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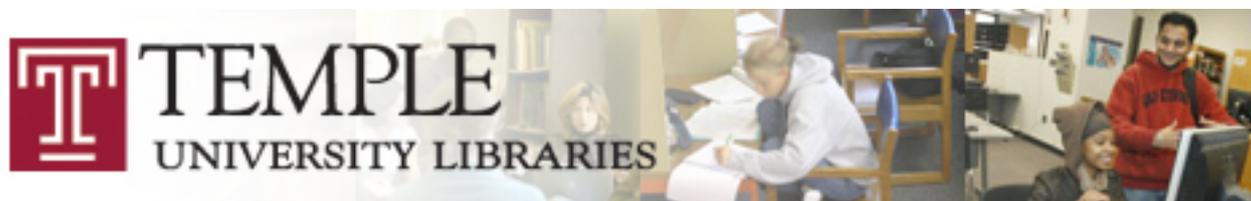
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A new model for financing public colleges and universities

Darryl G. Greer and Michael W. Klein

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Abstract

Purpose – *The purpose of this paper is to suggest public service corporations as a new means of helping to finance comprehensive public colleges and universities based on a well-documented assumption that the current shared responsibility for financing public colleges is broken.*

Design/methodology/approach – *The paper focuses on financing comprehensive public colleges and universities, and explicitly does not focus on research, community, or proprietary institutions. The paper draws heavily from national data and literature on college finance and productivity, and uses New Jersey's state colleges and universities as primary examples.*

Findings – *The paper asserts that a new funding rationale for public colleges is imperative or these institutions will fail the principal mission of broad access for middle-income students. Citing examples from New Jersey and other states, and drawing on work of other policy analysts, the paper proposes creation of new public service corporations not only as a means of generating new revenue to replace diminished state investment, but also as a means of enhancing transparency, accountability and public trust. The paper discusses explicit purposes and measurable benefits of the public service corporation.*

Originality/value – *The paper is written by two higher education policy practitioners with a combined 40 years executive experience in higher education law and policy at the state and national levels. They have been a leading voice for policy innovation in New Jersey. The paper has significant value for college presidents, trustees, governors, legislators, and policy analysts.*

Keywords *Finance, Management accountability, Colleges, Universities, United States of America*

Paper type *Viewpoint*

Introduction and purpose

Put simply, the means by which we finance public colleges and universities, that serve over 70 percent of college students nationally, is severely and irreparably broken and needs to be changed. Without a new model, public higher education will fail its principal purpose of providing a broad college opportunity, especially to low- and middle-income students – and an emerging population of new Americans. Moreover, without a new funding rationale that has transparency and predictability for all funding partners, these colleges will lose the public trust – a critical element in sustaining the American democratic experience through education.

Beyond documenting the pressing problem of creating a new funding paradigm, this paper will explore misconceptions that must be overcome to find solutions, and will offer what a new solution might be – a new public service corporation model that: creates private partnerships; produces new revenue to replace lost public financing; protects and enhances the core educational enterprise; and, thereby, generates greater transparency, accountability and public trust in sustaining investment in public colleges. Also, the paper offers, beyond the benefits of the new model, a means of measuring success. It focuses principally on the comprehensive (master's level) public colleges and universities, as

contrasted to public or private research, community, or proprietary colleges, and uses New Jersey as a primary example.

A fundamental assumption is that public colleges are central to educating citizens to sustain a democratic society and to help insure the hope of both liberty and prosperity for all citizens. Beyond the broad public benefits of public colleges, they also provide important benefits to individuals related to aspirations for jobs and immediate and intergenerational economic prosperity.

Accordingly, public colleges can achieve the dual goals of public and private benefits only by: demonstrating equity and fairness for who goes to college; legitimacy for who pays and how; and responsibility for how colleges account for educational outcomes and sustaining public trust.

A broken financial partnership

There is widespread evidence, in addition to opinion, that the long-standing model for financing public colleges that has seemed to work so well in many states for decades, now seems, even with an expected economic recovery, to need radical change. Comprehensive regional public colleges and universities have been financed principally by state governments and tuition reserve, with a significant amount of funding supplementing these two main revenue sources through state and federal student financial aid.

Statements that the system is broken come not only from educators and policy analysts, but also from top elected officials, such as the Governor of the State of New York, who states explicitly in the *State of New York 2010-2011 Executive Budget Briefing Book* that support for the New York public higher education system is “broken” and needs an “overhaul” (Paterson, 2010, p. 107). The governor’s budget offers specific recommendations regarding tuition policy flexibility and greater autonomy for CUNY and SUNY institutions as a remedy. In California, facing the nation’s largest budget imbalance, the governor announced at the end of 2009 a somewhat ill-conceived plan for a constitutional amendment to fund public colleges at a level no less than that of corrections. Colorado and growing western states such as Arizona and Nevada are other states among many seeking the means to stabilize public college funding from the discretionary whims of an annual budget.

New Jersey, ironically one of the nation’s richest states measured by per capita income, stands out as an example of a state in bankrupt status, with revenue and expenditures wildly out of balance for at least 15 years, and offering little hope for investing further in higher education as a discretionary state spending item.

The American Association of State Colleges and Universities (2010), in its January 2010 summary of *Top Ten State Policy Issues*, lists states’ fiscal crisis as the number one issue, and tuition and enrollment policy as numbers three and four. Virtually no higher education expert places the blame for a breakdown in the traditional rationale for financing public colleges on the current global economic recession. Public sector disinvestment in public colleges has been an ongoing trend for two decades, principally because of high demand from other priority entitlements, high state debt burden, and self-imposed limits on tax revenue, all leading states to shift appropriations not only from higher education to other public goods, such as Medicaid (Husch, 2009), but also within higher education to shift operating and capital appropriations to student financial aid as a means of rationing the scarce dollars on the side of affordability.

The broken balance wheel for shared responsibility is national in scope. State tax appropriations in 2008-2009 per full-time equivalent student at public colleges and universities were 12 percent lower in constant dollars than ten years ago (Baum and Ma, 2009). The decrease is not a one-shot reaction to the current “Great Recession.” The share of public college and university budgets provided by the states dropped from a peak of about 50 percent in 1979 to about 36 percent in 2000 (Breneman, 2004), and down to 27 percent in fiscal year 2006 (Snyder *et al.*, 2009). State appropriations for higher education per \$1,000 in personal income “have declined steadily from a national average of \$9.74 in 1989-1990 to \$7.36 in 1999-2000, and \$6.50 in 2008-2009” (Baum and Ma, 2009, p. 14).

As state appropriations go down, tuition goes up. The average increase in tuition for in-state undergraduates at public four-year institutions between 2008-2009 and 2009-2010 was 6.5 percent (Baum and Ma, 2009). Again, this increase is not an isolated response to the recent recession. Between 1979-1980 and 2009-2010, tuition and fees at public four-year institutions grew about 325 percent in inflation-adjusted dollars (Baum and Ma, 2009).

The twin problems of shrinking appropriations and increasing tuition are more acute in New Jersey than in most states. Between FY 2007 and FY 2009, New Jersey was one of only three states to decrease its state tax appropriations for higher education (Grapevine, 2009). Appropriations shrunk again in FY 2010 when Governor Christopher Christie cut \$62 million from public colleges and universities to help plug a \$2.2 billion budget hole, while also staring at an \$11 billion deficit in FY 2011 (Heininger and Fleisher, 2010). The Pew Center on the States identified New Jersey as one of the ten states most stricken by the recession (Urahn, 2009). New Jersey state government is plagued by fiscal mismanagement, structural budget deficits, high debt payments, an underfunded pension system, and “the woes of nearby Wall Street – which supports approximately one-third of New Jersey’s economy” (Urahn, 2009, p. 5).

In New Jersey, higher education as a share of state spending has fallen to 5 percent from 9.8 percent since 1983 (Mann and Forsberg, 2006). As the state has disinvested, the student family share of paying for college has increased to 60-70 percent from a low of 30-40 percent in the early 1990s. Educational appropriations per FTE are down 19 percent (2004-2009), the third worst in the nation (State Higher Education Executive Officers (SHEEO, 2010)). New Jersey’s FTE appropriations are \$4,000 below the national average for the past 25 years, according to SHEEO. As the College Board’s cost studies (Baum and Ma, 2009) illustrate, as states have disinvested, tuition has risen at a rapid rate, and new investment in student financial aid has not been able to match it, placing the most at-risk students in jeopardy regarding access and ability to pay for college. Net tuition (tuition minus student aid) has doubled nationally since 1984 (SHEEO, 2010).

The situation will not improve anytime soon. National studies project that state revenues are not likely to recover until 2014 or 2015, largely because of entrenched unemployment (National Governor’s Association, 2009). Few states are as bad off as New Jersey, ranked among states in the worst financial position for many years, with long-term debt commitments outpacing new revenue. New Jersey’s structural budget problem virtually guarantees disinvestment in higher education as a discretionary budget item.

Given these trends, it is worthwhile to review briefly the antecedents of the basic principles underpinning the current broken system. For example, in his groundbreaking international comparison of *Sharing the Cost of Higher Education* (Johnstone, 1986), predicted that a major change in the public/private share of financing public colleges was highly unlikely, given the relatively stable balance of interests of taxpayers who pay for college through both taxes and tuition, and who also consume the product.

In this context, it is interesting to note that the model for financing public colleges and universities, while viable for several decades, only reached maturity, recently. For example, the Zook Commission, appointed by President Truman in 1946, offered the first substantive blueprint for our current segmented system of higher education. The Commission’s 1947 report envisioned, for the first time, creation of community colleges; expansion of the missions of teachers colleges to become comprehensive universities, especially in the context of veterans returning from World War II; and a major expansion of the role of public research universities. Yet, the Commission did not offer great detail on how states would finance these institutions. With the explosion of public college enrollments in the 1950s and 1960s, greater clarity in defining shared responsibilities for college finance, under great strain today, evolved from the 1960 California Master Plan and significant studies of the Carnegie Commission, headed by Clark Kerr in the early 1970s; creation of state-level higher education coordinating boards during the same period of time; and significant investment in state and federal student financial aid grants and loans by the 1980s.

But, it is no longer a viable policy to assume that many states can sustain being the principal funding source for public colleges and universities. Neither can we expect to sustain public colleges by continuing to shift the cost of the enterprise to students and families, thereby pricing many out of college, or alternatively leaving citizens with loan repayment burdens far into the future.

Eroding effect on public trust

Even with current evidence that we cannot go “back to the future” to fix a broken financing system, those who desperately want to find a new model for shared responsibility for public college finance will be poorly served by the continuing misperception that higher education can be fixed as a whole, meaning failing to recognize that there are many different types of higher education enterprises, that student and service markets are mature and well-defined, and are local and regional, not national in scope.

Accordingly, seeking a unified theory for financing public higher education will be unproductive. Instead, different models for financing enterprise and accountability that fit different types of institutions serving different types of students, will lead to more effective policy and educational outcomes. These assertions become apparent, for example, in *Trends in College Spending – Where does the money come from? Where does it go?* a report of the Delta Cost Project, supported by the Lumina Foundation (Wellman, 2009). How much students pay for college (net cost, meaning subtracting institutional subsidy and student financial aid) varies a great deal by educational sector. However, the report makes several trends clear. For comprehensive public colleges, there is a significant loss of public funding during the early part of the first decade of this century for full-time equivalent (FTE) student state support; and there has been a dramatic increase in tuition and fees. Disturbingly, as tuition has risen, and state investment has declined, less money has been spent on instructional, and educational and general, expenditures for public comprehensive colleges. More money is being spent on administration and support services.

These trends underscore what national and New Jersey scientific polls reflect about the mood of citizens served by public colleges. The public is not only correct that tuition has risen for a decade at a pace faster than that of student financial aid, but moreover is disquieted about the substitution effect of tuition replacing public dollars, as well as uneasy about how colleges spend these dollars to support access, quality, and achievement.

As the Delta Project report indicates for New Jersey, as of 2006, tuition paid for 64 percent of educational cost at public master’s institutions, while state investment paid for 36 percent. Roughly, the amounts are the reverse of ten years prior. Even more disturbing, *Trends in College Spending* points out, as financing the cost of public college has shifted to students and families, higher education has become more stratified, meaning that the fastest growth in enrollment has occurred, since the beginning of this decade, at those institutions with the fewest resources, and with the greatest evidence of spending cuts and state appropriations reductions – public comprehensive institutions.

These trends indicate clearly that a new financial model, one that is explicit, transparent and sustainable over time, backed by public trust, is a fundamental missing element in defining how the purposes of public colleges will be fulfilled in the twenty-first century.

Since the 1990s, organizations such as the National Center for Public Policy and Higher Education, as well as the New Jersey Association of State Colleges and Universities (NJASCU), have conducted scientific polls on how citizens view college opportunity, college quality, paying for college, and public accountability since the 1990s. The most recent scientific poll conducted by the National Center in collaboration with Public Agenda, a nonpartisan, nonprofit “think tank” organization, expert in public opinion and scientific polling, finds that Americans are increasingly skeptical about colleges and universities’ ability to control costs (Immerwahr and Johnson, 2010).

The recent poll indicates that an increasing number of citizens – 60 percent in 2009, compared to 52 percent in 2007 – think that colleges seem to be more like businesses, and care mainly about the financial bottom line.

Ironically, while more citizens over the last decade believe that college education is necessary to be successful in today's work force, significantly fewer citizens believe that they will have the opportunity to attend college. These policy organizations characterize this finding, appropriately, as "trends on a collision course".

NJASCU polls since 1999, which focus squarely on New Jersey's comprehensive public universities and colleges, conducted by a well-known national political polling and marketing firm, Penn, Schoen and Berland Associates, reflect similar research findings. New Jerseyans, like their national counterparts, have high aspirations for college, generally believe that public colleges and universities are doing a good job, but are increasingly disturbed by the rapid increase in the share of college costs paid by students and families.

Interestingly, national and New Jersey data indicate that citizens significantly overestimate their share of paying for college by as much as 50 percent more than the actual costs; but they perceive correctly that cost of college is rising more rapidly than other goods and services, and that costs have been shifted from the state to citizens. In NJASCU's October 2009 poll, citizens blamed rising college costs more on the current economic recession and state disinvestment than on college management, but they did not give the institutions a pass on the matter, however, indicating that colleges must do more to contain costs to sustain access, quality and affordability.

Another major area of disenchantment, indicated by NJASCU research, is that citizens who strongly support investing in college opportunity for all citizens, also support investment in student financial aid, but 70 percent do not believe that student financial aid will be available to them. This finding points to a large disconnect between public aspirations for college and perceptions about ability to pay for it. It underscores, too, misdirected public policy that disinvests in basic funding for public colleges, consciously transferring the revenue burden to students, and rationing student aid.

Unsurprisingly, when asked directly about public trust in new investment to support college opportunity and trust in managing any new investment without political interference, New Jerseyans by a 4:1 margin trust presidents and boards of trustees over the governor, legislature and state agencies to protect public colleges. But this finding alone does not explain away growing public uneasiness about decreasing college affordability and how public colleges spend money.

A critical question, then, beyond the failing system for financing public colleges, one in which the public increasingly believes they are getting the short end of the stick, is how much longer can citizens place confidence in public colleges to provide access to affordable, quality educational experience? The values of how to pay for the enterprise; who benefits from it; and how trust is sustained, are highly interactive parts of defining new shared responsibilities.

Progress on a new model for shared responsibilities for paying for college must include not only a predictable, sustainable means of finance, but also a means of building and maintaining public trust in the overall enterprise, meaning measurable public value received for the investment.

Barriers to change

Clearly, we did not achieve the diverse and expansive system of postsecondary education overnight. It has taken many decades of development to achieve such diversity. But the public policy decisions made in earlier times to expand the capacity of higher education, meaning building and expanding the missions of new public institutions, preceded the matter of determining precisely how these new institutions would accomplish their jobs, and how they would be financed in the long-term. Unlike in a business setting – where productive capacity would not be expanded without documenting explicit business goals, markets, and financing – public policymakers, especially at the state level after World War II, expanded public college capacity as a social decision, trusting higher education to fill in the substance regarding specific educational goals, student markets, outcomes, and sustainability. In other words, we backed into a system for financing public higher

education on the assumption that states would fundamentally support the enterprise with the lion's share of revenues – about two-thirds from the state, and about one-third coming from students. Since the 1980s, tremendous focus has been placed on financing higher education through burgeoning student financial aid grant and loan programs, and tuition transfer proposals, as contrasted to fundamentally revisiting the assumption of the state's key role.

With the state pillar collapsing, and as we search for a new model, a number of macro-level issues beyond revenue and expenditures stand in the way of our moving forward. There is not only a loss of a sense of purpose about the fundamental value of public higher education, there seems to be a dramatic loss of a sense of purpose about government at large. Higher education suffers, too, from a sense of loss of special status, as reflected in the National Governor's Association report (Wakelyn, 2009), which laments American higher education's declining international ranking in college completion, and the concomitant concern about slower job and economic growth and the negative effect of intergenerational income transfer.

Another factor outside of financial investment, itself, is the politicization of higher education as a policy issue at the state level, and unproductive debate about state vs. campus or system control. State-level coordinating and governing boards in many states, such as New Jersey and New York, respectively, have either been captured by governors to constrain policy debate about declining investment in public colleges, or to inform it through ideology; or by legislators who actively intervene in academic, personnel, and tuition policy in an expedient attempt to achieve affordability and accountability goals in bad economic times (Wellman, 2006).

Regarding finance alone, Dennis Jones from the National Center for Higher Education Management Systems and Jane Wellman from the Delta Project (Jones and Wellman, 2009) suggest in "Rethinking Conventional Wisdom about Higher Ed Finance" that there are ten reasons why we are having difficulty in developing a new model for financing public colleges, one in which shared responsibilities are clearly understood and sustainable. In a nutshell, these ten reasons boil down to financial expediency and conventional thinking that institutions can use existing management tools to muddle through.

Finally, a major factor inhibiting change is state government itself. As a disinvesting partner, it clings to outdated regulatory and statutory controls over colleges that no longer apply to a high-demand, low-support environment that public colleges face (New Jersey Presidents Council, New Jersey Association of State Colleges and Universities, 2009).

A sign of hope: freedom from state control

The good news is that some progress is being made, although incrementally, by focusing on granting public colleges greater independence to manage financial affairs to contain costs, and to build private partnerships to replace lost state funds, with less state regulatory control. Examples of progress, breaking the mold on the old assumptions, include insights and recommendations from Robert Berdall and Terrence MacTaggart (1998). Berdall and MacTaggart outline clearly the benefits of granting some public colleges and universities (those with well-defined missions, student markets, and tuition revenue reliability) with much greater autonomy from state control in areas related to purchasing, contracting, mission development, and tuition policy to map future direction. MacTaggart provides further insight into the benefits freeing public colleges from excessive regulation as a means of strengthening mission, finance and accountability for outcomes in *Seeking Excellence through Independence* (MacTaggart, 1998).

Garland (2009), former president of the University of Miami-Ohio, in his recent book *Saving Alma Mater: A Rescue Plan for American Public Colleges*, offers his recommendations to rescue the broken system that include much greater independence from the state to manage university finances through enrollment management and income transfer techniques.

Two states where public institutions exhibit the benefits of greater governance and financial independence include Virginia and New Jersey. Some Virginia higher education institutions, in partnership with the governor and legislature, codified in law explicit public policy to grant public colleges greater administrative and financial autonomy in exchange for clear expectations about fulfilling public missions and improving educational outcomes (*Restructured Higher Education Finance and Administrative Operations Act of 2005*).

New Jersey's state colleges and universities run as state agencies, and found to be among the nation's most highly regulated in all areas of administration 30 years ago, have purposely and consistently followed a path of greater freedom from state control to sharpen missions, to grow and strengthen programs, to increase residential capacity, and to serve more students. Clear evidence exists that New Jersey's state colleges and universities have broadened access and improved academic mission and productivity during the past decade, even with sharply declining state support (New Jersey Association of State Colleges and Universities, 2009). For example, even with declining state support, New Jersey's state colleges, using greater policy and financial autonomy, rank among the nation's most productive public colleges (Kelly and Jones, 2007). Explicit public policy decisions were made in 1986 and 1994 to grant the institutions autonomy to set tuitions and fees, and to conduct academic and business affairs with significantly less state involvement (Greer, 1998).

With the election of a new governor in New Jersey in November 2009, the state colleges have developed a specific agenda requesting the governor and legislature to provide even greater independence from remaining state regulation and unfunded state mandates in order to accelerate building new private partnerships to generate new revenue to help develop facilities and to expand educational capacity. Commenting on a midyear FY 2010 state appropriations cut of \$2.6 million (the sixth cut in ten years), the president of Rowan University commented publicly: "The more independent we can be, the better off we will be," stressing the need for more freedom from the state to manage challenges and to generate new revenue (D'Amico, 2010).

Beyond seeking greater autonomy in order to better align mission and service with revenue and expenditures, other ideas have surfaced. For example, California State University Chancellor Charlie Reed and Long Beach State University President F. King Alexander (Reed and Alexander, 2009) propose a larger federal role to help secure the foundation of shared responsibilities for paying for college through "a new capitation grant" such as that found under Title 1 of the *Elementary and Secondary Education Act* (ESEA). This approach would provide funds directly to institutions to meet a minimum threshold funding need for low-income students. It remains to be seen if this idea could be a popular, much less viable federal approach.

Higher education continues to move forward incrementally, too, on issues closely related to who pays for college, such as studies on academic productivity by the Delta Cost Project; studies of cost containment by the American Association of State Colleges and Universities; recommendations of "best practices" in governance and financial management by organizations such as the Association of Governing Boards, National Association of College and University Budget Officers, and the National Center for Higher Education Management Systems; and work of the National Center for Public Policy and Higher Education, deeply concerned about college access, affordability, and outcomes. But even with these positive endeavors, none alone or together get to the heart of the problem of how public colleges will be financed in the twenty-first century, and how shared responsibilities will be defined and sustained as a matter of public trust.

A possible answer: public service corporations

We propose, as a long-term strategy to remedy the dual problem of diminishing state financial support and increasing pressure to create new revenue streams to reduce the burden on tuition to replace lost state funds, that comprehensive public colleges and

universities should create public service corporations as a new important means of realigning shared responsibility for financing public colleges.

“Public service corporations” – that is, corporations created to perform a governmental function – are familiar to readers of *Reinventing Government* (Osborne and Gaebler, 1992), which referred to them as “quasi-public or private corporations.” Applying this concept to public higher education might sound like a new idea, but institutions based on this model already exist and are succeeding in some states. They are publicly owned organizations that are independently governed by their own boards of trustees. While they are free from most state controls, they are generally evaluated by the state and must meet certain audit performance goals.

The new public service corporations, foreseen by practioners such as former Maine Chancellor MacTaggart (1998) and Dave Frohnmayer (2009), former president of the University of Oregon, would complement traditional institutional governance structures (boards of trustees). Allowing institutions to create autonomous public-private service corporations would help colleges acquire, lease, sell, and manage goods and services and real property; provide means of entering into agreements with private corporations by pledging college assets; and receive services related to purchasing, construction, risk management and other financial services required by institutions.

Public service corporations affiliated with the institutions should not be confused with current auxiliary corporations or university foundations, or as simply broader “privatization” of public colleges.

In 1995, the Oregon Health Sciences University (OHSU) – which was an independent institution under the direction of the Oregon State System of Higher Education since 1974 – became a public service corporation to serve as Oregon’s primary center for education in the health professions. The State charged OHSU with providing high-quality health-sciences educational programs; conducting scientific and biomedical research; and providing clinical care and health-care delivery systems throughout the state (*Oregon Revised Statutes*, 2010, Section 353.020, 2010).

Public service corporations are akin to “charter colleges.” St Mary’s College of Maryland is the prime example of a charter college. Under a law passed in 1992, St Mary’s was granted a lump-sum budget and was exempted from most state controls, including procurement, personnel, and some processes over capital development. In exchange, St Mary’s agreed to a cap on state tax support at the 1992 level, adjusted for inflation; a plan to double tuition over five years, from \$2,500 to \$5,000; and a promise to use tuition income to increase financial aid to maintain access for low-income students (*Maryland Statutes*, 2010, Section 14-401 et sequation). Policymakers and St Mary’s officials understood that tuition would rise, but not so high as to threaten enrollments. As an institution of “considerable diversity,” the college was trusted “not to let its higher tuition charges turn into an upper-middle-class preserve” (Berdahl and Contardo, 2006, p. 38).

In Virginia, the public colleges and universities became more like public corporations than state agencies under the *Restructured Higher Education Financial and Administrative Operations Act* (2005) (Chapter 4.10, Title 23 of the Code of Virginia). The institutions gained authority over tuition setting, purchasing, personnel, construction, and technology implementation. In exchange, the institutions must achieve performance benchmarks on 12 state goals, as state oversight changed from “pre-approval” permission to “post-audit” review of performance. The 12 goals are:

1. provide access to higher education for all citizens, including under-represented populations;
2. ensure that higher education remains affordable, regardless of individual or family income;
3. offer a broad range of undergraduate and, where appropriate, graduate programs, and address the need for sufficient graduates in particular shortage areas;

4. ensure that programs maintain high academic standards by undertaking continuous review and improvement;
5. improve student retention;
6. develop articulation agreements that apply uniformly to all Virginia community colleges;
7. stimulate economic development in the state and the institution's region;
8. increase externally funded research and the transfer of technology to the private sector;
9. work with K-12 administrators, teachers, and students to improve student achievement;
10. prepare a six-year financial plan;
11. maximize operational efficiencies and economies in the institution's business affairs;
and
12. promote the safety of the campus and students.

In New Jersey, some of the state colleges and universities have quasi-government public corporations that provide the flexibility the institutions need to overcome strict real-estate and construction laws imposed on the institutions themselves. For example, the Trenton State College Corporation at The College of New Jersey offers rental housing – both single-family homes and apartments – in neighborhoods surrounding the college to full-time faculty and staff. The corporation manages, acquires, and develops off-campus real estate to support the academic, faculty and student life goals of The College of New Jersey. The corporation has a ten-member board of directors, comprising administrative staff, faculty, and students from the college, college trustees, and local residents.

A new law in New Jersey is encouraging all the state colleges and universities to enter public-private partnerships that resemble public service corporations. *The New Jersey Economic Stimulus Act* (2009) suspends the laws that control construction at the state colleges and universities for 18 months and allows the institutions to enter contracts with a private entity to assume full financial and administrative responsibility for on-campus construction of facilities. The private entity must completely finance the project, and the institution of higher education or the State must retain full ownership of the land when the project is completed.

Characteristics

Whether they are called public service corporations, charter colleges, or public-private partnership agreements, colleges and universities recast under a more resilient financial model share several important characteristics. Generally, they are formed for the public purpose of promoting the public welfare of the people of their state by enhancing excellent, affordable, accessible, and accountable public higher education. They perform quasi-governmental functions and exercise quasi-governmental powers.

As described in the literature on this issue (Leslie and Berdahl, 2008; Frohnmayer, 2009), a public institution of higher education structured as a public service corporation would be governed by a board of trustees appointed by the governor. Typically, boards of trustees oversee all of the responsibilities for operating the institution, including establishing and implementing the institution's mission; appointing, supporting and assessing the president; ensuring financial solvency, including reviewing the institution's financial needs; approving the institution's annual budget, tuition, and fees; devising and adopting long-range plans; reviewing and approving degree programs; and ensuring that academic programs are consistent with the institution's mission and long-range plan.

We propose a new conception – and a new level of autonomy – for public service corporations that support public higher education. We suggest that public service corporations can stand alongside public colleges and universities and their boards of trustees. Rather than confusing or adding on top of traditional academic governance structures, public service corporations would provide greater transparency, and focus on non-education related business. Traditional governance structures would remain in control

of the institution's academic operations. These new organizations need to be created as a means of accelerating achieving a new financial model instead of doing so incrementally.

Under its own governance structure, the public service corporation can help the institution achieve its mission through a nimble operation disentangled from state rules that hold back the efficiency and effectiveness of the public college or university itself. A helpful model from the private sector is the Claremont University Consortium.

The Claremont University Consortium (CUC) is the support organization for seven independent colleges in Southern California: Pomona College, Claremont Graduate University, Scripps College, Claremont McKenna College, Harvey Mudd College, Pitzer College, and Keck Graduate Institute of Applied Life Sciences. CUC is a freestanding, tax-exempt organization with its own Board of Overseers, CEO, and employees.

CUC handles 28 different services. These include campus safety, health and counseling services, central bookstore, physical plant and facilities support, payroll and accounting, information technology, human resources, real estate, risk management, and employee benefits.

Going from the private sector back to the public sphere, to be in the best position to support its college or university, the public service corporation should have the following powers and protections:

- the authority to enter contracts for goods and services;
- the authority to enter contracts for construction, and to finance and oversee capital projects to allow it to maintain the institution's physical plant;
- the authority to raise revenue for the institution, including through grants, appropriations, rents, income, profits from investments, securitization of assets, and proceeds from the sale of revenue bonds, which it must have the authority to issue;
- exemption from federal and state taxes, and from antitrust law. Both of these exemptions are important for the public service corporation to be able to enter joint ventures or other business alliances or partnerships with private businesses; and
- protection under the state's *Tort Claims Act*, which means the trustees of the public service corporation are entitled to representation and indemnification from the state's Tort Claims Fund for judgments entered against them for actions taken in the course of performance of their statutory responsibilities. Boards of trustees of public service corporations deserve this protection because they are state-created entities that perform functions traditionally performed by the state, with specific powers delegated by the legislature.

While boards of trustees of public service corporations operate largely free of state control, they remain accountable to the public. State governments can insist on measurable goals to evaluate the operation of the corporation. These goals can include private fundraising targets; the completion time and projected costs vs actual costs of construction projects; and compliance with Sarbanes-Oxley-like accountability standards, such as performing annual assessments of internal controls, ensuring the responsibility of officers for the accuracy and validity of financial reports, and adopting conflicts-of-interest policies.

Measuring the successes of public corporations

Institutions organized as public service corporations are succeeding under several kinds of measures. All of these metrics benefit the state, and they prove the accountability of this type of corporate structure both academically and economically. Below are just some examples.

Since OHSU's restructuring, its School of Medicine's education programs have been ranked among the best in the nation by *US News and World Report*. The primary care program has ranked in the top 3 percent for 12 consecutive years, and the family medicine specialty has ranked among the top five programs for 13 straight years.

In addition to its academic success, OHSU has attracted record philanthropic support since its restructuring. In 2004, OHSU received a donation of nearly 20 acres valued at \$33.9 million to allow it to expand in Portland. In 2007, OHSU received a \$40 million donation – its largest outright gift ever – to expand its School of Medicine.

St Mary's College shows similar signs of accomplishment. St Mary's increased the academic qualifications of admitted students, measured by higher SAT scores. Between 1993 and 2004, student quality had arguably increased, particularly in academic preparation (Berdahl and Contardo, 2006). The college was awarded a Phi Beta Kappa chapter in the fall of 1997. St Mary's has also increased the diversity of its student body, enrolling a higher percentage of minority students. The college also has the highest retention rate for any public higher education institution in Maryland (Berdahl and Contardo, 2006).

On the fiscal front, the procedural freedoms granted to St Mary's are paying dividends. Within its first decade as a charter college, St Mary's saved \$2.3 million on a \$4.7 million construction project; cut 25 percent of the costs for ordering 179 multimedia computers; and instituted a performance-based, merit personnel system instead of having to use the state's strict system for employee compensation (Berdahl and MacTaggart, 2000).

As required under its agreement with the state, St Mary's has provided increased institutional financial aid on pace with increases in tuition and fees. Enhanced fundraising has helped support this increase in aid. When it became a charter college in 1992, St Mary's endowment was between \$3 million and \$4 million, and in 2004, it stood at \$25 million (Berdahl and Contardo, 2006). By June 30, 2009, in the midst of the Great Recession, the endowment's net assets had fallen to \$22.45 million (McGladrey and Pullen, 2009), still more than a five-fold increase under the college's pre-charter status.

One of the first studies of Virginia's restructuring speculated that it "will take about five years for any kind of summary judgment to emerge" about the success of the reform effort (Leslie and Berdahl, 2008, p. 323). Still, the study found that one important outcome was a new focus "on instability in funding for higher education" (Leslie and Berdahl, 2008, p. 320). Since restructuring, institutional and state leaders "are more sensitized" to the inverse relationship between tuition and state operating appropriations (Leslie and Berdahl, 2008, p. 321). This realistic perspective can help build trust and mutual understanding between policymakers and their state's public colleges and universities.

In New Jersey, the state colleges and universities are forming public-private partnerships that are building sorely needed facilities that students could only dream of seeing under the old rules. For example, Montclair State University has entered a partnership with a private developer to design, construct, own, and operate an apartment-style housing complex for 700 beds in downtown Montclair. The project is projected to be completed in 2012. Other public-private partnerships are being pursued by Richard Stockton College, Ramapo College, and The College of New Jersey; and Kean and Rowan universities, through already existing nonprofit corporations or new organizations being created.

Ensuring accountability, transparency, and trust

Public service corporations have been described as a "win-win" for the institutions and their states (Berdahl and Contardo, 2006). But to ensure this double victory, the literature describes two necessary conditions for the corporate arrangement:

1. a high-quality, campus-based governing board must manage the institution receiving the regulatory freedom from the state; and
2. the state must monitor the public service corporation to ensure it is serving its designated mission. Such oversight prevents institutions from operating outside their mission and raising questions about their need, costs, and quality (Berdahl and Contardo, 2006; Frohnmayer, 2009).

Under our reconceptualized notion of the public service corporation, accountability can be achieved within or outside of a traditional higher education system or centralized coordinating bodies like the Oregon State Board of Higher Education. Instead, the board of

trustees of the institution itself can devise and measure the performance goals for public service corporations entrusted with helping the institution achieve its mission and serve the citizens of its state.

The purpose of the public service corporation that we envision is to supplement, not supplant, the role of traditional trustee governing boards. Beyond enhancing administrative flexibility and new revenue possibilities, the public service corporation should provide even greater transparency for new unrelated business income, thereby helping to protect and enhance the core educational enterprise. The Claremont University Consortium shows how to achieve this goal. In recent years, CUC has implemented information technology to facilitate emergency preparedness (Raman, 2006), and saved millions of dollars in technology purchases, such as establishing a gigabit Ethernet backbone connecting all seven campuses, and purchasing software for statistics and math courses (Villano, 2006).

The public service corporation should not only provide for greater flexibility and financial accountability, by helping to free institutions from government regulation that inhibits progress, but also provide the impetus for greater institutional accountability regarding the educational product. Again, New Jersey serves as an example.

New Jersey's state colleges and universities rank nationally among the top five most productive states for master's-level public institutions in the country (Kelly and Jones, 2007), despite suffering from being among the worst state-supported public institutions in the country, since 2005 (SHEEO, 2010). National comparative data indicate clearly that New Jersey's public colleges have continued to improve on measures such as expansion of access and graduation productivity during the past decade, with increasing administrative and financial independence.

Creation of new public service corporations to serve the institutions individually or collectively should enhance sharpening focus on the fundamental purposes of public colleges. For example, without encouragement from the state, NJASCU (itself a 501(c)(3) organization, and candidate to serve as a public service corporation), with strong support from its member institutions, created in 2007 the New Jersey College Promise Project in direct response to diminishing state support and the need to expand educational opportunity, college capacity, and student affordability. The College Promise project was informed by a 22-member advisory council, composed of national higher education experts, top business and civil leaders, presidents and trustees. The council benefited significantly from expert analyses, including the National Center for Public Policy and Higher Education, the National Center for Higher Education Management Systems, the Association of Governing Boards, and scientific public opinion polls conducted by Penn, Schoen and Berland Associates.

Following year-long discussions, the advisory council provided specific recommendations related to four overarching goals:

1. send more New Jerseyans to New Jersey colleges; make college more affordable;
2. increase overall institutional academic, administrative, and campus operations productivity; use savings not only to improve services, but to reduce increases in tuition;
3. strengthen public trust by demonstrating effective governance; and
4. use New Jersey College Promise's earned recognition to build a constituency and to elevate the state colleges and universities to a higher priority on the state's public agenda.

The College Promise effort led state college and university presidents to make a public pledge in September 2008, under a "Nine Strong for a Stronger New Jersey" commitment. The six major components of the pledge are as follows:

1. With renewed determination, find new state and private resources to extend our commitment to serve more New Jerseyans, keep more talented students here, extend and expand academic programs and services, distance learning, and graduate more students in fields important to the vitality of the state.

2. Strengthen our commitment to provide residential housing to traditional age students to help stem net out-migration and broaden service to adult students.
3. Continue to ensure that our degree programs permit students to graduate in a timely manner, thereby moving graduates more rapidly into the workforce.
4. Improve our collective rank, now number three nationally, in degree productivity for public and tuition dollars invested.
5. Expand and develop new partnerships with businesses for economic and workforce development.
6. Report on graduates' employment status one year following graduation, as an important measure of our institutions' alignment with workforce and economic development needs.

Finally, as one means of measuring the progress on these commitments, the institutions, through its Association, have committed to systematic engagement of citizens using scientific polling and public forums to achieve broader public engagement of a shared understanding of the core purposes of the educational enterprise, and to connect institutions to the evolving needs of the citizens and the broader public good. The Association has conducted scientific polls since 1999, the most recent completed in October 2009. The public service corporation, in itself, cannot guarantee financial or educational success of public colleges; but, it is emerging as a solution as public institutions face growing pressure to achieve, simultaneously, the goals of access, affordability and service. If such new organizations are created to play a larger role in shared responsibilities for financing public colleges, it will be critically important for the publics that they serve to understand their function, and support the value that they add.

In summary, the benefits of a new model for financing public colleges, one that adds public service corporations, include the ability to:

- focus squarely on the core business of public institutions – that is serving the public good and the educational needs of twenty-first century students;
- provide a financial model that is student- and mission-focused, based on recognition that different types of institutions serve different types of students, in different parts of the country, and the unique role of public colleges in America;
- create a new explicit and viable public-private partnership model that replaces the failing existing model to sustain the core educational business;
- focus creatively on operating non-educational business-related functions as stand-alone revenue-generating enterprises, not only to enhance revenue, service innovation and entrepreneurialism, but to build new partnerships that promote educational mission, educational productivity, quality and public service;
- create a sustainable financing model that not only provides predictability and equity for all partners, but also one that engages and promotes accountability, transparency, and public trust as an important outcome measure for the investment; and
- provide for continuous assessment and strategic alignment of resources and educational priorities within the context of mission and broader regional, state, and national needs in an environment of global providers, thereby helping to keep American public colleges global leaders.

This relationship between the institutional governing board, the state citizens, and the public service corporation is essential to ensure that the public corporation is accountable for serving the public interest.

Avoiding unintended consequences

Social actions, however well-intentioned, can create unintended consequences (Merton, 1936). Public service corporations, like other alternative delivery options for governmental services, can inadvertently cause problems that need to be prevented or addressed. These

problems can include increased costs, mission drift, symbolic rather than substantive change, and increased bureaucratic oversight. By learning lessons from other innovative alternatives that have provided government services, our concept of public service corporations for public colleges and universities can avoid these problems.

The reinvention of state parks presents some useful examples. To become more self-sufficient and raise their own revenues through the 1990s, state parks developed more services and facilities, charged higher user fees, and sought corporate sponsorships. Significant unintended consequences of these efforts included an emphasis on recreation and tourism over preservation and conservation, and a perception that outdoor activities – which now required ever-higher entrance fees – were an elite privilege (Lowry, 2001).

School reform in Michigan over the past 15 years reflects how change can focus more on image than substance. In the early 1990s, Michigan established a comprehensive statewide system of school choice, including charter schools. Instead of attracting students through innovative and effective instruction – as Michigan policy makers had hoped – charter schools engaged in aggressive marketing to attract more talented students. “Thus, while marketing can aid a school’s efforts to increase achievement, it may do so not by developing better educational processes – it may actually draw resources away from those efforts – but instead by attracting ‘better’ students” (Lubienski, 2005, p. 480).

Throughout the public sector, the popular call for measuring output has led to an “audit explosion” (Van Thiel and Leeuw, 2002, p. 267). The increase in the number of regulators and auditors has escalated compliance and monitoring costs and built more complex bureaucracies.

Public service corporations established to support public colleges and universities can avoid the pitfalls of other reform-oriented organizations. They can contain user fees – *i.e.* tuition costs – and maintain accessibility by engaging in innovative procurement and construction contracts, and through fundraising. They can adhere to their mission through strong board leadership and close ties to their associated college or university.

Public service corporations can prevent the flash-over-substance choices made by Michigan’s charter schools by devising and working toward real performance goals that are made public. These goals, to be sure, should be audited, but by operating outside the bureaucracy of state government, the public service corporation should not experience the undue regulatory scrutiny that has been imposed on today’s public agencies.

Conclusion

The time has come to think radically about the financing of public higher education. State governments simply cannot restore funding to levels that previously supported institutional operations. The Great Recession caused states’ collection of sales, personal income, and corporate taxes to fall about 7.5 percent between fiscal years 2008 and 2009. With some studies projecting that state revenues will not recover until 2014 or 2015, the National Governors’ Association (2009, p. 1) has concluded that “states will not fully recover from this recession until late in the next decade”.

The current financing system for higher education keeps institutional leaders from long-term budgeting and planning, thereby stifling their creativity to address student needs. Each institution has a distinct mission, and to achieve that mission in an uncertain environment, presidents and trustees must have a clear idea and a strong handle on long-term finances. To give them the tools they need, state governments should, after carefully considering and selecting the institutions in the best position to take advantage of a redesigned corporate structure, loosen its grip over procedural controls – “the means” – constraining public colleges and universities.

At the same time, the states should retain their “definition and rigorous evaluation of the public ends in higher education” (Berdahl and Contardo, 2006, p. 36). What are those ends? We believe they are:

- providing broad access to college opportunity and financial predictability for all funding partners;
- fulfilling institutional missions through academic freedom without political, ideological, and bureaucratic intrusion;
- increasing responsiveness to education and service needs;
- improving overall productivity management efficiency; and
- achieving educational and financial accountability through measurable outcomes.

Managerial efficiency, which can be measured in dollars saved and students served, can result in an equally important, but less quantifiable, public-policy end: institutional morale and confidence. A study of St Mary's (Berdahl and Contardo, 2006, p. 47) found that after its status as a charter college had been in place for over a decade, its sense of self-governance was stronger, and its commitment of students, faculty, and staff was "overwhelmingly impressive".

While St Mary's is a charter college and not a public service corporation, we believe public service corporations – as an even more flexible alternative for supporting the delivery of public higher education – can help instill confidence in campus leaders, public officials, and state citizens in the institution's ability to provide an affordable, accessible college education. In the final analysis, enhancement of public trust in the purposes of public colleges is the best measure of the value of public investment.

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