

**MINUTES OF THE
HIGHER EDUCATION APPROPRIATIONS SUBCOMMITTEE**

Room 210 Senate Building, State Capitol Complex
TUESDAY, JANUARY 24, 2012 8:00 A.M.

Members Present: Sen. Stephen H. Urquhart, Senate Chair
 Rep. Michael T. Morley, House Chair
 Rep. Jack R. Draxler, House Vice Chair
 Sen. Scott Jenkins
 Sen. Stuart Reid
 Sen. Ross I. Romero
 Sen. Jerry Stevenson
 Sen. John Valentine
 Rep. Patrice Arent
 Rep. Bradley M. Daw
 Rep. Becky Edwards
 Rep. Don Ipson
 Rep. Kay L. McIff
 Rep. Douglas Sagers
 Rep. Dean Sanpei
 Rep. R. Curt Webb
 Rep. Mark A. Wheatley

Staff Present: Mr. Spencer Pratt, Fiscal Manager
 Ms. Angela Oh, Fiscal Analyst
 Lorna Wells, Secretary
 Cheryl Weight, Secretary

A list of visitors and a copy of handouts are filed with the Committee minutes.

1. **Call to Order.** Co-Chair Urquhart called the meeting to order at 8:15 a.m.
2. **Introduction and Welcome.** Co-Chair Urquhart welcomed Committee members back, and offered congratulations to Dr. David Pershing, who has been appointed as the new President of the University of Utah.
3. **Clayton Christensen, Author "*The Innovative University*"**

Mr. Christensen stated that the purpose of his presentation is to encourage educators to think more clearly about the future. Data is only available about the past, but it is important to look at the future. He stated that expensive failure almost always results when disruption is crammed into direct competition with established technology. The right product architecture depends upon the basis of competition. The pursuit of profit drives companies up market. Large companies would never focus on the lower-profit products, but this failure to look at the lower-profit products is why many large businesses are in trouble. Leaders in an industry should watch out because success is very hard to maintain. New companies start with the lower-profit products, then when these products become successful, they move to better products and more technology. These companies compete by improving speed, responsiveness and customization. They have to be fast, flexible, more modular and have product architectures which are more modular.

Mr. Christensen used several illustrations to make his point. He discussed the steel industry and how almost all large integrated steel mills have disappeared. Mini-mills started out just working on lower-end rebar, but have now taken over the entire steel industry. The large steel-mills did not focus on the lower-profit products; and now they are out of business.

Mr. Christensen used the auto industry as an example. He talked about how the major auto companies would focus on their higher-end model cars. They would have lower-end models available, but did not put effort into these. Toyota started out producing the Corona, and then moved to the Corolla and eventually to the Lexus. Now Korean automobile manufactures have followed this same model, starting out with the lower-end, less expensive cars. Once that model is profitable, they can move up to more expensive cars. They focus on producing cars that everyone can afford. He mentioned the success of hybrids.

Mr. Christensen outlined the department store model. In the past, there were over 316 major department stores. There are now only eight department stores left in America. Department stores continued to focus on higher-end, more exclusive items. Grand Central and K-Mart came along introducing items that every household needs at very inexpensive prices. Once they had an established customer base, they could then add more items, better quality, more technology etc.

Mr. Christensen discussed the computer industry and the evolution from mainframes to smart phones. The companies that are most successful are making products that are affordable to the average household. He discussed the advances and improvements in industries like backhoes and other heavy equipment.

Historically, this business model didn't impact Higher Education because large universities were really the only conduit to an accredited degree. In the past, the path to a degree was very defined and distinct. On-line learning and other technological advances will change the future of Higher Education. On-line learning increases the potential for disruption in this market. It is quite possible that large universities will become dinosaurs; they will not have the same dominant position in Higher Education.

Higher Education can continue if they utilize new technology and blend it with the old. Hybrid institutions will be the most successful especially if they are modularized. He discussed MIT and the fact that perhaps 1,200 students take Physics at a time. There are 1 million students who have taken Physics on-line. Higher Education institutions need to prepare a package of courses whose components may be made by different institutions. Mr. Christensen mentioned that the Legislative and governing bodies for Higher Education need to adapt to this change as well.

Mr. Christensen related a personal experience he had while teaching at Harvard. The Dean of the University of Phoenix asked him if they could record his ten best lectures and offer them on line. They rented a beautiful auditorium for his presentation. His audience was made up of 50 models. Three weeks after the video was made, the Dean came and showed him the video. It was fabulous because they had edited it completely, added 3-D animation and music. The audience members were all good looking, energized students. This video production may now be shown to 130,000 business students at the University of Phoenix. Mr. Christensen compared this delivery method to his own classroom presentation to 900 students at Harvard.

Co-Chair Urquhart asked Mr. Christensen if this new model could be utilized at all levels of higher education.

Mr. Christensen said often each level of education criticizes another component for not doing their job. He mentioned that instead of measuring performance when a student gets a degree. These boundaries are arbitrary and must be re-evaluated. Performance should be measured by when students get a job in the field they were studying.

Sen. Urquhart reminded the Committee that "*The Innovative University*" was assigned reading for the Committee.

Sen. Jenkins thanked Mr. Christensen for his presentation, and mentioned his personal knowledge of the steel industry. He asked Mr. Christensen if he was familiar with Khan Academy. He asked how to get the institutions to admit that there is a better way of doing things. It is like trying to push a wall over.

Mr. Christensen replied that he was familiar with Khan Academy and its popularity. When disruption emerges, the way performance is defined changes. Institutions must look at how performance is defined. The definition of goodness will change. Often the traditional players dismiss this, and consensus can't be reached. There is not a common language or way to solve the problem. Mr. Christensen outlined a meeting he had with Intel regarding their business model.

Sen. Urquhart thanked Mr. Christensen for his very interesting presentation.

4. **Burck Smith, Straighterline.** Mr. Smith is the CEO of StraighterLine. StraighterLine offers low-cost online (distance learning) courses for college credit. The credit earned can be transferred to partner colleges. Mr. Smith asked the question "Why have costs risen so much in education while quality has gone down? He discussed the disruption theory. He mentioned the problem of student debt. He asked why colleges were originally created. He discussed Higher Education today and the cost of course delivery. He discussed accreditation and how only institutions who offer degrees can be accredited. He discussed the fact that barriers are eroding. He discussed the course offerings at StraighterLine.

Co-Chair Urquhart asked if Pell Grants and other financial aid sources are available through StraighterLine. He asked if one of the issues is to get institutions to accept these credit hours.

Mr. Smith reported that Pell grants are not available, but StraighterLine is very affordable. They do have course agreements from many schools. They served 1,000 students in 2010 and 3,000 students in 2011. Their courses are self-paced, they have no set due dates, and have course advisors. They are geared towards adult learners. Mr. Smith explained the pricing model, which is \$99 per month plus \$39 for each course. They give discounts to their partner schools such as Western Governor's University. If a student starts a course and then something doesn't work out and they can't complete the course, they are only out \$138.

Co-Chair Urquhart stated that unless Higher Education adapts to these new models, there will be failure in Higher Ed. The StraighterLine costs are much lower than in Higher Education. He asked what incentives there would be for colleges to work with StraighterLine.

Mr. Smith stated that there would be free marketing for the colleges. Research shows that students who complete some coursework at StraighterLine and then move on to other institutions are more likely to persist, so they have more completers and more success. There is also competitive dynamics; colleges could send students to StraighterLine to complete some courses.

Mr. Smith discussed credit delivery with the partner colleges. He analyzed the arguments against StraighterLine and retorted many of the fallacies. He stated that this means many of the most profitable courses for traditional colleges will be eroded. Colleges need to re-think pricing models, current policies, and business models. He asked if Legislatures are working on behalf of the school or behalf of the student.

Sen Valentine asked if any of the Utah Higher Education Institutions are partners with StraightLine. Mr. Smith answered that there are no public institution partners, but Western Governor's University is a partner. Mr. Smith said that there are over 20 colleges who are full partners. There are about 120 various component partners. There are over 250 cases where a particular course was granted credit by a receiving institution.

Rep. Daw reported that the meeting was fascinating. He asked if any states or agencies have granted course-level accreditation. He asked if there is a pathway for this to happen in the future.

Mr. Smith answered that at this time accreditation is not at the course level. Accreditation means access to financial aid. However, he felt that a state could create some mechanism for awarding this credit approval. However, the funding questions are more complicated.

Rep. Daw said that funding quality control is much more important. Mr. Smith agreed.

Rep. Arent mentioned that it was very interesting to learn about these innovative approaches to education. She asked that as the Higher Education institutions make their presentations over the next few weeks to offer their perspectives on what they are doing to offer more innovative approaches to education.

Co-Chair Urquhart told the Committee that the presentations this week will be very exciting. He said that this Committee will have to work very hard to keep pace.

MOTION: Rep. Ipson moved to adjourn. The motion passed unanimously. Co-Chair Urquhart adjourned the meeting at 9:50 a.m.

Minutes were reported by Lorna Wells, Secretary.

Sen. Stephen H. Urquhart, Senate Chair

Rep. Michael T. Morley, House Chair