

FIRST IN A SERIES OF ESSAYS:

The Changing Relationship Between States and Their Institutions

Shifting Ground:
Autonomy,
Accountability,
and
Privatization
in
Public Higher Education



The Futures Project

ACE American Council on Education

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

Foreword



This publication is the first 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 greater autonomy (that is, freedom from state regulation) often exchanged for increased accountability (demonstrating how the institution will meet state needs in a fiscally responsible manner). The old relationship—one of rigid regulation balanced by considerable state support—is being replaced by a focus on performance and learning outcomes, 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 private ones as well.

While the new relationships that are emerging—in the United States and around the world—hold promise for colleges and universities, they remain untested and their implications, for the most part, are unknown. Many people fear that the changes will lead to the privatization of 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 (ACE) 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 they 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.

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Introduction

The relationship between public higher education institutions and their states is undergoing a profound restructuring. State after state is passing—or debating—legislation that alters the balance of autonomy, accountability, and public support, placing issues of privatization and the public purposes of higher education firmly on the negotiating table.

Against this background, the American Council on Education and the Futures Project convened a meeting of college and university presidents, system chancellors, and leaders of higher education policy organizations in January 2004. (A list of participants appears in Appendix A.) The objective of the daylong discussion was to examine that changing relationship, explore the essential issues surrounding it, and identify strategies and tactics to help college and university leaders respond effectively. The discussion focused on whether the privatization of higher education threatens public college and university capacity to ensure academic success for an ever-expanding share of the population and to conduct unbiased research that fuels discovery and economic development. This essay is based on that discussion.

Clarifying the Context: A Question of Money



Public funding for colleges and universities is a cornerstone of public higher education. Changes in state funding—both real and perceived—are the primary drivers of the massive restructuring of the relationship between states and their colleges and universities. The shifting nature of public higher education funding calls into question the very definitions of public and private higher education. The causes and effects of this realignment, however, are open to varying interpretations, and its implications vary by opinion.

According to David Longanecker, executive director of the Western Interstate Commission for Higher Education, financial data tell two very different stories. In a presentation he called “A Tale of Two Pities,” Longanecker framed the day’s discussion by showing higher education funding patterns over the past two decades from two points of view: that of higher education and that of public policy makers.

From higher education’s perspective, the states have retreated from their support of public colleges and universities. Higher education leaders point to a diminishing share of state funding relative to other state expenditures and to institutions’ overall budgets; cuts in higher education budgets; a greater reliance on tuition income, forced by these funding shifts; and a shift from need-based aid (up 32 percent from 1994 to 1999) to merit-based aid (up 109 percent in the same period). The federal government, they say, is following a similar path. For instance, it has allowed the value of Pell Grants for low-income students to

diminish over time and has radically shifted the balance of federal financial aid for students from grants to loans.

Politicians, Longanecker said, interpret the same budget numbers quite differently. They maintain that state and local appropriations per student have steadily increased in constant dollars during the past 30 years (admittedly with some cyclical ups and downs), while rises in tuition are the result of higher institutional spending; in the five years from 1994 to 1999, need-based aid outpaced non-need-based aid. Furthermore, many state officials argue that higher education leaders do not understand that the states are broke, primarily due to narrowing tax bases and rapidly growing entitlement expenditures. Moreover, policy makers and—increasingly—the general public look at low inflation in the nation and increased productivity in private business and wonder why colleges and universities see themselves as exceptions to these trends. They also hear presidents and chancellors continually asserting that cuts will deeply harm higher education, but higher education officials rarely demonstrate convincingly that past cuts have negatively affected access and quality.

Whatever the reality, higher education leaders will nurture a positive relationship with their states only by understanding, empathizing with, and framing their arguments from the public’s and politicians’ perspectives, not only from their own. Making the same familiar (if not tired) arguments more strongly will have little meaningful effect. In addition, the consensus of the

meeting participants was that, however one interprets past spending patterns, the future is clear: Both state and federal governments will have fewer discretionary funds available for appropriations beyond, as one participant noted, “kids, elders, and health care”—issues that will top the agendas of politicians and the public for the coming decades. Current trends and priorities in funding, the participants agreed, represent not simply the cyclical changes that have become familiar over the last two or three decades, but structural changes that will predominate for a long time. Higher education cannot afford to wait out the downturn.

Institutions are responding by increasing tuition. For instance, this past year Wisconsin colleges and universities had to partially offset

tion to clarify the autonomy granted by the system’s “public corporation” status. In 2003, Texas institutions received new guarantees of procedural autonomy, including deregulation of tuition setting and fewer reporting requirements. In Wisconsin, “privatization” of the higher education system has been debated in the media. (For details on actions in various states, see Appendix B.)

Most strategies to diversify revenue, particularly research-based and entrepreneurial models, are frustrated by curbs on how new monies can be used. As one meeting participant said, “We are not running out of money, but out of *unrestricted* money.” Limits on their authority to allocate funds often tie the hands of presidents and chancellors as they manage institutions that have long depended upon internal cross-subsidies. A market-sensitive structure offers no provision for funding programs and services that have high public value but no market appeal. Participants also pointed out the perils of building a financial infrastructure on externally supported research or “hot” entrepreneurial ventures, both of which can easily vanish at the whim of the trendsetters.

The bottom line of the conversation about the bottom line is that it is not simply about securing *more* resources. Questions of public funding for higher education are wrapped up in questions about public purpose; autonomy from excessive state oversight and regulation; support from board members, business leaders, and the public; and higher education leaders’ ability to marshal compelling arguments on behalf of higher education and to make wise choices.

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an 8.7 percent reduction in state appropriations with an 18 percent tuition hike, while Arizona’s universities increased their historically low tuition by 40 percent to address funding shortfalls, and Michigan’s public institutions raised tuition in order to contend with a 20 percent reduction in state funding.

In response to such strained fiscal circumstances, as well as political interest in “market-oriented” structures for the public sector, institutions are exploring uncharted waters. For example, the Massachusetts College of Art was granted “special status” by the state in July 2003, allowing it greater autonomy in exchange for level funding and a mission-specific performance agreement. Maryland’s higher education leaders are seeking legisla-

New Configurations and Changing Relationships



The states noted above represent only a portion of the changing landscape. Changes have been enacted or proposed from Oregon and Colorado to Virginia and South Carolina. According to Lara Couturier of the Futures Project, whose presentation framed a portion of the January discussion, much of this change can be summed up as a “significant trend toward privatization.” The Futures Project is tracking new relationships—existing or proposed—between states and their public institutions that attempt to rebalance autonomy, accountability, and funding through a variety of similar yet critically different mechanisms, including:

1. Decentralization (e.g., New Jersey, Hawaii): increased self-regulation by institutions over such areas as daily operations and spending.
2. Tuition deregulation (e.g., Texas, Oklahoma): institutional authority to set tuition.
3. Vouchers (e.g., Ohio, Colorado): replacing the state appropriation to institutions with aid provided directly to students, who take that funding with them to the institution of their choice.
4. Public corporations or state enterprises (e.g., Oregon, Maryland): a change in the regulatory status of the college or university. For example, when the Oregon Health and Science University became a public corporation in 1995, the legislation stated: “A public corporation is granted increased operating flexibility in order to best ensure its success, while retaining principles of public accountability and fundamental

public policy. The board of directors of a public corporation is appointed by the Governor and confirmed by the Senate but is otherwise delegated the authority to set policy and manage the operations of the public corporation” (ORS 353.010).

5. Performance contracts or charter colleges (e.g., Maryland, Massachusetts): negotiated agreements providing higher levels of institutional autonomy in exchange for expanded accountability.
6. Negotiated statewide compacts (e.g., Illinois, North Dakota): agreements between a higher education system and its state that articulate higher education’s responsibilities in fulfilling state needs; institutional autonomy and financial support may or may not be included in these discussions.

Regardless of label, common elements of these new relationships include (1) a shift toward allowing market forces more sway; (2) increased tuition and enrollment flexibility; (3) more procedural and operational autonomy; (4) level funding from the state (typically, in inflation-adjusted dollars); (5) more emphasis on entrepreneurialism in generating new revenues; and (6) the introduction of performance standards and accountability measures. Also common to these new arrangements is the language of “privatization,” a term that makes many higher education leaders uncomfortable and that, for the most part, remains undefined, thus adding to the confusion. As one participant asked, “At what point is privatization

occurring—when state support is at 10 percent, 15 percent, or 25 percent?”

Regardless of specific meanings and language used, these trends reveal a real and significant shift in how states are organizing their higher education systems. They also raise a number of questions, including:

- When does a public institution become, in effect, private?
- What are higher education’s public purposes? Can they be defined in a meaningful way?
- Do public purposes require external reinforcement or incentives to keep those objectives as top institutional priorities? What mechanisms will keep public purposes high on institutional agendas?
- How can the public ensure that, in the face of these changes, institutions maintain a focus on society’s needs?

Clearly, elected officials and public institutions are redefining the state compact. What remains to be determined is whether these new relationships will be forged intentionally and constructively, or whether institutions and states will back into (uneasy) agreements inadvertently and thoughtlessly.

Seeking Firm Footing on Uncertain Ground

The discussion throughout the day uncovered a wide range of philosophical, moral, and practical policy questions and implications deriving from the undisputed changes in the public higher education landscape. That terrain may be characterized, in part, as one in which:

- Tax-cutting is a popular agenda.
- Entitlements are consuming an ever-larger percentage of both state and federal budgets.
- Public officials are more skeptical—in some cases to the point of disengagement—of higher education officials’ claims of dire distress and exceptional cases.
- Institutional memory among politicians is dimmer and partisan approaches toward higher education more prevalent than in the past.
- Institutions are perceived by the public and elected officials as inwardly focused, self-serving oases, where goals such as workforce and economic development often are met with disdain.
- Student preparation and ability to pay is declining, even as the student population and demand for a college education is increasing.
- Competition among institutions for the best students and the ones who can pay the most has generated a war of amenities that is adding enormously to the costs of education.
- New providers, including for-profit institutions, are competing with traditional institutions on fundamentals such as price and convenience.

- The implicit (or even explicit) compact between the state and public higher education has either eroded or lost its definition.

Against this backdrop, several observations seemed to command general agreement:

1. The language we are accustomed to using when we define key higher education policy issues—autonomy, control, accountability, support—may no longer be sophisticated or current enough to appropriately address the more varied and complex elements of

The degree to which privatization and autonomy are found in institutions and systems varies.

today’s debates. For example, *autonomy* and *accountability* can no longer be thought of only as dichotomous or oppositional. Similarly, *autonomy* and *privatization* are not mutually exclusive concepts. The degree to which privatization and autonomy are found in institutions and systems varies, depending on factors ranging from state constitutions to taxpayer amendments, and from legislative support to institutional mission. Higher education needs to create and adopt a new taxonomy to deal with these multidimensional issues.

2. Colleges and universities are perceived by external audiences as poor managers of resources. With concerns about the high price of college as the number one political issue facing higher education at both state and national levels, higher education has not found a way to increase productivity significantly (through, for example, alternative ways of delivering education), decrease costs substantially, or show the public and policy makers that it is already sufficiently efficient. And higher education needs to do so—in a way that avoids simplistic approaches that improve productivity at the cost of quality.
3. Alignment between the goals of the state and those of its institutions is essential for a fully productive relationship between the two entities. Higher education leaders, for the most part, have not put forward adequately persuasive evidence that their institutions are responsive to state concerns about quality assurance, productivity improvements, and cost control. Higher education needs to show that it understands the fiscal and political problems politicians face. More importantly, it needs to demonstrate how it can help—and is helping—the state overcome those problems, and to explain convincingly how current conditions are hurting higher education’s ability to serve the public interest. Public institutions have succeeded in gaining or maintaining a degree of autonomy when they have successfully made the case that the health of higher education is a necessary condition for the health of the state. Often, the responsibility for framing state needs falls to higher education leaders. A firm understanding of these needs enables institutional leaders to clearly and coherently articulate the public purposes their institutions fulfill.

Pointed Questions, as Yet Unanswered



Throughout the day, participants raised incisive questions that, given the intractability of the problems, not surprisingly went unanswered. Nonetheless, posing the questions is in itself a useful exercise. Among the questions articulated by participants were:

- What does it mean to be a public institution today?
- What is the entrepreneurial or “for-profit” role of public institutions?
- Do legislators know what they are buying when they fund public higher education?
- How do we renew (or maintain) the public’s and state policy makers’ confidence in and respect for higher education?
- Do state funding and regulation, when taken together, allow public institutions to fulfill their missions? What incentives sustain and encourage the pursuit of public purposes? In other words, is the concept of the state supporting an institution’s ability to exercise its mission outmoded? How does an institution’s mission align with its revenue-generating activities?
- How can higher education meet its responsibilities if politicians are disengaged from it, or if they respond only to current public preference (or public whim)?
- As a market-driven model of the relationship between states and public higher education takes hold more firmly, what will help make this model work constructively?

- How can we best renew the compact between states and their public institutions such that the key constituencies—the public, the politicians, and higher education—buy into it?

Next, some questions that meeting participants implied:

- Should higher education proactively develop alternative funding and control mechanisms, or should it simply be prepared to react to changes in its relationship with states?
- Is the land-grant model dead? Should a new model be put in its place?
- Is it possible that market-oriented institutions or systems will serve the public’s needs better than the public system has historically?
- Do higher education markets need regulation? Particularly, how can market-sensitive policies best serve the public interest? What are the implications for access? For mission differentiation and institutional diversity?
- How does higher education communicate about the changed landscape to on-campus constituencies—particularly the faculty? How do leaders get faculty to acknowledge the changed realities and secure their buy-in for moving forward?

Future Directions: Charting Next Steps



The consensus from the January meeting was that the day's discussion was stimulating, illuminating, productive, and valuable. Participants learned from one another, challenged one another's assumptions, and sought to move the conversation forward. Engagement was high. As we look forward to the next steps, the conversation made it abundantly clear that the changing relationship between states and their institutions demands further attention and concerted effort by higher education leaders.

Developing a national agenda that addresses the issues discussed raises a number of questions. Do we codify our knowledge and experience across states? If so, how? How do we share this expertise with other presidents, chancellors, and system heads? Do we engage state policy makers on a national level? Should we seek foundation funding for further collective activities or national studies? The difficulty of the issues, the essence of time and the speed of change, ambiguity over language—such as common terms having different meanings and different terms having similar meanings—and uncertainty about the efficacy of particular strategies make for muddled and unclear paths.

Though the details of where we go from here are not clear, any future strategies will need to reaffirm and place high priority on the essential values of the academy—such as access and academic success (particularly for underserved students), critical inquiry, and academic freedom—that are the cornerstones of a diverse and healthy democracy.

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Appendix A

Meeting Participants

Larry Isaak, President
Midwest Higher Education Commission

Samuel Kirkpatrick, President
Eastern Michigan University

William Kirwan, Chancellor
University System of Maryland

Peter Likins, President
University of Arizona

David Longanecker, Executive Director
Western Interstate Commission for Higher
Education (WICHE)

Hank Lufler, Managing Director
Wisconsin Center for the Advancement of
Postsecondary Education (WISCAPE)

Katharine Lyall, President
University of Wisconsin System

Aims McGuinness, Senior Associate
National Center for Higher Education
Management Systems (NCHEMS)

Frank Newman, Director
The Futures Project: Policy for Higher
Education in a Changing World
Brown University

Katherine Sloan, President
Massachusetts College of Art

L. Dennis Smith, President
University of Nebraska System

David Ward, President
American Council on Education

Jane Wellman, Senior Associate
The Institute for Higher Education Policy
(Meeting Facilitator)

Mark Yudof, Chancellor
University of Texas System

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Appendix B



The higher education leaders who attended this meeting gave overviews of recent activity that reflected changes in the relationship between their states and public higher education:

In Wisconsin, state appropriation for public higher education in 2004 is 8.7 percent lower than in 2003, offset in part by an 18 percent tuition hike. State revenues are down not only because of the lingering effects of recession but also because of the long-term effects of an out-moded tax system based on a traditional industrial/agricultural base, said Katherine Lyall, president of the University of Wisconsin System. Also key to this state’s political landscape is the lack of a cogent legislative agenda because of significant changes in critical governmental leadership positions and a debilitating partisan impasse. The long-term effectiveness of higher education leaders and others in emphasizing the importance of a college education to personal and economic success may (and did) induce lawmakers to conclude that students themselves should pay for this opportunity.

In Arizona, despite a tradition of weak support for education, a tax-cutting culture in the legislature, and a constitutional constraint requiring tuition at state institutions to be “as near to free as possible,” said Peter Likins, president of the University of Arizona, the three research institutions (each with a different mission) have been granted permission to raise tuition by 40 percent, along with increased autonomy. Additionally, the institutions are capitalizing on their research capacities to increase revenue. The state’s tax-averse culture made legislators more sympathetic to the value of research as an economic driver for both institutions and the state, thus doing what they can to ensure that federal and private

research dollars flow more freely to the universities. Policy makers in this state also have provided more autonomy to higher education, granting institutions the authority to undertake private fund raising, the capacity to seek out research dollars, and the freedom to manage enrollment, increase tuition, and eliminate programs. Key to gaining this independence was the triumvirate of (1) bold and supportive governing board leadership, (2) gubernatorial leadership that recognizes the statewide contributions of higher education, and (3) legislative will and support.

In Maryland, political turmoil and partisan division also characterize the landscape and have led to stalemate. Higher education has suffered a 14 percent cut coupled with a 20 percent tuition increase, in part the result of a \$1.2 billion increase in K–12 spending. The state university system was designated a “public corporation” in 1999, and is now seeking to define the meaning of that status through legislation that will clearly state the system’s level of freedom from state regulation. It appears the system has “a real shot at significant autonomy,” said William Kirwan, chancellor of the University System of Maryland. The governor has bought into the research agenda and understands the implications of future enrollment growth and the impending capacity challenges facing the state. He has proposed a block grant system and relief from some bureaucracy and accountability reports.

In Massachusetts, the governor attempted to radically reform higher education—including privatizing the public Massachusetts College of Art. Though the broader reforms failed, the college was able to leverage this situation into an agreement that changed its state funding formula and created new autonomy reported

Katherin Sloan, president of the Massachusetts College of Art. In part, the new agreement stipulates that the college will receive a level-funded block grant and retain all of its tuition revenues (unlike other public institutions in the state), and it now has the ability to expand out-of-state admissions. In return, the college agreed to keep in-state tuition affordable (through grants and loans) and to match every out-of-state student with an in-state admission. This is seen by legislative leaders, who are tired of colleges asking for more money each year (public higher education in Massachusetts saw a 30 percent cut this year), as a pilot program for a new model of state funding and control. Another “niche” public institution, the Massachusetts Maritime Academy, is seeking a similar arrangement. One significant issue: The state faculty union is, at best, lukewarm toward the new model.

In Michigan, the public universities have substantial autonomy with virtually no controls because of constitutional autonomy (though there is a theoretical tuition cap in place, due to uncontested legislation that might violate state law) and few performance reporting requirements. Individual boards are either elected (as is the case with the three large state universities) or appointed by the governor (as occurs at the remaining institutions) to eight-year terms. Approximately 30 percent or less of funding (depending on the institution) comes from the state, which cut higher education funding by 20 percent last year. Eastern Michigan University president, Samuel Kirkpatrick noted the historically high degree of autonomy means the conversation is not as complex, although the stakes continue to be high and tensions remain between institutions, the legislature, and the governor about public support for higher education.

In Nebraska, public higher education includes a single research university of four campuses, plus community and state college systems. The university receives just over one-quarter of its revenues from the state. That appropriation dropped 15 percent in 2004. The state constitution grants nearly full autonomy to the university,

though the governing boards—which are elected to six-year terms by district and meet 10 times a year—are politically motivated and highly active. According to L. Dennis Smith, president of the University of Nebraska System, what has proved effective in convincing state policy makers to allow greater flexibility in tuition and enrollment management has been to demonstrate that (1) out-of-state students—rather than being a drain on state resources—serve the critical state need of attracting and retaining intellectual capital to the state, (2) research brings in federal dollars and prestige to the state, although admittedly research is a financial “loss leader” to the university itself, and (3) the university has a vision *for the state* and plays an essential role in realizing that vision and restoring economic health to the state.

In Texas, Mark Yudof, chancellor of the University of Texas System, described an omnibus deregulation law that introduced the notion that the higher education system is not synonymous with state government. For example, tuition is deregulated (though fees are not), and institutions are reimbursed for the indirect research costs that they generate. Institutions encounter new guarantees of procedural autonomy and fewer reporting requirements; however, they are held publicly accountable to the legislature.

In North Dakota, the legislature passed the Flexibility with Accountability Act in 2001, which grew out of the recommendations of the Roundtable of Higher Education. According to Larry Isaak, president of the Midwest Higher Education Commission, that 1999 commission demonstrated to the legislature, with key input from private-sector business leaders, that the North Dakota University System can become more integral to expanding and diversifying the state’s economy and enhancing citizens’ quality of life. The bill deregulated tuition, granted new levels of operational autonomy, and outlined specific measures (mostly traditional output indices) for accountability.

