

SECOND IN A SERIES OF ESSAYS:

The Changing Relationship Between States and Their Institutions

Rewriting the Rules of the Game:

State Funding,
Accountability,
and
Autonomy
in
Public Higher Education



The Futures Project

ACE American Council on Education

Dedication

To Frank Newman

Whose passion, intellect, and, of course, wit
continually pushed higher education to fulfill its ideals.

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<http://www.acenet.edu/programs/changing-relationship/roundtables.cfm>

Foreword



This publication is the second in a series of essays based on roundtable discussions among college and university presidents about what the changing relationship between states and their institutions means for the future of American higher education. That relationship is being redefined, with new conceptualizations of autonomy (that is, freedom from state regulation) and accountability (demonstrating how the institution will meet public needs in a fiscally responsible manner) as the centerpieces. The old relationship—one marked by considerable state support—is being replaced in many states by a focus on performance, with a smaller share of college and university budgets coming directly from the state. However, each state seems to be setting off in its own direction, with varying levels of autonomy and accountability under consideration. The implications of these new relationships affect not only public institutions, but independent ones as well.

The new relationships that are emerging—in the United States and around the world—may hold promise for colleges and universities, but they are untested and their implications, for the most part, are unknown. Many people fear that the changes will lead to the privatization of public higher education and bring about negative social consequences. Clearly, much is at stake. How each new relationship is structured will be critical not only to the future of colleges and universities, but also to the economic and civic development of each state.

Convened in partnership between the American Council on Education and the Futures Project: Policy for Higher Education in a Changing World, these roundtable conversations and their subsequent essays explore:

1. The challenges of accountability, autonomy, and privatization facing higher education institutions today, especially as colleges and universities aim to meet new state demands.
2. Key issues for presidents to consider as they renegotiate their relationship with the state.
3. Various approaches to performance contracts and state-institution compacts.
4. A concrete set of subsequent steps for institutions and their leaders, and an emerging national action agenda.

We understand that these essays are not definitive statements on these complex and ever-changing topics. However, we hope they provide guidance for campus leaders and others as they shape the future of American higher education. To that end, we thank the roundtable participants for their contributions and insight.

We began this project with the leadership and insight of Frank Newman, director of the Futures Project, who passed away prior to the second roundtable. To him, we dedicate this series.

Introduction

The changing relationship between public higher education institutions and their states is altering the balance of autonomy, accountability, and public support and is thrusting questions of institutional flexibility, state funding and oversight, and the social purposes of higher education to the forefront of policy debates.

Against this background, the American Council on Education and the Futures Project convened the second in a series of meetings of higher education leaders in June 2004. While the participants in the first roundtable were primarily large university and system heads currently involved in restructuring initiatives, the June conversation was designed to broaden the focus to include other types of institutions, specifically smaller public colleges and universities and community colleges. (A list of participants appears in the appendix.) The objective of the day-long discussion was to explore key issues arising from the shifting relationship between states and their institutions from the perspectives of distinctive sectors of public higher education and to begin to outline a course of next steps. The exchange covered a broad spectrum of topics including the elements driving state higher education policy and the effects of those policies, the impact of market forces on institutions, the changing definition of the public good, and the individual and collective capacity of higher education leaders to influence current trends. This essay is based on that discussion.

The essay based upon the first roundtable, held in January 2004, *Shifting Ground: Autonomy, Accountability, and Privatization in Public Higher Education*, is available in PDF format from ACE's web site at <http://www.acenet.edu/bookstore/pubInfo.cfm?pubID=315>.

Surveying the Landscape: The Rocks and the Hard Places



The relationship between states and public higher education is changing. From the perspective of many higher education leaders, the reasons for this change are familiar:

- An environment characterized by reduced state appropriations, and in which tuition increases and commercial activities provide needed funds so that institutions can deliver a high-quality education and remain competitive.
- A decreasing pool of state funds, with both public and independent colleges and universities seeking their share and, in some instances, also competing with for-profit colleges and universities for a piece of the state pie.
- A heightened level of competition among colleges and universities that requires institutions to be more flexible in order to react quickly to changing circumstances.
- Increasing pressure on higher education from public officials to drive the state's educational, civic, *and* economic development.
- In states where the population is growing, increasing pressure to educate more citizens without receiving public monies to cover the cost of doing so. This situation, the leaders argue, paradoxically disinclines institutions from growing to serve the increased student demand—growth that a clear pursuit of the public good ought to encourage. Said one president, “We have a moral responsibility to grow to educate more students, and a fiscal responsibility not to do so unless funding patterns change.”

Campus leaders see the financial issues that states are facing—which have a direct impact on their campus budgets—as complicated, but argue that they stem from two main causes. First, some portion of the financial squeeze is attributable to competing claims on state revenues by other high-profile constituencies, such as elementary and secondary education and health care. The other source of financial pressure: too narrow or misaligned tax bases. Revenue systems in most states are based at least in part on sales taxes on goods, while the modern American economy now is based on services, which remain generally untaxed. Revision of the tax policy is a priority for college presidents in some states.

These challenges are compounded by the perceived instability and inconsistency in the states' governing structures, leadership, and mandates. Already-tight budget cycles, shortened further by legislative logjams, make rational planning on campuses challenging and long-range planning virtually impossible; continual political changes (West Virginia's three governors in five years is a particularly striking example) lead to repeated policy shifts or no clear direction at all; and policy makers and legislators call for steadiness from higher education institutions, while their own actions remain singularly unpredictable.

Although institutional leaders are quick to describe the situation as grave and beyond their control, another story exists, one often told by legislative leaders. For example, a 30-year snapshot shows that state and local tax appropriations have continued to climb

(although they dropped in the early 1990s and continue to be unpredictable in the short term). Instructional appropriations have remained constant since the early 1990s, but colleges and universities have continued to increase tuition. In terms of dollars spent, need-based aid has outpaced non-need-based aid, so it is unfair to suggest that states are abandoning their commitment to financial aid. Depending on your perspective, the same data can tell a different story.

That said, the challenges facing public colleges and universities remain, and they are not uniform across the sectors. For example, community colleges tend to be much more

Autonomy in exchange for less public support is the wrong debate . . .

dependent upon public funding than other types of institutions because of the primary business they are in—educating the underserved, underprepared, or low-income populations. They gain little, if anything, by growing their enrollments without corresponding increases in public support and do not have the same array of revenue streams as do research universities. Community college challenges are compounded by the fact that these institutions are called on to serve the very different needs and aims of an extremely diverse student population, ranging from those who are yet to graduate from high school to postdegree students returning for additional education, and everyone in between. While tuition increases can make up for some or all of the lost state revenues in larger or more selective four-year institutions, two-year schools subvert their core mission if they erect financial barriers to access.

Furthermore, with increased enrollment pressures, higher admission standards, and better retention at four-year schools, fewer

transfer slots are available to community college graduates, creating additional difficulties. The growth of for-profit colleges is particularly threatening to community colleges, especially in states where students at proprietary schools are eligible for state-funded aid. In those places where capacity limits enrollments in public two-year colleges, for-profit institutions are poised and waiting.

The strategy gaining favor in many states is for institutional leaders to seek greater autonomy, often in exchange for some combination of level or reduced funding and increased accountability. This approach may create more problems than it alleviates for higher education as a whole. And beyond a small group of institutions (typically research universities, highly competitive and selective institutions, or those with diversified revenue streams), as one president pointed out, “This is not much of a bargain.” The majority of institutions gain little from such agreements. Most participants agreed that the majority of colleges and universities are in a weak negotiating position. The discussion made clear that, at least for some of the meeting’s participants, autonomy (which most often means the power to set and control tuition revenues) is not a satisfactory or useful substitute for reductions in direct state funding. Indeed, one point is becoming clear: Autonomy in exchange for *less* public support is the wrong debate and one that, if strenuously pursued, will have negative consequences for higher education and the nation.

Consensus among participants was that higher education may very well be asking the wrong questions. Instead of asking at what point does public higher education become private, leaders should ask what makes a college or university public. The emphasis, they agreed, should be on institutions as public assets. Indeed, the deepest concerns go beyond money and managerial trade-offs altogether, to the very heart of the academic enterprise.

The Changing Social Compact



Like the previous roundtable,¹ the most recent discussion frequently reverted to addressing the fate of the implicit social compact that has long been the premise of public higher education financing in this nation: that education is both a private good and a public good and, as such, is worthy of—and in fact requires—public investment. Because higher education seems to have lost its ability to articulate convincingly why it is a public good, some participants suggested, that compact appears to be dissolving into an implicit understanding of higher education as an individual good that therefore should be paid for by individuals. As Frank Newman once said, “The unspoken agreement is being undone.”

The reasons for such a shift are many and open to speculation. Some at the meeting asked, is the dissolution of the traditional compact a consequence of higher education’s failure to meet the needs and expectations of the state (that is, the public good)? Others said that the definition of public purpose is being reshaped by the extremes of political ideology. And still others held that the definition of the public good inevitably changes over time to keep pace with social needs. They argued that we may be at the end of an era in which the old model of the public college or university, grounded in the land-grant tradition, has been replaced by the new model of private gain and entrepreneurship. Perhaps, participants

surmised, higher education advances the public good in today’s world by serving more as an engine of economic development, rather than a driver of social mobility or civic responsibility. Finally, there were those who claimed that the base of political and public support for higher education remains solid, and fears of its erosion represent an overreaction to short-term factors.

Whatever the reality, a firm consensus formed around the necessity of giving public and persuasive voice to what is important about higher education, strongly rearticulating the case for education as a public good, and building on the still solid foundation of credibility that public higher education has established over the past century and a half.

Decreasing state revenues and increasing demands from a variety of constituencies are changing the relationship between the state and public colleges and universities. In many states, the result has been what some participants suggested is a sort of “devil’s bargain”: freedom to raise tuition (under the auspices of increased “autonomy”) in exchange for reduced state funding (“privatization”) and more rigorous accountability. However, the relationship characterized in these terms makes many people uncomfortable. Some noted that legislators, while content with the notion of privatization (reflecting beliefs about education being a private good), are uneasy about granting autonomy to public institutions, because it suggests a break in historic

¹ See American Council on Education and The Futures Project. (2004). *Shifting ground: Autonomy, accountability, and privatization in public higher education*. Washington, DC: American Council on Education. See <http://www.acenet.edu/bookstore/pubInfo.cfm?pubID=315>.

state-university ties and abdication of states' regulatory oversight. These legislators view granting autonomy as forsaking their responsibilities to the electorate. By the same token, many educators, pleased with the freedom provided by autonomy, are uncomfortable with the trend toward privatization, with its implicit rejection of the social compact, its over-reliance on market forces, and its potential to impede access.

The conversation suggested that higher education faces three options. First, it can find ways to live within these new ground rules. Some institutions—rather than viewing privatization as a threat—see new opportunities and freedom to innovate. The assumption underlying this approach is clear: Circumstances are

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changing and higher education can do little to shape them and instead must respond. However, as previously noted, not all institutions have the same capacity to compete effectively in the marketplace. The market will not treat all institutions similarly or fairly. Instead, some must make uncomfortable plans for an unsettling future. Pushed to the extreme, some institutions might even begin to ask if they will be able to survive.

Second, higher education can alter the nature of the debate by changing the vocabulary used to discuss and conceptualize the new arrangements. The idea of pursuing a different language with which to discuss these issues is a simple one, but one that the participants believed could reap large payoffs. We shouldn't be talking about "autonomy," they said, with its implicit overtones of lessening public

stewardship. Instead, what most leaders desire is *flexibility* and freedom from counterproductive regulations in managing their institutions. Examples of such constraints included state approvals and procedures that drive up building costs by an estimated 20 percent; the liability of overly complex budgeting and reporting requirements that could easily be streamlined; and being limited to pre-approved vendors, while the market allows for more competitive pricing.

Finally, what higher education ought to be saying (and believing) is that if the state gives it more flexibility, it will make better use of public money. In other words, if higher education leaders are freed to run their institutions more effectively, then the state will get a better return on its investment. A simple *quid pro quo* of autonomy for decreased subsidy just makes for continued inefficiency and ineffectiveness, compounded further by fewer resources. Instead of pursuing privatization (in effect, distancing the institution from the state), public colleges and universities should be talking about relevance and becoming *more* essential to public life by more readily addressing the range of state needs. The North Dakota Roundtable on Higher Education, discussed during the first roundtable and in the previous essay, is a good example of higher education's ability to meet those state-wide demands (<http://www.ndus.nodak.edu/Upload/allfile.asp?id=695&tbl=MultiUse>).

Adjusting to these conditions does not, some participants argued, require higher education to compromise its values of academic excellence or access in order to achieve efficiency, productivity, and relevance. The market has its place in higher education, some argued; however, it cannot be allowed to run roughshod over longstanding values. Others expressed skepticism that the standards of a free market would allow the preservation of characteristics important to public colleges and universities.

Our Side of the Bargain: Demonstrating Value and Success



However the implicit compact between public higher education and the states is altered, the standards by which the educational process and its outcomes are evaluated (given the state's investments of public funds) are and will continue to be critical elements of this debate. Because developing a reasonable methodology for determining student success is difficult and contentious, higher education by its inaction has tended to let others (media, government agencies, college guides) set the benchmarks.

One of the most frequently used (and abused) measures of success is the institutional graduation rate. Regarding this metric, higher education faces both a data problem and a performance problem. Graduation rates only capture part of students' educational intents, educators argue, and developing a meaningful measure requires agreement across sectors that have radically different and divergent interests and missions (public/independent, profit/nonprofit, two-year/four-year/comprehensive). It was pointed out that people often value what they can measure, rather than measure what they value, suggesting that quantifiable yardsticks such as graduation rates are convenient but unreliable indicators of institutional value.

Another so-called measure of success is participation rates, which actually reflect a partiality to the market economy. Upward trends in participation surprisingly found in most states suggest that the number of students willing to pay more to go to college is increasing. That consumers continue to buy an

increasingly expensive college education suggests its market value is high, which many elected officials interpret as confirming higher education as primarily for personal gain (a private good). It was noted, however, that under this standard of worth, the emerging pattern is one in which institutions survive (and many even thrive) while jeopardizing their commitment to access for low-income students.

From yet another perspective (often that of public officials), success could be measured in terms of institutional efficiency. By this definition, successful institutions are able to do more with less. Often missing in this indicator is the effectiveness of the enterprise. Efficiency and effectiveness, while frequently coupled, are two distinct and only sometimes related concepts. Efficiency is about the ratio of outputs to inputs, while effectiveness focuses on the quality of what is being delivered. The participants argued that efficiency is an appropriate measure for administrative functions. However, effectiveness should be the standard for learning and research. Applying one to the other's situation does little to improve performance, and only provokes resistance among those being held accountable.

Finally, it was suggested that the heart of the enterprise is learning. One president proposed the idea of a "delta" of learning that could evaluate the complex changes that students undergo in the course of a college education—some way to measure where they finished in relation to where they began. This solution seemed to be presented more as a wishful fancy than as an achievable goal.

The sum of the conversation is that worthwhile measures of performance and standards of accountability are largely nonexistent. Instead, different states set forth varying accountability systems. They run the gamut, from highly complex (and growing even more so) to overly simple. No approach has consensus, yet many have well-positioned champions, and the debate is far from over.

Higher education struggles not simply because of the challenge of measuring its successes, but also because it does a poor job at communicating those achievements. Its rhetoric for the most part is familiar and rarely seems newsworthy. Higher education needs to do a better job of continuously educating elected officials (who, due to term limits, are

constantly changing and have short-term agendas) and the public about its value. However, a minority opinion in the conversation suggested that higher education is viewed favorably and instead should capitalize on its status to advance its objectives. The adversary in either situation may very well be higher education itself.

In any case, a large challenge clearly looms for higher education to document its successes and develop the capacity to communicate those achievements effectively. The unanswered question remains: What do we mean by success in higher education? Or, as one participant asked, in crude market terms, what is the quality of the product we are selling?

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Solutions and Their Problems



States have responded to these challenges using a variety of approaches, including deregulation, decentralization, tuition vouchers, performance-contingent funding, public corporation status, and charter colleges, to name a few. Often, the names vary among states, but the principles behind them are similar. These approaches typically include some combination of procedural and operational autonomy, tuition flexibility, accountability (often in the form of performance contracts), and, sometimes, level funding (plus inflation). With states such as Colorado, Maryland, Massachusetts, Oregon, Texas, Virginia, and Wisconsin moving quickly to adopt these strategies, others are sure to follow.

As discussed here, as well as in the previous essay in this series, the problems facing states and their institutions are difficult and complex. No silver bullet exists. Thus, strategies touted in one state are sure to seem appealing in others. News travels fast. And rarely will implementers wait for conclusive evidence of these solutions' efficacy before trying out their own version of the strategies. Every change in one state makes changes elsewhere seem all the more feasible. In the policy world, what at one time seems outrageous quickly can become commonplace as momentum builds and boundaries are tested.

With the preponderance of solutions being proposed and enacted, to what extent will states choose to chart their own courses or

simply adopt ideas generated in another state? Will states invest the necessary time and resources to gain a deep understanding of their particular problems and develop appropriately specific solutions? If people in Tennessee, for example, decide that vouchers are the solution because they seem to be working in Colorado, the debate about Tennessee's particular problems might easily get lost, or at least truncated.

While it is useful to look beyond one's own state or even the nation as a whole to understand what approaches exist, there are also dangers in applying solutions developed elsewhere as the conversation showed. First, context matters. The extent to which a state is facing enrollment growth or stagnation will influence any solution's likelihood of success. For example, Virginia is anticipating approximately 40,000 new students between 2005 and 2011. Yet its neighbor, West Virginia, is expecting a decline in its college-going population. Second, the fiscal framework of each state shapes available options. Colorado's TABOR legislation (the tax-payer bill of rights that limits state revenue growth, including tuition increases at public institutions) was a key driver in that state's move toward vouchers. Current tax policy and the extent to which state revenue streams are diversified also create different situations among states. Third, the prevailing beliefs of tax payers also have some bearing over what can be tried. In Oregon, for instance, voter-initiated ballot measures dictate the possibilities.



Conclusion: An Uncertain Agenda

One thing is apparent from the two roundtables held thus far with public college and university presidents: The rules of the game are being rewritten and higher education has an opportunity (and a responsibility) to shape them. What must happen for higher education to best position itself in this changing landscape? How can higher education show that it understands the fiscal and social problems the states face, and how can it renew (or maintain) the public's and

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policy makers' confidence and respect? How can it continue to deliver on its important social mission, given the changing circumstances?

Regardless of how explicit the charge, the path forward for higher education remains murky. No clear action agenda exists, although policies are being proposed in many states. Hard work is still required to develop a useful framework for moving forward. That said, the ongoing roundtables gave rise to a number of key issues that should guide future work:

- The diversity of institutions means that proposed strategies will affect colleges and

universities in different ways, thus institutions across sectors must collaborate with one another.

- Higher education's key values must be articulated clearly and reaffirmed as steadfast priorities; however, they must be framed in ways that are compatible with pressing state needs.
- Institutional leaders must make difficult choices that balance seemingly overwhelming marketplace pressures (and opportunities) with institutions' social purposes. Thus, leaders may have to sacrifice some short-term gains for long-term goals.
- Language matters, and some familiar concepts may no longer be sophisticated enough for today's difficult debates. As a result, higher education may need a new vernacular.
- The state and the institution are the two primary parties involved in the social compact. However, each has its own responsibilities, stakeholders, values, realities, and constraints. Thus, higher education leaders must understand not only what influences their own positions, but also the elements that shape the positions of policy makers.
- Finally, the approaches being considered in one state will influence the options being considered in another. Given that fact, higher education leaders need to engage their colleagues in other regions and develop some common platforms.

Appendix

American Council on Education/The Futures Project Invitational Meeting, June 24, 2004

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