

Foundations for the Future

Executive Summary

The National Center for Higher Education Management Systems (NCHEMS) and the Association of Governing Boards of Universities and Colleges (AGB) were engaged by the Commission on Higher Education (CHE) in 2003 to conduct a study in two phases.

- Phase One consisted of identifying a “public agenda” for higher education to address the major strategic priorities confronting the future of South Carolina in terms of population, economy, and quality of life, and then determining the link between higher education and these priorities.
- Phase Two consisted of a “policy audit,” including an analysis of state statutes, regulations, and policies related to governance and governance-related areas such as finance to ascertain those that support or are barriers to the capacity of higher education to contribute to the state’s strategic priorities.

Some General Observations and Findings

State policy culture

Several different “states” exist within South Carolina with significantly different demographics, economies, and cultures. There is a culture of independence in South Carolina – a willingness to have South Carolina stand apart from other states on matters of state priority and principle. South Carolina is a strong legislature state in which the General Assembly plays a central role in all areas of state policy, including fiscal policy.

South Carolina has a historic legacy and culture reinforced by an economy that employed large proportions of the population in low-skill, low-wage jobs. There is, however, a tradition of strong business/private sector leadership in improving education. Historically, much of that leadership has concentrated in no more than 30 or so prominent private-sector representatives. But as the economy diversifies and small and medium-sized businesses replace large corporations as the principal employers, the state’s business leadership is becoming more diversified (and potentially fragmented).

Policy context for education

Major education reform initiatives either implemented in the past decade or under consideration include the Education Accountability Act, which increased standards and expectations for student and school success; the First Steps program for more concerted efforts in early childhood education; the Report of the Pathways to Prosperity Task Force and subsequent legislation – the Education and Economic Development Act – to tie education reform more closely to the state economy; the Palmetto Institute/Department of Commerce economic development/research initiatives that recognize the critical link between education and the state’s future; and Performance Funding (Act 359), which has had a controversial and profound impact on colleges and universities and brought

national attention to the South Carolina.

There is a *tradition of strong, independent institutional governance* in South Carolina, exemplified by the “life” trustees at Clemson and the strong links between the General Assembly and appointees on all major boards. *The Assembly plays a strong role in all areas of higher education policy*, including the appointment of trustees.

South Carolina has a diverse set of public and private colleges and universities growing in regional and national acclaim, but with fewer and fewer external incentives to engage on issues for the public good or to share in leading a statewide strategic agenda. *A culture of separate sectors and institutions persists without a framework, agenda, or incentives for collaboration*; for example, discussions about Pathways to Prosperity have had little connection to higher education.

A major initiative in 2003 by the Department of Commerce, the Chamber of Commerce, and others attempted to assess the current South Carolina economy and redefine it around a set of select economic “clusters:” automotives, chemicals, textiles, tourism, and rural regions with recognized and essential responsibilities for postsecondary higher education in each. The suggested outcomes of the initiative have yet to be fully embraced.

A legislative agenda for the 2003 legislative session as developed and advocated by the Palmetto Institute and the state’s three research universities had several positive features, but ignored the contributions that all public institutions and several private institutions make to the quality of life in South Carolina.

There are *severe economic constraints for higher education* in South Carolina. State fiscal cutbacks have led to dramatic shifts of the costs of higher education to students and parents, and available student aid programs are not designed to off-set these increases for students from the state’s low-income families.

From fiscal year 1993 to fiscal year 2002, state appropriations per student increased 2% (after adjusting for inflation). In fiscal year 1993, state appropriations per student were \$6,347, and the state ranked ninth overall. For fiscal year 2002, the state appropriation per student was \$6,489, and the state ranked 19th overall. In fiscal year 2004, General Fund appropriations for higher education totaled \$662 million, a reduction of about 3.7% from the previous year. Public higher education institutions in South Carolina responded to the funding cuts during fiscal year 2003 and 2004 by raising tuition.

From 2002-03 to 2003-04, average tuition and fees for resident undergraduate students at public colleges and universities in the state increased by about 18%. *South Carolinians are paying a higher portion of their incomes to attend college or send their children*, and the percentage of freshman requiring student loans to attend college has grown substantially above the national average.

A decision on the lawsuit on school finance, if decided in favor of the plaintiffs, would have a profound impact on education policy and finance in South Carolina. It could have a major impact on state funding for higher education, potentially restricting state dollars even further.

Summary and Findings of Data Analysis

The process of developing the Public Agenda for Higher Education began with an examination of several sources of national and state data. Several major challenges emerged from the analysis and were confirmed by feedback from meetings and focus groups. They were:

Low education attainment, seen in: 1) significant deficits in education levels necessary to live and work in the 21st century, 2) inadequate preparation for postsecondary education, 3) low high school completion rates, and 4) high percentages of young adults age 18-24 lacking a high school diploma or GED.

More than half of the state's 9th graders do not graduate high school within four years, the lowest high school completion rate in the country. Of 100 9th graders, only 34 will enter college four years later, and of them, only 14 will complete a degree in a reasonable amount of time. As a consequence and compared to other states, South Carolina's colleges and universities serve only a small percentage of the state's population, and only a fraction of the population obtain the knowledge and skills necessary to live and work in the 21st century.

The data analysis also found *a strong relationship between low education attainment and quality of life indicators* in South Carolina, in areas like per capita income, health, the environment for young children, and crime. It also found significant disparities in education attainment and performance by race, gender, income and between urban and rural populations.

Furthermore, the data shows that *South Carolina lags in a shift from a low-skill, "old economy" to a high skill "new economy."* There is, or has been, no growth in per capita income relative to the United States over past decade and to neighboring states, a significant decline in manufacturing, slow growth in "new economy" businesses and jobs, low demand for an educated workforce, and an inability to attract and retain a highly educated and skilled workforce.

The data analysis also found that there is *a low level of research competitiveness*, especially related to a new and changing economy. This is evidenced by South Carolina's low rankings compared to other states (including other southern states) on total public and private research and development dollars, total research dollars per capita, and research dollars from the federal government.

A Public Agenda for Higher Education

The challenges identified in the data analysis and in the interviews and focus groups underscore the need for much stronger alignment of existing higher education capacity with the state's major challenges – a Public Agenda for South Carolina higher education. Several successful programs exist at South Carolina's institutions, but collectively, they have a limited reach. Specific strategies to broaden their reach or to ensure their replication are needed. The public agenda should align the capacity of South Carolina colleges and universities, especially for:

- 1) Preparation for higher education and alignment of higher education with P-12 (preschool through high school) reform.
- 2) Adult education.
- 3) Workforce needs at certificate and associate degree levels related to the changing economy.
- 4) Degree production in critical fields (baccalaureate and graduate/professional).
- 5) Competitive research and development related to the changing economy.

To be successful, the public agenda must be long-term, transcending terms of office, political divisions, and institutional loyalties. It must engage all South Carolina colleges and universities – public and private, and two-year and four-year institutions. It must build on current statewide efforts for education reform and on current higher education initiatives directed at the future of the state. It should encourage a collaborative approach to addressing problems to avoid divisive battles about turf and politics. Lastly, it should have easily understood benchmarks to gauge progress.

Findings of the Policy Audit

The policy audit phase of the project was conducted to identify policies that help or impede accomplishment of the public agenda. The audit found considerable barriers and raised serious questions about the capacity of the Commission on Higher Education (CHE), the statewide coordinating agency, to frame major issues and lead the state in long-term strategies related to the public agenda. Foremost were these: a Commission that has little credibility with the state’s policy leaders and higher education community in providing statewide leadership that links higher education to the future of South Carolina; increasingly dysfunctional policy mechanisms for the financing and accountability of higher education; an insufficient capacity of the Commission to frame major issues and lead the state to constructive problem resolution; and a lack of leadership and action on issues of system efficiency and flexibility.

The following are examples of the major issues and challenges that require serious discussion and leadership:

- 1) *The education pipeline*: South Carolina must significantly increase the percentage of younger citizens who complete secondary education and are prepared for postsecondary education and/or employment in a knowledge-based economy.
- 2) *Affordability*: South Carolina has to seriously examine student financial aid and student financing generally.
- 3) *Research competitiveness*: despite recent progress, South Carolina still has a long way to go to be competitive nationally and with other southern states.
- 4) *Technical and community college services*: these services should be expanded to all areas of South Carolina.
- 5) *Adult education and literacy*: South Carolina must not only stem the flood of young people leaving high school before graduation but also “recover” the

thousands who have left the system and now are unemployed or underemployed; postsecondary education's role in adult education should be greatly expanded.

Beyond the substantive issues related to the public agenda, the Commission has been unable to resolve long-standing concerns about the overall efficiency of the state's higher education system. These include long-standing "irritants" such as overlap, duplication, and lack of coordination between teaching universities, technical colleges, and two-year branches, as well as mission creep (the aspirations of two-year campuses and technical colleges to offer baccalaureate programs). There is a need to recognize and support differentiated institutional missions and for significant deregulation of public institutions.

Conclusions and Recommendations

There is a broad consensus on the need for a new state-level entity to provide strategic leadership for South Carolina's higher education system. It is most important for this entity to link the capacity of all South Carolina colleges and universities to the state's future – to a public agenda – most clearly identified by wide achievement gaps.

The seven criteria below can help frame the responsibilities of a state-level entity. The entity should:

- Focus on a long-term strategic goal of developing the education attainment, human resources and intellectual capital of South Carolina.
- Provide mechanisms for sustaining step-by-step, year-by-year measurable progress toward long-term goals despite changes in political leadership and the ups and downs of economic cycles.
- Provide incentives for both public and private sector leaders (e.g., the Chamber of Commerce, business leaders, foundation and individual donors) and resources to be used to achieve state priorities.
- Provide for strong, effective statewide strategic leadership balanced by decentralized responsibility and accountability for effective institutional governance by boards of trustees and college presidents.
- Use market mechanisms (financial policy and incentives) more than state regulations and mandates as the principal policy tools for stimulating response to state priorities.
- Provide both the formal powers and membership to ensure
 - Credibility and power to shape and gain consensus around a long-term strategic (public) agenda;
 - Sustained attention to that agenda;
 - Strategic decision-making with the engagement and support of the Governor and General Assembly, the state's business and civic leaders, trustees and college presidents, and the general public.
- Focus state-level accountability primarily on the progress toward the future of the state – its economic prosperity and quality of life, not on institutions per se; and hold

institutional leaders (trustees and presidents) accountable for institutional performance consistent with state/public priorities.

Alternative Structure for Governance and Leadership

As a consequence of data gathering, extensive interviews, and focus groups, the consultants propose an alternative structure, a new state-level entity. The primary mission of the entity would be to link higher education to a sustained, long-term public agenda of raising South Carolina's education attainment, human resources, and intellectual capital to a level necessary to raise the state's per capita income to the national average or above by the year 2024.

For the new entity (public corporation) to be established the statutes authorizing the Commission on Higher Education would have to be repealed and the essential core functions transferred to the new entity. The entity would be organized as a joint public-private entity – a *public corporation* – rather than a state agency in order to engage the full-range of South Carolina's leadership as well as both public and private resources.

The new entity would be designed to have the capacity and credibility to shape and gain consensus around the identified public agenda. It should sustain attention to the public agenda across changes in political leadership and economic cycles, and gain the confidence and support of the Governor, General Assembly, and the state's higher education, business, and civic leaders.

The entity would lead strategic initiatives to link higher education with plans to address the state's major challenges, such as increasing the percentages of South Carolinians who move through the education pipeline from early childhood through secondary education and then to postsecondary education; improve adult education and literacy; ensure affordability for college; expand the availability of technical and community college services in all regions of the State; increase degree production in fields critical to South Carolina's future economy and quality of life; enhance the distinctive missions and the contributions to South Carolina of each of the state's colleges and universities; and make strategic decisions necessary to improve the overall efficiency and responsiveness of the state's higher education system.

The new entity's authority would be focused on a limited number of critical policy tools. It would maintain the essential core functions currently performed by the CHE, but redesign these functions to emphasize strategic direction, incentives, and delegation to institutional governing boards whenever appropriate within the framework of statewide accountability.

The new entity would ensure public accountability by emphasizing step-by-step measurable progress toward the long-term goals of the public agenda, including holding institutions accountable for performance in relation to mission and public priorities. Progress would be measured around these key questions:

- 1) Are more South Carolinians ready for postsecondary education?
- 2) Are more enrolling?

- 3) Are we preparing South Carolinians of all ages for life and work?
- 4) Are South Carolina's citizens and economy benefiting?
- 5) Are South Carolina's colleges and universities being more efficient and productive-both individually and working in collaboration with each other?

Alternative Higher Education Finance System

The new state-level entity would be charged with responsibility to shape a new financing policy for higher education.

The consultants recommend repealing South Carolina's performance funding system but retaining links between finance policy and performance and accountability. A new finance policy should emphasize incentives for institutions (individually and in collaboration with each other) to address the public agenda. It should also create and sustain the capacity of the state institutions in a manner consistent with their missions, in terms of adequacy, equity and funding stability. It should also be fair and transparent. The new policy should strive to make higher education affordable for all South Carolina students. And, it should also reflect a realistic assessment of the capacity of South Carolina to fund higher education.

The current funding formula should be replaced with a "base-plus" funding system linked to institutional mission and the public agenda. The base should be determined and adjustments made for inflation and significant changes in workload. Inequities based on comparison with benchmark (peer) institutions should be removed and capital development provided for.

The new financing policy should also establish a new framework for student contributions to core capacity by establishing a statewide tuition policy that sets reasonable shares of revenue from students while retaining institutional authority to set specific tuition rates within a statewide policy framework. It should also increase funding for need-based student aid.

Finally, the new financing policy should establish "Strategic Investment Funds" to provide incentives for institutions to respond to state priorities expressed in the public agenda. These funds would be comprised of both public and private monies.

Recommended next steps in creating new entity

It is recommended that an interim design committee be created to lay the groundwork for the creation of the new entity focused on the public agenda. The goal of the design committee would not be to undertake another study but to devise an implementation strategy over a set period of time and in preparation for the next appropriate legislative session.

The full report, *Foundations for the Future*, can be read on the CHE website, <http://www.che.sc.gov/>, under data and publications - higher education studies.