

WISCAPE

Wisconsin Center for the Advancement of Postsecondary Education
University of Wisconsin-Madison

Forum – February 26, 2003

Moving from Fiscal Constraint to New State-University Partnerships

A New State-University Relationship for a Stronger Economy

Terry MacTaggart

Senior Fellow, Center for Public Higher Education Trusteeship and Governance, Association of Governing Boards

University of Maine System Research Professor

TJM@Maine.edu

February 17, 2003

Introduction

What do Wisconsin citizens, taxpayers and students have a right to expect from their public universities and what should state leaders do to ensure that they get it? In addressing these questions, political, policy and educational leaders in Wisconsin will need to look to redefining the relationship between the state, the University of Wisconsin System and the aspirations of the people of the state. After commenting on the link between higher education and economic performance in Wisconsin, this paper outlines what some other states are doing to achieve better results and offers some general lessons based on analysis of that experience.

Higher Education and State Economic Performance

By all accounts, the University of Wisconsin System is one of the best in the country. Most citizens need not travel far to enroll at a campus or center. Business leaders and others report higher levels of satisfaction with the universities than their peers in other states. In most surveys, including the widely read *US News and World Report*, the University of Wisconsin-Madison stands above its counterparts in both neighboring states, Minnesota and Illinois. The state's regional campuses rank among the best of their kind in the country.

Yet in spite of this impressive higher education establishment, the link between education and the economy is not as strong as it should be. For example, according to a national report card of state performance, only a quarter of Wisconsin's adults between age 25 and 65 hold a bachelor's or higher degree in contrast to the 34% who do in leading states. Wisconsin is closer to Mississippi than Minnesota or Illinois in this category. Relatively low educational attainment translates into low individual and family income. Where both Illinois and Minnesota are in the top fifth of states in individual income, Wisconsin hovers about the mid point. And on measures

of economic potential based on knowledge, the so called “new economy” index, which typically requires the transfer of university based research and training to the market, Wisconsin ranks well behind its neighboring states and the country as a whole.

While a good case can be made for closing this gap between higher education and economic performance through more public investment in colleges and universities as well as research and student aid, as a practical matter this will not happen any time soon. Even assuming that the current economic downturn eases within a year or two, investment in K-12 education and health care along with resistance to tax hikes will constrain substantially increased funding for the universities in the future.

Instead, Wisconsin needs to make better use of the resources it currently devotes to its public universities. The way to greater educational and economic effectiveness is not to further regulate the system. (If hyper- regulation were the answer to better educational and economic performance, Wisconsin would be one of the richest states in the country.) The state’s political, policy and educational leaders need to reach agreement on key expectations for its public higher education system, then make the commitment to free up the system and the universities to achieve those results.

A Wisconsin Agenda for Public Higher Education

What do the citizens of Wisconsin have a right to expect in return for their investment of tax proceeds and tuition dollars in higher education?

A just society, most would agree, ensures that material goods are distributed equitably to all of its members. Progressive taxation accomplishes some of this, but justice seems also to include providing equal access to the means of achieving material wealth, notably education. In an economy where the best jobs require advanced education, access to higher education is a hallmark of a fairness.

Access to higher education is increasingly defined by Americans as one of the major responsibilities of government. Most Wisconsinites probably share several other expectations for their public university system as well. If they are like Americans generally, they expect their higher education system to be affordable as characterized by reasonable tuition rates and adequately funded student aid. Parents and students alike want their colleges and universities to hold a reputation for quality and provide a curriculum that prepares students for a career. Taxpayers expect that university managers and leaders deploy their money and tuition dollars as if it was their own. Businesspersons as well as employees expect the universities to contribute to a vital and growing economy through applied research, technology transfer and workforce development.

New Operating Agreements

What can leaders in Wisconsin do, especially in a time when they cannot make new funding commitments, to reengineer the relationship between the state and the university to better deliver on these consumer expectations?

Other states faced with the same dilemma (sometimes intensified by large increases in the student population) have chosen to free up their public colleges, universities and systems from procedural state control while at the same time and in varying degrees setting clearer expectations for results. This combination of granting greater independence to manage their affairs while requiring more accountability for results takes several forms. Here are some examples:

Governance Change. A number of states have restructured statewide governance and many more are discussing the merits of dissolving statewide boards or creating them or refashioning their responsibilities. In 1994 New Jersey Governor Whitman replaced the state's powerful higher education coordinating board with largely independent local boards of trustees. Now Governor McGreevey has initiated discussions of how the public institutions might more fully serve a common statewide agenda while still preserving their independence. In 2001, Florida eliminated the Board of Regents which oversaw its public universities in favor of local campus governing boards and a K-16 Board. Subsequently in a referendum, Florida voters chose to reinstate a statewide governing board while retaining the new K-16 group. In the past dozen years or so, Alaska, Illinois, Maryland, Massachusetts, Minnesota and North Dakota, West Virginia, as well as Florida and New Jersey have changed the governing structure of their public colleges and universities.

The track record on reform through this kind of governance change alone is mixed. Contrary to the claims of critics, giving universities their own boards independent of statewide systems has not resulted in either diminished quality or a proliferation of elitist, exclusionary institutions. However, removing a statewide governing or coordinating authority tends to make education more expensive as institutions offer duplicative programs, services and administrative functions. And in states where largely independent public institutions compete with one another for dollars and students, there is a sense that statewide goals are given short shrift. As one system head put it, someone needs to look after the "orphan issues" that are ignored by the competitive market for students and institutional self-interest.

Procedural or Administrative Deregulation. Over the past several years, most states have devolved some authority from state regulatory and administrative agencies to university systems and many systems have shifted greater responsibility to their campuses. Examples include greater flexibility in purchasing, contracting for services, human resources management and managing construction. Such changes represent good management practice, but taken alone they do not fundamentally contribute to greater educational effectiveness.

Oregon illustrates the potential benefits of coupling procedural deregulation with greater expectations for results. In the mid-nineties, the Oregon University System reached agreement with the Governor and the legislature that in return from being set free from many of the controls of the Department of Administrative Services, the System would enroll 2000 additional students at no additional cost to the general fund. System officials believed that savings achieved through more efficient operations and increased revenues from the tuition of additional students would compensate for lost state funding—funding that was unlikely in any event.

After a series of compromises, the system received substantial responsibility for its own labor relations (it had always controlled faculty personnel policies), for leasing, contracting for services, capital construction and purchasing. According to an independent review panel, the universities saved millions of dollars by streamlining operations, enrolled the additional students as promised, and met state social policy goals as well. The chairman of the review panel noted that the most enduring benefits might have been a cultural change at the universities “with the emergence of an entrepreneurial focus on results rather than process.”

Public Corporations. Several states have recast all or parts of their public higher education systems into public corporations with greater independence from state regulatory agencies. The University of Maine System, which has held this status since its founding thirty years ago, essentially receives one check from the state for its appropriation and operates independent of any state regulatory agency. Its Board of Trustees can incur debt, provides its own internal audit function, manages all construction projects, controls its own personnel policies including labor negotiations, enjoys legal counsel and sets and retains tuition. Over the years, system executives in Maine have estimated that this independence results in savings of about 10% of their operating budgets.

In 1999, Maryland granted public corporation status to its university system. The system now operates with less regulatory oversight, although that same legislation devolved greater authority for budgets, programs and other matters to local campus boards as well. In the mid-nineties the Oregon Health Sciences University was removed from the university system and became a public corporation with a steady reduction in state funding. During the same period, the University of Wisconsin Hospitals achieved status similar to other public corporations.

The success of public corporations depends on degree of independence granted (substantial in Maine and Oregon, less so in Maryland) and the capacity of the corporation to manage its fiscal affairs including setting tuition and fees and debt financing. Additional critical success factors include the organization’s charter and the adroitness with which its leaders use their independence to serve public needs.

Charter Colleges. Charter colleges and universities are akin to public corporations in that they are public entities that operate with their own boards of trustees largely independent of state and system regulation. In concept at least, these hybrid public-private institutions differ from public corporations in that they are required to meet specific results outlined in a charter or agreement with the state. St. Mary’s College of Maryland is the classic example of a charter college in that in return for less state support and the promise to meet certain standards for quality and diversity, it enjoys substantial freedom to manage its academic and fiscal affairs. Charter colleges are not nearly as widespread as charter schools at the pre-collegiate level, but charter-like colleges with varying degrees of independence and specificity in their charters exist in Colorado and Virginia, and are being proposed elsewhere.

Many believe that the charter model holds great promise because it explicitly combines greater freedom to manage with fairly concrete expectations for performance. Charters appear to work well at smaller institutions with focused missions and strong alumni and corporate support. Their utility in large, complex universities and systems has yet to be tested.

Lessons from Other States

While intensified procedural regulation has not produced the higher levels of performance, there is no reason to suppose that simply loosening the reins of authority will magically produce better results either. What is needed is a workable balance between independence and accountability. Here are some general lessons on achieving that balance based on analysis of the experience of other states.

Recognize that changing the way public higher education is managed to better serve the needs of the people is a shared responsibility involving the Governor, the Legislature and higher education leaders. Putting the new policies in statute will be necessary to secure permanent change.

Link expectations for higher education with what the public desires of its public universities and anticipated future needs of the state. In Wisconsin, this will certainly involve questions of participation and graduation rates as well as workforce development and applied research.

Make expectations few, clear and important. Encouragement to create a “seamless” educational system or to “respond to local educational needs” or to “support economic development” needs to be buttressed with more specific and measurable objectives.

Grant substantial independence in return for greater accountability. Reinventing government turns out to be much more difficult than some apostles of reform suggest. Entrenched state bureaucracies will resist loss of control and predict dire consequences from devolving authority. Political and policy leaders need to make and follow through on commitments to the new relationship.

Grant the System far greater authority to manage its fiscal affairs including setting tuition and fees, managing debt, and oversight of construction. This policy, like the others, needs to be arrived at through negotiation which would include provisions for need-based student aid and some legislative review of especially of bonding levels.

Set up an ad hoc independent review entity to ensure that greater independence in statute is in fact being exercised, to monitor progress and to recommend changes if promised results are not achieved. A summative evaluation should be scheduled five years after the new relationship is initiated, with periodic interim reports before that time.

Develop the new relationship through negotiated agreements among political and university leaders and include heads of state agencies in the discussions. The ultimate success of these efforts will depend on the practicality of the agreement and on the levels of trust among the key players.

References

Berdahl, R. (1998). Balancing Self-Interest and Accountability: St. Mary's College of Maryland. In T. MacTaggart and Associates, *Seeking Excellence Through Independence: Liberating Colleges and Universities from Excessive Regulation* (pp. 59-83). San Francisco: Jossey-Bass.

Berdahl, R. & MacTaggart, T. (1999). *Charter Colleges: Balancing Freedom and Accountability*. Boston: Pioneer Institute for Public Policy Research.

Donahue, J.D. (1989). *The Privatization Decision: Public Ends, Private Means*. Basic Books.

Epper, R. (1999, January). *Deregulation of State-level Academic Program Policies*. Denver: State Higher Education Executive Officers.

MacTaggart, T. & Associates (1998). *Seeking Excellence Through Independence: Liberating Public Colleges and Universities from Excessive Regulation*. San Francisco: Jossey-Bass.

MacTaggart, T & Mingle, J. (2002). *Pursuing the Publics' Agenda: Trustees in Partnership With State Leaders*. Washington, D.C.: Association of Governing Boards, Center for Public Higher Education and Trusteeship.

The National Center for Public Policy and Higher Education. (2000, 2002). *Measuring Up 2000 (and 20020: The State By State Report Card for Higher Education)*. San Jose, CA: The National Center for Public Policy in Higher Education.

Rawls, J. *Justice as Fairness*. Cambridge, MA: Harvard University.