



# COUNCIL ON VIRGINIA'S FUTURE

## Council on Virginia's Future Meeting Summary

December 8, 2009

Senate Room 3 – State Capitol

Richmond, VA

1:30 p.m. – 3:30 p.m.

Meeting Overview: The meeting was designed to (1) provide an update on the recent and future evolution of Virginia Performs, (2), review progress on performance budgeting in the Commonwealth, and (3) continue discussions about accelerating progress on educational attainment.

### Opening Remarks

- Governor Kaine welcomed members and guests. He noted that the meeting would include an update on Virginia Performs and a brief summary of how performance budgeting is being used to make budget decisions. It would also continue the discussion on educational attainment.
- The Governor thanked Vice-Chair Dubby Wynne and Executive Director Jane Kusiak for their work on behalf of the Council.
- The Governor noted that the Council had received two recent awards: the Innovation in Government Award from the L. Douglas Wilder School for Government and Public Affairs at Virginia Commonwealth University and an award from the National Association of State Chief Information Officers.

### Meeting Objective 1: Overview and Update

Recent Accomplishments and Future Areas of Focus – Ms. Jane N. Kusiak, Executive Director

- Ms. Kusiak reviewed the Roadmap for Virginia's Future and the Architecture of the Virginia Performs System to provide a basis for discussion. Ms. Kusiak then summarized recent progress and future areas of focus on the "four towers" used to summarize the Council's workplan: Roadmap and Special Issues Development, Assessment, Performance, and Productivity Improvement.

Topic 1: Roadmap and Special Issues Development

- Highlights of Recent Accomplishments
  - The *Virginia Report 2009* was published on November 1st.
  - Continued the examination of Virginia-specific issues around educational attainment.
  - Provided continuing outreach, including support for representatives from the Republic of South Africa who are interested in replicating the Virginia Performs model.
- 2010 Areas of Focus

- The Council will integrate the new administration's priorities into its workplan.
- Continue the evaluation and development of Virginia Performs.
- Forums on important issues will help focus outcome improvement efforts where inter-agency and cross-program efforts are needed.
- The Council will continue the focus on educational attainment.
- The State of the USA is working with the National Academies to build a national prototype along the lines of Virginia Performs and on promoting outcome-oriented studies. Ms. Kusiak is providing support and the collaboration could prove very productive for Virginia's efforts.

## Topic 2: Assessment

- Highlights of Recent Accomplishments
  - Most societal indicators on Virginia Performs have been updated and performance data is continuously updated.
  - Most indicators have also been updated for Hampton Roads Performs. Enhanced strategic goals will be added as they are developed.
  - Transparency has been improved through the *Open.Virginia.Gov* website, which provides access to key Commonwealth information sources.
- 2010 Areas of Focus
  - Efforts to strengthen Virginia Performs will continue.
  - Three new indicators are being developed for 2010: Energy, Citizen Engagement, and Government Operations.
  - The Pew Center on the States has recommended that the Commonwealth increase its capacity for program audits and evaluation.
  - Work will continue to promote additional regional and/or population-specific (e.g., rural) views modeled on Virginia Performs.

## Topic 3: Performance

- Highlights of Recent Accomplishments
  - Performance data was improved to support decision-making.
  - New agency Executive Progress Reports were developed to provide a more concise, integrated, executive-level view of strategic challenges and opportunities. Reports were developed for five large agencies (examples of three were provided to the members).
  - Additional Cabinet-level and agency training on planning and performance measurement was provided in order to keep improving the quality and usefulness of performance data.
- 2010 Areas of Focus
  - Working with the new administration, continue to strengthen the performance and productivity improvement management structure.
  - Continue the implementation of the new performance budgeting system.
  - Integrate the new Executive Progress Report into agency planning processes.

## Topic 4: Productivity Improvement

- Highlights of Recent Accomplishments
  - To date, \$2.7 million has been used to support 31 projects in 17 agencies (\$1 million

has been in the form of loans)

- Business process improvement: 14 projects, \$647K in awards, and \$5.1M in projected savings.
  - Customer service improvement: 7 projects, \$519K in awards, and \$1.0M in projected savings.
  - Innovative solutions to improve outcomes, customer service, and efficiency: 10 projects, \$1.49M in awards, and \$2.2M in projected savings.
- 2010 Areas of Focus
    - Continue General Fund support for projects that significantly improve outcomes and/or customer service.
    - Consider a line of credit to support loans for larger cost-saving projects.
    - Formalize an approach to gain-sharing in order to increase agency buy-in and commitment to cost-savings projects.
    - Broaden the membership of the Productivity Investment Fund oversight group.

## Meeting Objective 2: Performance Budgeting Update

- Vice-Chair Dubby Wynne noted that it is important for the members to promote the value of the performance management approach championed by the Council to help ensure that the Commonwealth continues to fully benefit from the work done to date.
- Governor Kaine said that, while there were things that could be improved, a substantial base for performance budgeting exists on which to build. The performance data and Virginia Performs have been vital in helping to make the difficult decisions needed to balance the budget in very challenging times. The budget will be in structural balance at the end of the next biennium, and few other governors can make that claim.

Topic 1: Performance Budgeting Example: Comprehensive Services Act – Richard D. Brown, Secretary of Finance

- Secretary Brown reported that specific examples of the use of performance data in budgeting for the upcoming biennium could be provided after budget bill is released later in December. He provided a general update on the current system and recent data on the use of performance data to improve performance for the Comprehensive Services Act:
  - Between FY 2004 – FY 2007, the program grew at an average rate of eight percent per year and program growth exceeded 16 percent from FY 2007 to FY 2008 with massive expenditure increases occurring in residential costs. Performance data indicated that agencies were missing their own targets.
  - Analysis of performance and other data led to initiatives at the beginning of FY 2010 to increase state match for community-based services, increase foster care rates, expand foster care prevention services, and decrease the state match for residential services.
  - As a result, program spending in 2009 dropped four percent for the first time since Medicaid was introduced to the program in 2001. Residential spending dropped by twenty percent and community-based spending grew by eight percent.

- Mitch Rosenfeld, a senior analyst at the Department of Planning and Budget, provided an update on implementation of the new, fully integrated performance budgeting system. The new system will bring a range of performance and budget data together – putting it at the fingertips of analysts and decision-makers, significantly improving performance-based planning and budgeting processes.
- Vice-Chair Wynne asked how the information would be used. Secretary Brown responded that the performance data were used, in part, as a “first alert” mechanism. The data were particularly useful for identifying emerging performance issues and preparing responses based on further analysis. For instance, poor performance could be due to factors outside the control of the agency (e.g., a serious economic downturn) and would not necessarily warrant an immediate cut because targets were not met; additional dollars might be needed to improve performance. Mr. Wynne noted that is important for leadership to delineate their priorities. Secretary Brown said that DPB was poised to uncover opportunities for improvement on those priorities based on performance and budget data and that the new system would significantly enhance the effectiveness of analysis and improvement efforts.
- Governor Kaine said that the Council has been important in championing the development of Virginia Performs and should consider increasing its focus on the future and, specifically, helping to set a few, critical long-term targets. Clear targets would help focus debate on strategies.
- Governor Kaine noted that his office used performance data frequently. The arrows indicating that performance was slipping were important guides to help focus attention. He provided the example of how the “down” arrow for foster care helped generate an effort to more fully understand the root causes of that measure’s decline.
  - The state began to work with the Anne E. Casey Foundation to develop a better understanding of the issues involved.
  - Research showed that Virginia relied extensively on 24-hour institutional settings for children in foster care. This reliance forced some localities to place children in out-of-state institutions, a solution that was not only expensive, but also not the best for the children.
  - In response, the Governor proposed a series of initiatives and incentives to increase the placement of children in family settings, including higher foster care family payments and reduced match for children placed in institutional settings.
  - The number of children in institutional settings has dropped considerably – from about 1,900 to 1,100 in two years. Richmond, which has about 700 children in foster care, went from 25 children in out-of-state institutions to none.
  - This is an example of where spending more money on specific initiatives saved money overall and improved an important outcome.
  - All of the performance data has been useful in making cuts, but when some money was available in 2006, the data also helped identify opportunities where more investment was needed or would generate a good return in terms of better outcomes. Educational attainment is a good example of where a long-range target has value; a reduction in regional unemployment rates might be another good example.
- Delegate Pollard suggested that it might be useful to characterize program savings in terms that would be more meaningful to taxpayers. For instance, it might be useful to characterize the \$36 million saved in the CSA initiative in terms of the number of new taxpayers that would be required to generate that much tax revenue.

- Delegate Cox asked Governor Kaine how state executives ensured that performance targets were meaningful and truly represented acceptable and improving levels of performance. Governor Kaine responded that there were instances when key measures were first implemented where the targets either did not reflect the agency's core mission or did not challenge the agency to improve. For instance, one agency goal had to do with answering the phone in a timely fashion. It's important to review the targets, provide feedback, and work with the agencies. Secretary Brown said that it was important to clearly understand what is going on at the agency level and to work closely with agency management. He also noted that it was important that the performance measures not be used as a cudgel; that it was important to provide some form of gain-sharing – successful improvements should benefit both the state and the agency to some extent; incentives are important.
- Governor Kaine noted that this idea of motivation was important. In the CSA example, much of the change was not generated at the agency level. The performance data helped leadership to focus on the problem; not only was agency performance below expectations but so was overall performance. But the agencies were not driving change, that had to come from outside. The state needs to continue to build a culture – and a system to support that culture – where continuous improvement is imbedded in the agencies. Mr. Wynne stated that, in business and in general, behavioral targets were not useful – you need deep thinking about what is most important and where the highest returns are; it is too easy to think that what we do every day is most important rather than the results our efforts are meant to achieve.

### Meeting Objective 3: Educational Attainment Update

- Mr. Wynn opened the discussion by reporting that the Business Higher Education Council was investing heavily in promoting the value of higher education; there is no higher return to taxpayer dollars in terms of job growth – other than direct investment in economic development projects – than dollars spent on higher education. Mr. Fralin noted that the Weldon Cooper Center at the University of Virginia recently completed an economic impact study that found that the tax dollars received as a result of higher education exceeded all dollars spent on higher education. This report appears unique and provides a much better understanding of higher education's impact on the economy.

Topic 1: Educational Attainment Update – Mr. Dennis Jones, President, National Center for Higher Education Management Systems.

- Mr. Jones reviewed some of the data reinforcing the value of greater levels of educational attainment, including:
  - A direct and strengthening relationship between educational attainment and state per capita income levels;
  - Higher personal incomes,
  - Better fiscal impacts, lower incarceration rates, and a decreased dependence on public services;
  - Lower unemployment rates; and
  - Better health outcomes and higher levels of civic engagement.
- Mr. Jones briefly reviewed the analysis behind the need to produce an additional 104,600 degrees or more from both public and private institutions by 2020. He noted that a similar

goal emerged if you were looking at workforce demands or rates achieved by international competitors.

- Delegate Griffith reported that a study was available that suggested that there were cost-effective ways to increase degree production from the private colleges, including enabling them to utilize the borrowing power of the state to help add infrastructure.
- Senator Miller asked for information on Virginia's commitment to educating foreign-born students who would end up competing with the state in the future. Dennis Jones responded that it was very difficult to estimate net migration levels but that as a whole, Virginia has benefitted substantially from importing more degreed workers than it is exporting. Governor Kaine said that Virginia had benefitted from early investments in higher education but that other states were now trying to catch up. Mr. Jones noted that other states, including Indiana, were working hard to keep more of their graduates in state.
- Mr. Wynne said that Virginia would need to reduce remediation requirements to improve degree production and would need to examine ways to more effectively utilize the community college system.
- Mr. Schewel asked if the drop in attainment rates in the younger cohort could be attributed to the increase in the net migration of less-educated foreigners. Mr. Jones said that attainment rates were dropping in states with high levels of in-migration and that it might account for the entire difference in age-related attainment rates. He noted, however, that this fact did not change the basic issue – the world economy was not going to give Virginia a break because of the effects of net migration. Mr. Schewel noted that, while there were issues related to in-migration of the less educated, there were also negative consequences from a shrinking population. Mr. Jones noted that at least two states have established goals of just maintaining current population levels.
- Mr. Fralin said that the GI Bill had had a dramatic impact on attainment levels in this country; given that resources are a growing issue for many kids, he wondered if there was a need for a third round.

## Topic 2: Finance and Productivity Background

- Mr. Jones provided overview information on finances and productivity in higher education in Virginia, including:
  - Virginia, like most states, is expected to face continuing fiscal pressure and the rebound for higher education might take several years.
  - State and local funding and net tuition revenue per FTE student was \$10,881, about 26th highest in the country. It was \$15,774 for 4-year research institutions (below the national average of \$16,195 and 30th highest); \$11,443 for 4-year public masters and baccalaureate institutions (above the national average of \$10,343 and 13th highest); and \$5,945 for public 2-year institutions (below the national average of \$7,416 and 45th highest).
  - Performance – as measured by bachelor's degrees awarded in 2006-07 per 100 FTE students in public four-year institutions – was 20.9, 12th best in the country; performance for the two-year institutions in terms of all credentials awarded per 100 FTE undergraduates was 16.2 in 2006-07, 42nd best in the country. While there are issues related to the quality of this measure for the community colleges, the data

together seem to indicate that revenue is lower where the “heavy lifting” has to take place in order to significantly improve attainment levels.

- Retention and graduation rates are especially good in the more selective institutions, but overall there is room for improvement.

## Topic 2: Long-term Options

- Mr. Jones noted that the options presented were based on state and national data and their experience of promising or effective initiatives were taking place in other states – not a detailed assessment of the current situation in Virginia.
- Build cost-effective systems and learning productivity:
  - Need to clearly align missions with state strategies and needs.
  - A key goal is to move more students through the pipeline in a timely fashion. For instance, provide incentives for students to finish with 120 or fewer credit hours.
  - Ensure that high school students get appropriate credit for Advanced Placement and International Baccalaureate programs and that they then don't take four or five years to graduate.
  - Students should come to college fully prepared. In many cases the lack of alignment between K-12 and higher education reflects a failure of higher education to clearly define what it means to be college ready. A single, statewide assessment of college readiness would be useful.
  - Transfer agreements between two-year and four-year institutions are a strength, but Virginia should ensure that transfers don't take more credits than needed.
  - North Dakota provides an incentive to students who finish with less than 120 credit hours – if they only need 110 at the college level, the state will essentially refund five credits to the student.
- Change the “academic production function”:
  - Needs to be addressed at the institution level – not at state policy level.
  - Create programs of cost-effective size (reduce, collaborate as necessary).
  - Reengineer where necessary, create effective policies and incentives to reward teaching.
- Long-term approach:
  - Confirm statewide goals.
  - Develop a cohesive financial strategy.
  - Establish appropriate metrics.
  - Conduct a policy audit – speak to institutions about what they are doing or could do to move Virginia toward its goals.
  - Get rid of unnecessary red tape.
- Senator Stosch noted that the articulation/transfer agreements between the two- and four-year institutions, along with the transfer grant, have made a real impact on productivity. Mr. Schewel noted that Northern Virginia Community College was becoming a “feeder school” for George Mason University and that the president of GMU had said that the transfer students tend to perform slightly better than the student body as a whole. Senator Stosch said that it might be useful to consider strengthening course rigor at the community colleges and sharing the gains with transfers who graduate with less than a total of 120 credit hours.

- Mr. Fralin noted that it was not just the number of degrees but the type of those degrees also mattered; the Commonwealth needs to be concerned about the production of science, technology, engineering, and math degrees.
- Mr. Schewel noted that there appear to be serious obstacles to improving productivity at four-year institutions. Mr. Jones said that he wasn't sure what might generate significant change at the institution level, but that his experience is that for the first time it has become more acceptable to talk about productivity with colleges. He thought that some schools had made progress and cited the example of the "math emporium" at Virginia Tech as a good program that was not being emulated enough. He also noted that major foundations are investing heavily to promote productivity improvement in higher education.
- Delegate Pollard asked if higher education's large investment in buildings was a real drag on productivity. Mr. Jones said that he has done extensive research on this issue and that the major determinant of cost-per-degree produced was personnel costs. Capital expenses tend to be amortized over a long period of time and many students and are much less a factor. He cited the University of Phoenix as an example of how institutions are using their personnel in different ways. Mr. Wynne noted that Dartmouth instituted a four-quarter system to increase capacity when they first admitted co-ed students.

The Governor adjourned the meeting.

Meeting Attendees: Governor Timothy M. Kaine; Secretary of Finance Richard D. Brown; Senator Charles J. Colgan; Mayor William D. Euille (by phone); W. Heywood Fralin; Delegate H. Morgan Griffith; Speaker William J. Howell; James F. McGuirk; Harris N. Miller (by phone); Senator Yvonne B. Miller; Secretary of Education Thomas R. Morris; The Honorable Michael J. Schewel; Vice-Chair John O. "Dubby" Wynne; and Jane N. Kusiak, Executive Director, Council on Virginia's Future.

Legislative Advisory Committee: Delegate M. Kirkland Cox; Senator Emmett W. Hanger; Delegate Albert C. Pollard, Jr.; and Senator Walter A. Stosch.

Panelists: Dennis P. Jones (NCHEMS); Patrick J. Kelly (NCHEMS); Mitchell Rosenfeld, Department of Planning and Budget.