



David Metzen , Director, Minnesota Office of Higher Education

Civic Caucus, 8301 Creekside Circle #920, Bloomington, MN 55437

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Present: Verne Johnson (Chair); David Broden, Janis Clay, Marianne Curry, Diane Flynn, Paul Gilje, Joe Graba, Jim Hetland (phone), Sallie Kemper, Dan Loritz, Tim McDonald, Jim Olson (phone)

Summary: It is increasingly apparent that the financial distress presently experienced by the higher education systems in Minnesota will not be alleviated in the foreseeable future, but will in fact get worse.

David Metzen, Director of the Minnesota Office of Higher Education (OHE), argues that much change awaits post-secondary education in the state. If leaders do not anticipate the challenges of costs and productivity, the state will be controlled by problems instead of shaping them. There needs to be more discussion about the nature of the challenges, and what can be done about them. The OHE will research these questions before the end of Governor Pawlenty's term in 2011.

A. Context of the meeting -Minnesota's post-secondary educational institutions are on the front lines of some of the greatest changes affecting the state: economic constraints,, problems managing change and innovation,, and the disruptive power of new technologies. From his position in the OHE David Metzen interacts with all post-secondary systems in the state, and the Civic Caucus sought him out for ideas about the nature of the challenges, and possible responses.

B. Welcome and introductions - Metzen opened with a story. Many years ago, while superintendent in South Saint Paul, he had to manage a budget downsizing that required the layoff of teachers. "A letter was sent to the local paper, with my salary down to the penny." It listed the six most popular teachers that were losing their jobs. "The letter was signed by Tim Pawlenty, junior in high school."

Later Metzen would be appointed by Pawlenty to be Director of the Office of Higher Education, an office that gathers and distributes information on post-secondary education options in Minnesota, and administers the \$150 million state grant program.

He is a past two-term member of the University of Minnesota Board of Regents and was Chair of the Board of Regents from 2003-2005. He served the South Saint Paul School District as superintendent from 1982-2000 and was previously an elementary school teacher, principal, and assistant superintendent specializing in curriculum in the district.

C. Comments and discussion - During Metzen's visit with the Civic Caucus, the following points were raised:

1. The largest program of the Office of Higher Education is the Minnesota State Grant

program - Of the office's activities, 80-90 percent are devoted to administering state financial aid programs. State grants totaling \$150 million are awarded by need, and distributed to accredited institutions across all sectors of the higher education system-including two and four-year, public, private, and for-profit institutions. "Not all states do that. I believe in choice," Metzen said, "including for-profit."

At one time the Higher Education Coordinating Board (HECB) performed this function, reaching across all systems. After a merger of the state technical and two-year colleges and the state universities, HECB was re-positioned as the Higher Education Services Offices (HESO), and maintained the same board. Then under the Pawlenty administration the board was removed, and the director was made a direct appointment by the governor and given the task of policy review and advisement.

2. But it can also play an important role in surfacing information — The agency lacks power, Metzen said. The best you can do is jawbone, do things like this (speak to the Civic Caucus) to get the message out. Information is its advantage: "This is one of a few agencies in the state that has an education research function. It is doing great higher education research, unbiased and student-centered," he said. "We don't have a parochial interest."

3. Traditional institutions can learn from for-profit schools — Frontline did a story, Metzen said, about how for-profit colleges are "ripping off" students. But most of the for-profits in Minnesota are doing good work, and are clean operations. Competition from for-profits is good.

He commented that he used to go out to the best schools-"some call it best practices, I call it cherry picking"-and see what they are doing right.

"If you had told me two years ago that the for-profits were doing a great job, it would have surprised me." The question is not how many students start, but how many finish. Just having students go (to college) isn't the only goal. For-profits take non-traditional students, so it is challenging to assess their effectiveness here-but they have an incentive to keep students enrolled.

"Something the for-profits do effectively is to put the best teachers in the beginning courses to hook you, then work hard to keep you in." And he believes they have incentive for quality control in their teaching: You don't keep your job there if students do not give you good reviews.

4. Change needs to come-will come-to higher education— There will be winners and losers over the coming years. With the governor leaving there is an opportunity to point out some issues that are facing higher education that ought to be identified as priorities to be worked on now.

He likened it to a bubble: Costs, spending, tuition have been rising at unsustainable levels. If resources were not a constraint this trend could continue, but they are. More students are now going back to school, reacting predictably to a down economy. This puts strain on aid programs, and results in more borrowing.

The potential for technology is dramatic, and its capacity for personalizing learning is starting to manifest. Visiting a vocational school recently Metzen observed a welding program-something that requires intensive personalized instruction-now performed 90 percent by computer with enormous savings in labor cost, and improved productivity.

Further, demographics are changing. The old model is not going to work with the new populations. Online learning and hybrid models will enable greater flexibility. The state needs to continue rethinking what higher education should be: There is a myth out there that it's a four-year college. We should be saying you need at least two years beyond high school. The definition of a student today is different. More than 25 percent are 25 or older. The market right now for those that need to be retrained is 25-40 years old.

5. Cash shortages will drive change in higher education — It's very difficult to drive change when you have money, Metzen said. When you have money it's hard not to have all programs, not to keep all the same things.

But with the state \$6 billion in debt even the most aggressive tax-raising scheme cannot close the deficit. Higher education is not part of anyone's stump speech, and we should expect continued cuts to state aid.

"My basic premise is that people don't change unless they see a need for it. It is like a drinking problem: you first need to see the problem. As long as you're flush with money you don't see the problem."

6. Post-secondary schooling must become more productive — For the cost of K-12, Metzen figured, for 10 hours a day and at \$12k a year students are being supervised the whole time. Look at higher education-how many hours a week is there a paid instructor in front of students? 10-12 hours per week. Yet overall higher education costs are high.

The inflationary pressures are enormous. "I don't have the solution, he said, "but there's no turning back now. There's no making this up." He told the group that he went on the University of Minnesota's Board of Regents in 1997 to hold down tuition. Yet while he was there tuition went up 81 percent, and in his first seven years he voted for the increases. There was no stopping it. "The bubble, if it hasn't burst, will. This can't continue. This is unsustainable." Old ways of doing business are over. Note the recent history of the postal service, newspaper industry, etc.

One of the participants said many people do not understand the "disconnect" between the inflating cost of the system, and the ability of people to pay. Parents used home equity loans in the recent past, but those are gone now too. There is a third party, the financial lenders, that has enabled this growth. As that funding source diminishes, the situation will change.

In an attempt to understand the nature of the problem, a member asked Metzen what accounts for the increased cost of the system? He replied that he does not know-but education is a labor-intensive industry. Labor is expensive, and labor costs have risen faster than economic growth.

Most colleges, even without salary increases, are seeing costs increase five to seven percent per year.

The root of resolving the problem of cost is improving productivity. This does not simply mean adding students to classrooms, he said-the state needs to look at who is doing what, and how they're doing it.

A participant asked whether anyone is looking for examples of productivity from private industry. She shared a story of a university hospital that realized it had to resolve costs that were rising too rapidly. They set up committees to pick apart the hospital's business model and found ways to improve it, ultimately adopting some of Toyota's lean manufacturing principles. Their cost curve flattened. For-profits are doing that in higher education, Metzen said.

7. There is no strategy presently to manage the changes that need to occur — A participant noted that there is much talk about the 'need for change,' yet we do not all have answers, now. That implies the need for a change strategy-a way to get the new ideas that are needed. Is anyone doing that now?

Not particularly, Metzen said, but people are innovating. He went up to Superior and was surprised with how they're incorporating online learning. There are many small schools and districts in northeastern Minnesota using online learning facilitated by the university. And they are doing really well with the unions there-though you can't blame the unions for being scared, he observed. This is untried territory.

On the question of managing change, he said administrators are in a delicate position. "One of the things I've learned being a superintendent," he said, "is that some of the best administrators are pains in the butt. The question is will they fight for kids or fight for new office desks for themselves." We need to support administrators who are leading change.

Support from faculty is essential for a post-secondary administrator. "Once the faculty gives you a vote of no-confidence, you're in trouble-if you push too hard you'll lose their confidence."

College presidents need to balance the pressure.

A participant wondered if the governor were to ask Metzen if he could depend on the existing systems to handle the changes that need to occur, would he agree or is this something that needs a new approach?

"It will be tough. Institutions are geared to look after existing systems. The new leaders of the two main systems will inherit terrible budgets. You've got many presidents. The labor contracts are like Christmas trees-you add a new ornament each year and eventually it falls over."

A participant mentioned a comment made by a senior professor at the U of M about the financial position of the University: "We're going over the cliff." So there is an awareness of the situation there. The one thing that absolutely exasperates this professor is the law school. Law school buildings are used only part time, but "you can never shut off the lights, can never turn off the heat or air conditioning, yet you cannot cut back the university law school building hours." Incentives do matter.

Do we need solutions, a member asked, or mechanisms that produce solutions? "We have got to understand the problem first," Metzen said.

8. More good people must begin talking about this problem — I have proposed to the governor that we need really good people thinking about this. I think we're at such a tipping point in higher education (in Minnesota and the US generally); the challenges are so great-the only way this state survives is by turning out intelligent, hard-working people. That's why Minnesota has been a leader for so many years.

"We need a partnership with K-12, higher education, and the business community. There is a window of opportunity with the governor going out, and the heads of the two systems (MNSCU and U of M) coming in. I've talked to the candidates for governor about that.

"Information is important," Metzen said "because there is a myth that you get what you pay for. We need better data so that people can make informed decisions." People in the agency told Metzen coming in: "We've been told not to think, just to hand out the money." Metzen asserted, "That's changed with us. First we're going to develop a thoughtful research agenda."

9. The new leaders of MNSCU and the U of M will confront the need for major change —

"Change is coming, whether they like it or not, because of the lack of money. Private schools are going to change because they need to change just to be competitive. These two new leaders are going to need to trust one another."

A participant asked Metzen: Do you sense an obligation to leave at the end of the year some kind of analysis and recommendation to the incoming governor, about the challenges facing higher education in the state and recommendations for action? Answer: "To lack power is not to lack influence."

10. It is not sufficient to wait until change is forced-we could still slide a long way— A

participant with experience in different areas of higher education had some thoughts on the dilemma facing all of higher education, except perhaps the for-profits. "I think we're facing two major earth-shaking events in higher education. One is the funding; the other one is the need for model change-and fundamentally different arrangements for delivery.

"I'm concerned that the public, the policy makers, and the higher education systems will in fact tolerate a significant decrease in the quality of the system in order to maintain the current form of the system. This reluctance will cause us to tolerate an eating-away of the system year after year after year.

"We're so wedded to the current model of post-high-school learning. Those inside higher education cannot look at the world and see themselves being shaped by the world-they think entirely within their own model. This enterprise defines quality as the inverse of productivity. We define productivity as small classes. And so every discussion about productivity immediately translates in the heads of faculty as more students sitting in front of them, while all these systems sell themselves on their small class sizes.

D. Closing

We need groups like this talking about the issues, Metzen reiterated. We need people saying what is best for students-not for institutions.