1. GOVERNANCE REFORM

There are many models of postsecondary governance in the United States. One eminent scholar on postsecondary governance structure, Aimes McGuiness, PhD, notes that there are three major types of postsecondary education governance structures: governing board states, coordinating board states, and planning-regulatory-service agency states (McGuinness, 2003). Oregon has a consolidated governing board for universities and a separate state-level coordinating board for locally governed community colleges, with no local governing boards for the four-year public institutions. There are five other states with a similar structure—Arizona, Iowa, Mississippi, South Dakota, and Wyoming (acknowledging that there is only one university in Wyoming).

Oregon should adopt a governance structure similar to those in Virginia and Washington (see Figure 9 on page 16) by establishing a state-level coordinating board for the four-year public universities, with each public university provided the opportunity to have its own public governing board. However, what works best for the University of Oregon may not work for every institution. This proposal recommends that the University of Oregon be granted an institutional governing board similar to the University of Washington. The board would be publicly appointed by the governor and confirmed by the Senate, would be accountable to helping ensure the University of Oregon meets its public responsibility, and focused on how the institution can thrive and prosper as it strives to provide a high-quality education. Under this model, the state coordinating board would retain the authority for degree approvals and play a critical role in ensuring the University of Oregon remains accountable to specific performance goals designed to address the state's needs. However, all governing and budget decisions related to the University of Oregon would rest with the local campus board, similar to the authority provided to Oregon’s community colleges. The goal of governance reform, from the University of Oregon perspective, is that the University of Oregon would be granted authority for a new publicly appointed board focused on its mission and public responsibility, and the state coordinating board would become the entity focused on educational outcomes and accountability.
Figure 9

EXAMPLES OF HIGHER EDUCATION GOVERNANCE MODELS

The University of Washington (UW) is governed by a board of regents appointed by the governor. The board consists of ten regents who each serve a six-year term with the exception of a student regent who serves a one-year term. The regents hire the university president, set entrance requirements for students seeking admittance to the UW, grant students degrees, make real estate decisions concerning the university, and generally supervise and manage all university business as outlined by state statute. New degree programs and the purchase or lease of major off-campus facilities is subject to the approval of the Washington Higher Education Coordinating Board (HECB) of which the UW is a member institution. The HECB "coordinates the broad public interest above the interests of the individual colleges and universities." The HECB has ten board members who are appointed by the governor to four-year terms. HECB member institutions include community colleges and universities in the state.

The University of Virginia (UVa) is governed by a board of visitors appointed by the governor and subject to confirmation by the Senate and House of Delegates. The board consists of sixteen members who each serve a four-year term. The board may appoint a full-time student to a one-year nonvoting membership if it desires. The board of visitors sets tuition rates, hires the university president, approves new degree programs or the discontinuance of existing degrees, and other powers and duties related to the governance of the university as outlined in state statute. The State Council of the Higher Education for Virginia (SCHEV) of which the UVa is a member institution "helps policymakers, college administrators, and other concerned leaders work cooperatively and constructively to advance educational excellence." SCHEV has eleven board members who are appointed by the governor to four-year terms. SCHEV member institutions include community colleges and universities in the state.

SOURCES: WASHINGTON.EDU/REGENTS, VIRGINIA.EDU/BOV

2. INCREASED ACCOUNTABILITY

The newly established local governing board must remain accountable to ensuring the university remains focused on its public purpose—accountable autonomy if you will. The reform of the governance system must also include some element of performance-contingent funding, providing real incentives for the institution to help address the educational attainment goals of the state. The new state-level coordinating board should set clear standards of success for the institution and hold the institution accountable for meeting those standards, such as accessibility, affordability, diversity, economic development, and service impact. Given the autonomy to fulfill our goals, we believe we can more capably deliver a high-quality education to more Oregonians, meet the goals established by the state coordinating board, and help improve Oregon’s future (see Figure 10 on page 17).
### THE VIRGINIA EXAMPLE: PERFORMANCE MEASURES AND STATE GOALS

The **Virginia General Assembly** passed The Restructured Higher Education Financial and Administrative Operations Act during the 2005 legislative session. The act provides public colleges and universities with more institutional autonomy in exchange for demonstrated dedication to their public missions. The act required a pledge by the respective institutional boards of visitors to the state goals. Institutions can earn funding incentives by being in compliance with performance standards. SCHEV evaluates institutional progress in meeting specific education-related performance measures by June 1 each year.

The University of Virginia identified nineteen institutional performance standards as well as standards governing its finance and administration, human resources, institutional technology, and a variety of other university functions as part of its commitment to The Restructured Higher Education Financial and Administrative Operations Act. The performance standards were specific in their focus and included standards for in-state student enrollment, increasing the percentage of in-state undergraduate enrollment from underrepresented populations, number of degrees awarded, increases in the ratio of degrees conferred per full-time equivalent instructional faculty members, and increases in the total expenditures in grants and contracts for research, to name a few.

The institutions’ boards of visitors committed to the following twelve state goals by formal resolution in 2005:

1. Provide access for all citizens of the commonwealth, including underrepresented populations
2. Ensure that higher education remains affordable
3. Offer a broad range of programs
4. Maintain high academic standards
5. Improve student retention
6. Develop articulation agreements that have uniform application to all Virginia community colleges
7. Actively contribute to efforts to stimulate the economic development of the commonwealth
8. Increase the level of externally funded research
9. Work actively and cooperatively with elementary and secondary schools to improve student achievement, upgrade the knowledge and skills of teachers, and strengthen leadership skills of school administrators
10. Prepare a six-year financial plan (2009 plans were suspended because required budget information was not available in time for institutions to complete their reports)
11. Conduct the institution’s business affairs in a manner that maximizes operational efficiencies and economies for the institution, contributes to maximum efficiencies and economies of state government as a whole, and meets the financial and administrative management standards
12. Seek to ensure the safety and security of the commonwealth’s students on college and university campuses.

**Source:** [SCHEV.EDU/RESTRUCTURING/RESTRUCTURING.ASP](SCHEV.EDU/RESTRUCTURING/RESTRUCTURING.ASP)
3. NEW FINANCIAL PARTNERSHIP

As previously outlined, the state’s fiscal capacity to address the critical issue of educational attainment is a grave concern. Furthermore, the challenges of operating a university with a volatile and unpredictable funding stream from the state are very difficult. Long-term fiscal and strategic planning is nearly impossible. In order to make progress on many important goals—such as increasing investments in teaching, research, and discovery; becoming more competitive for the nation's top faculty members; and increasing student support services—we must adopt a new financial partnership, a partnership grounded in mutual accountability. We should be held accountable for delivering the educational product the state and its citizenry needs, and the state must commit to play a continuing central role in funding the educational, research, and community mission of the institution.

There are many ways a new financial partnership can be structured and will undoubtedly vary from university to university. The University of Oregon proposes an entirely new conceptualization for the form of the state’s funding, creating incentives for private investment in public higher education, and stabilizing the funding support provided to the institution through the creation of a public quasi-endowment (see Figures 11, 12, and 13 on pages 19, 20, and 21 respectively). We propose that the state capitalize its investment in the University of Oregon and create a public endowment earmarked to fund educational opportunities for future generations of Oregonians. We would pledge to match, dollar for dollar, the state supported endowment with gift monies. For example, the University of Oregon currently receives an estimated $65 million a year in general fund support from the state and federal American Recovery and Reinvestment Act. The University of Oregon proposes that the state appropriate these funds to support the debt issued to establish a public endowment. We would be required to match the public endowment funds with private funding. The institution would no longer submit an annual operating budget to the state, and the state’s investment in the institution would come in the form of paying off the debt issued to fund the endowment over thirty years. We believe this new financial partnership would allow the university to provide greater predictability in tuition pricing, allow the institution to engage in long-term fiscal planning, and fundamentally transform the institution’s capacity to provide a high-quality education. Moreover, while the state’s annual investment in the institution will not increase, the creation of the endowment will leverage the university’s ability to build a healthy endowment from private gifts.
Figure 11

MODELING A PUBLIC ENDOWMENT

Figure 12 (see page 20) illustrates some financial implications of the new university model under a specific set of assumptions. If the state sold $800 million in thirty-year bonds at 7 percent interest, the annual debt service would be approximately $64.5 million annually, which is approximately equal to what the state appropriated to the UO for operating expenses in 2009–10. Larger appropriations from the state or lower interest rates would allow for a larger endowment than we use to illustrate the concept in this white paper. With the necessity of picking a number to use in our illustrations, we assume in Figure 12 that the $800 million in bond proceeds are combined with $800 million in private gifts to fund a $1.6 billion endowment at year 0.

Changes to the endowment will depend principally on investment earnings and distributions to the UO to achieve its mission. Projecting investment earnings has two principal components: what you expect to earn annually and how much variation or risk is associated with those earnings. Simply for ease of illustration we ignore investment risk and inflation in the costs of running the university in Figure 12. Figure 12 projects the endowment earnings and distributions assuming an annual investment earnings rate of 9 percent and a distribution rate of 4 percent, which are assumptions used by the UO Foundation. The endowment earnings reflect the 9 percent earned on the prior year’s endowment amount. So in year 1, endowment earnings are 9 percent x $1.6 billion or $144 million. These earnings are reflected in column (c) of Figure 12. Column (d) illustrates the 4 percent distributions from the endowment amount from the prior year. So, again in year 1, the endowment distribution is 4 percent x $1.6 billion or $64 million. Column (b) illustrates the endowment account balance at year 1, reflecting $1.6 billion + earnings of $144 million minus distributions of $64 million which gives an ending balance of $1.680 billion at year 1. Given these assumptions, one can see clearly the growth in the endowment and the distributions to the UO. However, as mentioned this figure does not account for risk. In Figure 13 (see page 21), we present an illustration of the role of investment risk. The UO Foundation’s investment model predicts an average annual return of 9 percent with variability around that average. Variability is measured by the standard deviation of these annual returns. Loosely speaking the standard deviation measures the average distance returns are from 9 percent. Assuming an annual return of 9 percent with an associated risk factor of 15 percent, Figure 13 shows the range of annual payouts plotted over the thirty-year horizon and relative to a state appropriation of $65 million.

Figure 13 illustrates that under these assumptions, if investment performance were poor, the projected payouts in the fifth percentile of projected outcomes in 2020 would provide $45 million to the university. In contrast, if investment returns are especially good, the ninety-fifth percentile would provide $145.4 million in operating budget to the university. The figure demonstrates that to a first approximation, and under these assumptions, payouts in the twenty-fifth percentile roughly match the FY 2009–10 state appropriation of $65 million. Figure 14 (see page 22) simulates the endowment distribution assuming a $1.57 billion endowment invested in 1990–91.

We have developed Figures 12 and 13 to allow the discussion to progress with a set of numbers with which the implications of the new model can be better visualized. We had to make assumptions and we have tried to make reasonable assumptions but these assumptions are not the only reasonable assumptions that could have been made. With this important caveat in mind, we believe that the model illustrates several features of this financial plan. First, it is reasonable to expect that the future distributions available to the university will meet or exceed current appropriations from the state. Second, endowment and distributions grow rapidly if the endowment grows. Third, the state’s obligation for the next thirty years remains constant.

In Figure 5 (see page 10), we see that state funding to the UO in 1990–91 was $63 million, which is more than the $61 million the UO is projected to receive in FY 2010–11. Given the constant budgetary pressures on the state, we believe that this new financial model holds great promise for providing more predictable financial support—along with the prospect of modest growth in that support.