Draft Discussion Paper

Portland State University

Restructuring PSU's Relationship with the State:

The Case for Change

November 2009

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Preface

This paper has been prepared to facilitate discussions at Portland State University (PSU) and in the broader community about structural changes that may better enable the university to fulfill its missions. It is intended solely to promote thoughts and discussions and does not represent a final position of PSU or its administration.

This paper was prepared by staff of the Office of the President at PSU. Specific comments or questions may be directed to Lois Davis, Chief of Staff to the President.

Executive Summary

As the Portland Metropolitan area's only public university, Portland State University (PSU) serves a unique and critical role. PSU not only is responsible for providing access to a quality higher education for more than 28,000 students, it also is a key partner with the city and community organizations in solving problems, fueling innovation and spurring economic growth.

The limiting factor for PSU is funding. State funding for PSU and its OUS peers has declined by 40 percent in real terms over the past 20 years. At PSU, state funding now accounts for only 16 percent of the annual operating budget – leaving the University without enough funds to prepare students for the jobs of the future, recruit and retain excellent faculty, upgrade infrastructure, and develop collaborative initiatives with the community.

A new governance structure is the only viable solution to allow PSU to meet its potential and serve the citizens of Portland. Setting aside the steady downward funding trend of the past 20 years, the economic climate and various funding pressures make it all but certain that the state will not be able to invest substantial new General Fund dollars in PSU in the foreseeable future.

There are a number of governance models, including the OHSU Public Corporation and the University of California system, which could be adapted to meet PSU's needs. There are six principles on which any governance change must be based, however:

1. **Establishment of a state funding floor** to ensure state contributions do not continue to decline. In return, PSU would agree to meet specific performance and accountability goals.

2. **Authority such as community colleges have to go directly to voters for funding support.** If PSU's funding floor is set at the $60M per year it receives today, or even at the $74M level annually of two years ago, it will still be woefully underfunded. Being able to make a case directly to voters for funding for specific purposes would provide an important new option.

3. **Ability to manage tuition.** With 28,000 students, tuition plays a very important role in determining what programs and services PSU can offer. With greater local control, PSU could more strategically set tuition levels to reflect both costs and market factors and to provide students greater access to scholarships and other financial aid.

4. **Ability to control capital expenditure decisions and issue its own bonds.** With the fastest growing student population of any university in the state, PSU faces significant space challenges. Those challenges need to be addressed at the local level so that PSU can respond to opportunities and meet the needs of its customers in a timely and cost-effective manner.

5. **A student-based funding model for state allocations.** This is the most equitable way to distribute limited state funds.

6. **General operational flexibility.** Accountability and responsibility for managing operational functions such as information technology services, purchasing, vendor relations, auditing, financial reporting, personnel and benefits are key to PSU's ability to function efficiently.

Restructuring PSU's Relationship with the State:

The Case for Change

The Issue

"America cannot lead in the 21st century unless we have the best educated, most competitive workforce in the world."

– **Barack Obama**

Nowhere in America does President Obama's recent challenge to reinvest in higher education resonate more than it does in Oregon.

Rich in technology with an enviable location on the Pacific Rim, Oregon is ideally situated to be a major player in the global economy of the future. The Portland metropolitan area is especially well positioned, with a robust mass-transit system, an emphasis on energy efficiency, a growing concentration of clean technology firms and green building technologies, and a diversified base of employers ranging from electronics firms and health care providers to creative services.

Oregon is missing a key ingredient, however, if it is to capitalize on these assets: namely, a well-funded public higher education system fully equipped to meet the educational and economic needs of its citizens and its businesses.

The important role of higher education in the economic future of the state and the Portland metropolitan region has been well established. In its 2007 report on 21st century challenges for higher education in the state's major metropolitan area, a committee of community and education leaders convened by the Oregon University System (OUS) Board of Directors concluded:

> *The future of Greater Portland and of Oregon is linked to education above all else. The Portland metropolitan area is the population center, the principal hub of economic activity, and the cultural leader of our state. Portland's success in achieving its potential depends upon the availability of smart, creative, and knowledgeable citizens with the ability to understand a domestic and international environment; this in turn requires a quality education system with opportunities available to all. A comprehensive educational system generates ideas, enhances the region's capacity to innovate and sustain economic vitality, guides urban growth, assures quality environmental conditions, and promotes cultural vitality.*[1]

The City of Portland's recently published *Economic Development Strategy: A Five Year Plan for Promoting Economic Growth and Job Creation* also speaks to higher education's essential role in research, innovation and talent development. "The region's higher education institutions…will play the lead role in fueling innovation in the (region's) target industries," the report notes. "More explicit connections between higher education and firms in the target industries are

[1] Oregon State Board of Higher Education Portland Higher Education Subcommittee, *Portland's Higher Education Agenda for the 21st Century*. (Oregon University System: February, 2008) 1.

needed, whereby universities help solve technological challenges faced by cluster firms, and firms help commercialize the innovation that occurs within school walls."[2]

While the importance of higher education is clearly acknowledged, policymakers have not resolved how to appropriately fund it so that it can meet the needs of students, industry, and the community. Portland State University (PSU), the metropolitan area's only public university, is a case in point.

The Portland State Story

Having started its existence as an extension center designed to serve World War II veterans,[3] PSU has survived floods and riots to become an essential, one-of-a-kind resource for the metropolitan area. With 28,000 students enrolled for classes for Fall Term 2009, PSU is Oregon's largest and most diverse university. Its 3,500 full-time faculty and staff serve students from 48 different states and 98 foreign countries, from Brazil to Uganda. Nearly 18 percent of the students in the University's eight colleges and 80 graduate programs identify as minorities.

Not only is PSU a large and diverse institution, it is growing rapidly - in both size and reputation. The student body has nearly doubled in the last ten years and the campus has expanded from a small presence in the South Park Blocks to occupy a 50-block area at the south end of downtown. Research funding at the institution has grown from $15 million in 1999 to $53 million in 2008-2009, with a goal to reach $100 million by 2017. The university is increasingly recognized for forging partnerships with governmental, educational, community and industrial entities to solve issues ranging from ensuring students in the K-12 system are prepared to succeed at the college level to combating persistent youth homelessness. PSU's new 10-year Economic Development Strategy builds on this tradition of partnership, aligning the university's expertise with that of city government and the private sector to help spur innovation, diversify the economy and promote sustainable regional economic growth.[4]

Recognition of the crucial role PSU plays in the metropolitan region comes from both local and national sources. The University was singled out in *U.S. News and World Report's* 2010 edition of America's Best Colleges for its commitment to engagement through its service and learning programs.[5] The "Saviors of Our Cities" survey, released in October, 2009, ranked PSU second nationally among public universities and ninth nationally among all universities which "have demonstrated and documented long-standing cooperative efforts with community leaders to rehabilitate the cities around them, to influence community revitalization and cultural renewal, and to encourage economic expansion of the local

[2] City of Portland. Portland Development Commission. Economic Development Strategy: A Five Year Plan for Promoting Economic Growth and Job Creation. 2009. 17.

[3] Gordon B. Dodds, *The College That Would Not Die: The First Fifty Years of Portland State University, 1946-1996 (Oregon Historical Society: 2000).*

[4] Portland State University. Portland State University's Economic Development Strategy: A 10 year plan for strengthening PSU's contribution to regional economic growth. 2009.

[5] "University Studies Awards & Recognition." http://www.pdx.edu/news/us-news-and-world-report-singles-out-portland-state-for-seventh-year-in-a-row. PSU. 15 Oct 2009.

economy, urban development and community service."[6]

PSU also has taken a major step forward in the sustainability arena, receiving a $25 million grant from the James F. and Marion L. Miller Foundation in 2008 to enhance its work in this important area**.** PSU's sustainability work is of particular importance to the City of Portland which noted in its recent economic development plan: "For the city to achieve its objective of creating the most sustainable economy in the world, (PSU) must embrace the vision of becoming one of the leading academic institutions in the world in the field of sustainability." [7]

The strength of the University's graduate programs in business and urban studies likewise has received notice with the 2009 "Beyond Grey Pinstripes" report ranking Portland State University's MBA program in the top 25 worldwide[8] and *The Journal of Urban Affairs* placing its doctoral program in urban studies fifth nationally.[9]

The Funding Dilemma

Despite its growing reputation and the high demand for its services, the "college that would not die"[10] finds itself at a crucial crossroads. To go forward it must have sufficient funding to rebuild and grow. But it is unclear where that funding is to come from. The state subsidy for public higher education in Oregon has declined by 40% in real terms over the past two decades. At PSU, state funding now accounts for only 16 percent of total annual operating revenue[11] compared to 48 percent twenty years ago. (Figure 1) As a result, students, families, and financial aid have begun picking up a greater share of the cost, paying $6,400 in tuition and fees per year today compared to $1,540 per year twenty years ago.[12] Even so, PSU finds itself with a growing funding gap that cripples its ability to prepare students for the jobs of the 21st century, recruit and retain excellent faculty,[13] upgrade infrastructure, and develop collaborative initiatives to promote economic development and enhance the livability of the Portland metropolitan region.

Given the financial challenges facing Oregon, there is little reason to assume the state will be able to backfill this gap with state general funds in the foreseeable future. Even if state revenues begin to tick up, demands on revenue to fund prison measures passed by voters in 2008 and address shortfalls in the Public Employees Retirement System (PERS) will strain state coffers. A decision by voters in January to overturn $750M in legislatively approved

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[6] http://www.prnewswire.com/news-releases/2009-survey-names-nations-top-25-best-neighbor-colleges-and-universities - 63996757.html

[7] City of Portland. Economic Development Commission. Economic Development Strategy: A Five Year Plan for Promoting Economic Growth and Job Creation. 2009. 18.

[8] http://www.beyondgreypinstripes.org/rankings/index.cfm

[9] "Profile: Portland State." http://www.pdx.edu/profile/portland-state. PSU. 15 Oct 2009

[10] Gordon B. Dodds, *The College That Would Not Die: The First Fifty Years of Portland State University, 1946-1996 (Oregon Historical Society: 2000).*

[11] While the state contributes only 16 percent of PSU's total annual operating budget, its contribution to the university's annual instructional or Education and General budget is a slightly higher 24 percent.

[12] While a substantial increase from 20 years ago, tuition at PSU today ranks in the middle for higher education institutions nationwide.

[13] Faculty compensation packages are only 85% to 90% of peers.

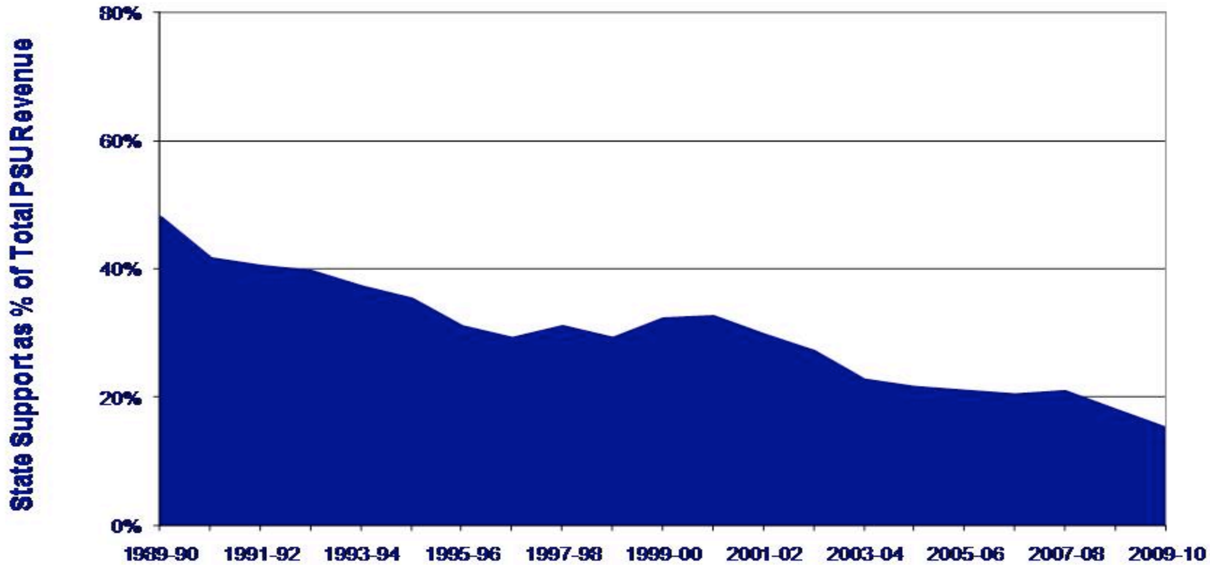

Figure 1: State Support as % of Total PSU Revenue

taxes would make the state's financial picture even grimmer – and a last minute bailout from the federal government, such as last session's stimulus package, seems highly unlikely.

Equally disturbing, the disinvestment in public higher education appears to be the trend nationally. In a 2006 report on trends in higher education, a Blue Ribbon Commission of the National Conference of State Legislatures found that higher education occupies a particularly precarious position in the state funding equation. According to the report:

> Higher education has long been the "balance wheel" of state budgets—whatever is left after allocations are made to K-12 education, Medicaid, corrections, transportation and other budget items—is allocated to higher education. The theory is that, unlike other budget categories, higher education has a built-in revenue source—tuition—that can offset state funding cuts. In good economic times, states direct additional revenue to higher education. In slow economic times, however, higher education—more than any other budget item—suffers reductions. This unpredictable funding for higher education causes budget difficulties for institutions and increases costs for students and families as they are pressured to fill the funding gaps.[14]

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[14] Blue Ribbon Commission on Higher Education, *Transforming Higher Education: National Imperative-State Responsibility* (National Conference of State Legislatures) Retrieved from http://www.ncsl.org/Default.aspx?TabID=12883

Finding a Solution

Motivated by the evidence that state funding is not likely to provide the answer to higher education's resource issues, there is a growing chorus of voices calling for removal of statutory and regulatory barriers that prevent Portland State and the other Oregon University System (OUS)[15] institutions from operating efficiently, developing creative partnerships, and identifying and securing alternative sources of funding that will allow them to prepare Oregonians for the demands of the 21st century workplace.

John Von Schlegell, a recently retired member of the OUS Board of Directors, is one of those voices. In a letter to Oregon Governor Ted Kulongoski dated August 29, 2009, Von Schlegell argued strenuously for radical change in Oregon's public higher education system, proposing it be restructured to more closely mirror the University of California (UC) system (see discussion below).[16] Former University of Oregon (UO) President Dave Frohnmayer has weighed in as well, calling for conversion of parts or all of OUS to independent public corporations in the OHSU mold.[17]

While he has neither endorsed Von Schlegell's or Frohnmayer's plans nor laid out specifics of his own, Governor Kulongoski agrees the current system is broken and has launched a "Reset Government" initiative to investigate options for restructuring higher education as well as other components of state government. Among the options to be addressed by the "Reset Government" initiative are "improving outcomes by controlling costs, stabilizing revenues and maximizing efficiencies, including recommendations to consolidate service delivery and provide greater flexibility where needed within the system."[18]

Governance Options

There are a number of governance models that warrant consideration if Oregon wants to restructure its higher education system.

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[15] The Oregon University System (OUS) was founded in 1929, largely as a way of solving disputes over program duplication and other issues before they reached the State Capital. Today the system consists of eight universities and is governed by an 11-member board, nominated by the Governor and confirmed by the Oregon Senate. The biennial budget request for the System is submitted by the Governor to the Legislature for its approval. Tuition limits are set by the state without regard to the market and funds raised from non-state sources or saved through efficiencies are subject to being recaptured by the state or deducted from the amount of state resources allocated. The budget process itself is unnecessarily cumbersome. While K-12's more than $6 billion budget only includes four budget line items, OUS's $821 million budget features 6,300 line items.

[16] John von Schlegell, Endeavor Capital, to Oregon Governor Ted Kulongoski, 25 Aug 2009, from http://blog.oregonlive.com/opinion_impact/2009/08/Letter%20to%20Governor%20Ted%20Kulongoski%208.25.09.pdf.

[17] Dave Frohnmayer, *The Coming Crisis in College Completion: Oregon's Challenge and a Proposal for First Steps. November 2009/*

[18] Office of the Governor, State of Oregon. *Executive Order No. 9-13: Governor's Reset Cabinet*, 2. retrieved from http://www.oregon.gov/Gov/docs/executive_orders/eo_0913.pdf.

- University of California (UC): The first of these is the UC model, which is very similar to what Von Schlegell has championed. A constitutionally-mandated fourth branch of government, the UC system issues its own bonds, sets its own tuition, controls its own purchasing, contracting, and treasury functions and receives its state funding in the form of a block grant. The system can also appeal to the state to issue additional bonds on its behalf. A President and Board of Regents officially govern the system, but the Chancellors of each campus are typically given wide latitude to run their schools.

- The University of North Carolina (UNC): Similar to the UC system, UNC has tuition-setting authority and the ability to issue its own debt, but does not have control over purchasing, contracting or treasury functions. In contrast to the UC system, however, in addition to the system-wide Board of Governors, each institution within the system has its own board of trustees with broad governing authority. (See Appendix A)

- The University of Virginia (UVA).: A very recent phenomenon, the UVA model provides the universities significant autonomy to set their own tuition, issue bonds, manage personnel, and control purchasing and construction based on a management agreement between each university and the state. The management agreements are based on a set of 11 goals for higher education laid out in the statute and ranging from access for Virginia students, to student retention and graduation rates, to articulation with elementary and secondary schools. (See Appendix A)

- The OHSU Model: Approved by the Oregon Legislature in 1995, this model established Oregon's only academic health sciences center as a free-standing public corporation, with its own independent governing board and authority to issue its own bonds and control personnel, purchasing and contracting, tuition, auditing and banking functions. Members of OHSU's board are nominated by the Governor and confirmed by the Senate. OHSU also submits a biennial budget request to the Governor for consideration by the Legislature. The OHSU approach could be employed either to spin off some (or all) of the OUS institutions into separate public corporations or to convert the OUS system as a whole to a single public corporation. (See Appendix A)

- The Oregon Hybrid: An alternative model being discussed by Dave Frohnmayer and others in Oregon higher education circles is a hybrid that incorporates benefits of both the UC system and the OHSU model. Instead of becoming a constitutionally autonomous system like the UC system, under this approach OUS would be given the authority to create one or more public corporations with independent governing boards similar to OHSU. The OUS board would operate as a coordinating board that would work with each of the individual boards to ensure state standards and goals were established and met. The new system would have all the authority OHSU enjoys, plus the right to go directly to voters for additional funding and back to the state for state-issued bonds.

  A further variation of the hybrid would convert OUS to a free-standing constitutional entity like the UC system and would establish a funding floor and, possibly, a funding model in the constitution. The system would receive its budget as a block grant. All other authorities would be the same as for the statutory version of the hybrid. While this approach would provide more stability and funding certainty moving forward, it also could prove more politically challenging to achieve than the statutory version.

Essential Principles

The goal of any governance change for PSU is to enhance its ability to serve Oregonians by achieving financial stability. As such, the University's focus is less on the governance model per se than on ensuring that, whatever model is adopted, it will feature certain key principles. Chief among those principles are: 1) a funding floor for state support in exchange for specific performance and accountability goals; 2) authority to set tuition and retain it locally; 3) authority to issue debt; 4) authority to go directly to voters for supplemental funding; 5) establishment by the state of a student-based funding model; and 6) operational flexibility, including the ability to manage personnel and benefits.

1. State funding floor: Because state funding has continued to decline steadily, it will be important to stop the hemorrhaging. Establishment of a floor below which funds cannot drop is a logical way to achieve this goal. In exchange, PSU would agree to specific performance and accountability goals designed to ensure the university continues to meet the needs of Oregonians and provide the state a good return on its investment.

2. Tuition Flexibility: With 28,000 students, tuition plays a very important role in determining what programs and services PSU can offer. With greater local control, PSU could more strategically set tuition levels to reflect both costs and market factors and to provide students greater access to scholarships and other financial aid. Increasing the availability of scholarships and financial aid is essential given the number of economically disadvantaged students attending PSU.

3. Bonding Authority and Assumption of Debt: With the fastest growing student population of any university in the state system, PSU needs the ability to control capital expenditure decisions and issue its own bonds. It will be important, however, that the state continue to repay existing debt that it has issued on behalf of the University over time. Given the tight financial circumstances PSU has faced over the past two decades, absorbing the old debt would compromise its chances of success. A continued partnership with the state on capital projects of mutual interest will also be important. California has been successful in operating under this model, with the University of California system taking responsibility for issuing the majority of its own debt while having the authority to approach the state to obtain state-backed bonds for projects that the Legislature and electorate have a particular interest in moving forward.

4. Access to the Ballot for Funding Initiatives: Community colleges in Oregon have the authority to appeal directly to voters for funding support. With state support continuing to trend downward, it is important that PSU have similar access to voters. Remaining a traditional state agency could prove an impediment to success at the ballot, however. In informal conversations earlier this year, metropolitan area business leaders expressed interest in helping PSU achieve its goals, but were skeptical about approving local

funding for the University as long as it remains a state agency. Many cited the basis for their concern as past experiences in which the legislature had reduced funding for programs in response to such local initiatives.

5. Student-based Funding Model – Funding should be based on the number of students educated. OUS's Resource Allocation Model (RAM), which allocates funding based on a combination of student levels (undergraduate and graduate) and cost adjustments for various disciplines (cell values) is one method for accomplishing this goal. Other states employ simpler models which might be more easily understood. Regardless, the chosen model should be statutorily or constitutionally authorized.

6. Operational Flexibility – Accountability and responsibility for managing operational functions such as information technology services, purchasing, vendor relations, auditing, financial reporting, personnel and benefits are key to PSU's ability to function in an efficient and cost-effective fashion. OHSU's experience is instructive. Since converting to a public corporation in 1995, OHSU has realized significant savings and enhanced revenues through its ability to control operations and act quickly to take advantage of marketplace opportunities. Direct management of personnel matters has also proven valuable to both OHSU and its employees, allowing workplace issues and employee benefits to be addressed in a manner responsive to the unique needs of an academic health sciences environment.

COST-BENEFIT IMPLICATIONS

An accurate estimate of the likely costs and benefits of converting to a different governance model would require significant detail about every aspect of that model. Because that is not possible to obtain at this time, this paper will not attempt to develop such an estimate. Based on the OHSU experience in converting from a governance model similar to that of PSU and OUS, however, we can at least make some general statements and assumptions.

First, at the end of the day it is all about having access to sufficient funding to meet the needs of PSU's various stakeholders Restructuring is not a silver bullet in and of itself: what is important is how the restructuring improves access to new or recaptured revenues that will allow the university to better carry out its public mission.

Second, while the current structure includes structural impediments that are costly and time-consuming, it also involves certain economies of scale. If PSU becomes a free-standing organization, it will incur costs to bring on bond management, treasury, auditing and risk management functions, expand its legal team, and hire new, specialized human resources and purchasing and vendor relations staff. It is expected that these costs will be more than offset by the ability to manage costs locally. In addition, PSU will not necessarily need to "build its own" for every function. Certain functions, such as risk management and personnel, might lend themselves to a shared arrangement with other entities such as OHSU and other OUS institutions.

Third, in addition to savings attributable to being able to control purchasing and contracting, personnel and other functions at the local level, the OHSU experience demonstrates that that there is significant financial upside to be realized through greater flexibility and enhanced opportunities for entrepreneurship. Public corporation status has allowed OHSU to respond to marketplace opportunities in a more timely fashion and to better manage vendor relationships – resulting in a substantial positive impact on the bottom line.

Fourth, as a non-state entity, PSU would likely have access to philanthropic and regional resources that are not currently available to it. As indicated above, business leaders and other civic leaders have no interest in working to develop local funding solutions if those funds could be subject to repurposing by the state, which is possible as long as the University remains a state agency.

CONCLUSION

Only a handful of years ago, the notion of OUS and/or PSU becoming a public corporation or converting to some other alternative governance model would have seemed highly unlikely. But with the clearly established pattern of state disinvestment in higher education nationwide, a still-struggling economy, and demand for services that cannot be met under the current financial conditions, there may be a window of opportunity for a more frank and substantive conversation about reinventing Oregon public higher education than at any time in the past.

It is not clear which of the possible models would be the best option for PSU if the conversation about restructuring Oregon higher education becomes serious. The OHSU stand-alone public corporation has appeal as a known quantity in Oregon and as the model which provides the greatest independence, allowing PSU strong local control of operations and maximum flexibility to pursue alternative forms of financing. There is also much to lose in this model, however. Unless PSU is able to convince the state to retain its existing debt (OHSU was not able to do so[19]) the ability to go out to the market for new debt would be limited, compromising the University's ability to expand and upgrade its infrastructure.

The savings realized by PSU's shift to a public corporation also are likely not to be as great as they were for OHSU. Many of the operational flexibilities that OHSU was seeking in converting to a public corporation have since been provided to OUS, reducing the degree of savings to be found through efficiencies. Another concern is that the Legislature could react to the conversion in a manner similar to how it viewed OHSU's and move in the short term to reduce PSU's funding rather than to increase it. If PSU were able to replace state funds with local or other tax revenues (which would require new authority to place a money measure on the ballot), that might not be disastrous, but neither would it be optimal. To continue to grow and realize its full potential, PSU needs continued state support as well as control over tuition and access to funding from other sources such as local jurisdictions or the general public.

[19] Oregon Revised Statues. Chapter 353.

In summary, the question of how PSU should be governed moving forward requires further analyses. Based on the analyses to date, however, there are three conclusions that can be reached. First, greater independence and operational flexibility is essential if PSU is to realize its full potential to educate students for the jobs of tomorrow and to contribute to the economic and social viability of the community. Second, there is any number of governance models, or hybrids thereof, which would provide that needed independence. Finally, structure alone will never guarantee success. If funding remains inadequate, PSU will not be able to meet its goals and respond appropriately to the needs of its constituencies.

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Appendix A
Higher Education Governance Models

California Model

The University of California (UC) system has strong advocates in Oregon. This is, in essence, the model for which retired Board Member John Von Schlegell appears to be advocating. If Oregon were to adopt a UC-like model, OUS would become a fourth branch of government. OUS and its Board of Directors would govern the system centrally as it does today.

The UC system has had constitutional autonomy since the ratification of the state's first constitution in 1849, so the history for the structure has existed unchanged and largely unchallenged for twice as long as the system of higher education has existed in Oregon.

UC is governed by the Board of Regents of the University of California. Eighteen regents are appointed by the governor for 12-year terms. One member is a student appointed for a one-year term. There are also 7 *ex officio* members — the Governor, Lieutenant Governor, Speaker of the Assembly, Superintendent of Public Instruction, president and vice president of the Alumni Associations of UC, and the UC President. While the governing authority is officially centered in the President and the Board of Regents, campus Chancellors are typically given wide latitude to run the day-to-day operations of each campus.

From a fiscal perspective, the UC system has some distinct advantages over OUS. The system has the constitutional right to set its own tuition, issue its own bonds, and go to the state to ask it to issue additional bonds on its behalf. UC also controls purchasing and contracting, manages its own personnel and benefits (including health, retirement, etc.) and has its own Treasurer and General Counsel.

Operational funding from the state is a block grant which is distributed to the campuses based on recommendations of the system President to the Regents. Not only is the block grant flexible, it also has been very substantial over time, allowing the UC schools to develop into some of the best in the country. Today, the UC system is struggling financially, leading naysayers to suggest its governance model is flawed. In fact, the system would be in much more dire straits but for the operational flexibilities the model provides and the independence it has accorded higher education to make its best funding case directly to legislators.

North Carolina Model

The University of North Carolina (UNC) is often cited as a model higher education system. UNC is operated by a 32-member Board of Governors elected by the state's General Assembly for four-year terms and charged with "the general determination, control, supervision, management, and governance of all affairs of the constituent institutions."[20] The Board also elects the President, who administers the UNC system.

Although the president oversees the entire UNC system, the Board of Governors delegates extensive administrative authority to each of the 16 universities in the system. Each institution is headed by a Chancellor, who is nominated by the President (to whom he or she reports) and chosen by the Board of Governors. Each institution also has a Board of Trustees, consisting of eight members elected by the Board of Governors, four appointed by the Governor, and the President of the student body. The trustees have broad authority to govern the individual campuses.

UNC has some of the same authorities as the UC system, including tuition setting authority, and the ability to issue its own debt. It also has its own general counsel. It does not have control over purchasing, contracting or Treasury functions, however. Those authorities reside with the State of North Carolina. The North Carolina Legislature also controls distribution of state funds to the campuses, outlining specifically the allocations for each campus.

Although the UNC system faces many of the same financial challenges as the rest of higher education in the current economic environment, like California it has generally been one of the better funded systems. Even in 2009, per student spending in North Carolina totaled $14,750.

Virginia Model

The higher education system of the Commonwealth of Virginia offers a particularly instructive model for change. Virginia has a consolidated coordinating board (State Council of Higher Education for Virginia (SCHEV)) for 39 four-year universities, two-year community colleges, and a two-year junior college.

In the early 1990s, concerned that state funding was both limited and volatile and that state control over tuition and day-to-day operations made it difficult to compete with peer institutions, three Virginia institutions (College of William and Mary, Virginia Polytechnic University, and the University of Virginia) began a battle of more than 10 years to gain greater autonomy from the state. The legislature initially responded by providing limited independence in a few areas, but it soon became clear that the increased flexibility fell far short of the needed autonomy. The three universities renewed their efforts, this time focusing not only on autonomy per se, but also on changing state oversight from pre-approval to a "post-audit" review.

As a result of this effort, in 2005 the Virginia legislature passed the Higher Education Restructuring Act which provided a tiered approach to autonomy for the state's universities and set new state goals for higher education. Specifically, the Act:

[20] "North Carolina General Statutes." Chap 116: Higher Education. Sec 11-2. retrieved from http://www.ncga.state.nc.us/enactedlegislation/statutes/html/bychapter/chapter_116.html.

1. Granted higher education institutions greater autonomy in exchange for meeting operational and academic goals set by the state.
2. Required the colleges to develop a memorandum of understanding and a management agreement with the Governor. This agreement would then be submitted to the legislature for approval as part of the budget process..
3. Required an AA- or better credit rating, past success in decentralization and significant documentation.

Academic and operational goals established as part of the authorizing statutes included the following:

1. Providing access for Virginia students;
2. Ensuring affordability ;
3. Offering a broad range of programs;
4. Maintaining high academic standards;
5. Improving student retention and graduation rates;
6. Developing uniform articulation agreements with community colleges and offering dual enrollment programs with Virginia high schools;
7. Working to help stimulate economic development, especially in areas of low income or high unemployment;
8. Increasing externally funded research and facilitating the tech transfer;
9. Working with K-12 to improve student achievement and the skills sets of teachers and administrators;
10. Preparing a six-year plan outlining the institution's academic, financial, and student enrollment goals; the plan is to be updated every two years; and
11. Operating the institution in an efficient and cost-effective fashion.

Virginia Tech, the University of Virginia and the College of William and Mary have moved ahead to take advantage of the Act, negotiating management agreements with the Commonwealth. While these agreements are recent enough that their effectiveness cannot yet be fully evaluated, it is instructive to look at the operational areas covered by those agreements.

In the case of the College of William and Mary, for example, current employees of the college are grandfathered in as state employees but may opt to transfer to the college's own human resources system in the future. The university-based system, which establishes new classification and compensation plans, establishes a performance and evaluation process and provides both improved benefits and more flexible leave provisions, is mandatory for all new hires.

William and Mary's management agreement also lays out specific capital outlay, financial management, procurement, information technology and leasing policies. Highlights of those policies include: control by the higher education coordinating board of all capital projects constructed with non-general funds (the Commonwealth continues to authorize projects financed with general funds or state debt); the ability of the board to make improvements to or to dispose of land or facilities acquired or constructed by the board with non-general funds; the ability of the board to establish tuition, fees, room, board and other charges as long as it provides a reasonable level of need-based financial aid for middle-and lower-income Virginia undergraduates; board control over revenues generated by tuition, fees, research funds, and auxiliary enterprise funds; the ability of the college to establish and administer local procurement policies as long as those policies promote competition and are administered openly, fairly and impartially; and the ability of the college to control information technology planning and implementation free of all state regulations.[21]

OHSU Model

Oregon Health and Science University's (OHSU's) conversion from a state agency to a public corporation may provide the best road map for changes to OUS governance because it occurred in Oregon and in a relatively recent timeframe. While many of OHSU's arguments for separating from the state were similar to OUS's, at the time OHSU sought its governance change, the rules and regulations that applied to all of OUS, including OHSU, were far more stringent than they are today. (Over the years since OHSU's conversion to a public corporation, OUS has won approval for relaxation of public contracting laws and various other state rules, though not as many as OHSU enjoys.) In addition, as an entity that received 60 percent of its funding from a health care system in competition with private health care providers, OHSU faced a challenge that is substantially different from that faced by OUS.

Established in 1887 as the University of Oregon's medical school in Portland, OHSU became a separate institution within the Oregon State System of Higher Education in 1974. Between 1985 and 1990, the percentage of OHSU's revenues coming from the state declined from 28% to 19% (only slightly more than PSU's current percentage of state support).

Recognizing that Measure 5 would lead to further reductions in the taxpayer subsidy and that, as a state agency, it would be unable to compete with the private sector for health care business under the Oregon Health Plan, OHSU asked the Legislature to convert it to a public corporation governed by an independent board and free from state regulations controlling purchasing, personnel, contracting and other functions. A bill establishing this new governance model for OHSU passed the Legislature in 1995 with overwhelming support.[22]

Today, OHSU is a free-standing public body governed by an independent 10-member board nominated by the Governor and approved by the state senate. The OHSU Board of Directors operates independently of the state and has full governing and fiduciary responsibility for the university. The President of OHSU serves as a voting member of the board.
OHSU's governance structure, fiscal and operational authority and public obligations are spelled out in statute. [23] Like the UC system, OHSU sets its own tuition, issues its own bonds, manages personnel and benefits, and has its own Treasury, general counsel, and auditing

[21] A recent paper by University of Virginia professor David W. Breneman and former Virginia Chief Deputy Attorney General H. Lane Kneedler provides helpful background on the Virginia higher education restructuring effort. David W. Breneman and H. Lane Kneedler, *Negotiating a New Relationship with the State: The Virginia Experience,* Based on the authors' presentation at the TIAA-CREF Institute Conference *The New Balancing Act in the Business of Higher Education,* New York City, Nov. 3-4, 2005.
[22] Only three legislators voted against SB 2, the public corporation authorizing legislation. Beth Alexander, M.D., M.S., Lois Davis, Peter O. Kohler, M.D., *Changing Structure to Improve Function: One Academic Health Center's Experience*, Academic Medicine, Vol. 72, No. 4/April 1997. 264.
[23] Oregon Revised Statutes, Ch. 353

functions. Funding for the institution comes primarily from patient revenue, research and grants and gifts, but it still receives a small portion of budget from the Legislature. Per the statutes,[24] OHSU submits a biennial budget request for inclusion in the Governor's Budget. Although the budget is considered by the Ways & Means Committee in much the same fashion as state agency budgets, it is allocated more like a block grant with the bulk of the budget contained within the Education and General line item and separate lines items for three small programs.[25] The funding in the Education and General portion of the budget, while subject to budget report language, is largely fungible among the academic programs.

Looked at from the perspective of the percentage of revenue coming from the state (around 2 percent in 2009 compared to 12 % in 1994) the OHSU public corporation could appear to be less than a success. The Governor and the Legislature have found it difficult to understand the model and have at times argued that state funding should be reduced because OHSU has greater flexibility than traditional state agencies and can more easily raise funds from other sources.[26]

Despite reductions in state support,[27] however, OHSU's conversion to a public corporation has, in fact, been a tremendous success. Moving to public corporation status has freed the university from state regulatory constraints, permitted administrators to cut costs, and given the institution the authority to issue its own bonds for deferred maintenance and new construction. With significant increases in private fund-raising, research funding, and other sources of revenue, OHSU has moved into the top 20 academic medical centers nationwide.[28]

What's more, while the actual dollar amount of OHSU's state appropriation has dropped slightly since 1994, the large percentage drop is more a reflection of increases in OHSU's other revenues than it is of decreases in the state contribution. Of note, OHSU research has soared from $70 million per year at the time of the merger to $307 million today.[29] Since PSU has set a goal of growing its own research portfolio from $53M today to $100M over the next decade, OHSU's success in this area makes the public corporation model appealing as an alternative form of governance.[30]

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[24] Ibid

[25] Funding for the individually line-itemed programs makes up less than ten percent of OHSU's biennial state allocation.

[26] After 14 years as a public corporation, OHSU appears to be making headway on the argument that public funding is necessary to help it meet its statutory public missions. In hearings on the university's budget last spring, several members of the Ways & Means Subcommittee on Education talked about the importance of the institution to Oregon and indicated their strong desire to provide OHSU with a larger budget. The same sentiments were expressed by numerous legislators when the bill was considered on the Floor of the House of Representatives. Hearings on the 2009-2011 Biennial Budget for Oregon Health and Sciences University, Education Subcommittee of the Ways and Means Committee, 75th Oregon Legislative Assembly, State of Oregon. March, 2009.

[27] Despite arguments by some that OHSU should receive less state support than the OUS schools because of its public corporation status, the decline in state funding for OHSU in the 14 years since passage of SB 2 mirrors very closely the decline in funding for OUS over that same time period.

[28] http://www.ohsu.edu/xd/about/facts/measures-of-success.cfm

[29] Ibid

[30] As has been the case for the UC system, some observers have interpreted reports of OHSU's current financial challenges as being evidence that the public corporation is of less value than originally believed. The reality, as for the California schools, is that, but for the public corporation, OHSU would be facing far greater problems.