Draft Executive Summary & Revised Recommendations Section to the Initial Report of the Select Committee on the Future of Higher Education in Vermont

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The National Center for Higher Education Management Systems

November 25, 2020

Executive Summary

In accordance with the requirements of Act 120, the Select Committee on the Future of Higher Education in Vermont submits this interim report due on December 4, 2020, the first of three required by the legislation. Act 120 charged the Select Committee with "addressing the urgent needs of the Vermont State Colleges (VSC) and developing an integrated vision and plan for a high-quality, affordable, and workforce-connected future for higher education in Vermont" and to offer recommendations regarding "the financial sustainability of the VSC system" as judged through the lens of having "impact on institutional capacity to innovate and meet State goals and learners' needs."

In keeping with that charge, the Select Committee developed a set of goals to frame the recommendations as follows:

   i. The committee interprets "meeting learner needs" to mean:
      1. Providing access to relevant academic programs in all regions of the state—relevant means programs that prepare students for the world of work and for participating in a democratic society.
      2. Ensuring that these programs are available to students regardless of income, race/ethnicity, parents' education, age, prior academic experience, or place of residence.
      3. Students are provided the necessary support to ensure that they can succeed in their academic endeavors—they successfully complete their programs of study. Necessary support includes access to broadband and the technology necessary for on-line learning.
      4. Postsecondary education is affordable to all students regardless of their economic circumstances.
  ii. The committee interprets "meeting state needs" to mean:
      1. Fulfilling the state's workforce development needs—meeting the needs of employers in all sectors of the state's economy (including the creative economy).
      2. Preparing students for participation in the world of work and in democratic society.
      3. Reducing gaps in educational opportunities available to students of all types and from all communities throughout the state.
      4. Stimulating and supporting the economic and cultural vitality of the state and its communities.
      5. Attracting and retaining talent to a vibrant and growing Vermont economy fueled by an entrepreneurial spirit, creativity, skilled labor, and relevant basic and applied research supplied by thriving public postsecondary institutions.
      6. Being a good steward of public funds and of funds received from tuition payments through efficient academic and administrative operations/functions.

The Select Committee asks the legislature to adopt these goals, place them in statute, and use them as strategic objectives that form the basis for policymaking regarding postsecondary education.

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In order to achieve these objectives, the Steering Committee has agreed on a series of priority recommendations, among them being:

1. **The VSC System should be restructured and its institutions should be assigned clear mission statements**, as follows.

   a. Maintain the Community College of Vermont (CCV) as a separate institution with a mission to focus on exclusively sub-baccalaureate programming expanded to encompass a greater focus on workforce-relevant education and training and services to adult learners and to employers, including non-credit programming.

   b. Unify the remaining three VSC institutions under a single leadership structure and accreditation. In the process, ensure that it serves a mission to provide affordable and accessible baccalaureate-level education, limited master's programs in areas where the need for such programs is geographically dispersed (e.g., education, health care), and limited technical sub-baccalaureate programs in partnership with CCV.

   c. Both institutions should be capable of delivering education to residents in ways that prioritize access and success. This means that students of all types—including working adults, underrepresented and low-income populations, and rural residents—have access to physical campuses, robust online education, and adequate student support services.

   d. Ensure that the Chancellor's Office retains the capacity to provide for systemwide leadership on academic integration and interinstitutional collaboration; coordinate with other institutions, state agencies, employers, and other key stakeholders; and assure that the benefits of scale across the system are realized.

2. **The VSC System should move aggressively to coordinate administrative service operations.** Although effective delivery of some services will require an on-campus presence, the System needs to develop a standard set of policies and policy enforcement coordinated centrally in order to capture the benefits of scale across the System. This requires thoughtful reorganization of the administrative structure, including reporting relationships, but it does not necessarily require a larger centralized presence as leadership for each service can be managed by personnel with appropriate expertise located at a campus. At a minimum, the VSC System also needs highly professionalized project management expertise to achieve a smooth transformation of administrative service delivery.

3. **The State of Vermont should adopt a strategic approach to how it funds postsecondary education.** This approach should start with clear and specific objectives for its investments in postsecondary education along the lines as those adopted by the Steering Committee and be accompanied by appropriate measures that help to assure that the state's investments are aimed at achieving those objectives.

More specifically, the problems facing the VSC System that the Select Committee was created to address have roots that span many years, are not caused by the pandemic (though it surely has worsened them), and require a coordinated and comprehensive response. All parties must recognize the seriousness and the need for urgency in working together to address these problems. It is no longer possible for this can to be kicked further down the road, with hopes that the individual institutions and the Chancellor's Office will come up with cost savings substantial enough to achieve long-term financial sustainability, without help from the legislature. To be effective, this response must involve additional funding that stimulates the needed transformation, yields reduced costs, and leads to improved affordability for Vermont residents attending public institutions in the state.

These investments will need to be a combination of one-time funding and additional ongoing support. The one-time funding support should be spread over multiple years consistent with a reasonable yet aggressive timeline for the implementation of needed changes. Ongoing additional support is also needed in order to address weakness in student accessibility, success, and affordability at the VSC System and throughout the state, to ensure that the VSC System has the necessary support to serve its recommended expanded mission, and retains the capacity to adapt to meet the evolving needs of students and the state.

The table below outlines the timing and purposes of the needed state investments (in millions). The top section of this table recognizes the need for the state to cover the extraordinary costs associated with the pandemic, which remain uncertain beyond FY 2022. The remaining deficit after COVID mitigation is an estimate of the structural deficit that the VSC System must close to become minimally fiscally sustainable.

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027 & Beyond
VSC Total Operating Deficit	**45**					
COVID Mitigation (Assumes additional fed stimulus)	20	?	?			
Existing VSC Structural Deficit	**25**	**20**	**15**	**10**	**5**	**0**
VSC Efficiency Gains & Enrollment Increases	5	10	15	20	25	
State Investment in Transformation	25	20	17	10	5	
Operational	20	15	15	10	5	
Capital (Demolition, renewal/refurbishments)	5	5	2			
State Ongoing Investments in Improved Capacity and Affordability at VSC	17.5	17.5	17.5	17.5	17.5	17.5
Operational	10	10	10	10	10	10
Capital (deferred and major maintenance)	7.5	7.5	7.5	7.5	7.5	7.5
Historic VSC State Appropriation	30	30	30	30	30	30
Total State Investments to VSC	**72.5**	**67.5**	**64.5**	**57.5**	**52.5**	**47.5**
State Ongoing Investments in Affordability through VSAC	5	5	5	5	5	5
Total Additional State Investments to Postsecondary Education (Above FY 2020 Levels)	**47.5**	**42.5**	**39.5**	**32.5**	**27.5**	**22.5**

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The second section shows the one-time funds, spread over multiple fiscal years, that will be needed to support the transformation effort at the VSC System. These funds will allow the VSC System to eliminate its structural deficit over the next 4-5 years in a stepwise fashion—$5M per year—through reduced costs and enrollment increases among new student populations to be targeted. Operational funding will support the restructuring effort and the aggressive coordination of administrative services recommended above, while capital funds will enable the System to demolish obsolete and unusable buildings and repurpose others to better support student learning and engagement with employers and the community.

The third section outlines funding needed to ensure that the VSC system has adequate capacity to evolve as needs change, to provide capital support for keeping pace with maintenance requirements (some of the major maintenance money may be returned to the state if it is unneeded to address unanticipated costs), and to begin to address affordability issues that have become serious barriers to student access and success. Finally, while the Steering Committee is still deliberating over recommendations about how to address the state's investments in affordability beyond the need to keep tuition prices in check within the VSC system, it is clear that affordability is an issue that deserves additional attention by the legislature.

If implemented, these recommendations will help usher into existence a re-envisioned VSC System that will be:

- Nimble in response to the needs of students, employers, regions and communities, and the state.
- Accessible—programs will be readily available to all types of students in all parts of the state.
- Ubiquitous—the VSC System will be a resource to residents in all parts of the state.
- Essential—the VSC System will continue to provide essential support to stimulating economic and workforce development for the state and its regions and communities.
- High-quality—transformation will help to smooth educational pathways and improve program relevance and delivery.
- Financially self-sustaining—systemwide scale will yield greater efficiencies in academic delivery and administrative services, while keeping tuition revenue focused on paying for instruction and support costs.

Finally, in addition to these more specific recommendations, the Select Committee is considering others that will be further developed as its work moves forward. This interim report includes some of the thinking concerning these additional areas of focus. Even though more detail, discussion, and engagement with stakeholders are needed before recommendations can be formally put forward, it is timely at this point to signal the need to address at least two significant issues. First, it is widely agreed that affordability for postsecondary education in Vermont has eroded and become an unsustainable barrier to access and success, especially among student populations most in need. The Select Committee is considering the nature of a

standardized means of measuring and reporting on Vermonters' ability to afford a postsecondary education, and strategies for improving affordability.

Second, there may be an opportunity for Vermont to create greater coherence concerning how programs closely related to workforce development are organized and funded by the state. Among those that may be deserving of a fresh approach include the organization and funding of adult basic education and career technical education programs, which is currently dispersed and largely uncoordinated throughout the state, as well as the current array of efforts among state agencies and institutions that aim to promote and support "earn-and-learn" activities like apprenticeships, internships, and work/study.

These additional recommendations are still under development and will be included in subsequent reports required of the Select Committee by Act 120.

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Recommendations

The criteria for solutions described above have informed the following set of draft recommendations. Most of these will be addressed to the VSC system—either the Board, the Chancellor's Office, or the leadership of member institutions. But in recognition of the reality that the VSC system and its institutions do not find themselves in a precarious fiscal position entirely of their own making, some of the recommendations will be address to the Vermont legislature and to the governor.

At this stage, these recommendations are presented in draft form, and some include options still on the table for the Select Committee's consideration. The Select Committee and leadership at the VSC recognize that their respective efforts at reform should be complementary and mutually informative. Therefore, we have concentrated on adding specificity to those recommendations that are among the highest priorities given the need for the VSC system and its Board to move forward rapidly during this academic year.

The recommendations are presented in nine categories: recognizing the urgency of the challenge, articulating a clear expression of statewide goals by the legislature, structure and mission, coordination of administrative services, resource allocation, physical spaces, affordability, economic development, and accountability.

1. **The Need for Urgency**

   The Select Committee urges that all parties recognize the seriousness of the problems facing Vermont postsecondary education, and the VSC System in particular, and work together to address these problems. It is commendable that the governor's office and the legislature stepped in with substantial funds for the current fiscal year to help address fiscal impacts related to the coronavirus pandemic and to encourage the VSC to undertake major changes. That this additional funding was made possible by federal stimulus package does not alter that fact, nor does the current uncertainty over additional stimulus obviate the need for the VSC to receive additional help to continue its transformation initiatives.

   The recommendations that have been advanced by various groups in Vermont that are looking into this problem have tended to focus on ways that VSC can reduce costs. There is no question that the VSC and its institutions must bring their costs down. But the scale of the cost reductions required and the haste in which they must be made will inevitably get in the way of deliberate approaches that are most needed. Add to this the facts that 1) the Vermont institutions (including UVM) are among the least well-supported public institutions in the country and consequently are among the least affordable to students, and 2) demographic trends will exacerbate competition within a postsecondary marketplace that has more institutions competing for students than most places in the country. These conditions make it nearly impossible for VSC institutions to deal with their financial issues by increasing tuition revenue. These realities suggest that cost reductions alone are not likely to be enough to address the long-term fiscal challenges facing the VSC.

Any workable solution will have to pair substantial cost savings with new investment by the state. To ensure that the state gets the "biggest bang for its buck," the state should have strategic objectives in mind before making those investments. But there is no sign that the political leadership of the state has ever clearly specified those objectives as they relate to the VSC and its institutions. If the state is to invest more in VSC, and higher education more generally, it should do so with intentionality.

This is no longer a can that can be kicked further down the road, with hopes that the individual institutions and the Chancellor's Office will come up with cost savings substantial enough to achieve long-term financial sustainability without help from the legislature. After all, the VSC—or at least some of its institutions—are facing the very real prospect of insolvency. Should that happen, the state will be on the hook for substantial costs associated with teach outs, campus closures and the costs associated with shuttering or demolishing buildings, outstanding debt obligations, liabilities related to the sudden addition of recently employed faculty and staff to retirement and health care payouts, and other consequences. None of these costs will be offset by tuition revenue (at least from any institutions forced to close), the source of revenue that currently covers the bulk of VSC's operational budget.

Ultimately, it is crucial that the state's political leadership recognize that the fiscal problems within the VSC have roots that span many years. They are not the result of the coronavirus pandemic, though that has surely worsened the dilemmas and has served to intensify the need for a coordinated and comprehensive response. That recognition will need to be paired with funding support sufficient to help the VSC transform. That support will need to be sustained beginning with the state budget for FY2022 and continue for a number of years to follow. Failure to do so risks hobbling the recommended efforts to transform the System and will cause a reversion to an unsustainable status quo.

2. **Articulating Statewide Goals**

In the enabling statutes for UVM and the VSC System, and in the language of recent appropriations bills, the Vermont legislature has been notably silent on what it expects out of its investments in postsecondary education. In the VSC System's case, the only statement is that the VSC is to be "supported in whole or in substantial part with State funds."[1] This vague statement has provided weak guidance even for what affordability and access should mean, given that what "substantial part" means in practice is open to interpretation and given the reality that the State lags nearly all others in providing support to its public institutions.

The legislature should develop a clear set of strategic objectives for its investments in the public postsecondary education, and in the VSC System in particular, and place these goals in statute. The list should be brief and include objectives that go beyond simply achieving financial viability and get to the heart of what the System and its institutions are expected to do. This report provides several candidates for goals that might be considered—affordability,

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[1] 16 V.S.A. § 2171

making access to a full range of academic programs available to students in all parts of the state, meeting workforce needs, etc. Such objectives would help set guidelines for how the VSC Board carries out its fiduciary and other duties and prioritizes its own investments and initiatives. Further, the legislature should act much more strategically in distributing available resources among UVM, VCS, and VSAC and in making policy with regard to postsecondary education. If, for example, affordability is selected as a priority, then legislative action to increase scholarship funding or to increase funding to institutions as a quid-pro-quo for lowering tuition would be strategic policy responses in furtherance of this goal.

Strategic action at the state level should extend beyond decisions about allocation of funds set aside for use to support postsecondary education. Also important is ensuring that other funds can be utilized in ways that support multiple objectives. For example, using Education Fund resources to support more extensive dual credit instruction, especially instruction that leads to some level of workforce certification. Or using federal workforce and training funds(such as WIOA and Perkins) more intentionally to not only support workforce development but to ensure that CCV and/or VTC are primary providers of workforce development programming.

3. **Structure and Mission**

The recent merger of Johnson State College and Lyndon State College into Northern Vermont University, the subsequent aborted attempt to close NVU and the Randolph campus of VTC, and the report from the Labor Task Force urging the consolidation of the four existing institutions into a Vermont State University under single accreditation and the elimination of the Chancellor's Office, have presented the VSC with a broad array of ideas for addressing its fiscal sustainability challenges through restructuring. The Select Committee has concluded that restructuring will be a necessary, but not sufficient, strategy. Further, any restructuring must be strategic and result in institutions that have clearly defined and distinct institutional missions. To help frame the recommendations, it is helpful to present a brief conceptual background regarding missions.

In Vermont, responsibility for defining institutional missions falls to the Board of the VSC for its member institutions; the enabling legislation is silent on the nature and purpose of the individual institutions, as well as of the system, except to expressly require the VSC to provide instruction in dental hygiene. The VSC Board policies regarding institutional missions are unclear. Neither the approved by-laws nor the adopted Policies and Procedures Manual discuss the process for approving and reviewing institutions missions. However, the manual does require academic programs to be consistent with the institutional mission and the Board evidently approves mission statements.

Effective system-wide governance begins with establishing and maintaining clear missions that deliberately specify:
- the array of programs by level and field to be offered at each institution, with attention to distinctive clusters of expertise—including the liberal arts and applied

programs like business and education, and unique capacity like NVU's meteorology program—as well as differences in local needs;

- the audiences to be served by each institution—specified in terms of geographic location, level of academic preparation, age, race/ethnicity, income levels, attendance status (full- or part-time), employers and their employees, and any other characteristics worthy of special attention;
- features of the educational model(s) employed by the institution in terms of the curriculum and the co-curriculum; and
- other special or unique characteristics—such as NVU's on-line delivery expertise.

Applying this conceptual framework to the VSC context, it is evident that the VSC system should retain its capacity to deliver high-quality liberal arts programming and a coherent general education curriculum that can be accessible to students at all its campuses. Ensuring this requirement is met need not be in conflict with the need to also align programming more closely with the workforce needs of the state and of the local community, and with the post-graduation employment expectations of VSC students. It is also important to recognize the unique campus cultures or environments for teaching and learning. Doing so means

- ensuring that liberal arts programming is augmented in ways that deliver targeted workforce-relevant skills (e.g., by establishing a technical writing requirement for English majors);
- providing all majors with ready access to meaningful work-based learning opportunities;
- supporting the success of students, especially populations that are typically underserved;
- developing new sub-baccalaureate credentials specifically aligned to employer needs and which can show a clear return on investment; and
- offering non-credit programming in response to employer needs that can be converted into stackable credits.

With this as background, recommendations to restructure the VSC system should aim to create institutions that:

- have distinctive missions and cultures, including the preservation of elements of institutional history and traditions that make each place unique;
- can collectively deliver a standardized general education program;
- can collectively deliver shorter-term workforce-oriented programming in response to student and employer needs;
- can collectively offer courses and programs in multiple modalities and according to schedules that remove barriers to students' enrollment and success;
- have special competence in selected majors that can be delivered on-site and throughout the state—at other campuses and on-line;
- have a critical mass of faculty in each of their areas of special competence so that students get a variety of perspectives within their major and that small classes are avoided;

- can collectively provide the full range of System academic offerings to students in all parts of the state.
- can serve the needs of adult students as well as recent high school graduates.

Available evidence suggests there exists considerable room to create greater efficiency. shows that Castleton, NVU, and VTC were each substantially more costly to operate than their institutional peers in FY2018, while CCV was relatively less costly than its peers. (An appendix supplies details about the methods used to identify institutional peers, as well as the peers selected for each institution.)

Figure 1.   Total Expenditures per FTE, 2017-18
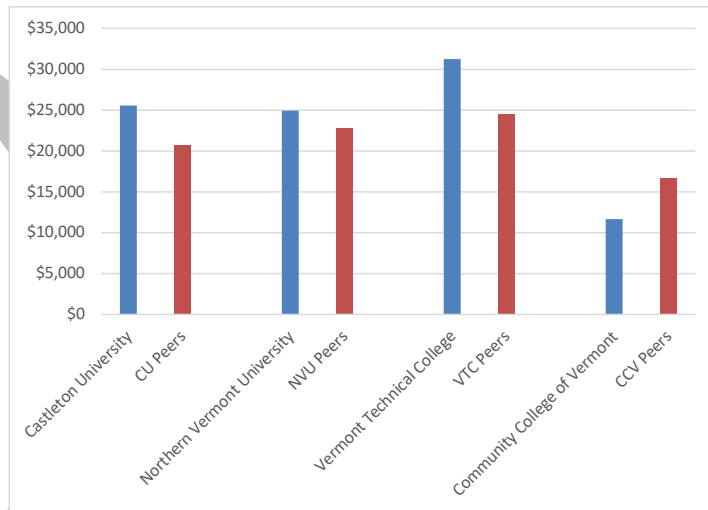
Source: NCES IPEDS.

Additionally, data supplied by the VSC shows that Castleton and NVU operate a large share of their course sections with low enrollment (Figure 2). This figure obscures the fact that there may be compelling pedagogical reasons to maintain relatively small classes in some courses or in some disciplines, but this only reduces the discrepancy in these data without eliminating it. Small course sections are also a consequence of declining enrollment unmatched by commensurate reductions in the faculty.

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Figure 2. **Percent of Course Sections by Enrollment and Institution, 2019-20**
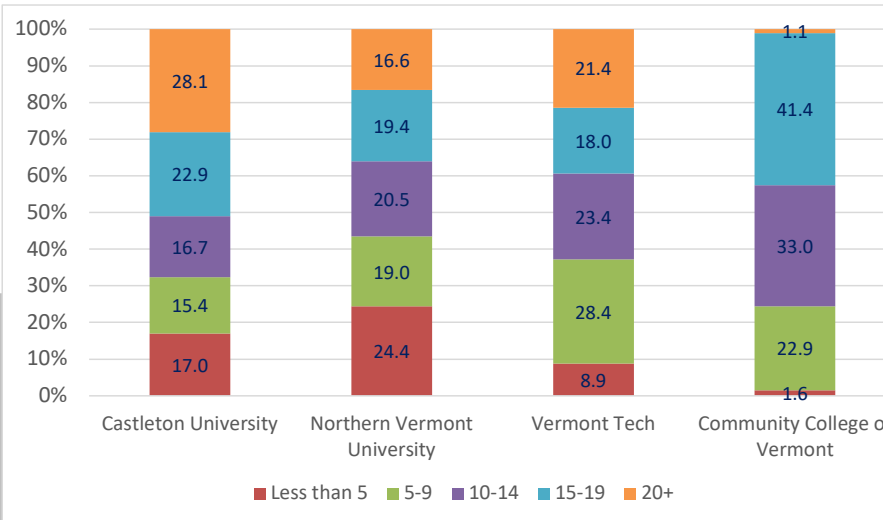
Source: VSC Chancellor's Office

Figure 3 shows the distribution of awards conferred by VSC institutions in 2017-18 by level and broad field of study. Awards in the health professions are the most common throughout the system and at all institutions except for CCV, where transfer-oriented awards rise to the top. Outside of the health professions, business and a variety of liberal arts programs are common, and excluding the large number of transfer-oriented associate's degrees awarded by CCV, bachelor's degrees dominate. Moreover, programs in fields of study that prepare Vermonters for the in-demand jobs identified by the McClure Foundation report (e.g., careers in finance, information technology, manufacturing, marketing, computer programming, health care, and trades[2]) are in relatively short supply at VSC institutions, or are under-enrolled.[3]
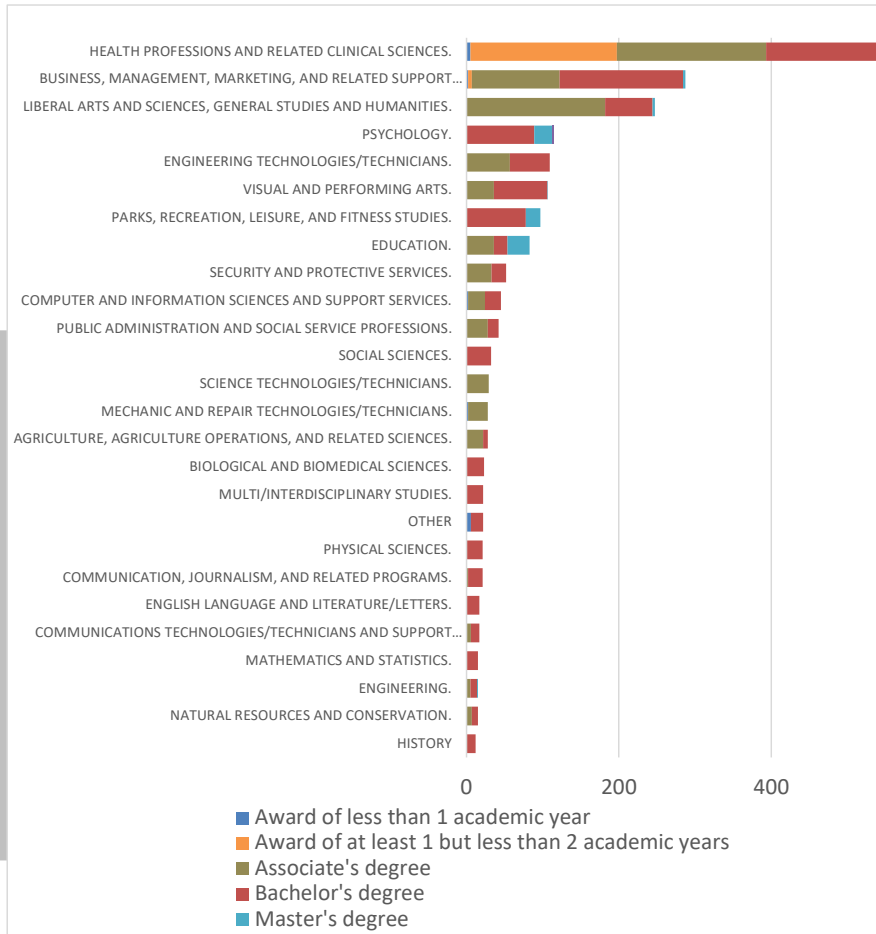
Finally, VSC institutions—most notably Castleton and NVU—are heavily invested in serving students of traditional age (Figure 4).

These data highlight gaps in the provision of postsecondary education and training that meets the needs of students—especially adult learners—and the state.

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[2] https://mcclurevt.org/assets/Website-Documents/2021_BestJobs.pdf
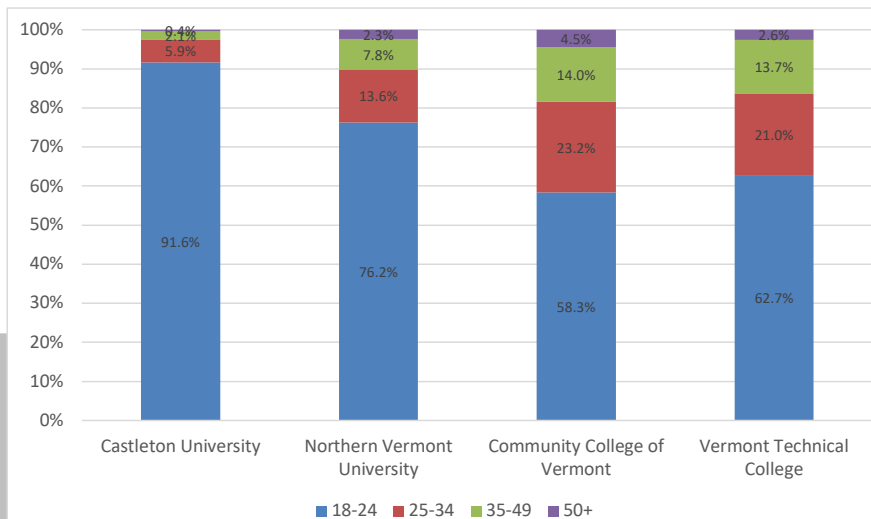[3] McClure Foundation, *Pathways to Promising Careers & VSCS Programs: 2019*

Figure 3.   Awards by Level and Selected 2-Digit CIP, 2017-18

Legend:
- ■ Award of less than 1 academic year
- ■ Award of at least 1 but less than 2 academic years
- ■ Associate's degree
- ■ Bachelor's degree
- ■ Master's degree

Source: NCES IPEDS

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Figure 4. Undergraduate Enrollment by Age, 2019

Source: NCES IPEDS

To best assure that the criteria specified above are met, the Select Committee should advance the following recommendations or select from among the options presented.

<u>Restructuring VSC Institutions and Aligning Their Missions to State Needs</u>

A. First, CCV should remain a separate institution within the VSC System. As the only state institution providing exclusively sub-baccalaureate programming, CCV fills a critical role in the provision of educational services and one that needs to grow to meet rising workforce needs for sub-baccalaureate education and training and to serve adult learners in larger numbers. Specifically:

- CCV operates with a unique culture and business model that has made it the least expensive of the VSC institutions, and made it relatively nimble in responding to statewide and local demand for programs.
- CCV serves a relatively distinctive student population, especially working adults. Adult learners comprise a population that represents the only significant opportunity for growing enrollment among Vermonters, and they are likeliest to attend an institution that provides convenient access to programs and courses that lead directly to in-demand jobs.
- There appears to be a growing opportunity to respond to employer needs with non-credit programming, and CCV is best positioned to meet that need.
- There is a considerable risk that combining CCV with the other VSC institutions could serve to limit its ability to flexibly and affordably provide ongoing or expanded sub-baccalaureate programming.

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- CCV is the only institution in the system without a residential component. It also has campuses distributed throughout the state in locations selected to be convenient for its target student populations.

The State of Vermont should ensure that CCV continues to focus on its mission to provide Vermont residents with affordable access points to postsecondary education throughout the State, and to develop and deliver responsive workforce-relevant education and training programs. With respect to the latter goal, CCV should enhance and expand its efforts to develop and deliver short-term certificates and associate's degrees with demonstrable labor market value, especially for adult learners seeking new skills and for employers seeking to train their employees. Preparation for employment in the fields identified by the McClure Foundation and the Department of Labor would be a good start in this regard, but there also appears to be evidence that regions have differential gaps in the demand for education and training programs and the local supply (as suggested by Figure 5-Figure 7). In sum, CCV should become Vermont's principal provider of sub-baccalaureate workforce-oriented education and training, and the institution most aimed at serving adults.

Figure 5.   Unmet Demand and Excess Supply (Annual Openings Less Regional Completions), Chittenden/Burlington MSA
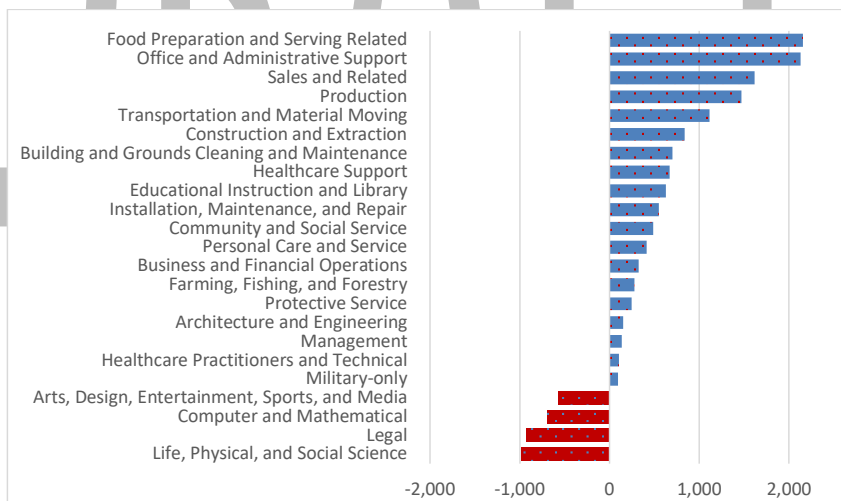

Source: EMSI

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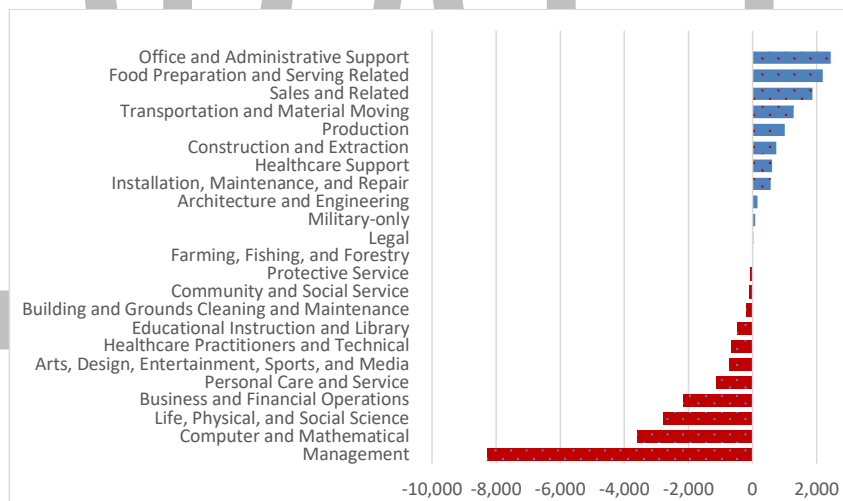
Figure 6.   Unmet Demand and Excess Supply (Annual Openings Less Regional Completions), Northern Vermont
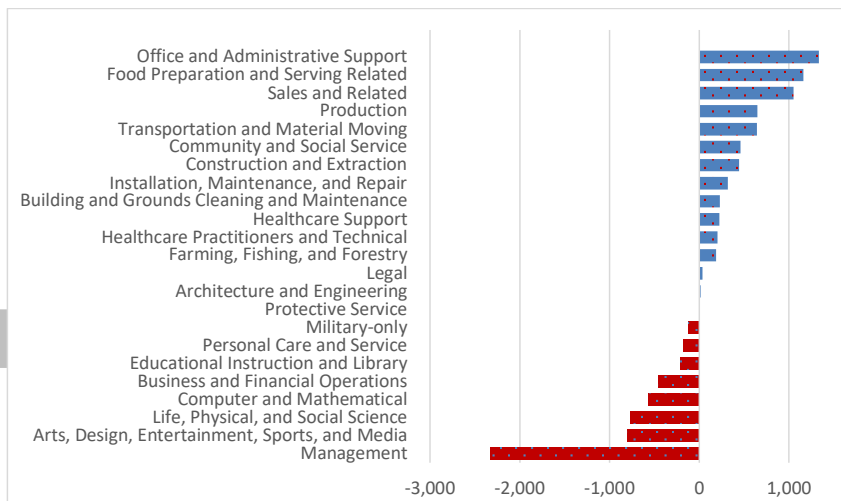
Source: EMSI

Figure 7.   Unmet Demand and Excess Supply (Annual Openings Less Regional Completions), Southern Vermont

Source: EMSI

In keeping with that role, CCV should work as seamlessly as possible with the regional technical centers that are currently tasked with providing adult CTE programming, especially in terms of utilizing space available at the technical centers, assuring that students attending the technical centers have ready access to subsequent training and skill-building activities, and in facilitating reliable analyses and marketing information to support a comprehensive statewide view of the scale of the adult CTE activities. In addition, NCHEMS recommends that the State of Vermont should consider reassigning responsibility for oversight of Adult CTE programming from the Agency on Education to CCV.[4] CCV may offer programming directly and through existing regional sites, but it should hold ultimate responsibility for the statewide coordination of such activities. CCV's mission and expertise to serve adult populations are a closer fit for this role than the AOE, which focuses on younger students. The current balkanized approach has limited capacity for marketing and outreach to adult learners and employers and for effective contributions to spurring economic development. By taking on this responsibility directly, CCV can better coordinate a statewide effort to deliver programming increasingly needed in the workforce. Additionally, CCV has the necessary infrastructure to deliver the needed programming efficiently throughout the state.

B. There are multiple possible options for how best to structure the remaining three institutions. The first option is to combine all three of them into a single institution, rename it Vermont State University, and seek single accreditation for it. The resulting institution would remain a part of the VSC system with its leadership reporting to the Chancellor's Office, retain campuses distributed throughout the state, operate under a single set of institutional leaders (e.g. President, Provost, etc.), and organize its academic content around a set of colleges (e.g., College of Arts and Sciences, College of Engineering and Technology, etc.) The colleges would oversee the delivery of related disciplinary content throughout the distributed sites, ensuring that students at any of the sites have access to the full program array available at the institution through a combination of instructional delivery modes. Models for this arrangement exist at the University of Connecticut and the University of Washington. While both institutions are nominally research universities that are not straightforward comparisons to the VSC system, they have multiple campuses that are each the primary hosts for certain academic specializations and concentrated expertise. Collectively, these campuses operate under the university's single accreditation and employ a single faculty. The arguments in favor of that approach are as follows.

- It combines all of the baccalaureate programs in the system into one institution.
- They all share elements of a common business model, especially as shaped by a single set of collective bargaining agreements and by having a residential component. In addition, there is widespread overlap in the liberal arts offerings between NVU and Castleton, as well as some overlap in some of the more technical programs offered by NVU and VTC. With fewer institutional boundaries, students will experience fewer

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[4] Vermont may also consider a similar assignment for the delivery of Adult Basic Education as well, but given the differences in the nature of how that activity is currently structured through long-established partnerships with non-profits, we are not ready to take a clear position on that question at this stage.

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Moved down [1]: By taking on this responsibility directly, CCV can better coordinate a statewide effort to deliver programming increasingly needed in the workforce.

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barriers in the recognition of credit, they will have more immediate and seamless access to programs and courses offered at another campus of the same institution than they currently experience trying to piece together courses and programs from multiple institutions.

- Collectively, the three institutions account for the operating deficit being run by the VSC system. Combining them creates a situation that ensures that solutions are addressed by all of them collectively, rather than creating a situation where avoiding the necessity of making painful decisions remains just one more way that the institutions compete with one another.

- The combination puts under one academic leadership and faculty governance arrangement the task of right-sizing the institution on a department-by-department basis. With a single faculty that has members distributed across campuses, this process will lead to the creation of larger academic departments that will be superior to the existing proliferation of small departments. The aggregation of a critical mass of faculty in key areas will both improve program quality and contribute to more fiscally sustainable departments through enhanced operational efficiencies resulting from larger course sections, adequately staffed and more attractive majors, etc. Program review activities by the combined institution will be less time-consuming as well since they will be focused on only one institution rather than three.

- Bringing VTC's program array, with its more heavily technical and workforce orientation, and its related expertise togeth with the programs at NVU and Castleton may accelerate the incorporation of applied learning opportunities and work-based learning experiences into all programs.

- This arrangement will remove competition for students among the three constituent institutions, reduce the level of price discounting, and create an environment in which all components of the combined institutions share a common interest in attracting students of all types. If the combination leads to more robust programs supported by an adequate faculty complements, it may also aid the combined institution's ability to compete for other students through a more comprehensive and higher-quality array of programs. It also enhances marketing opportunities by making possible a more cohesive message about an accessible public institution in Vermont able to offer a wide range of programs.

- It will allow the provision of a more robust set of student support services.

- The combined institution will have a physical presence in key parts of the state. By forging closer ties with CCV, these locations will meet a Steering Committee requirement that programs be available to residents throughout the state. Under a consolidated model, there is an opportunity to strategically focus the operations of existing campuses in new ways that capitalize on the availability of existing faculty and staff expertise, but above all using their distributed presence as a way to help ensure that students will have geographic face-to-face access to faculty and staff and to student support services in ways that promote their success even when they are taking courses online.

- It will foster building out the existing online delivery capacity at NVU Online in a strategic manner, enabling the expansion of that capacity to serve additional students

with a broader array of programs. If the vision for VSC is to be fully realized most faculty will have to be able to able to teach their courses using a variety of modalities. In this context, the major contribution of NVU Online will be as a support mechanism that provides instructional design, faculty development and technical support rather than as a separate delivery arm of the university. It will also help address challenges related to broadband access for online courses by ensuring that campus locations with sufficient access are accessible to any student with limited access to adequate broadband capacity.

- Notwithstanding the challenges of seeking and obtaining the necessary change in accreditation, the single accreditation will resolve challenges that otherwise may imperil efforts to share academic programs across institutional boundaries in ways that accreditors will deem compliant.

There are some significant limitations or tradeoffs associated with this option. Among them are:

- The challenge of combining disparate organizational cultures that is inevitable in a consolidation may be elevated with the inclusion of VTC. VTC's disciplinary mix is significantly different from what exists from NVU and Castleton, and it also offers a relatively larger proportion of sub-baccalaureate degrees.
- The danger that the hard work that is going on to integrate Lyndon and Johnson could be stalled or confused with yet another consolidation. It is important to sustain the momentum of the NVU consolidation while learning from that experience and applying the lessons learned to the larger consolidation.
- It complicates efforts underway by VTC's Transformation Task Force. VTC is actively seeking to reduce its residence hall capacity and adopt more low-residency delivery models, a strategy that is not being matched at the same level by Castleton, for example. But some of the strategies VTC is pursuing would be as relevant in a combined institution as they are for VTC individually.
- It would require a plan for how individual institutional brands, as well as the various symbols, would be honored in the combined institution in ways that are culturally relevant and fiscally reasonable.
- Challenges related to developing internal resource allocation strategies for reducing operating deficits and for sharing academic resources, and courses (though these must be addressed regardless of the structure selected).

To estimate the potential savings available if these three institutions were consolidated, NCHEMS built a set of peer institutions selected to be similar in size, program array, and other characteristics. (More details concerning the estimation method and the peer institutions selected for VSC institutions individually and in combination are discussed in Appendix A.) These comparison institutions reported total expenditures averaging about $19,000 per FTE student in FY 2018. This compares to an expenditure level per FTE student of approximately $26,600 at the combination of NVU, Castleton, and VTC. Multiplying the $7,600 difference by the number of FTE students reported across the combined three institutions in FY 2018 yields estimated annual savings in excess of

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$40M. Actual savings would likely be significantly lower, however, as enrollments have declined in the years since these data were reported and because it is not reasonable for the consolidated institution to achieve this level of savings in the short term, or without deep engagement with stakeholders. But the comparison with peers provides relatively clear evidence that substantial savings are possible, because other institutions with similar structures are able to document must lower costs. Thus, within a reasonable timeframe, the evidence suggests that savings of $20-25M should be possible.

C. Recognizing that VTC is unique within that group of three institutions, a second option would be to maintain VTC as a separate institution and consolidate NVU and Castleton. This option would reduce the challenges of integrating VTC's unique culture and disciplinary array with that of two larger institutions with deeply embedded cultures of their own. Maintaining VTC as a separate institution may also ensure that there remains a place in Vermont where priority is given to technical sub-baccalaureate and baccalaureate programs. The consolidation of NVU and Castleton would serve to have many of the same advantages as those enumerated above, especially in terms of reducing competition for students between them, promoting the mobility of credits and overcoming accreditation barriers to program sharing.

Using the same methodology as briefly outlined above, combining NVU and Castleton is also likely to yield opportunities for significant savings, although the total estimated savings is less without VTC included in the consolidation. Nevertheless, the average of a set of peer institutions' total expenditures per FTE in FY 2018 was roughly $22,300, as compared to about $25,200 per FTE in expenditures aggregated for NVU and Castleton, roughly equivalent to savings of $14M. This would leave VTC to generate at least $10 million in savings on its own and without the benefit of doing so within a larger framework.

D. A third option would simply retain each of the current institutions as separate entities with separate accreditation. This option may be the least obviously disruptive in terms of generating headlines and stimulating distractive protests, but it can really only be a viable path forward only if there are clear mission distinctions among the institutions that create a similar set of conditions for transformative change that the other options do. These relate especially to creating more distinctiveness between NVU and Castleton and to the needed cost reductions and efficiency gains made possible through the sharing of programs and courses, as well as greatly improved and seamless pathways for students to complete programs by combining credits at any of the other institutions via a combination of delivery modes (including in-person, online, prior learning assessment, etc.).

Done right, the assignment of mission characteristics may create as much upheaval as a formal consolidation, except to the degree that institutions would likely find it easier to preserve symbols of institutional pride, history and the like. And such assignments will require the VSC leadership to make extremely difficult and politically fraught decisions in order to achieve the level of clarity and differentiation needed between the campuses.

It would be necessary to ask and answer questions about the degree to which each of the following characteristics, among others, would be assigned to each institution as primary features:

- A concentration in the liberal arts at the upper-division level (even if students at other institutions will retain access to the general education curriculum, as well as to select majors in fields of study where faculty expertise is concentrated).
- An emphasis on professional and pre-professional programs and on workplace-based learning experiences.
- Specific concentrations in key fields that shape institutional identity, such as environmental sciences, tourism/recreation/hospitality, and applied technology.
- The proportion of awards offered at each different level—certificates, associate's degrees, bachelor's degrees, and graduate degrees.
- A residential experience, with relatively rich intercollegiate athletics.
- A focus on service to traditional-aged students vs. adult learners.

In general, it would be exceedingly difficult to force very many programs to relocate to different institutions, so this option assumes that programs already in existence would remain where they are. This could continue to be a barrier to collaboration across institutional boundaries, in the process preserving some otherwise avoidable inefficiencies. As a result, it is unclear whether this option provides a realistic avenue to achieve the changes at the scale that is needed. In any case, it points to the need for the VSC System to play an active and engaged role in regularly and rigorously monitoring mission alignment and facilitating the delivery of programs across institutional boundaries. It would also need to guide a process whereby program area expertise is intentionally concentrated at and coordinated from a specific institution within the system. This option is likeliest to assure the preservation of unique institutional characteristics and cultures, and may appear to be least disruptive or threatening to the communities and regions that host existing VSC campuses. But it must otherwise be just as transformative in nature; even if institutions themselves are not consolidated, their academic programs and administrative services must be. These will require important sacrifices by institutions and their communities as missions shift and become more clearly delineated and distinctive from one another.

The Chancellor's Office

Some of the recommendations being advanced by other groups have suggested the elimination of the VSC chancellor's office, with its duties distributed across the campuses within a singly accredited institution (as per the Labor Task Force's recommendations) or simply eliminated. While language that suggests the need for a more integrated and systematic approach to program delivery is common in the reports produced, successfully taking a systems approach to the challenges will require an office that is dedicated to resolving issues that fall among and between institutions (as well as campuses newly consolidated into a single institution but long accustomed to operating independently) and are coordinated across campus sites. There are good reasons to maintain the Chancellor's Office and to expect it to play a key role in leading transformative change.

The specific roles that the system office needs to play will differ to some degree depending on the option selected. There are, however, a set of functions the Chancellor's Office should perform regardless of the structure of the institutions within the system, among them being:

- Supporting the Board and ensuring implementation of Board and System policies and initiatives. Among the policies deserving particular attention are:
  - Setting and enforcing policies that establish a minimum level of institutional performance.
  - Implementing policies that ensure that course sections enroll a minimum number of students in order to operate, with the provision that minimum section sizes can be reached by enrolling students at multiple locations.
- Exercising policy leadership on behalf of the system. This requires the capacity to gather and analyze data and to develop and lead the execution of strategic plans. The policy leadership function also includes the role of keeping the state's political leadership informed and advocating on behalf of the System and its institutions.
- Working with other entities to ensure the smooth operation and alignment of those activities to functions within the VSC system. For example:
  - The Agency on Education with regard to matters dealing with college and career readiness.
  - The Department of Labor on matters of workforce development.
  - The Agency of Commerce and Community Development on issues relating to the development and implementation of state and regional economic development strategies.
  - The institutions within the System and the University of Vermont to ensure seamless transfer pathways for academic credit.
  - Working with business and industry to ensure provision of the necessary training for current and future employees. A result of this relationship should include robust non-credit programming that meets the workforce needs of specific employers or targeted industry groups; such programming should be easily converted into credits that lead to stackable credentials.
  - VSAC and the legislature to ensure that students have funded opportunities for meaningful work through paid internships and apprenticeship programs, which also receive academic credit toward a credential or degree. Engaging with VSAC should also enhance the mutual support of policy-relevant research and analysis regarding student access, success and affordability.
- Exerting oversight in the implementation of institution/campus missions to ensure alignment while preserving distinctiveness. These tasks include program review and approval, as well as more proactive efforts to engage members of the employer community in identifying and addressing gaps in the supply of postsecondary programs to meet demand. In order to overcome the habits of history—the conditions that led Jim Page to describe the functioning of the VSC as "a confederation of institutions" (an accurate observation)—and move the VSC toward a model in which the constituent institutions operate like a system, there should be clearer reporting relationships (at least dotted-line) between institutional officers

below the presidential level and the leaders of the respective functions at the Chancellor's Office.

- Maintenance of a robust institutional research/institutional effectiveness function that coordinates the submission of required federal and state reports and provides high-quality decision support for the System and its campuses. Given the rising importance of making evidence-based, data-informed decisions, it is essential that this function is sufficiently well resourced so that the former necessity does not overwhelm the latter, as is too often the case in American higher education especially among smaller, less wealthy institutions.

- Execution of systemwide strategies to promote quality and credit recognition, online learning, prior learning assessment, competency-based education, and a common general education curriculum. Recognizing that allowing each institution to independently develop and conduct such strategies sacrifices opportunities for scaling programs as well as for optimizing quality and student success, the system office should assign responsibility for developing and ensuring adherence to common policies and procedures to a specific unit. Its requirements will be to coordinate across institutions and departments to ensure that there exists:

  o The capacity to optimize VSC's investments in online learning, including: a centralized catalogue of courses across VSC available to be taken in an online format with full transferability within the system, the capacity to assist departments and faculty with high-quality instructional design for programs and courses, the provision of professional development opportunities (and associated policies) that ensure faculty are well prepared to adapt their pedagogy to an online setting, the availability of effective coaching and other student supports, and the establishment of conditions for integrating the regular full-time faculty and faculty assemblies into the design and delivery of online instruction.

  o Standard processes and procedures for awarding credit for prior learning, including communications strategies to academic advisors and students.

  o The capability to evaluate and share lessons from efforts to implement innovative academic delivery models.

  o Planning for the expansion of programs that ensure the needs of students (including new audiences) and the state are met in a cost-effective manner.

The Select Committee has weighed these options and their associated tradeoffs and has concluded that the VSC continue to be organized as a system with a Chancellor's Office and that the System be comprised of two subordinate institutions—a consolidated institution (forged from Castleton, NVU, and VTC) and CCV. This combination is outlined above, and includes the expanded mission described for CCV.

4. **Coordination of Administrative Services**

The VSC system should spare no effort to aggressively move to coordinate administrative service operations. This task should not wait for decisions on structure to be finalized, as the

need to forge the path forward on achieving efficiencies in this area is a critical requirement for reducing costs over the long term. Effectively delivering some administrative services may require an on-campus presence. But what is missing is a standardized set of policies and enforcement of those services across the System accomplished by the VSC Board and supported by the Chancellor's Office. For example, the task of providing financial aid counseling will require students to have access to appropriate counseling and, even if such counseling can be done virtually, students are likely to continue to need in-person access to a financial aid office. Yet the System should lead the development and implementation of a common policy for financial aid allocation, manage recordkeeping, and carry out compliance functions. It is not assumed, however, that consolidated services are managed by personnel working out of the Chancellor's Office. It may be more appropriate to situate the oversight and management role for each of the consolidated services at one of the member institutions where expertise is most concentrated or where it can most easily be created. Where possible, these consolidated efforts may also engage UVM where existing differences in services provided do not create insurmountable barriers.[5]

- Procurement
- Audit, budgeting, and accounting services
- Facilities and construction management
- Human resources
- Business relationships (by which the VSC system will mount a coordinated effort to develop and manage work-based learning opportunities, identify and respond to employer workforce development needs, etc.)
- Information technology (major aspects of IT service delivery and policy development and implementation are centralized within the Chancellor's Office already)
- Institutional research and effectiveness
- Student success tracking and coordination
- Risk management – perhaps in collaboration with UVM
- Research oversight and compliance – perhaps in collaboration with UVM
- Compliance with federal regulations – perhaps in collaboration with UVM
- Grant-writing and grants management – perhaps in collaboration with UVM
- Book stores and food services – perhaps in collaboration with UVM
- Student services functions such as admissions and financial aid

There is some evidence of consolidated services within the VSC—the Chancellor's Office assumes a role in providing oversight of systemwide student information system, data center, and network operations, for example. And transitioning to a more consolidated structure for administrative services will be a major assignment that the system cannot fail to get right. A recent effort to consolidate payroll processing at the Chancellor's Office did not proceed smoothly by all accounts. That experience highlights the need for a deliberate, disciplined, and highly professionalized project management approach, which demands

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[5] Analyses already conducted have convincingly demonstrated that a consolidation of health benefits programs are likely to yield limited savings to VSC institutions (or to UVM). There may be a better opportunity to reassess this in the future as a component of the negotiations over the renewal of collective bargaining agreements.

experience and a skill set that is not commonly available, as well as a dedicated focus. Accordingly, it will be essential that the VSC system move rapidly to hire an experienced project manager (or firm) for this task.

The VSC System has two options for managing the consolidated administrative services over the long haul. First, as previously described, is to make the assignment for leading the management and delivery of each separate service either to the Chancellor's Office or to the member institution where the capacity will reside. In either case, it should be evident that this organization clearly expresses a service orientation and mindset in its work with other components of the System. If it is not adding value through cost reductions, improved service, and workable solutions to common problems, it is not fulfilling its role. Moreover, the individual responsible for leading each service will need to have a formal reporting relationship with the Chancellor's office. In systems with robust system-level finance and administrative services functions, each campus has an officer who reports to the campus CEO for campus-level implementation and to the system chief finance and administration officer for system purposes. The campus-level staffing is minimal and only as necessary to provide good "customer service" to the campus/faculty/staff/students.

An alternative possibility is for the VSC System to create a separate subsidiary service corporation whose mission would be to ensure the effective delivery of administrative services to the System institutions and potentially to other similar organizations, including UVM and private postsecondary institutions in the region. It would also help manage the relationship with UVM for jointly sourced functions (as enumerated in the list above). A corporation has several advantages, including:

- Providing a more flexible way to develop, deliver, and maintain real competence in project management and product delivery.
- Creates an arm's-length relationship between consolidated administrative services for the System and the Chancellor's Office itself. This has three key benefits: first, it helps assure that priority is given to policy leadership at the System office by creating a separate organization to focus on the day-to-day operational tasks that otherwise routinely dominate the activities and attention of the System office's regular focus. Second, it promotes accountability for creating system-wide efficiency gains and more starkly reveals their value to the System, its campuses, and external stakeholders. Finally, it distinguishes the costs associated with the essential elements of the Chancellor's Office that are related to policy leadership as separate from the costs of central services provided by the System on behalf of the campuses.
- Being self-supporting (after an initial period) by creating value for VSC and similar institutions in the form of greater efficiencies, improved performance, and potentially through the creation of a new revenue stream if it provides services to institutions that are external to VSC (in the process, it may further extend scale efficiencies that will be shared by all).

To be effective, a service corporation will need to operate more like a business in a competitive market. This requires it to be flexible, nimble, and recognized for its competency

at conceiving and managing projects and at leading change. It needs to have characteristics like the following:

- To assure that its first responsibility is to the VSC members institutions, their students and employees, and the taxpayers of Vermont, the service corporation should be a subsidiary of VSC (and of UVM if any co-ownership requirements are necessary).
- Freedom or flexibility with respect to state regulations that constrain its ability to operate, including state personnel requirements that may apply (e.g., compensation schedules) that might limit its ability to attract and retain well-qualified and high-performing leaders and staff.
- Dedicated leadership at an appropriate level, with dotted-line relationships to the Chancellor and VSC Board.
- Demonstrated competence and experience at project and change management.
- An adequate schedule and timeline for realizing the benefits of the initiative, as well as targets for cost reductions built on a reasonable methodology.

Fortunately, there appears to be a broad consensus reflected in various reports and stakeholder perspectives that there exists need to reform the delivery of administrative services within the VSC in order to reduce costs, gain efficiencies, and improve performance. It would be helpful to pair that interest with realistic estimates of how much money may be saved.

5. **Resource Allocation**

A basic tenet of budgeting/resource allocation is that funding should reflect and support the primary objectives being sought by the funder. From the state's perspective, the primary objectives should be to ensure that 1) public higher education is affordable for the residents of Vermont and 2) public sector institutions are financially viable and can continue to serve the needs of the State of Vermont and its citizens. The fundamental budgeting questions at the state level revolve around the levels of funding to be allocated to higher education and the distribution of those funds to UVM, the VSC System, and VSAC, as well as to other avenues for the provision of postsecondary education such as dual enrollment.

Underlying the decisions in this arena are some basic facts that are relevant to maintenance of affordability and institutional viability, specifically:

- Tuition and required fees at VSC institutions are higher than at similar institutions elsewhere in New England, in most cases by a significant amount. For four-year institutions, only New Hampshire institutions have (slightly) higher tuition than VSC institutions. For other states, tuition at their four-year institutions are generally $2,000 or more per year lower than VSC institutions. The tuition and fees at CCV are anywhere from $1,000 to $4,000 per year higher than their counterpart institutions elsewhere in New England. Perhaps more unsettling is the fact that tuition at VTC is approximately $15,000 per year and this tuition level applies to its associate level programs as well as its baccalaureate programs. This makes tuition for the

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technically oriented associate programs it offers more than twice the tuition levels for similar programs elsewhere in New England. Research indicates that there is a relationship between price to students and their likelihood of enrolling in college.[6] There is little doubt that there is a relationship between the high sticker price of Vermont public higher education and the low level of college participation.

- Students provide a greater share of institutional revenues at Vermont institutions (86.9 percent) than is the case in other New England states. Only in New Hampshire do students contribute a generally comparable share (78.3 percent). In all other states in the region the share is below 60 percent.

- Revenues from the combination of tuition and state appropriations, on a per-student basis, is higher in Vermont than in all other states in New England with the exception of Connecticut. This can be partially be attributed to the mix of enrollments in Vermont; a smaller proportion of students are enrolled in (less expensive) community colleges in Vermont than is the case in the other states. Vermont's tuition revenue figures are also inflated by the high proportion of out-of-state students enrolled in Vermont. However, there is also evidence that the VSC institutions have higher than normal costs. As previously shown in Figure 1, NVU, Castleton, and VTC have expenditures that outpace their peers by 8.4 percent, 18.7 percent, and 21.5 percent, respectively, while CCV is less costly than its peers. The fiscal problems of the system can be attributed to both too little revenue and expenditure levels that are too high.

- The VCS institutions have consistently operated at a loss over the last several years. In the process the System has depleted its reserves. Pre-COVID the operating losses were in the neighborhood of $11M.[7] The pandemic has created circumstances in which the anticipated operating deficit has ballooned to $28.4M for FY 2021 before the CRF and bridge funding supplied by the legislature (with those additional funds, VSC reports a $2M surplus) and to $47M in FY 2022. These deficits are fueled by a combination of reduced revenues from enrollment decreases, a growing reliance on tuition discounting, and COVID-induced extraordinary expenses.

- Institutions that offer different programs at different degree levels have different cost structures. Being highly technical and geographically dispersed, VTC's costs of delivering its programs will be higher than Castleton's costs for its more liberal arts focused offerings, all other things equal. These added costs are difficult to pass on to students through tuition. Assuring that institutions are equitably funded relative to their respective program arrays and other key characteristics will be key to ensuring that incentives to offer a full array of needed programming are aligned with the outcomes desired.

With regard to ensuring the viability of the VSC institutions, there needs to be a strategy for removing the large and growing operating deficit in the System's institutions, which VSC

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[6] Evidence from a meta-analysis of price sensitivity research has found that for every $1,000 change in net price, there is an inverse effect on enrollment of about 3-4 percent (Leslie & Brinkman, 1988; Heller, xxxx) and that price sensitivity is greater for students from low-income backgrounds (Kane, 1999).
[7] VSC Financial Statement FY 2019

estimates to have reached $42-$47M for FY 2022. A portion of that estimated deficit is due to COVID-related costs, but there remains approximately $25M of an ongoing structural deficit. Both need to be addressed with assistance from the state, the former by an infusion of funding for as long as it takes to see out the pandemic's effects. For the latter, there should be a strategy covering 4-5 years during which the state provides funding support for the VSC System's efforts to create the changes necessary to eliminate its structural deficit. In the broadest possible terms, it is not unreasonable to think about reducing the operating deficit through the following combination of actions.

- As noted, the state should provide funding sufficient to overcome the extraordinary costs created by COVID.
- The state should also provide support equivalent to $15-20M for investments in change. Such support is needed over a multi-year timeframe during which transformation is underway at the VSC System. It may be that this state investment will be consistent over the full transformation period, or it may choose to provide a larger amount in the first year and gradually reduce its investments each year as the VSC System makes progress toward sustainability.
- Additionally, the state should provide $10-15M in additional ongoing state institutional appropriations in order to ensure they have the capacity to continually adapt to changing conditions and to student and state needs.
- By the end of the specified time frame for transformation, the VSC System may be expected to close its structural deficit through a combination of reduced operating costs across the System and increased enrollments among currently underserved populations.
- Finally, the state should provide $5M in on-going state appropriations designed to improve affordability for Vermont residents attending Vermont institutions, either through tuition reductions or through improvements in state grant aid for needy students.

The table below outlines the timing and purposes of the needed state investments (in millions). The top section of this table recognizes the need for the state to cover the extraordinary costs associated with the pandemic, which remain uncertain beyond FY 2022. The remaining deficit after COVID mitigation is an estimate of the structural deficit that the VSC System must close to become minimally fiscally sustainable.

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	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027 & Beyond
VSC Total Operating Deficit	**45**					
COVID Mitigation (Assumes additional fed stimulus)	20	?	?			
Existing VSC Structural Deficit	**25**	**20**	**15**	**10**	**5**	**0**
VSC Efficiency Gains & Enrollment Increases	5	10	15	20	25	
State Investment in Transformation	25	20	17	10	5	
Operational	20	15	15	10	5	
Capital (Demolition, renewal/refurbishments)	5	5	2			
State Ongoing Investments in Improved Capacity and Affordability at VSC	**17.5**	**17.5**	**17.5**	**17.5**	**17.5**	**17.5**
Operational	10	10	10	10	10	10
Capital (deferred and major maintenance)	7.5	7.5	7.5	7.5	7.5	7.5
Historic VSC State Appropriation	30	30	30	30	30	30
Total State Investments to VSC	**72.5**	**67.5**	**64.5**	**57.5**	**52.5**	**47.5**
State Ongoing Investments in Affordability through VSAC	5	5	5	5	5	5
Total Additional State Investments to Postsecondary Education (Above FY 2020 Levels)	**47.5**	**42.5**	**39.5**	**32.5**	**27.5**	**22.5**

The second section shows the one-time funds, spread over multiple fiscal years, that will be needed to support the transformation effort at the VSC System. These funds will allow the VSC System to eliminate its structural deficit over the next 4-5 years in a stepwise fashion—$5M per year—through reduced costs and enrollment increases among new student populations to be targeted. Operational funding will support the restructuring effort and the aggressive coordination of administrative services recommended above, while capital funds will enable the System to demolish obsolete and unusable buildings and repurpose others to better support student learning and engagement with employers and the community.

The third section outlines funding needed to ensure that the VSC system has adequate capacity to evolve as needs change, to provide capital support for keeping pace with maintenance requirements (some of the major maintenance money may be returned to the state if it is unneeded to address unanticipated costs), and to begin to address affordability issues that have become serious barriers to student access and success.

While state investments in one-time and ongoing funds appear to be needed on this scale, they can take multiple forms, including direct state appropriations and other approaches such as having the state assume responsibility for a portion of the VSC System's debt service obligations, retirement plan payouts, and its unemployment insurance coverage, etc.

Finally, while the Steering Committee is still deliberating over recommendations about how to address the state's investments in affordability beyond the need to keep tuition prices in check within the VSC system, it is clear that affordability is an issue that deserves additional attention by the legislature.

The details of these amounts are subject to refinement. However, it is unreasonable to expect that VSC will reach the targets for the first two of the categories suggested above overnight or, given demographic trends and structural imbalances related to labor and facilities costs,

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for it to do so acting alone. Instead, it will be necessary for the VSC System and the legislature to come to agreement over a reasonable multi-year period during which progress is being made toward the targets.

As a partial alternative to direct appropriation support, the State of Vermont could assume responsibility for paying certain ongoing obligations of the VCS System, obligations the state pays for on behalf of other state enterprises. Among such obligations could be unemployment insurance and annual debt payments on bonds issued for construction of academic facilities. Such actions could reduce overall costs since payments would be made on the basis of a larger pool of employees, in the former case, and by reducing the burden on tuition-paying students of debt payments being made for necessary facilities that are ultimately under state ownership.

There is widespread sentiment among those interviewed in the course of this project that the ability of the state to increase levels of ongoing support through the general fund will be limited. There is no appetite for raising taxes and the list of competing needs is long. As a result, the state should consider creating a dedicated source of revenues that is devoted to making one-time investments in educational innovation and change. There are a wide variety of expenditures that could fall into the category of investments including funding an early retirement program for full-time employees, paying for the demolition of physical facilities unsuitable for an alternative use, making a down payment on an effort to reduce the tuition VTC charges for its sub-baccalaureate programs, providing start-up funds for new programs that meet workforce needs of the state's employers, and expanding the System's capacity to deliver on-line programs. Some of these investments are needed to help the System reduce its operating costs. Others are needed to create conditions that will grow enrollments, particularly among adult residents who could benefit from further education, new skills, and a credential. These investments should be conditioned on requirements such as institutions not increasing tuition rates and providing evidence of cost reductions expanded services to underserved populations. (These may be elements of the state investment components outlined above.)

If the state is to more closely link its allocation of state resources to the priorities espoused by the Select Committee, it must creatively use available resources not only to promote the change and innovation necessary in VSC institutions, but ultimately to improve affordability. In the best of all worlds, Vermont would have sufficient resources to "buy down" tuition at its state institutions, substituting state resources for tuition revenue and decreasing the share of the burden borne by students. Failing that, the next best option is to invest additional resources in student financial aid. This investment could take different forms. The most straightforward would be to provide additional resources to VSAC to distribute to Vermont residents through its existing need-based grant program. This would allow a larger number of low-income students to enroll in (and complete) postsecondary education programs. An approach that would promote a broader array of Steering Committee goals, including the linkage between education and workforce preparation, is the creation of a state work-study program to be administered by VSAC. Such a program would have the benefit of supporting earn-and-learn academic programs and would foster stronger relationships

between higher education and employers. Further, it would bring revenues from the private sector into the mix of higher education funding. To be most effective, such a program should be designed around the following principles:

- Require the student participant to apply for a position with the participating employer and go through the employer's normal hiring process. The institution should provide the student support services necessary to prepare the student for engaging in this experience—resume writing, interview skills, etc.
- The student should receive a regular paycheck with the pay scale in line with the going rate for the position. Half of the paycheck amount would be paid by the employer and half by the work-study program.
- The student must receive academic credit for the work experience. This means there will have to be coordination between the employer and the institution regarding the nature of the position into which the student is placed. As part of this experience, the student should be required to create a portfolio of the work and the learning associated with that work—there needs to be a paper trail supporting the awarding of credit.
- Unresolved is whether or not the employer should receive a tax credit for their share of the wages paid to the student. Such a credit would serve as a further inducement for employers to participate in the program, but this is a decision that can only be made by the legislature.
- It will be important to ensure that any such program is adequately integrated with other existing state efforts to incentivize and grow "earn-and-learn" activities, such as registered apprenticeships. Doing so will maximize the benefits across all the similar investments by aligning marketing efforts with prospective students and employers and assuring that compliance, oversight, and evaluation activities are smoothly arranged.

The need to modify resource allocation practices extends beyond the state level to the VSC System as well. In this regard, it is recommended that VSC:

- Continue to utilize a system-wide approach to resource allocation but change the mechanism employed in the distribution of resources received from the state in some key ways. The allocation mechanism historically used has been based heavily on the amount of tuition revenue generated by each of the institutions. This creates an incentive for institutions to increase tuition rates and seek to enroll non-residents rather than to minimize increases or decrease them. Equally important, this method of allocation does not recognize the cost differences faced by institutions with different types of programs and the associated differing costs of delivery, with different levels of deferred maintenance and other cost drivers. By failing to reflect these operating realities, the allocation model inadvertently creates incentives for institutions to offer low-cost programs and to avoid offering those with higher costs that may more directly and immediately align to workforce needs. This may help to explain why VSC institutions produce so few degrees and certificates in the skilled trades, repair, and manufacturing fields.

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The past approach to allocation of resources also comes up short with regard to its failure to provide clear incentives for producing priority outcomes—completion of programs of study, successful passage of gateway courses, achievement of credit accumulation milestones (30 credits, 60 credits, etc.), and ensuring the success of students from priority populations (low income, adults, etc.). The approach being employed also fails to create incentives for institutional collaboration; to the contrary, it reinforces institutional competition through its incentives for increasing enrollments that yield additional revenues. In the interest of students, it would be better if the institutions were rewarded when they shared academic courses and programs, facilitated student transfers, and otherwise found ways to collaborate for greater efficiency.

In short, it is recommended that the System proceed with the revamping of its resource allocation model in ways that more consciously reflect differences in costs of education delivery and reward institutions for achieving desired outcomes and exhibiting behaviors supportive of System goals.

- Develop a cost reduction plan designed to eliminate the System's structural deficit within a period of five years. This plan should identify those reductions that the System can make through its own decision-making processes and those that will require one-time assistance through use of state investment funds. The latter include such things as early retirement/separation incentives and the realignment and sharing of programs. At the end of this process, the ratio of FTE students to full-time employees should be roughly equivalent to the lowest level found within the last 10 years.

- Establish a Systemwide policy addressing the level of tuition discounting authorized for each institution and providing criteria for the types of students who should be prioritized to receive tuition waivers or discretionary institutional grants. This policy should prioritize the needs of low-income Vermont residents—both recent high school graduates and adults—and reduction of competition for students among System institutions. The policy should require review and approval of institutional aid budgets by the Chancellor's Office before implementation.

6. Physical Spaces

The VSC System should take steps to analyze its inventory of physical facilities for ongoing suitability to the needs of students, communities, and others including employers. Such steps may include repurposing spaces for use by firms or other organizations willing to enter into a partnership/leasing arrangement and for converting spaces into flexible "maker" spaces connected to new entrepreneurial centers capable of helping to fuel local economic development plans. In such cases, preferences should be given to uses that provide students with opportunities for experiential learning, or are otherwise part of an intentional academic strategy to cultivate entrepreneurial initiative. The existence of underutilized space that

could be occupied by another institution in the System, e.g., CCV assuming a presence using available space on another campus, should only be considered if such an arrangement is in the best interests of students and provides them with greater access to courses and programs than they otherwise would have.

Underutilized buildings that cannot be safely refurbished or renovated for an imminent alternate use, or when doing so stretches the limits of fiscal responsibility, should be demolished. This may require one-time funding from the legislature. The costs of ongoing operation and maintenance of such structures will remain a burden on the VSC System without appropriate attention.

The VSC System should remain alert to consider alternative spaces that may be suitable for use where such spaces can help extend access to new student populations and promote their success, e.g., by forging a partnership with the CTE centers.

Given likely changes in the characteristics of the student body the VSC System will be serving in the years ahead—both due to demographic change and due to intentional policy choices to serve a larger population of adult learners as articulated in this report and elsewhere—one area for particular focus for reducing the VSC footprint is housing. The possible need to do so is far from a consensus matter. But reports from stakeholders suggest that some of the residence halls are among the buildings most in need of refurbishment and renovation, and those that do are not capable of attracting new students to enroll and may also be among the most expensive to renovate. Past experience in other states suggests that housing costs—especially the need to carry stubbornly low-occupancy residences on the books—has a direct and meaningful impact on students' costs of attendance that feeds on itself and deters enrollment. For instance, in Pennsylvania a decision was made more than two decades ago, when the demographic picture was substantially brighter than it is now, to replace old and unsafe housing capacity with newer, more feature-rich options. The decision was justifiably on a number of fronts at the time, and one reason cited was to compete more effectively for students in a tightening marketplace. But in recent years, with far fewer students leading to housing occupancy substantially reduced, institutional policies requiring on-campus housing were necessary to prop up the auxiliary budgets and contributed to unnecessarily high costs of attendance.

Additional information and analysis to be added as they become available.

7. **Affordability**

There is strong consensus among members of the Steering Committee and the external constituents consulted during the development of the Committee's report that the opportunity to enroll in, and complete, programs of study at Vermont's public institutions should be affordable to all residents of the state. While affordability was identified as a priority by a broad array of informants, the discussions made clear that the term "affordability" means very different things to different people. For some it means keeping tuition low—at the very least, no higher than other states in New England. For others it

means ensuring that students can graduate with no (or "reasonable" levels of) debt. In the latter case there was considerable variation in the definition of the word "reasonable."

For decision-makers to take action regarding assurance of adequacy there first must be an agreed-upon, working definition of the term "affordability," a definition that can be measured. Without effective measurement, crafting policy solutions that address the topic is likely to yield ineffective and unnecessarily expensive solutions. To avoid that outcome, NCHEMS recommends that the legislature adopt an Affordability Standard, the details of which will be the subject of further deliberation by the Steering Committee as its work continues.

8. Economic Development

The data presented clearly show that Vermont is plagued by a declining, aging population and a loss of jobs in some historically important industry sectors. If the state is to reverse these trends, it will be necessary for it to bring all available assets to bear on an intentional effort to create its future economy. The state's institutions of higher education can be critical partners with the state as it pursues its economic development strategies. In order to become a more valued contributor to the creation of the state's future, the VSC System and its constituent institutions should:

- Make a concerted effort to work more closely with the Agency of Commerce and Community Development to identify roles that VSC can play in implementing the state's economic development strategy.
- Develop town/gown task forces in each region of the state in order to facilitate the development of a clear strategy for local economic development. In this context, VSC can serve a critical convening and supporting role in the identification and development of solutions to local problems.
- Place a premium on providing students with academic programs and related experiences that prepare them for pursuing entrepreneurial endeavors. Vermont is a state of small employers. Economic development strategies designed to foster the seeding of such enterprises in various regions of the state. As part of this focus the VCS institutions should strive to devote a portion of their underutilized physical space to use as makerspaces or other types of spaces that brings entrepreneurs and employers onto the campuses in ways that let them interact with students in academically fruitful ways. This may include providing incubator space for start-up companies.
- As indicated previously, build a work component into as many academic programs as possible.
- Seek ways to collaborate with the new UVM Office of Engagement to seek ways in which VSC can add value to efforts to link higher education with community and regional needs. One of the roles that the VCS System can play is to link UVM Office of Engagement efforts to communities in which UVM does not have strong ties.

9. Accountability

Ultimately, the long-term sustainability of VSC will hinge on its ability to commit to a set of goals aligned with the needs of the State of Vermont, to build consensus about the importance of these goals within the system, to persistently pursue implementation actions designed to achieve these goals and to demonstrate effectiveness in accomplishing the desired ends. To these ends the VSC Board of Trustees must more deliberately and effectively exercise its leadership and oversight roles. The leadership role will require first, and foremost, that the Board make clear the priority goals to be pursued and the behaviors to be exhibited by System institutions—behaviors such as collaboration in delivery of academic programs and minimization of tuition increases. To ensure that there is no misunderstanding of Board intentions and expectations, the metrics by which progress will be monitored should be made explicit and broadly communicated from the outset. Data tied to these metrics should become the basis of annual accountability report that can be used to demonstrate the contributions of the System to the State and its citizens. These data can yield greater benefits in that they:

- Can promote a culture of information use within the System.
- Help identify areas where mid-course corrections may be needed.
- Can provide the basis for holding all elements of the System accountable for the collective success of the enterprise.

The Board must not only exhibit leadership in the ways suggested above, but it must also play a much more active oversight role than it has in the past. A review of legislation establishing the Board indicates that it has all the authorities it needs to direct the changes that need to be made. For whatever reason, the Board has been reluctant to exercise those powers in ways that would avoid crises and prevent the problems that do arise from ballooning into full-blown crises. As first steps in reasserting the oversight role appropriate to current circumstances, it is recommended that the Board:

- Quickly establish an expectation that the Chancellor's Office develop, in consultation with institutional leadership, a revised resource allocation model, one that creates strong incentives for goal attainment, collaboration in the delivery of academic programs, and improving affordability for Vermont residents. This allocation model should be reviewed and approved by the Board before its implementation.
- Provide input in the process of renegotiating the System's collective bargaining agreements and, once negotiated by the Chancellor's Office, formally ratify those agreements.
- Ensure that the Board directive regarding the development and implementation of a common core general education requirement is put in place in a timely fashion.
- Monitor the enforcement of Board policy regarding under-enrolled course sections and determine if additional actions are necessary.
- Review/develop policies regarding streamlining curricula, policies designed to ensure efficiency in educational delivery.
- Quickly formulate a policy that requires the Chancellor to develop a strategic finance plan for the System, indicating the strategy for enhancing revenues and controlling costs

in ways that ensure continued fiscal viability of the System. Approve the plan annually as the basis for budget formulation for the coming year.

These recommendations will likely take the Board outside its comfort zone. As a result, it is recommended that the Board instigate a robust Board development program that will better prepare the Board to perform its necessarily expanded role with confidence and a common understanding of its authority (and the limits of that authority). An enhanced orientation program should be developed so that all new Board members are effectively informed of the circumstances facing the System and the oversight role that Board members must play. In this vein, Board development should also encompass training to ensure that Board committees are capable of fulfilling their responsibilities—analyzing data relevant to functions under their supervision and advancing bold, carefully considered recommendations for action by the full Board.

In order for the Board to fulfill its oversight functions in the ways recommended, the Chancellor's Office must also develop an enhanced set of capabilities. Some of these enhancements involve improving the capacity of the System Office to develop the information needed to support Board decision-making. Among the list of data requirements are:

- The set of performance metrics identified in the context of communicating the Board's goals. These include information about student access and success, supporting the workforce and economic development needs of the state, extent to which affordability is being achieved/maintained, and efficiency of institutional operations, both academic and administrative. As an extension of these metrics, the VCS System should develop the capacity to report on the employment outcomes of graduates and non-graduate of VCS institutions (and UVM) who work in Vermont. This will require forging a data-sharing agreement with the Vermont Department of Labor. There are numerous examples of such agreements in other states.[9]
- The data needed to create a strategic finance plan for the System.
- Those required to allow monitoring adherence to Board policies regarding efficient delivery of academic programs and collaboration in academic delivery.

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[9] Florida and Texas use these data as part of their performance-funding models. Other states create consumer information tools to help prospective students consider institutions and programs; several states are partnering with the U.S. Census Bureau to report on employment outcomes of graduates, including out-of-state employment (see https://lehd.ces.census.gov/data/pseo_explorer.html?type=earnings&compare=postgrad&specificity=2&state=08&institution=00137000&degreelevel=05&gradcohort=0000-3&filter=50&program=52,45). These data can also be informative to curriculum development and alignment to workforce needs.

Appendix. Peer Selection Methodology

To assess the extent to which VSC institutions might be able to achieve cost reductions, individually or through a consolidation, NCHEMS analyzed finance data in comparison to institutional peers. NCHEMS first created a separate set of institutional peers for each institution and each combination of VSC institutions based on characteristics such as enrollment size (including the relationship between headcount and FTEs), location, size of faculty complement, control, Carnegie classification, program mix in terms as revealed by award levels and fields of study, and other characteristics. After specifying the relative importance of key characteristics (e.g., a heavy concentration of high cost programs), NCHEMS calculates distance scores for institutions that meet the identified criteria. From that list, NCHEMS selects a group of 8-15 of the most similar institutions. With the peers identified, NCHEMS then gathers data on revenues and expenditures and staffing.

To develop the peers for hypothetical combination of VSC institutions, NCHEMS first summed the counts of enrollments, employees, and awards at each level and field, and then used that aggregated institution to build a set of comparable peers.

All data are based on NCES IPEDS and use the most recently available data, which at this time is FY2018.

This process resulted in the following lists of institutional peers.

Castleton University

Institution	State
University of Maine at Farmington	ME
Lander University	SC
University of South Carolina-Beaufort	SC
Mayville State University	ND
University of South Carolina-Aiken	SC
Pennsylvania State University-Penn State Lehigh Valley	PA
Indiana University-Kokomo	IN
Pennsylvania State University-Penn State Scranton	PA
West Liberty University	WV
Dickinson State University	ND
University of Minnesota-Crookston	MN
Missouri Western State University	MO

Northern Vermont University

Institution	State
Concord University	WV
Eastern Connecticut State University	CT
SUNY College at Old Westbury	NY
University of South Florida-Sarasota-Manatee	FL
Western State Colorado University	CO
Christopher Newport University	VA
Indiana University-East	IN
Northwestern Oklahoma State University	OK
Mansfield University of Pennsylvania	PA
Mississippi Valley State University	MS
Savannah State University	GA

Vermont Technical College

Institution	State
Chipola College	FL
Abraham Baldwin Agricultural College	GA
Oklahoma State University Institute of Technology	OK
Great Basin College	NV
Northern New Mexico College	NM
SUNY College of Technology at Alfred	NY
SUNY College of Agriculture and Technology at Cobleskill	NY
SUNY College of Technology at Canton	NY
SUNY College of Technology at Delhi	NY
Montana Tech of the University of Montana	MT
South Dakota School of Mines and Technology	SD

Community College of Vermont

Institution	State
Norwalk Community College	CT
Atlantic Cape Community College	NJ
Mendocino College	CA
Massasoit Community College	MA
Mercer County Community College	NJ
Mott Community College	MI
Yuba College	CA
College of Southern Idaho	IA
Barton County Community College	KS
Chattanooga State Community College	TN
College of the Redwoods	CA
Del Mar College	TX
Hutchinson Community College	KS

Castleton University + Northern Vermont University

Institution	State
Clayton State University	GA
University of Wisconsin – Superior	WI
Western Connecticut State University	CT
University of Wisconsin – Green Bay	WI
Lander University	SC
Minnesota State University Moorhead	MN
University of Wisconsin – Parkside	WI
Keene State College	NH
Ramapo College of New Jersey	NJ
Indiana University – South Bend	IN
SUNY College at Plattsburgh	NY
Southern Oregon University	OR

Castleton University + Northern Vermont University + Vermont Technical College

Institution	State
Washburn University	KS
Northern Michigan University	MI
University of Arkansas-Fort Smith	AR
McNeese State University	LA
Missouri Southern State University	MO
Montana State University-Billings	MT
Austin Peay State University	TN
Nicholls State University	LA
Ferris State University	MI
Clarion University of Pennsylvania	PA
California University of Pennsylvania	PA
University of Maine at Augusta	ME

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