Each of the three higher education entities have their own set of goals that guide planning and are loosely tied to accountability, and only limitedly tied to funding.</p>	<p>In Maryland, each institution submits a performance accountability report to the Commission on Higher Education. Included is a summary of the institution’s mission statement; four-year trend data; benchmarks for each indicator; and a short assessment of the institution’s progress on the indicators. A consolidated accountability report is presented to the General Assembly and the Governor in two volumes.</p>
<p>Statewide Integration-A higher education accountability system should recognize that it does not operate in a vacuum. As such, the needs of workforce development, labor demands, future economic trends, needs and trends of K-12 education, along with gubernatorial and legislative priorities should be recognized when establishing goals, objectives, and performance indicators reported through an accountability system.</p>	<p>Higher education Master Plan Task Force did not include representatives from K-12, labor or workforce development, legislators, gubernatorial representatives, or members of the THEC, TBR, or UT board.</p> <p>Outside of a planning and accountability system, THEC staff reviews employment indicators when making recommendations on proposed new program offerings.</p>	<p>South Dakota has initiated higher education reforms resulting from a series of roundtable discussions, which included representatives from business, K-12, higher education, and state policymakers. These efforts made South Dakota “a state to watch” as identified in a November 2000 article associated with the State by State Report Card for Higher Education.⁵⁶</p> <p>In creating California’s three main goals for higher education— Access, Affordability and Accountability, the state looked at trend data in areas such as undergraduate enrollment demands, the percentage of high school graduates who are eligible for the state’s universities and the demand for better teachers. Goals were created by the California Postsecondary Education Commission in response to legislation with the input of higher education officials.⁵⁷</p>

⁵⁶ William Trombley, “Some States To Watch: Recent State Higher Education Initiatives, Articles and Findings Section of *Measuring Up 2000: The State-by-State Report Card for Higher Education*, National Center for Public Policy and Higher Education, P, 5.

⁵⁷ California Postsecondary Education Commission, www.cpec.ca.gov/CompleteReports/Performnace/Origins.asp

Elements of a Good Overall Accountability System for Higher Education	Tennessee’s System	Model State
Boards and institutions should use commonly defined terms in planning, goal-setting, measuring performance, and reporting results.	OVERALL-Planning documents from THEC, UT, and TBR do not have common definitions of “goals”, “objectives,” or “benchmarks,” or “performance indicators.” Within a given performance report like THEC’s Status of Higher Education Report or TBR’s Report Card there are common definitions of performance indicators, but there may or may not be common definitions of performance indicators when performance reports are compared to one another.	Maryland’s Higher Education Commission approved a new accountability system with five key indicators that were clearly defined to be used by each institution in coming up with their goals and measures. ⁵⁸ Within the Connecticut Higher Education Accountability Report, each goal includes objectives with the specific definitions that are being used. ⁵⁹
Goals should reflect statewide higher education priorities as agreed upon by higher education officials and decision-makers, i.e. governor, legislators, and members of state higher education coordinating and governing boards.	THEC-Although THEC’s Master Plan goals are determined through coordination of higher education officials, most institutions and higher education officials don’t seem to operate, plan, or evaluate progress, based the Master Plan. OVERALL-State legislators, Governor’s office, Board members of THEC, UT, and TBR are not included in developing Master Plan goals.	Maryland’s “bottom up” approach to creating goals with achievable benchmarks takes into account peer institutions as well as guidelines given by the Higher Education Commission. The annual report submitted responds to key concerns from the legislature. ⁶⁰
Goals should be clear.	THEC-some of THEC’s Master Plan goals are not clear. The following is a goal in the new Master Plan: “Implement an efficient, high quality information system that provides access and opportunity for educational services, as well as the ability to collaborate and partner with business and other agencies”. OVERALL-Some of higher education’s goals are clear, while others are not.	California has three concise goals that are the main focus: (1) Promote access to higher education, (2) Promote college affordability, and (3) Hold higher education accountable for student outcomes. Objectives and benchmarks are established from these three clearly stated goals. ⁶¹

⁵⁸ Maryland Higher Education Commission, 1999 Performance Accountability Report, Maryland Public Colleges and Universities, Volume 1.

⁵⁹ Board of Governors for Higher Education, Department of Higher Education, State of Connecticut, “Higher Education Counts: Accountability Measures for the New Millennium” Feb.,2000.

⁶⁰ Maryland Higher Education Commission, p. 12.

⁶¹ California Higher Education Commission

Elements of a Good Overall Accountability System for Higher Education	Tennessee’s System	Model State
Goals should reflect the expectations of accountability.	THEC-Master Plan goals and goals in the Status of Higher Education report are not necessarily what is measured by performance funding and in the Status of Higher Education report. Example-Status of Higher Education Report Goal A- “By the year 2000, Tennessee will be among the leading Southern states in providing college education to its citizens.” None of the benchmarks and performance measures associated with this goal compare Tennessee and other Southern states. Therefore, it is impossible to determine if this goal has been met. Instead the benchmarks and measures only provide information on Tennessee.	Under California’s Goal on accountability, it lists objectives including: Development of statewide goals for higher education that include specific student outcomes; Development of measures to assess the extent to which institutions are successful in accomplishing statewide, systemwide and institutional goals; and Creation of a student information system that provides longitudinal information to guide statewide planning and policy making. ⁶²
Goals should be reasonable and achievable, but boards and institutions should not set goals that the state already achieves. (To establish reasonable goals, higher education should recognize existing economic, geographic, and demographic dimensions of a state.)	THEC-The THEC Master Plan has a goal to “Strive to be recognized as a national leader for quality research and public service.” This is not necessarily a reasonable goal for Tennessee given that many public institutions and state systems have a many more resources for research, many professors from the national academies, more highly ranked students, like national merit scholars, higher tuition, and greater amounts of state funding. Furthermore, the objectives do not establish how it will be determined that Tennessee is a national leader. OVERALL-Some goals established are reasonable and achievable, while others are not.	

⁶² California Higher Education Commission

Elements of a Good Overall Accountability System for Higher Education	Tennessee's System	Model State
<p>Identify objectives that are specific benchmarks with time periods to meet. (A benchmark is an established desired level of performance that is forward-looking. Example, if a state has a goal of increasing the college participation rate of high school graduates the objective might be to increase that participation five percent by 2005.)</p>	<p>THEC-THEC Master Plan does not establish quantifiable benchmarks. Most of the benchmarks are really strategies to try and meet objectives. The Master Plan does establish a five-year time period in which to meet benchmarks and earlier on some benchmarks.</p>	<p>As of 1998, six states specify the use of benchmarks in their performance-based budgeting laws. These include: California, Connecticut, Iowa, Oregon, Texas, and Washington.⁶³</p> <p>Maryland's accountability report includes four years of trend data for each indicator and discusses the progress each institution has made toward the achievement of their benchmarks, including providing responses to questions raised by the Commission staff.⁶⁴</p>
<p>Objectives should include baselines to evaluate progress. (A baseline is the current status on a particular item. Example, if higher education had an objective to raise the college participation rate of high school graduates to 80 percent, it is helpful to know that current high school participation rate is.)</p>	<p>THEC-Master Plan does not establish baselines. Most of the objectives in the Status of Higher Education Report do establish baselines.</p> <p>TBR-individual institutional strategic plans establish baselines, the overall TBR strategic plan does not.</p> <p>UT-plan does not establish baselines. The UT plan states "The three undergraduate campuses will by 2005-7 enroll a total of more than 350 National Merit Scholars and National Achievement Scholars." For example, UT (Knoxville, Memphis, Tullahoma) will enroll more than 300 of these". In order for this to be a useful goal, one needs to know the number of National Merit Scholars and Achievement Scholars the institutions have currently.</p>	<p>According to a June 1998 report, Florida law requires baseline data as part of its performance-based budgeting system. Idaho law requires that performance plans include "historical, comparative report of its performance and plans compared to its performance standards and measures."⁶⁵</p>

⁶³ Melkers and Willoughby, p. 2, June 1998.

⁶⁴ Maryland Higher Education Commission Annual Report, p. 3.

⁶⁵ Melkers and Willoughby, p. 2, June 1998.

Elements of a Good Overall Accountability System for Higher Education	Tennessee's System	Model State
Objectives should contain specific, achievable strategies to reach objectives.	<p>THEC-Includes strategies in <i>Master Plan</i>.</p> <p>TBR-Strategies are included in some planning documents.</p> <p>UT-Has no written strategies for new goals.</p>	
Objectives should culminate to measure progress toward meeting the goals.	THEC-Most of the objectives in the THEC Master Plan culminate to measure progress toward meeting goals.	
The accountability system should establish performance indicators to measure progress toward meeting established objectives.	<p>THEC-Indicators used in performance funding are not tied to Master Plan goals and objectives. THEC officials explain it is the major accountability system used by THEC to evaluate performance.</p> <p>TBR-strategic planning goals and the Report Card are not linked.</p> <p>UT-has no independent accountability system that publicly evaluates progress toward goals.</p>	<p>Maryland's accountability report is a series of key indicators that measure institutional accountability in five areas that respond to concerns commonly expressed by legislators: quality, effectiveness, access, diversity and efficiency/allocation of resources.⁶⁶</p> <p>The Connecticut Board of Governors established a Performance Measures Task Force (PMTF) to develop performance measures for each of CT's higher education institutions. In identifying these measures, the group was urged to choose or develop measures that would be meaningful to external constituencies, including state policymakers, alumni and donors, and the general public. Specific measures were created under each of six statutory goal areas as well as measures that reflect specific internal strategic planning initiatives.⁶⁷</p>
Definitions of performance indicators should be clear and agreed upon by all parties participating in the process.	<p>THEC-performance funding and <i>Status of Higher Education Report</i> use different sets of performance indicators.</p> <p>TBR-<i>Report Card</i> uses some performance funding indicators; other indicators used are unique.</p> <p>OVERALL-Within each of the accountability reports there seems to be an understanding of common definitions of the indicators used.</p>	

⁶⁶ Maryland Higher Education Commission

⁶⁷ Board of Governors for Higher Education ,CT

Elements of a Good Overall Accountability System for Higher Education	Tennessee’s System	Model State
Data from performance indicators should be valid.	THEC-Validates only a portion on measures used in performance funding.	Texas Auditor’s Office conducts a validation process of the performance indicators used every five years. The Texas auditor’s office issues agency guidelines about how to control data accuracy and how to calculate each performance measures. This ensures indicators used are accurate and consistent.
	OVERALL-No entity outside higher education validates performance measures used by THEC, TBR, or UT.	
Performance Indicators should include peer comparisons within the state and provide comparisons to other states.	<p>THEC-In most cases performance results from the <i>Status of Higher Education Report</i> are not comparable to regional or national comparisons. Performance funding’s newest standards establish more nationally comparable performance indicators than previous indicators.</p> <p>TBR-report card is not comparable to measures for UT schools or regional or national performance data.</p>	Connecticut is in the process of identifying peer institutions to compare and benchmark its performance against. ⁶⁸
Data from performance indicators should be consistent and comparable over time.	<p>THEC-Most of THEC’s data in performance funding and in the Status of Higher Education report is consistent and comparable from year to year. However, THEC does not report comparable expenditure data for the UT and TBR system.</p> <p>TBR-report card is consistent and comparable to other TBR schools and comparable over time.</p>	
The accountability system should report performance toward meeting objectives and goals established.	<p>THEC-The <i>Status of Higher Education Report</i> reports the performance of meeting objectives and goals, but does not determine if objectives and goals were met by the established deadlines.</p> <p>TBR-strategic plan goals and performance measures are not linked.</p> <p>UT-Has no accountability system to report its performance on goals.</p>	<p>The Maryland Higher Education Reorganization Act requires governing boards to submit annual performance accountability reports to the Maryland Higher Education Commission. The Commission reviews the reports and makes recommendations to the Governor and the General Assembly.⁶⁹</p> <p>California statute requires “demonstrable improvements in student knowledge, capacities and skills between entrance and graduation be publicly announced and available, and that these improvements be achieved efficiently through the effective use of student and institutional resources of time, effort and money.”⁷⁰</p>

⁶⁸ Board of Governors for Higher Education, CT

⁶⁹ Maryland Higher Education Commission

⁷⁰ California Postsecondary Education Commission.

Elements of a Good Overall Accountability System for Higher Education	Tennessee's System	Model State
Performance information should be easily available to the public, decision-makers, and higher education officials.	<p>THEC-Performance funding measures and results not available on THEC website. <i>THEC Master Plan and Status of Higher Education Report</i> on website.</p> <p>TBR-Strategic plans are not available on the TBR website. <i>Report Card</i> performance is available at the system and institutional level on the TBR website.</p> <p>UT-Planning and performance information not available on website.</p>	<p>South Carolina has performance indicators used, system performance results, and individual school performance available on the web.</p> <p>The University of Florida creates a performance report on indicators, which include nationally comparable data on its website.</p> <p>New Jersey produces an annual accountability report for state policymakers, students, parents, employers, and taxpayers.</p>
There should be consequences related to performance.	<p>THEC-performance funding directly ties performance to dollars for each institution. There are no consequences for failing to meet Master Plan goals or for perform poorly on the <i>Status of Higher Education Report</i>.</p> <p>TBR-no direct consequences for an institution not performing well on Report Card or not meeting goals in institutional strategic plans. UT-no direct consequences currently for failing to meet new goals set out by president.</p>	California, Florida, Georgia, Illinois, Louisiana, Mississippi, and Texas have explicit performance based budgeting guidelines for agency attainment, or non-attainment of goals and objectives. Some allow for increased budgets, retention of cost savings, financial awards to employees, and increased flexibility as incentives for good performance. Florida and Texas statutorily provide for adverse actions for noncompliance or poor performance. ⁷¹

⁷¹ Melkers and Willoughby, pp. 4 and 5, June 1998.

Appendix I

Response Letters from the University of Tennessee Board of Trustees, the Tennessee Board of Regents, and the Tennessee Higher Education Commission

THE UNIVERSITY OF TENNESSEE



February 26, 2001

Office of the President
800 Andy Holt Tower
Knoxville 37996-0180
Telephone (865) 974-2241
FAX (865) 974-3753

Ms. Ethel Detch
Director, Research and Education Accountability
Office of the Comptroller
James K. Polk Building, Suite 500
Nashville, TN 37243-0268

Dear Ethel:

Thank you for your leadership in developing the study called for in Public Chapter 994 to address potential outcome measures and performance benchmarks that could be used to measure progress toward specific goals for access to, and utilization, quality and competitiveness of, Tennessee's higher education system.

Members of my staff and I have reviewed the study thoroughly and offer the following observations:

- Accountability measures are important in higher education as well as throughout government. Tennessee was a national leader in the development of a performance funding system for higher education.
- The Executive Summary indicates the purpose of the study was to "stimulate discussion about the potential costs and benefits of increased planning and performance measurement efforts in Tennessee's higher education system." We welcome that discussion and look forward to meeting with our colleagues in higher education throughout the state in that regard.
- The citation of a model accountability system is a helpful tool in shaping that discussion of performance measures.
- The data contained in the appendices on systems utilized by other states are informative and useful as we begin serious discussion on appropriate accountability measures for Tennessee higher education.
- Some of the examples in the report are very general and cast higher education in a negative light. Others are taken out of context and tend to blame higher education for failing at something we were never asked to achieve. We look forward to the opportunity to clarify some of the misrepresentations contained in the report.

In any serious discussion regarding accountability, it is imperative that we keep in mind the most important elements in any standards we use. Those elements are that the standards be

Focused on changes that are desirable and achievable

Measurable so there is no doubt as to the standards to be achieved, and whether or not they have been achieved, and

Simple so that all, including the general public, can understand what is desired and if it is achieved.

Higher education leaders and Tennessee legislators share a common goal: to achieve a system of higher education in which strategic investments produce lasting benefits for all Tennesseans today and into the future. Again, we look forward to working with all interested parties to achieve such a system of higher education in this state.

Sincerely,



J. Wade Gilley
President

Cc: Eli Fly
Katie High
Sylvia Davis
Tom Ballard



Tennessee Board of Regents

1415 Murfreesboro Road - Suite 350 - Nashville, Tennessee 37217-2833
(615) 366-4400 FAX (615) 366-4464

February 26, 2001

Ms. Ethel Detch
Office of Research and Education Accountability
James K. Polk Building - Suite 500
Nashville, TN 37243

Dear Ms. Detch:

Thank you for the opportunity to review and respond to "The Study on Accountability in Higher Education" report prepared by your office along with the Office of Legislative Budget Analysis and the Budget Division of the Department of Finance and Administration.

I concur with the recommendations in your report. In particular, I agree with the suggestion for consolidation of several planning reports which currently exist among TBR, UT, and THEC. A comprehensive report coordinated by THEC that shows higher education progress toward achieving statewide goals would be most effective.

I would like to commend you and your colleagues for producing such a comprehensive study. The Tennessee Board of Regents (TBR) supports your efforts to strengthen accountability measures in higher education. TBR has had a long-standing policy and practice of engaging its institutions in strategic planning that requires an integration of the planning and budgeting processes. In addition, as you already know, for the past four years our System has developed and distributed a Report Card on TBR colleges and universities. The Report Card is a major initiative designed to demonstrate the System's accountability to the public.

Please know that my staff and I welcome the opportunity to work with you and your colleagues on addressing ways in which higher education in Tennessee can be more accountable to the citizens of this great State.

Sincerely,


Charles W. Manning
Chancellor

c: Dr. Richard Rhoda
Dr. Sidney A. McPhee

Austin Peay State University • East Tennessee State University • Middle Tennessee State University • Tennessee State University
Tennessee Technological University • University of Memphis • Chattanooga State Technical Community College
Cleveland State Community College • Columbia State Community College • Dyersburg State Community College
Jackson State Community College • Motlow State Community College • Mississippi State Technical Community College
Roane State Community College • Shelby State Community College • Volunteer State Community College
Walters State Community College • Nashville State Technical Institute • Northeast State Technical Community College
State Technical Institute at Memphis • The Tennessee Technology Centers

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JUNE SCOBEE RODGERS, Signal Mountain
Vice-Chairman

A C WHARTON, JR., Memphis
Vice-Chairman

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DON SUNDQUIST
Governor

RICHARD G. RHODA
Executive Director

February 26, 2001

Ms. Ethel Detch
Director, Office of Research
Suite 500 James K. Polk Bldg.
Nashville, TN 37243-0268

Dear Ms. Detch:

This letter is in response to the *Study on Accountability in Higher Education*. We very much appreciate the work of the staff who conducted the study. The study demonstrates a strong recognition of the many facets of accountability in higher education. The following is presented for your consideration as our response to the study. The first section of our response addresses general issues related to accountability, while the second segment is directly related to the study.

Perspectives on Accountability

The last decade was an unstable era for higher education in the United States, marked by rising tuition costs, diminished financial aid, and a constant effort on the part of academic institutions to garner essential resources while also cutting operating costs. As these pressures on higher education have increased, institutions have also been subject to a greater degree of legislative oversight focused on their day-to-day operations. The recent and increasing concern with the public accountability of higher education in the United States is undeniable, and well warranted. In light of the major economic and social changes that are occurring both within Tennessee and the nation, students, parents, legislators, administrators, and policy-makers alike consider quality higher education a key component to obtaining employment in today's competitive job market. Consumers are increasingly interested in obtaining information on the quality of the education that our colleges provide, notwithstanding the increasing cost of obtaining a higher education. As a result, state legislators and community leaders are increasingly called to assess higher education, which in turn has put increased pressure on state governing bodies for the assessment of student learning.

The concern for accountability is especially evident in states with restricted fiscal capacities. Not surprisingly, an increased focus on accountability has moved to the forefront of the public policy agenda in Tennessee as institutions in the state struggle to achieve funding levels comparable to their regional peers. The recently completed accountability study demonstrates the heightened attention focused on this critical public policy issue. Although this study contained statements with which we take issue, it should be applauded for calling attention to the need for higher education to be accountable to the diverse needs of Tennessee. The current condition of education in our state is lacking, as less than seventeen percent of Tennesseans have a college degree. Higher education must re-evaluate and modify its mission so that it meets the educational and economic needs of the state.

Although the call for accountability in higher education is a relatively recent phenomenon nationally, Tennessee does have proven success with its assessment driven policy designed to stimulate instructional improvement and student learning. The state's higher education system has long appreciated the need for accountability, and continues to embrace its values. Its educators realize that only through responding to the needs and demands of the state's citizens, business interests, and elected officials can higher education maintain its vitality. Decision-makers also realize the value that education holds for the future of Tennessee. In order to meet the needs of a changing workforce and economy, higher education must be willing to adapt to the ever-changing needs of the marketplace.

Higher education in Tennessee has recently revamped/revitalized its traditional accountability system. Policymakers at the Commission listened to the calls of business and industry to adapt programs and systems that meet the changing needs of the information economy. The Commission also listened to the concerns of the campuses regarding accountability policies in Tennessee. As a result, specific accountability measures were adopted and incorporated into the day-to-day operations of higher education. The Commission has also worked diligently to align and integrate the planning calendars of THEC, TBR, and UT. As a result of actions taken by the Commission in 1999, performance, campus, governing board, and statewide planning now occur on common cycles and calendars. This movement will ultimately improve the ability of higher education to respond to the changing needs of the state's citizens, business, and industry.

Public Chapter 994: Study on Accountability in Higher Education

One of the strengths of this study is its discussion of the failure of the higher education community to articulate the results of its planning and assessment activities to external constituencies. We concur that decision-makers in higher education have historically placed more of an emphasis on the internal use of the results of accountability studies. We also agree that the reporting process is a work in progress, and that the current efforts of the Commission may be lacking in selected areas. However, over the course of the past year, the Commission has taken several steps to remedy the

deficiencies noted in the study. Specifically, the new performance funding standards contain explicit language mandating that THEC formally report all data and outcomes related to the program. Furthermore, the THEC web page is presently under revision and will soon contain policy studies, presentations, and a variety of other informational sources for external constituencies. Within coming months THEC will upload a variety of new pages to its web page that address the questions raised by this study.

We also would like to applaud the study for noting the increased need for Tennessee's colleges and universities to actively consider Tennessee's overall needs and support them through research, policies, and practices. The Commission has recently undertaken a series of policy studies aimed at better informing both policy makers and the decision making process as a whole. We will continue to strive to improve the Commission's capacity to provide an in-depth analysis of critical educational issues in Tennessee.

The study should be commended for its discussion of external normative data and the role that such information should play in future accountability documents. The Commission realizes that the omission of external norms was a flaw in the *Challenge 2000* series; however, it should be noted that a great deal of the data that is presently available from SREB and other agencies simply did not exist ten years ago during the planning and development of the original *Challenge 2000*. THEC fully intends to incorporate regional measures into the new version of *Challenge 2000* that is presently under development.

The study should also be commended for its discussion of the need for an evaluation by external analysts of the data/indicators collected as part of the performance funding program. However, the Commission addressed this concern over a year ago when it developed the new accountability standards for 2000-05. These standards include direct language mandating that all goals, planning documents, and qualitative standards must be reviewed by a committee of external consultants. The study also failed to note that one of the main purposes of the Commission is to review and validate the data/information received from the campuses that is related to funding. The Commission provides an independent check and balance of the assessment process; it does not actively or tacitly participate in the collection of the data. Furthermore, the Commission staff routinely audits campus information, records, and all other data associated with the funding process to ensure that the results and corresponding appropriations are accurate.

Another area of the study that requires clarification regards its discussion of the link between planning, implementation, and assessment. The study states that the accountability measures for higher education are not tied to *Master Plan* goals and objectives. Tennessee's accountability policy does in fact contain several standards that directly link planning, implementation, and assessment. These standards were designed to provide incentives for institutions to improve the quality of their academic programs by evaluating progress toward specific goals contained in the state's *Master Plan*. These

standards require campuses to develop measurable objectives that are directly tied to the *Master Plan*.

The report also asserts that few punitive conditions are present in Tennessee's accountability system to compel institutional performance. We would like to respectfully submit that 5.45 percent of the overall institutional budget is allocated for performance measures. This allotment for performance is one of the highest percentages of overall operating budgets allocated for performance in the nation. Although many state budgetary processes involve performance supplements, or performance components (South Carolina and Florida), Tennessee is the only state in the nation with directly measurable goals that account for more than five percent of the overall operating expenses.

In closing, we commend the study for a thorough treatment of accountability in higher education. The exercise of this study has stimulated a significant level of review and re-evaluation of our existing accountability measures. The Commission staff intends to continue this review and re-evaluation by convening active discussions among all interested parties both internal and external to higher education. We hope that this study will contribute to the strengthening of an overall support for higher education in Tennessee.

Sincerely,



Richard G Rhoda

Appendix J

List of Individuals Interviewed

Higher Education Officials

Thomas Ballard, Vice President for Public and Governmental Relations, The University of Tennessee

Leonard Bradley, Director of the Institute for Public Leadership and Policy, Tusculum College, and Co-Chair of the Council on Excellence in Higher Education

Houston Davis, Assistant Director of Fiscal Affairs, Tennessee Higher Education Commission

Ron Gambill, Director, Tennessee Student Assistance Corporation

Dr. Wade Gilley, President, The University of Tennessee

Dr. Sherry Hoppe, Interim President, Austin Peay State University

Dr. George Malo, Assistant Vice Chancellor of Research and Assessment, Tennessee Board of Regents

Dr. Charles Manning, Chancellor, Tennessee Board of Regents

Brian Noland, Assistant Director of Academic Affairs, Tennessee Higher Education Commission

Dr. Claude Pressnell, President, Tennessee Independent Colleges and Universities Association

Dr. Rich Rhoda, Executive Director, Tennessee Higher Education Commission

Dr. Paul Stanton, President, East Tennessee State University

Dr. George Van Allen, President, Nashville State Technical Institute

Members of the Faculty Council, Austin Peay State University

State Government Officials

Steve Adams, State Treasurer

Bill Baxter, Former Commissioner, Department of Economic and Community Development

Kendra Gipson, Assistant Director, Center for Effective Government, Department of Finance and Administration

Buddy Lea, Director of Resource Development and Support, Center for Effective Government, Department of Finance and Administration

Michael Magill, Commissioner, Department of Labor and Workforce Development

John Morgan, Comptroller of the Treasury

Dr. C. Warren Neel, Commissioner, Department of Finance and Administration

Dr. Connie Smith, Executive Director, Accountability, Department of Education

Legislators

Senator Douglas Henry, Chair, Senate Finance, Ways, and Means Committee

Representative Matt Kisber, Chair, House Finance, Ways and Means Committee

Senator Andy Womack, Former Chair, Senate Education Committee