STRATEGIES for the NEW NORMAL

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INTRODUCTION

For all but the wealthiest colleges and universities, the economic downturn that started in 2008 has never really gone away. While the immediate sense of crisis may have passed, and some of the budget cuts may have been restored, higher education is operating in a fundamentally new environment. For most institutions – public or private, two-year or four-year – this means asking fundamental questions about business models, revenue sources, enrollments, the curriculum and more. And these issues are inextricably linked – with public and private institutions alike searching for the right offerings to attract students and the financial resources they bring.

The *Inside Higher Ed* articles on the pages that follow explore some of the strategies and ideas in play as colleges look for the right path forward to fulfill their missions. The strategies are as varied as the institutions, and the jury is still out on whether many of these approaches will work. But they illustrate the challenges facing higher education today.

Inside Higher Ed will continue to cover these issues, and welcomes your reactions to these articles and your suggestions for future coverage.

--The Editors

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Private colleges

Shrinking as a Strategy

By Ry Rivard

While dozens of liberal arts colleges bank on plans to grow, a Vermont institution doesn't think that's realistic, and has developed a path to preserve itself by getting smaller.

After surveying the fate of small private liberal arts colleges, Saint Michael's College in Vermont is now planning ahead for enrollment declines, inexpensive online classes for credit and debt-averse students and families.

College officials say they now have a way to keep the college sustainable by making it smaller. Even though enrollment is steady and there's been a budget surplus each of the past six years, Saint Michael's is planning to enroll 10 to 15 percent fewer students over the next three to four years and, in turn, employ about 10 percent fewer faculty and staff members. That approach runs counter to the strategies of some liberal arts colleges that are saying that they will thrive by getting larger, even as many doubt that a growing number of students will be seeking liberal arts degrees.

A task force of three Saint Michael's alumni, three professors and three trustees spent about nine months studying what will happen to small tuition-dependent liberal arts colleges and found there's a "perfect storm" approaching.

For Saint Michael's, those projected problems include a 15 percent drop in high school graduates in the Northeast, but also an unsustainable pricing model that is going to collide with a student debt bubble and large-enrollment online courses from elite universities that will drive down costs.

President John J. Neuhauser, a former business school dean at Boston College, said Saint Michael's is preparing for its enrollment to drop from 1,900 now to 1,600 in the next several years. In turn, the college plans to cut the number of faculty positions from 150 to 135, mainly through attrition.

Neuhauser said the assumption is that the steep fall-off in the number of high school graduates is going to affect somebody -- and that somebody might be Saint Michael's.

"Everybody thinks they are smarter than everybody else, but we're going to plan as if we weren't and try to be smarter than everybody else," he said.

The college is trying to avoid a number of scenarios by planning for the worst and hoping for the best. Some colleges have had to suddenly and sharply cut faculty because of unexpected enrollment declines.

Saint Michael's is also adding a summer online program for students from elsewhere that will start to rely on content from online courses to help lower costs. The summer program could eventually help students graduate in three years.

"It's pretty clear that you have to get some productivity out of small liberal arts colleges or else they are simply going to price themselves out of existence," Neuhauser said.

Michael McGrath, a trustee who chaired the task force, is a former business consultant who said he's seen companies swept under by technology. He asked everyone on the task force to take a free online class, whether from iTunes or from the massive open online course providers edX and Coursera.

He said the task force concluded there are going to be significant changes in the market for all of higher education, and he said it's better to be "slightly paranoid and react in advance."

"There's that potential in higher education that it's going to be more than a little downsizing by the marginal colleges," he said. "It could be quite profound."

John O'Meara, an associate physics professor who was on the task force, said faculty members plan to discuss the college's plan in depth in May but are increasingly aware that perhaps the current higher ed economy is not "just

the normal doom and gloom-ism." He said professors read about problems but always assume the larger trends won't hit them.

"No faculty member is saying, 'Please fire me' or something – nobody is embracing this with joy," O'Meara said. "But I think there is an acknowledgment among the faculty that we may be in a more unique financial situation than we have in the past."

McGrath, the trustee, believes the student debt bubble is going to pop and depress prices. He called the government-backed loans with few strings attached the "biggest government scam and the most unethical thing in history."

"It's the biggest scam, and then they will probably turn around and blame colleges," he said. "They will hold hearings and they will say, 'When the student applied to you for a federal loan, why didn't you monitor what the grades were?' "

If that easy money dries up, McGrath said, there will be even more pressure on colleges.

Other small private colleges are working on ways to grow their market share by, among other things, cutting their sticker price.

"Those things can either be just interesting strategies or desperate – depends on how they work out," McGrath said.

Neuhauser, likewise, said any effort by Saint Michael's to grow net tuition by increasing enrollment would be "foolish." For one thing, Saint Michael's is near its capacity now, meaning additional students at the residential college could force new construction.

The college is still working out how it plans to reduce faculty lines and continue to maintain a healthy variety of course options.

Some people argue most traditionally structured colleges will struggle to maintain a diversity of courses if they have fewer than 2,000 students. Neuhauser said that's generally true but he believes the threshold is a bit lower and technology can help.

"I think it's going to change how it's conducted, but we'll see, it's easy to be critical of MOOCs and things like that now, but what's edX, 18 months old? It's pretty new," he said. "I betcha Gutenberg had the same problem."

McGrath said he believes the trustees are setting a good example by planning for the worst -- "it's really dumb if you don't prepare for a storm" -- and that he's seen too many boards in the corporate world fail to react to changes. He said he used to tell his clients, "If everybody is happy 90 days from now, then we're not doing enough." ▪

Endowment Decisions

By Ry Rivard

Some colleges are abandoning market-based spending policies so they can plan for the future. The University of the South recently joined the group.

In an effort to make sure it won't overspend when times are good or starve itself of money when times are bad, the University of the South decided in February 2014 to change how it spends its $350 million endowment.

The Tennessee liberal arts college, also known as Sewanee, joins a small minority of American colleges that use inflation adjustments to determine how much money to draw each year from their endowments. This, Sewanee's leader said, will allow the university to plan for the future in ways it hadn't been able to.

Typically, endowment fund managers look at the size of their endowment to determine how much they should spend. About 77 percent of American colleges look at average size of the endowment over about 12 financial quarters and spend a fixed rate – usually 5 percent.

Sewanee Vice Chancellor John McCardell joins of a group of colleges that have become convinced the usual method is not ideal.

"I'm even more convinced that what that approach does is give you more money than you need to spend or ought to be spending in good times; and less money than you need to spend or ought to be spending in bad times," he said. "Which seems to be the exact opposite, it seems to me, of where you want to be or ought to be."

McCardell's point is that when markets have been bad, typical endowment spending policies cause colleges to respond by taking less money from their endowment because they are committed to drawing 5 percent of the average size of an endowment, regardless of what the endowment's size has been.

"There's nothing magical about 5 percent," McCardell said, adding it could end up being "unnecessarily severe."

This means when times are tough and colleges might want to turn to their endowment to help prop up the operating budget, they end up getting less money. But when markets have been bullish, colleges tend to spend at times when they may need that money the least.

"The idea is that this smoothes out volatility, when really it does not," McCardell said.

So Sewanee's board joined about 5 percent of American colleges that use a different approach, which takes the previous year's spending and then adds inflation. This means colleges take a certain amount of money almost regardless of market performance. Colleges do acknowledge market performance slightly, by putting a ceiling on the spending (of 5.5 percent of the endowment's value at Sewanee) to make sure they don't deplete the endowment and a floor on the spending (4.5 percent at Sewanee) to make sure they aren't failing to acknowledge strong market growth.

In the upcoming fiscal year, Sewanee plans to take $13.6 million from its endowment toward its $80.4 million operating budget. In coming years, the number will go up with inflation – either the Consumer Price Index, the Higher Education Price Index or some other custom measure the university decides on.

This way, Sewanee can more predictably count on how much money it will be taking from the endowment. Sewanee looked back and found that if it had used an inflation-adjusted

John McCardell

spending plan over the past five years, the size of its endowment would be almost exactly the same but the university would not have had to deal with market swings that meant it was cutting its operating budget when it could least afford to.

McCardell said one of the assumptions of the plan is that the market won't tank while inflation is rising. Another assumption is that endowment growth will meet or exceed inflation.

Bill Jarvis, the managing director of the Commonfund Institute, which advises nonprofit investors and helped prepare the report, said he's surprised more colleges have not adopted inflation-adjusted spending plans. Already, he said, many institutions that use endowment funding for a significant chunk of their operating budget use similar methods.

Yale University and Stanford University, for instance, have an endowment spending method that relies on a combination of inflation and average endowment size.

About 7 percent of endowments use that hybrid method, according to the latest study of endowment trends by the Commonfund and the National Association of College and University Business Officers. Most of them are colleges with endowments larger than $100 million.

Jarvis said presidents at institutions that don't rely exclusively on market returns have to exercise willpower: When everyone else is bragging about being able to spend a lot during a strong market, those presidents can't, and when other institutions are cutting spending, those presidents have to keep spending level.

McCardell said he is now able to plan five years into the future because he can more easily predict what will be coming from his endowment, which makes up around 16 percent of Sewanee's operating budget.

"This is a decision that at least in the next little bit will allow us to spend a bit more and invest a bit more in our students and our faculty and our physical plant," he said. ▪

How Much Can Be Cut?

By Ry Rivard

Iowa Wesleyan eliminates 22 of its 52 instructors and half of its academic programs. The president thinks it is now ready to grow. Can it?

Dramatic cuts at Iowa Wesleyan College have left some faculty members wondering how the institution can remain open.

The college of about 600 undergraduates announced in January 2014 it will eliminate 22 of its 52 faculty positions; it has cut 23 staff members and 16 of its 31 academic programs.

College President Steven Titus said the goal of the cuts, which trimmed $3 million from a $20 million operating budget, are to get the college ready to grow. "We think there are opportunities to really move from a small local residential liberal arts college to a more regional institution," Titus said.

Others are less optimistic about what the cuts mean for the future of Iowa Wesleyan, a 171-year-old college in southeast Iowa.

Maryellen Potts, an English professor who leads the first-year writing program, was told her job will be eliminated. She said faculty have been given no guidance on how to reshape an English department that now has only two faculty instructors.

"How do you run a college? How do you run a program?" Potts said. "We don't know. And that is troubling, very troubling."

After the faculty layoffs take effect at the end of 2013-14, there will be no math professor on staff.

Potts resigned from the college's accreditation committee, which she chaired, and said she's unclear how the Higher Learning Commission of the North Central Association of Colleges and Schools will view the cuts.

The commission is planning to visit this fall — ahead of schedule — because of issues it had identified at the institution even before the cuts. "The commission is aware of the recent developments at the college," said a commission spokesman, John Hausaman. “We will be conducting a focused visit this fall pertaining to the institution’s enrollment and finances.”

Several faculty members who were contacted declined to comment publicly, but Potts appears to represent some number of faculty who are worried about whether the institution can take care of the students it has. Of particular concern may be the 50 or so students said to be enrolled in the programs that are being cut.

Titus said the relatively small number of students affected by the cuts shows why they were made: only 52 students were enrolled in the 16 programs that were cut. So, that half of the college’s majors enrolled only 5 percent of the college’s students.

“What anyone needs to understand is, do we have right the programs in place that are really serving the region?” he said.

Because the faculty layoffs don’t take effect until the end of this calendar year, he thinks the college still has time to find a way to graduate them in their major.

“I think we will be able to phase this in a fairly elegant way,” Titus said.

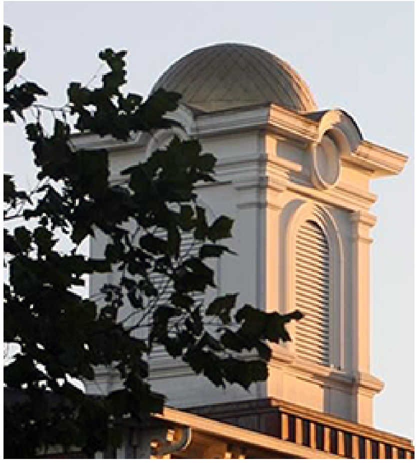
He said the college is still working on figuring out how to make sure students receive their core curriculum. Not only do the cuts affect math, history, music, secondary education and English professors, but the college had already eliminated its math major and chemistry majors before Titus arrived, he said.

But there are also concerns about the programs that do remain.

“How do you run nursing when math has been cut?” Potts said.

Iowa Wesleyan is far from alone, but it is trying to regroup at a time when many private colleges without large endowments or national name recognition are struggling to attract students, and many experts say that it is particularly challenging for colleges without 1,000 students to support the range of programs needed to attract new students.

Titus said the college is working on a plan for the core curriculum and may bring in adjuncts to teach, for instance,



math.

Some faculty privately wonder if the students appreciate what is happening at the institution — whether the true gravity of the cuts is understood.

Iowa Wesleyan is one of the 10 largest employers in its hometown of Mount Pleasant, said Kiley Miller, the executive vice president of the town’s Chamber of Commerce who used to work in the college’s development office. He said Titus briefed the chamber’s board about changes.

Miller said the new focus could help meet some work force preparation needs in the area.

“To my mind, everyone recognizes that this is a very trying and painful time, but also change was needed,” he said.

Kent John Chabotar, the president of Guilford College in North Carolina, said colleges attempting what Iowa Wesleyan is doing can find success if they focus on majors that enroll more students and do a good job of selling those programs.

“The only way you have a regional reach is to have majors that have regional reach,” he said. “You’re not going to do that with a classic curriculum.”

Chabotar said National Association of Independent Colleges and Universities has figures showing there are more than 100 colleges with fewer than 200 students, though many are niche institutions, like art institutes.

Even without departments for math or the hard sciences, colleges can find a way to deliver general education courses, he said. “If you’re down to trying to really focus your program on those things you think have the highest enrollment potential you can organize things around those programs and get the gen ed to get those requirements, but you don’t need whole programs or departments,” he said.

Barmak Nassirian, the director of federal relations and policy analysis at the American Association of State Colleges and Universities, said accrediting agencies that oversee colleges that have made such dramatic cuts might want to change their tactics to help colleges limit collateral damage if they go under.

"What they often confront is complete fait accompli, that the die is cast by the time the accreditor comes in," he said. "There is no such thing as a soft landing, particularly for the students who get caught in the death knell of troubled institutions – and I'm not talking about Iowa Wesleyan or anyone – but in general."

Titus's No. 2 at the institution has also drawn some attention. Richard McCallum, the vice president for academic affairs, was fired as president of Dickinson State University in North Dakota after his administration tried to inflate the university's enrollment. McCallum did not return a call seeking comment. Titus said McCallum's past was "absolutely immaterial and irrelevant to what is going on at Iowa Wesleyan." He said McCallum is a man of "enormous integrity."

Titus was the subject of a no-confidence vote from faculty in a past job, when he was president at Midland Lutheran College. He said the vote came on his way out after a restructuring job that helped save the college, which is now known as Midland University. That effort also involved cutting programs.

He said the cuts at Iowa Wesleyan were like those are other small private colleges, which are suffering through a similar set of issues: parents with less money to pay, fixed costs, a shrinking population of high school graduates and students more interested in career-oriented programs that haven't been the bread and butter of private liberal arts colleges.

"Right now, some of the things we're doing are quite aggressive, perhaps more aggressive than what has been done in the past," Titus said. "But that's one of the things I think the board is looking for, so the context is different than it was five, six, seven years ago." ■

Paper (Tuition) Cuts

By Ry Rivard

Small private colleges cut their sticker price in an effort not to scare away middle-class students. But will it work or hurt? Will anyone really save much money?

A spate of small private liberal arts colleges are dramatically slashing their sticker prices in an effort to, they say, tell the truth about the real cost of college, help families and attract new students.

The price cuts – which, for some students, may be more on paper than actual reductions in out-of-pocket expenses – are not a new phenomenon, but the rate at which small colleges are adopting the maneuver, as well as tuition freezes, appears to be picking up speed.

In September 2013 Ashland University in Ohio and Converse College in South Carolina each announced reductions of more than $10,000 a year for students who enroll in fall 2014 and pay full price. They join other institutions that have announced similarly big cuts, including the University of Charleston in West Virginia, where cuts took effect in 2012, and Concordia University-St. Paul, where cuts took effect starting in fall 2013. These announcements have received considerable attention, with typical headlines for Converse along the lines of, "This college is slashing its tuition by 43 percent."

The colleges each portray the efforts as a path to reducing the financial burden on students. And, indeed, they may, but not nearly as much as at first glance. That's, in part, because the colleges have reduced their sticker prices to about what most students are paying already, given all the scholarships and aid that colleges give to lure students to high-tuition institutions. Hardly anyone was paying the old sticker price anyway.

The cuts are neither a panacea for small private colleges nor a true solution for the ever-rising costs of higher education in America, according to others who have tried. Some also predict that, done improperly or by the wrong institution, tuition cuts could ruin some small private colleges by

ANNOUNCED CUT VS. ACTUAL SAVINGS:

Announced cuts and savings at Converse were...

43%, from sticker price of **$29,000** to sticker price of **$16,500** ....But, really, the average students last year paid just over **$17,000.**

decreasing their allure.

Converse spent about a year and a half looking at its tuition prices and decided to cut them by 43 percent. Officials discovered that most students were paying about $17,000 even though the college's advertised price is about $29,000.

"We realized just how incredibly affordable we were once you cut through all the published rates," said President Betsy Fleming.

Some students and families, of course, didn't realize that either, and so may have shied away from applying. "We looked at it as being very confusing," she said, "saying, Well, we cost this much, but don't worry, we'll help you figure out how to make it affordable."

So, the college said it would start charging students what most of them were actually paying. Its fall 2014 advertised tuition for all traditional undergraduates will be $16,500.

Fleming said an end to the "high-tuition, high-discount model" will help attract new students who were scared away by the old sticker price.

It could also help to retain some middle-class students who were caught in a doughnut hole: too wealthy to qualify for need-based aid and too poor to be able to easily afford college using their own money or loans. "When we announced it to our students there were incredible cheers of gratitude, even tears -- students coming up and saying, 'This is going to help out my family so much,' " Fleming said.

Fleming said all students will be paying less, while the college does not project any revenue losses because it expects enrollment increases due to the cuts. It is also working to control costs.

In late August, Ashland announced a similar deal. It said it would cut its advertised tuition price by 37 percent in fall 2014 to $18,908 from $30,064.

Scott Van Loo, vice president for enrollment management, said he did not see the high prices as sustainable.

"If we did lower our price point, the price objection to our model would change," he said, referring to the scare factor of a high price tag.

Van Loo said while some students and families understood the advertised price was not usually what they would end up paying, others were scared away.

At the higher price, he said, "families would not consider us or students would not consider us and they deemed us unaffordable."

Ashland's students generally paid $20,000 in tuition even though this year's full price tag was about $39,000, including $9,502 in room and board costs. The new sticker price for fall 2014 will be $29,354, including room and board, but officials expect the average student will still actually pay roughly $20,000.

Until recently, colleges had been benefiting from an ever-increasing number of high school graduates and the easy availability of loan money, partially through home equity.

Now, high school graduate numbers

"It seems for schools that aren't in the high brand category you probably have to reduce your tuition by $10,000 or something really dramatic -- then you're really competing with the publics without public money"

are projected to stay flat or fall in most states and, following the downturn, the home equity loans that helped many middle-class families are hard to come by.

To adjust, the colleges making dramatic sticker price cuts are clearly looking to drive up volume by attracting students who thought they were priced out of the institution.

"If an institution sees (enrollment) growth through this type of change, they will see positive revenue outcome," Van Loo said.

That has so far been the case at Concordia, which announced last year that it would cut its tuition price by $10,000 to $19,700 for this year's students. This fall, Concordia had 104 more new freshmen and 79 more transfer students on the first day of class compared to last year; it also saw an increase in the student retention rate.

"We definitely are filling up classes, that's for sure," said Concordia's senior chief of operations Eric LaMott

It's not clear, though, how well this model will work in the long term, either to attract new students, increase sustainability or really drive down the cost of college.

'NOT A PANACEA'

The University of Charleston tried a $5,000 cut in sticker price for all new students starting in fall 2012. The change, said President Ed Welch, did not cause a dramatic enrollment increase, though it did attract some new middle-class families.

"My judgment is that reducing the sticker price brings some additional students to look at the institution and then we were successful in converting those additional students, but it was not a panacea that placed us in an entirely new marketing segment," Welch said. "It seems for schools that aren't in the high brand category you probably have to reduce your tuition by $10,000 or something really dramatic -- then you're really competing with the publics without public money."

Welch and Roger Williams University President Donald Farish both cautioned that colleges could see their price reduction plans dramatically backfire. Both cited the example of J.C. Penney, which had long brought in customers with sale prices. Then a new CEO came along and tried an everyday low prices model. The plan backfired because shoppers used to getting good deals on higher-priced goods were being sold what seemed to be just cheap clothes. The high-discount model does work, they said, citing Jos. A. Bank, which always offers steep discounts on suits; it rarely if ever sells them for the "full price."

"The sad thing is that applies apparently to higher education," Welch said.

Officials at Roger Williams, which is in Rhode Island, studied doing dramatic price cuts and concluded it could torpedo the institution, Farish said.

The university hired Maguire Associates to check the opinions of students and parents. Would they prefer a $36,000 tuition and $13,000 in aid or would they prefer $23,000 tuition?

By a 2 to 1 margin, parents and students preferred the higher tuition and the chunk of aid.

Farish said the logic is that if $13,000 is the average, parents don't want to forgo the opportunity of "winning the jackpot" and getting more money.

"The other lesson we learned is, congratulations higher education, you've converted higher education to a commodity," he said.

So, Farish decided to do something else: he would start guaranteeing students four years of the same tuition rate. That doesn't mean Roger Williams won't increase tuition on each incoming class – though it has been able to freeze tuition this year and next – but it does mean parents and students know coming in what they will pay going out. The university is also emphasizing its efforts to provide experiences that help students get a job after they graduate.

"Our objective is to say, 'We're in this with you, folks,' " Farish said.

In the fall of 2013, the university saw a 10 percent increase in freshman enrollment and a 5 percent increase in the retention rate from freshman to sophomore year.

Because of that, Farish said Roger Williams will bring in more revenue than if it had increased tuition by 3 percent. That would have brought in $3 million in revenue but half of that would have had to go to financial aid, he said. Now, the enrollment and retention increase has netted the college $1.8 million.

David Strauss, who advises colleges at the enrollment management consulting firm Art & Science Group, said whether dramatic sticker price cuts will help institutions depends on "idiosyncratic" factors.

His firm, for instance, has done modeling for institutions where boards have been interested in dramatic price reductions and dramatic reductions in aid. "We haven't yet found that institution where it makes sense," he said.

Instead, his firm found institutions could see their class sizes shrink by half or more because students previously attracted by the higher price would be turned off.

Strauss said there are often short-term bumps in enrollment, but these, he said, may have more to do with buzz generated by dramatic announcements. "Anything in its first year or second year, I wouldn't pay attention to," Strauss warned.

Another consulting firm, Noel-Levitz, reached a different conclusion, at least when it advised Concordia and Converse, said its CEO, Kevin Crockett.

He said institutions are charging few of their students the actual sticker price to begin with. At Converse, for instance, only about 1 in 10 students were actually paying the $29,000 the college claimed to be charging. "That always raises a question: Why are we charging a high sticker price if we are not able to achieve that from very many families?" Crockett said.

He said colleges that change their pricing structure may not be able to hang their hats on the change forever for marketing purposes, but the change creates a fundamental change in the institution's mindset.

Crockett said there are also some colleges where tuition reduction may be unneeded. These are colleges that have more of their students paying full price to begin with.

"Clearly for any school that has the ability to command fairly close to their sticker price from a reasonable number of students – 15 to 25 percent – this doesn't make a lot of sense," Crockett said.

THE MUSKINGUM EXPERIENCE

At least one institution has long experience with dramatic tuition cuts: Muskingum University in Ohio. The university announced it would cut tuition from $14,000 to $10,000 for students in 1996. To do so, it reduced financial aid.

The cut helped it attract new students and grow from an institution with about 1,050 full-time undergraduate students to about 1,550, said Jeff Zellers, Muskingum's longtime vice president for enrollment.

Tuition steadily rose, but it took eight years before it was back to where it had been priced before the cuts were made, Zellers said. In the meantime, the university was able to attract more students with its lower price tag and, in part, through press coverage and word of mouth.

"It really did at least result in enrollment growth for us, which is exactly what we wanted," Zellers said.

Now, ironically, Ashland, which shares some of the Ohio market with Muskingum, is trying the same game, and against Muskingum.

Zellers said that even with the price cuts, Ashland will not be cheaper for each and every student, depending on their circumstances -- because of aid packages.

"They are not trying to be cheaper for every single student – or else they will have to have significant budget cuts," he said.

And, ultimately, he said the price cuts – which, after all, are mostly on paper – are not going to drive down the costs of higher education in general. Those are driven mainly by personnel costs.

"This is not the answer to the cost of higher education – it is not the big picture answer, I will fully admit that, knowing exactly how it works and knowing exactly how beneficial it was for us, and knowing that there wasn't a student that was worse off for coming to us," Zellers said. ■

Drexel's John Fry and Montgomery County's Karen Stout

No Transfer Needed

By Paul Fain

Drexel University takes its bachelor's degrees and faculty to three community college campuses, an unusual move for a private university.

Dozens of universities recently touted transfer agreements with community colleges as part of President Obama's summit on higher education. Drexel University didn't participate in the event. But it can hang with any private university when it comes to working closely with community colleges.

For eight years the Philadelphia-based university has taken its bachelor's degree programs across state lines to New Jersey's Burlington County College.

Students can earn a Drexel degree on Burlington's campus after first earning an associate degree. They get a tuition discount in the program, which remains more expensive than most public institutions.

Drexel's faculty members teach the courses at Burlington. The university's instructors do stints at the community college, which is 30 miles from Drexel's campus.

There are no other colleges in Burlington County. And it isn't easy for most Burlington students who want to pursue a four-year degree to leave home to enroll elsewhere. That's because a large number of students at the college are working hard to balance job and family commitments, as well as their budgets, said David Hespe, Burlington's president. He said Drexel makes a bachelor's degree possible for them.

The draw isn't just convenience. Hespe said the jump to a university looks less intimidating when students can continue on at a campus where they've already succeeded once. Drexel is sending a message to Burlington's students that "you can do this," said Hespe. "You can do this academically. You can do this within your budget."

In 2014, Drexel is taking the model to the next level, by exporting it to two other community colleges. Experts said the approach is unusual for a private institution. Other universities have similar agreements in place, but Drexel's partnership with Burlington is one of the most extensive. About 300 students are currently enrolled in Drexel degree tracks at the two-year college campus.

In January 2014, the university announced that students at Montgomery County Community College, which is located in suburban Philadelphia, could earn Drexel degrees. Drexel also recently announced a similar partnership with Delaware County Community College, which is about 35 miles from the university's campus.

The program "expands and elevates the educational opportunities in the region," said John Fry, Drexel's president.

Many graduates from the three colleges also enroll in Drexel's online degree programs, which are extensive. But Fry, who was a commencement speaker at Montgomery County last year, said the university wants to continue developing a "third way" for community college students to earn Drexel degrees.

"We're going to think about as many different ways to connect with them as we can," Fry said.

The partnership isn't just about altruism. Drexel benefits in several ways, including financially.

"There's a good, healthy margin there," Fry said. "Both institutions do well financially."

The university also gets pipelines to motivated, prepared students. The Burlington students are treated like their peers at Drexel's main campus, Fry said. They can attend cultural events and basketball games. Even better, they can get a Drexel degree in the co-branded program.

"These are Drexel students," Fry said.

BRANCHING OUT

Kay McClenney is a fan of Drexel's approach. McClenney, who is director of the Center for Community College Student Engagement, said other private institutions have brought their degree programs to two-year campuses.

For example, she cited Lone Star College's University Center, which hosts bachelor's and master's degrees from six institutions. Our Lady of the Lake University and the University of St. Thomas (Houston) are private university partners at the center, joining four state universities.

"This model is not uncommon, though also not yet pervasive," McClenney said in an email. "It's very good, for everyone -- students, community colleges, universities and communities."

Officials from Burlington said Drexel brought disciplines that would be difficult for a community college to create, even if it tried to go down the four-year degree path by itself. The university offers several STEM degree tracks at Burlington, including degrees in engineering, computer technology and biology.

Exporting those degree programs is no easy task. "These are very difficult majors to have off of your campus," Hespe said. "You need specialized faculty," as well as labs and equipment.

Fry, who arrived at Drexel in 2010, said he was impressed by faculty enthusiasm for the collaboration. (Instructors get bonus pay for the work.)

"I was amazed that we had so many faculty members willing to do this," he said. "We had no problem getting faculty energized."

The emerging partnership at Montgomery County will also feature a healthy dose of engineering and science, said Stout.

"It really strengthens our STEM pathways," she said.

The college has solid connections with several nearby public institutions, particularly Temple University. Stout said Temple has long been the number one transfer option for Montgomery County students – more than 200 transferred there last year.

While a partnership with a private institution might raise some eyebrows, Stout said it's not a threat to the college's relationship with Temple and other public universities. "I don't see this competing," she said.

Stout thinks community colleges must get creative about partnerships to stay relevant. "We can't survive anymore as independent operations."

And while she had nothing but praise for the college's public university partners, Stout said Drexel brought one competitive advantage to the table.

"I don't see the publics being as flexible and nimble," she said.

Familiarity was helpful when Burlington and Drexel's leaders first crafted their deal back in 2006. "We knew them well. And they knew us well," said Robert Ariosto, director of Burlington's transfer center, who worked on the partnership's creation.

The state's government had previously set rules for degrees offered by out-of-state providers on public college campuses. They are stringent, said Ariosto.

Degree programs have to be an "exact mirror image" of the ones offered on a university's home campus, he said. "They could not be a second-class operation."

Drexel got it done, however.

Hespe said the college plans to grow the program. And he's not worried about criticism of a private university doing what one of the state's public institutions might do instead.

"You can't argue with success," he said. ▪

Debt by a Thousand Cuts

By Kevin Kiley

Weak revenue streams, particularly investment returns, put pressure on debt service obligations at private colleges, meaning programs and other costs could be cut.

To modify a famous phrase by Warren Buffett: Only when the tide goes out do you realize who's swimming with too much debt.

In a report released in 2013, Michael Le Roy, president of Calvin College since the previous year, wrote that a task force studying the college's finances found that the college had racked up $115 million in debt -- a number that shocked many. While the amount is high, it is not entirely out of line for a college of Calvin's size. The college has $442 million in assets.

The problem for Calvin is twofold. First, administrators found that the institution did not build debt service -- regular payments on the debt and interest -- into the budget, the report states. "Calvin College's debt service payments are about 6.1 percent [of the budget] now and will grow to 9.2 percent by 2017 if our revenue holds constant," the president wrote in the report. "The problem is that we have not built more than 0.9 percent of the debt service payment into our operating budget."

The other component of the problem is that, since 1997, the college has been financing construction projects through borrowing while investing gifts in the hope that doing so would raise revenue that could then cover the debt and interest. But, because of the recession, those investments went south and revenues never materialized. As a result, the college is facing projected deficits, which administrators said could likely lead to program closures and other cost-saving measures to make room in the budget for debt service.

Calvin's particular blend of problems is unique, but it is the result of two strategies that are becoming increasingly problematic for higher education institutions: a decades-long increase in the use of debt to finance institutional growth, and erratic endowment returns since 2008.

As macroeconomic conditions pressure every revenue stream available to colleges and universities – decreased margins on net tuition revenue, diminished investment returns, decreased state and federal investment and weakened revenues from health care – the hundreds of billions of dollars they've racked up in debt in recent years becomes harder to pay back. With diminished hopes for revenue growth in the near-term, colleges are likely to see increased pressure to cut costs to cover debt-service obligations.

"President Le Roy details exactly what the financial review discovered, in short, that Calvin has been living beyond its means," Calvin Board of Trustees Chairman Scott Spoelhof wrote in a letter to the college. "Currently we are making adjustments as to how the college operates, and the board is committed to investing the time and energy necessary to create mechanisms for greater due diligence, oversight and transparency in the future."

A COMMON BURDEN

Calvin officials have been unwilling to explain fully why the college is facing its current budget problems or who is responsible. A spokesman declined to make the president or other finance administrators available for comment for this story, pointing instead to previous statements by the president.

Several financial administrators departed in 2013.

Higher education finance officials said the practice of tying debt repayment to investment returns – as Calvin did – is rare specifically because it is risky. Many projects financed through debt are tied to particular revenue streams, such as residence hall and dining fees for the construction of such facilities, and others are tied to pledged gifts. More general debt service is often built into the budget and funded through diverse revenue streams.

"If I'm a chief financial officer, before I seek debt financing, I want to make sure that I have some of that cash on hand, whether from my own reserves or from philanthropy," said Charlene Butterfield, a senior higher education analyst for Standard & Poor's.

Debt as a strategy for financing

capital construction on college and university campuses has been on the rise. Between 2000 and 2011, overall debt levels at the more than 500 institutions rated by Moody's have doubled, according to an analysis the ratings agency did for *The New York Times*. At Syracuse University, for example, debt rose from $150 million to $400 million under Nancy Cantor's tenure, which began in 2004.

Now many of those colleges face difficulties in paying off that debt.

When giving Centre College's debt a negative outlook earlier this month, Moody's flagged the college's high debt load as an issue. The college's debt service, as calculated by the ratings agency, was 12.4 percent of expenses, a problem exacerbated by the college's weak endowment returns. The ratings agency downgraded the University of Tulsa and Southwestern University, citing similar debt service pressures.

Ratings officials say there is no standard for what a "reasonable" amount of debt looks like for a college or university. The calculation depends on a variety of financial metrics based on projected revenues, the interest rate on the debt, liquidity, expenses and assets, among other things.

Despite the fact that several colleges face debt issues, institutions seem poised to take on even more debt. Interest rates are at historic lows at the moment, which means colleges can borrow money cheaply.

Several major universities, including Ohio State University and the University of California system, have issued 100-year bonds at relatively low rates. Those universities, as

Calvin College

prominent state flagship institutions, and the elite private institutions that have also embraced the model, have high student demand and consistent fund-raising success -- factors hard for many less-elite private colleges to emulate.

Public colleges and universities in particular are likely to increase their use of debt to finance projects as years of deferred maintenance come due and states seem less likely to foot the bill for construction projects they once funded with taxpayer dollars.

The other end of Calvin's equation is diminished returns on investments beginning in 2008 when the market dropped, a problem numerous colleges and universities now face.

In the spring of 2013 both Moody's and Standard & Poor's Ratings Service have flagged weak investment performance as a problematic area. On average, college and university endowments saw a small decline in the 2012 fiscal year, with some institutions seeing their first major declines since 2008.

Centre College, for example, saw a loss of 3.2 percent during the 2012 fiscal year, according to a survey by the National Association of College and University Business Officers and Commonfund issued in February 2013.

"Although this decline is not nearly as sharp as losses seen in fiscal 2009, it will suppress endowment support of university budgets over the next several years, just as spend rates had been cycling off of earlier losses," Moody's analysts wrote.

The weakened returns have some endowment-dependent colleges questioning their financial models. Grinnell College, which relied on returns on its endowment to fund the majority of its budget in recent years, recently announced it was seeking to grow net tuition revenue to compensate for several years of weak and unpredictable investment returns.

In the wake of its investment loss, Calvin will also be faced with the challenge of rethinking its business model. With between 6 and 10 percent of its current operating budget going toward debt service over the next few years, Calvin's administrators are working to prioritize programs and make cuts. ■

Public Four-Year Colleges and Universities

Pulling Out in Pennsylvania?

By Ry Rivard

Several universities are looking to secede from the state's higher education system -- raising concerns about the institutions left behind and employee fears of weakened unions.

Several Pennsylvania public colleges are looking for a way out of the state's struggling 14-university system.

Supporters say a bill proposed in March 2014 would strengthen the state's higher education system by allowing its best institutions to leave, while critics worry the bill would hurt the system, lead to higher tuition and weaken faculty and staff unions.

Trustees and lawmakers representing three relatively healthy universities in the Pennsylvania State System of Higher Education began a public push for the bill after working for months to quietly craft the plan.

Even one of the bill's sponsors doubts it will pass in its current form. But the end game, supporters said, is to eventually make broad changes to PASSHE, as the Pennsylvania system is known. The bill's bipartisan co-sponsors have variously called the state system a train wreck and a house of cards on the verge of collapse.

The bill would allow PASSHE's best-off institutions – those with more than 7,000 students and good financials – to leave and become "state-related" rather than state-owned institutions.

Supporters cited the financial benefits for PASSHE of exiting universities paying the system back for some of the value of the public land they use, though those payments would happen gradually over 30 years. Critics include Pennsylvania's Republican Governor Tom Corbett, who called the plan "a mistake," and PASSHE itself.

The epicenter of support is at West Chester University, a growing university 45 minutes outside of Philadelphia. One of the bill's sponsors, Republican State Senator Tommy Tomlinson, is a West Chester trustee. The university's foundation even hired a PR firm to lobby for the bill.

West Chester is the only university in the system that is really growing. Over the past decade, 12 of the 14 universities lost enrollment, including six that suffered double-digit percentage declines; another had only a 0.4 percent gain.

Another West Chester trustee, Eli Silberman, a former ad man, is helping lead the push. He said the university wants the option of leaving the system.

"West Chester, happily, is not in trouble," Silberman said, "but we can foretell that if the trend continues we could be experiencing at some point what some of the others may."

Universities in the 110,000-student system have shed 5 percent of their work forces and frozen enrollment to about 200 academic programs, yet are still unable to fill budget holes while coping with fewer high school graduates. This year, roughly 45 faculty members across the system faced layoffs. Systemwide, over 500 employees, mostly staff, have lost their jobs since 2008.

Faculty representatives are worried about their collective bargaining rights. The system is heavily unionized – there are eight different contracts with seven different labor unions – and collective bargaining agreements are statewide.

West Chester Faculty Senate Chairwoman Ellie Brown said faculty worry they will lose benefits and rights.

"It's a big concern to lose our contract and to not know what would be in the place of what we currently have," she said. "It's a high-risk situation for faculty."

Brown said West Chester President Greg Weisenstein approached the faculty senate's executive committee late last year about the plan but did not seek input. She said the president "has made clear that were we to secede [from PASSHE], he would want us to have local negotiations."

A West Chester spokeswoman declined to comment on the president's position.

The Association of Pennsylvania

State College and University Faculties, or APSCUF, negotiates on behalf of PASSHE professors across the state. And, so far, it appears to be doing a good job: Even as PASSHE universities have cut jobs, expenses for all unionized employees are still rising.

But the bill could have implications on union activity, said APSCUF President Steve Hicks. The bill's supporters are quick to note that even if a university exits PASSHE, its current collective bargaining agreements would stay in effect. What is less clear is what happens after that. The current agreement expires next summer.

Hicks said there are certainly "wrinkles," and there could end up being a fight with the state's labor board. Would the faculty have to unionize again? Perhaps.

"I know there would have to be separate bargaining units [rather than a systemwide union], but I don't know how many votes and card checks would have to be done in the meantime," Hicks said.

And his union could face competition from other unions – the American Federation of Teachers, the National Education Association, United Steelworkers, and Service Employees International Union – for the ability to represent faculty.

Hicks said that representatives for unionized construction workers are also very worried because state-related universities, unlike state-owned universities, do not have to pay prevailing wage. That means that construction could be cheaper for universities while hurting union crews.

Democratic State Senator Andy Dinniman, one of the co-sponsors, has been a faculty union member at West Chester, where he taught history. He said the bill would operate in labor's favor by allowing local bargaining units to negotiate higher pay in areas that have a higher cost of living and by shoring up the universities and the system in the long term.

In any case, Dinniman said, "The real danger for faculty is this house of cards" -- his term for PASSHE.

He said that PASSHE has been slow to adapt to change and that its bureaucracy is bogging down West Chester's growth.

West Chester supporters cite several decisions that have held back the university. For example, when West Chester attempted to partner with Cheyney University – a struggling historically black university – to create a branch campus in Philadelphia, PASSHE nixed the deal and then opened its own education center in the city, with tuition discounts that critics said ended up putting the system in competition with its own universities.

Dinniman led an effort to change PASSHE's operations a few years ago. Those changes, he said, were modest.

"We did make certain changes," he said, "but what we have not been able to correct, thus far, is the growth of a centralized bureaucracy which takes too much money from the universities and, in the judgment of many of the universities, does not give an in-kind value back. Instead [PASSHE] operates as a barrier for its own advancement."

The senator said he didn't think the bill would get through in its current form, but that its introduction has been a "little shock treatment" to get broader discussions started.

Faculty representatives question some of the bill's key economic assumptions. For instance, supporters say PASSHE will benefit from exiting universities when the institutions pay the system back for their public land.

West Chester would owe about $113 million, which it would pay to

West Chester University of Pennsylvania

the system over 30 years. That's only about $4 million a year for a system that supporters said needs tens of millions.

Hicks, the union leader, said he can't be sure how either the system or an individual university would stand to gain from seeing both of their employee pools shrinking when it came time to buy health care. The weakest institutions left in the system would have less purchasing power, as would the exiting universities.

"I've heard it voiced that this is West Chester exceptionalism and they would like to be free of what they feel is the manacles of the Dixon Center," Hicks said, referring to the center in Harrisburg where PASSHE is housed.

West Chester, Millersville University and Shippensburg University have all expressed public interest in leaving PASSHE and becoming "state related." Pennsylvania has four other state-related universities: Lincoln University, Temple University, Pennsylvania State University and University of Pittsburgh. They receive state funding but have a freer hand to control their own operations.

PASSHE is controlled by a 20-member board that sets tuition and has final say on presidents, but individual university boards can set fees and make other policies.

Tomlinson, the state senator and West Chester trustee, said tuition might go up $500 or $1,000 because of the changes – about a 10 percent or 20 percent increase. But that increase "doesn't even come close" to how much tuition would go up if the system isn't repaired, he said during a press conference. Tomlinson said the system will be strengthened if the strongest universities leave because the universities will pay for their land, be willing to take a slight decrease in annual state funding and forgo state funding for capital projects.

In a statement, PASSHE Chancellor Frank Brogan said tuition and fees will likely go up and burden students and their families.

"Every university that leaves the state system could close another door to affordable, quality public higher education," he said.

Brown, the faculty leader at West Chester, said faculty have a relatively simple idea for fixing the problems: more money.

"I think the most acceptable solution would be to simply increase funding," she said, "and it's not at all clear that faculty at West Chester can get behind this legislation, which many of us view as incompatible with the values of public higher education." ■

Going All In on Proficiencies

By Paul Fain

The University of Maine at Presque Isle is moving away from grades to competency-style education for all of its academic programs, with an announcement that both drew praise and raised questions.

The University of Maine at Presque Isle is moving beyond grades by basing all of its academic programs on "proficiencies" that students must master to earn a degree.

University officials announced the planned move to proficiency-based curriculums in February 2014. While many details have yet to be hashed out, the broad shift by the public institution is sure to raise eyebrows.

"We are transforming the entire university," said Linda Schott, Presque Isle's president. "In the next four years, for sure, all of our programs will be proficiency-based."

That means students will progress through in-person, online and hybrid degree programs by demonstrating that they are proficient in required concepts, which faculty members will work to develop. Schott said the university will start by converting general education requirements, and then move to majors.

The proficiency-based approach university officials described shares much in common with competency-based programs offered by institutions like Western Governors University, Southern New Hampshire's College for America and the new "Flexible Option" from the University of Wisconsin System.

There are differences, however, university officials said. Presque Isle will not be focused primarily on degree completion for adult students, as are some competency-based (or proficiency-based) programs at other institutions. And while the university does have online offerings, much of its proficiency push will occur in the traditional classroom.

In announcing the rollout, university and state officials said the main reason for the change is to create a more "personalized" approach to learning. Students will have more choice in selecting assignments and can move at their own pace, according to the university.

Schott said more customized degree tracks are possible at the small public university, which enrolls about 1,500 undergraduates and is located in a relatively rural part of northern Maine. A relatively large number of first-generation, underprepared students attend the university.

Self-paced learning is a move away from the credit-hour standard. But the university will continue to link its proficiencies to courses and credits, mostly because of financial aid and accreditation requirements. That approach can also help students who transfer to other institutions.

"We will be mapping them to traditional course equivalencies," said Schott, at least for now. "I don't think that will last forever."

CAREER-READY?

As a starting point for proficiencies, university officials said they would use the learning outcomes that are the framework for the Liberal Education and America's Promise (LEAP) project, which the Association of American Colleges and Universities launched in 2005. The association linked those outcomes, which hundreds of institutions have used, to "authentic" assessments and other research-backed teaching practices.

Carol Geary Schneider, the association's president, had not yet reviewed Presque Isle's plan. But she said the growing emphasis in higher education on learning outcomes and proficiencies is a good thing.

"The focus on proficiencies is a short-hand way of saying that we want students to leave college with the demonstrated ability to apply their learning to important problems and to real-world contexts," Schneider said via email. "That takes a combination of big picture knowledge and hands-on experiences that develop both proficiency and ethical judgment. "

The trend also poses challenges, she said.

Colleges should resist pressure from "course packaging enthusiasts" who seek to commercialize "no practice of any kind required" courses, said Schneider. She said those low-impact academic tracks are often used as a "strategy for accelerating credit aggregation and faster degree completion."

Affordability and work force readiness were driving forces in Presque Isle's decision to move to proficiencies.

A university news release said the overhauled curriculums would focus on "solving real-world problems" and "hands-on experiences in students' chosen fields." And the grounding in competencies will move learning further toward the "21st Century skills that employers are seeking, such as collaboration, creativity and critical thinking."

Some of that language was alarming to Amy E. Slaton, a professor of history at Drexel University, who has called for caution as competency-based education picks up speed.

Slaton said the university's description of proficiency-based programs as being a good financial deal -- a low-cost solution to student debt -- set up the new curriculums as being "oppositional" to traditional higher education pathways. That's not fair, she said, as both approaches can prepare students to thrive in the work place.

Furthermore, Slaton said the heavy emphasis on giving students control of their education was a "false form of empowerment." Earning a degree should be hard work, she said, for the student's own good.

"What they're describing allows the student to avoid discomfort," she said.

Duke Albanese had a different take. Albanese, a senior policy advisor for the Great Schools Partnership, a Maine nonprofit, said Presque Isle will lead the way in Maine and beyond with academic programs that are both more "student centered" and more "relevant" to the work force. They will also align with state-mandated proficiencies that the Maine's public K-12 schools will be using by 2018.

"This is big news," he said. "It's great for the state of Maine."

NINE-CREDIT 'CLUSTERS'

It's not easy to envision how, exactly, the self-paced programs will work at Presque Isle, in part because they are still being developed. But Raymond Rice, the university's interim provost, gave some clues.

The plan is for faculty members to teach in interdisciplinary "learning communities," he said, that will feature "credit clumps" of 9 or so proficiencies per 15-week term. Each proficiency would track back to a credit.

A student might earn six proficiencies in a semester, for example, with three more to go in the following term. They wouldn't flunk a course -- because the clusters wouldn't be organized around courses -- nor would they pass one.

To successfully complete each proficiency, students would need to get at least a three on a four-point scale, Rice said. A one or two would mean more work, while a four would be exceptional.

As a result, students must actually do better than they would on the conventional A-to-F grading scale.

"We've just raised our standard from a C-," Rice said of the new proficiency mark.

The university's Faculty Assembly in September voted unanimously to support the proficiency-based conversion, the planning for which began a year ago. That doesn't mean every professor jumped on board without reservation.

Rice said some faculty members went through the five stages of acceptance before getting there. But the decision to increase academic standards "was a big help" for faculty to buy in, he said.

The university won't be the first to layer proficiencies under its academic programs. Capella University, for example, created a competency-based

Officials at Presque Isle announce their curricular strategy framework a decade ago.

One key reason Presque Isle took the leap, Rice said, is that the "distributive model" of one-off and often disconnected courses is no longer getting the job done. The resulting lack of connectedness in the curriculum has led to an insufficient use of learning outcomes.

It can also hurt student retention, he said, particularly in the layered approach to non-credit remedial courses, which can discourage students.

"Nothing really seemed to carry over" between courses, he said, with some exceptions. "That led us to proficiency."

For several years the university had been reviewing its general education outcomes. But that work was "nibbling at the edges," said Rice. This new project is an all-in approach.

The university received a $200,000 grant from the Davis Education Foundation to support the work. A group of 19 faculty members will lead the effort as "innovative teaching fellows."

Likewise, an initial group of 15 incoming students will receiver scholarships to enroll in the first batch of proficiency-based clusters. Schott said students will help the university shape the program by telling faculty members what works, and what doesn't.

"We want their input," she said. ▪

SUNY Chancellor Nancy Zimpher and New York Governor Andrew Cuomo

The New York Tax Advantage

By Kevin Kiley

The state has created tax-free zones around its universities as part of an effort to stimulate economic development. Officials hope to take academic-corporate partnerships beyond the typical ties.

Since Eastman Kodak, formerly the largest employer in the city of Rochester, began its slow slide toward bankruptcy, another player has stepped into the space as the region's largest employer and a major economic driver: the University of Rochester.

"I'm president of a large, diversified institution, and in this role I feel a symbiotic relationship with the City of Rochester and the region," said University of Rochester President Joel Seligman. "We know that if the region thrives more economically, then that will help us, and vice versa. That has been the reason why I spend so much time focusing on this. I don't know of any more important obligation I have."

Along with Rochester Institute of Technology President William W. Destler, Monroe County Community College President Anne M. Kress and a handful of other educational, civic and business leaders, Seligman has engaged in multiple efforts to help sustain the region's economy, such as the local regional economic development council.

The state's political leadership is now looking to tap into the civic spirit of its public and private higher education institutions and take those relationships one step further.

In July 2013 the state passed a law that will create tax-free zones on and around the institutions of the State University of New York system as well as some campuses of the City University of New York and private colleges in the state to house companies with some tie to those institutions' educational missions. Such businesses would be exempt from various state (but not necessarily local) taxes, and their employees would not be charged state income tax, a dramatic decrease in what many consider a high-tax state. The state's corporate income tax rate is 7.1 percent, and income over about $20,000 for individuals and about $40,000 for couples is taxed at a rate of at least 6 percent.

"There is no state in the country that will have an advantage over these areas," said New York Governor Andrew Cuomo in announcing the plan in Buffalo in May. "There's no reason to leave. No one can offer you a better tax package than we can on that site."

The plan is designed to help foster and retain startup companies; motivate companies within the state to expand; and potentially lure out-of-state companies to upstate New York, a region that has struggled economically for the past few decades as its traditional industries, such as manufacturing, have declined.

The New York plan – referred to at various times as "Tax Free NY" and "Start Up NY" – is one of the more ambitious proposals in recent years to stimulate economic development around public and private colleges. Such strategies have become increasingly popular, particularly since the 2008 recession, as institutions try to assert their relevance (and stave off state funding cuts) and states look to stimulate their economies using existing infrastructure rather than investing in new projects. The SUNY plan is distinct in that it not only places universities at the geographic center of such efforts, but also foists upon them a responsibility for convening and coordinating such efforts. Administrators say such a role is an expansion of one they currently see themselves playing.

"'Tax-free NY' will do more to position SUNY as the state's economic engine than we have ever seen, or dared imagine," wrote Nancy Zimpher, chancellor of the State University of New York system, in an op-ed. State officials said Zimpher, who has publicly championed the role the system can play in the state's economic development, has been instrumental in positioning SUNY as a central force in the governor's plans.

"This really puts us in the forefront of revitalizing the community and making it attractive to businesses," said Kevin Kearns, vice president engagement and economic development at SUNY-Fredonia.

While administrators say they have heard from several out-of-state companies interested in relocating to one of the tax-free regions, they say it is much too soon to evaluate whether the program will be effective. Economic development professionals say such plans tend to hinge less on the design of a program than on whether there is sufficient leadership to carry them out and whether they can generate the community engagement necessary to support such efforts.

"There has to be more than just a plot of land," said Jason Lane, an education policy professor at SUNY-Albany who has researched economic development efforts. "You have to have somebody to shepherd and nurture and support new businesses and help them grow."

COMMON PLAYBOOK (WITH MODIFICATIONS)

New York is not the first state, nor is it likely to be the last, to pin hopes for economic development on higher education institutions. There is a long track record of both formal efforts -- such as North Carolina's Research Triangle Park, based around Duke University, North Carolina State University and the University of North Carolina at Chapel Hill -- to tap into university research as a spur for company and job creation.

Economic development experts said there is a lot of logic behind such efforts. In addition to the potential to commercialize university research, higher education institutions often draw large numbers of people to a region, create pools of high-skilled labor, attract research dollars, are attractive places to live, and fare well during economic downturns.

"Universities offer such a focal point in an area in terms of everything from resources to opportunities," said Richard Overmoyer, executive director of the Pittsburgh-based University Economic Development Association. "They're not necessarily recession-proof, but in a lot of communities they are the leading employers. They have major purchasing power that can impact local economics, and can have a profound impact with their decisions."

But for every Research Triangle Park there are countless efforts that either failed or produced only marginal success. In the early 2000s, Overmoyer oversaw the development of the Keystone Innovation Zones in Pennsylvania, a program that provided tax credits to companies in particular geographic regions. The state established 29 zones in the first year of the program, 2004, and several have proven hugely successful and continue. But Overmoyer said the majority are not headline-generating efforts, which he said is not unusual for economic development initiatives.

Overmoyer and others said the initiatives that prove successful are the ones that generate an interested community in the designated regions that can sustain the program beyond the initial investment. Often times such efforts fail because resources are pulled back, either because state or local leadership changes or because such strategies do not show immediate results.

"The question is really whether leadership is fostering a collaborative environment," Overmoyer said. "No economic development can happen on its own. It needs a leader who can convene people, and also a long-term commitment of resources, because you don't see an immediate benefit. You have got to have some patience."

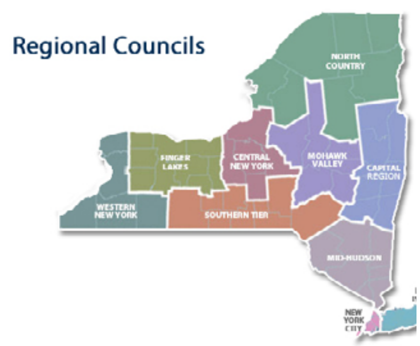
In 2010, the Rockefeller Institute, based in Albany, N.Y., released a report conducted at the request of Zimpher to explore the role universities could play in economic development. Unlike 20th century economic development policies, which were primarily based on providing incentives like tax breaks and infrastructure improvements, "The 21st century paradigm, in contrast, is shifting toward putting knowledge first," the report states. "For states, increasingly, that means connecting their higher education systems more closely to their economic development strategies."

TAX FREE NY

The new tax-free zones build on several initiatives Cuomo and the state legislature have put in place in recent years. Most of those initiatives are designed to foster regional collaboration and tie universities to the businesses in the area.

Soon after coming into office, the governor established 10 regional economic development councils, all co-chaired by a state or private university leader and a local business leader. Over the past few years, the state has awarded capital funding, tax credits and state dollars to plans established through the councils, including business incubators at the colleges and universities.

The universities themselves have also taken steps to get more engaged in economic development over the past few decades. "We realized that our community is part of who we are and vice versa," Kearns said. "It has been a gradual evolution of increased commitment to engagement in the community. It was also a very



conscious decision. Dunkirk (a nearby city) has fallen on hard time, like a lot of the economically depressed Northeast, and we made a conscious decision to have a presence in that community to help revitalize the region."

Kearns said SUNY-Fredonia has housed about 15 startups in its incubator in the past few years, creating about 65 jobs. It has also created the opportunity for students to take on internships with these companies.

While several projects have produced startup companies, some number of the companies have moved out of New York to states with "more favorable tax policies," such as North Carolina and Texas. "The state has a reputation as a high-tax state," Destler said. "I'm not sure it's entirely earned, but these reputations are hard to shake."

Texas Governor Rick Perry recently ran advertisements in New York telling companies that they should relocate to Texas for lower taxes. In some respects, the tax-free zones are an effort to combat such efforts.

"Cuomo gets it," Seligman said. "In the 21st century, we're going to see very intense competition among the states. When he sees the success of someone like Governor Perry attracting businesses from New York, that gives him heartburn. He understands that we need new mechanisms, and the tax-free zones are part of that."

The tax-free program will be open to startup companies; companies from out of state that relocate to New York; or existing New York companies that are expanding (but not simply moving). Companies will have to have a partnership with an educational institution and "to be aligned with or further the academic mission of the campus."

Those companies will have to set up shop on vacant land on SUNY campuses, in vacant space in buildings on SUNY campuses, in business incubators associated with universities or within one mile of a campus (with some exceptions).

The program will also allocate up to 3 million square feet of land that the private universities to tap into provided it meets similar parameters. Some space associated with the City University of New York will also be designated for the project, though administrators said the real focus is to focus on upstate development.

Companies that qualify for the program will not pay any state taxes for 10 years. Employees in those companies will pay no income taxes for five years. For the second five years, they will pay no taxes under certain levels (such as $200,000 for individuals).

While the use of tax-free zones is not unusual, the location of New York's zones makes that plan distinct. "We tend not to see tax-free zones placed in high-quality areas," Lane said. "Normally tax-free zones are in transportation districts and they're used to revitalize really bad areas. I've never seen tax-free zones placed in really high-quality areas that business would want to relocate to anyway."

RECEPTION

The plan has been met with near-universal praise by the state's higher education leadership, including its public and private university presidents. The leadership from all of SUNY's campuses signed a letter of support for the proposal.

"This is an unequivocally good thing," Seligman said.

Officials said they have spent much of their time this summer trying to determine how they will deploy the zones. Several institutions said they will look to have their university-related business incubators incorporated into the program, and others have mentioned business parks. "We have a research park, 240 acres, right across the street from our campus," Stanley said. "That is ideally positioned to take advantage of this."

Seligman and Destler said the Rochester region has been considering what to do with the Eastman Business Park, a manufacturing and industrial complex in Rochester that has been used by Kodak. The Start Up NY plan will likely factor into that park's future.

The tax-free plan is likely to build on existing regional strengths, and administrators said they were working to nail down more strategic direction. The efforts of Rochester institutions will likely include optics, a traditional strength for the region. Officials at SUNY-Buffalo said they will likely focus some of their efforts on the biomedical industry. Stony Brook officials said pharmaceuticals, aviation and advanced manufacturing are likely to be some of their areas of focus.

But there were several groups who were not supportive of the plan

and how quickly it went through the legislature. (The plan took less than two months to get legislative approval.)

"There was no real public debate about this," said Stephen Madarasz, director of communications for the Civil Service Employees Union, which opposed the plan. "It was foisted on everybody at the last minute."

Faculty groups and some state employee unions, which see the tax-free zones as a handout to special interests and a shift in the university's orientation away from pure academics toward "corporatization," pushed back against the plan. Some faculty members argue that investing directly in SUNY institutions is a more tested approach that would provide more long-term benefit.

"We should be putting money into the enterprises that actually do spur economic development," said Lawrence Wittner, an emeritus professor of history at SUNY-Albany who has been outspoken in opposition to the plan. "Things like public education, health care, parks and a whole range of other facilities."

Pushback from business owners already located in New York, who argued that the plan was not fair since state residents would be taxed at different rates, even on their income, also drove the governor's office to change the name of the plan midway through the legislature. Instead of going by "Tax-Free NY," the program would be called "Start Up NY," but changes to the plan were minimal.

NEW JOBS

While the state's plan is primarily designed to spur job creation in upstate New York, development and university professionals say it could also result in a reimagined role for the state's universities – particularly the publics – in the state's economy.

"It raises the awareness of what SUNY can contribute to the state," Lane said. "In many of the communities upstate, these universities are the last remaining anchor institution. SUNY and some of the independents are the largest employers and purchasers of goods in many of these areas. The governor is reframing the story. Instead of these being access institutions in New York, they're the real driver of the New York economy and its future. This could be an important turning point in how government and citizens see SUNY and how SUNY sees SUNY."

Several university presidents, like Seligman at Rochester, said this is a role they have already been filling in their communities.

"For Stony Brook, this is not a new mission," said Samuel L. Stanley, Stony Brook's president. "It is something we've been engaged in for a number of years. This is just a chance to expand what we do."

"Our missions as a comprehensive college is to sometimes broaden that mission and reflect the needs of the community," Kearns said. "And we have to find a way to incorporate that into our curriculum and what we do every day."

The presidents said they did not believe the new responsibilities associated with the plan would complicate their jobs. Seligman said the story of higher education leadership over the past few decades has been one of shifting orientation from inside the institution to outside, with presidents engaging in more community development, fund-raising and political activity, rather than day-to-day campus management.

Successful collaboration between university and industry can also provide more champions for higher education when it comes time to shape state budgets, Lane said.

"The governor has elevated SUNY into a prominent role as part of his policies," Lane said. "The storyline has really changed significantly now." ▪

No Such Thing as 'Free Tuition'

By Kevin Kiley

Oregon will study plan to let students forgo tuition upfront in exchange for a proportion of their wages upon graduation. Critics say it is a bad idea that will never get off the ground.

When an advertisement says "No money down," an asterisk and some fine print typically follow. And it's probably wise to look for that.

That seems to be the case with an Oregon proposal that has generated headlines such as "Plan would make tuition free at Oregon colleges," "Oregon is doing free higher education the right way," and "Oregon looking to eliminate tuition and loans for higher education students."

Despite the headlines, the state didn't suddenly abandon all plans to charge tuition. In July 2013 the Oregon legislature took the first steps toward possibly implementing a plan that would allow public college and university students to forgo upfront tuition payments in exchange for paying a portion of their wages back to their alma mater for about 25 years following graduation. While it may mean no money down, it could still add up to large tuition bills.

But the program is a long way from actually being instituted. The bill approved by the legislature, if it is signed by the governor, would only direct the state's Higher Education Coordinating Commission – a relatively new agency created amid broader governance changes in recent years -- to create a pilot program for legislative consideration in 2015. If the governor signs the bill, the commission would work between now and the 2015 legislative session to figure out how to overcome significant logistical barriers to implementation and the pros and cons of implementing such a system.

Despite the limited nature of the proposal, proponents see the legislature's move as a significant step toward rethinking how to fund higher education in an era of limited state support, competing state spending priorities and reluctance to increase taxes. If, after several years of study, Oregon decides to adopt a plan along the lines of what is proposed, it would represent a fundamental shift in how public institutions fund themselves.

"These are types of creative ideas that we want the state to study," said Diane Saunders, director of communications for the Oregon University System, which testified in support of the study bill. "There is a recognition that the state funding model is a broken model. No one believes we'll be going back to the golden age of financial aid where the state provides infusions of billions of dollars."

But critics of the proposal say the logistical barriers to implementation will likely prove too great for the program even to get off the ground. At the moment there is no plan for how to pay for the proposal's implementation – the state would have to forgo several years of tuition before it would collect on any returns – and no plan for how to collect funds from graduates. And even if the higher education commission can establish a way to mitigate those issues, critics say there are still aspects of the plan that make it unappealing.

"[This model of] funding of higher education exacerbates the ongoing trend of envisioning higher education as a private transaction that accrues benefits to the individual rather than a public good that brings economic and civic benefits to communities," the American Federation of Teachers wrote in a paper regarding a similar proposal in Washington state.

Critics say that rather than addressing the root causes of the increasing price of public higher education and therefore increased student loan burdens – including decreased state support, increased labor costs, limited productivity improvements and growing auxiliary costs, among other things -- proposals like the "Pay it Forward" plan simply try to shift the burden of paying for college and disguise the true costs of a college education.

The rapid adoption of the plan, which wasn't even an idea on paper two years ago, is an indication of the frustration people feel with the status quo. "With higher education finance, like K-12 finance, all you know is that something has to change," said Sara Goldrick-Rab, a professor of higher education policy at the University of Wisconsin at Madison, who wrote a blog post criticizing the proposal and is working on a paper about the proposal's problems. "People say, 'Isn't change better than the status quo?' In this case it isn't. This is just a desire to have something be different. It's change bias."

A NEW IDEA?

The Oregon plan is similar to, and has its origins in, one proposed by students at the University of California at Riverside that made headlines in 2012. A group of University of California students have been in talks with the system administration to address some of the logistical challenges raised by the plan, but there has been little public movement.

In contrast, the Oregon plan moved quickly from being an idea to getting legislative approval. Chris LoCascio, one of the students involved in the UC effort, said he and his team worked with the Economic Opportunity Institute, a liberal think tank in Seattle, to help develop the plan. The institute then proposed a version of the plan for Washington.

A Portland State University professor connected with the institute's executive director last fall to work with a senior capstone class called "Student Debt: Economics, Policy and Advocacy" that semester. The students and faculty in the class modified the Washington proposal to fit Oregon and presented it to lawmakers, who embraced the idea.

Many details of the program would have to be worked out, including the actual percentages and repayment period. The proposal by the Economic Opportunity Institute would have students at four-year institutions sign an agreement to pay back 3 percent of their income and students at community colleges agree to pay back 1.5 percent of their income annually. So a student who makes $800,000 over the repayment period of 24 years would end up paying back about $24,000, while a student who makes $2 million over the same period would pay back $80,000. A graduate who made very little would end up paying much less than the cost of his education, while one who made billions would end up paying back much more.

Officials said the rapid embrace of the plan is a function of the economic strain the state's public universities have felt since the recession. In the 2011-3 biennium, the university received less funding in actual dollars than it did in 1999-2001, even though it added 34,000 more students.

"Part of the problem is that many people don't realize what bad shape Oregon is in," said Mary King, an economics professor at Portland State and one of the teachers of the class that ended up proposing the plan. "What we provide on a per-student basis for public higher education is

> "We must also be clear that this idea alone -- even if it were to reduce or eliminate student loan debt -- cannot solve Oregon's affordability and accessibility challenges. For example, reducing student loan debt will not slow the rising cost of tuition and improve the quality, or increase the capacity, of aging classrooms suffering from decades of unfunded deferred maintenance."

near the end of the line."

The idea of basing college payments on graduates' income is not a new one. Some federal student loans are eligible for income-based repayment, in which loan payments can be made on a sliding scale based on the debtor's income. But these payments, unlike the California and Oregon proposals, are repayments for a specific amount borrowed.

The Oregon and California ideas are similar to a program in place in Australia known as income-contingent repayment. But since that program is administered at the federal level, the program can tap into federal tax collection infrastructure and can track students when they leave the state, removing some of the barriers facing the Oregon program.

NO SILVER BULLET

Oregon higher education officials have given a tentative endorsement to the idea of studying the plan, noting that it is not a panacea for the financial problems facing public higher education.

"We need to do our share at the state level and if Pay It Forward -- or any other idea -- can help make Oregon's public colleges and universities more affordable and accessible, then it should certainly be studied," Wim Wiewel, president of Portland State University, said in testimony before the state legislature. "We must also be clear that this idea alone -- even if it were to reduce or eliminate student loan debt -- cannot solve Oregon's affordability and accessibility challenges. For example, reducing student loan debt will not slow the rising cost of tuition and improve the quality, or increase the capacity, of aging classrooms suffering from decades of unfunded deferred maintenance."

Unlike the proposal in California, which was not widely investigated by third-party groups, the Economic Opportunity Institute and Oregon plans have begun to generate a significant amount of criticism.

One objection is that the plan would shift the burden of paying for college -- currently a burden shared by students, their families, the institution and the general public through taxes and appropriations -- to one that's squarely on the shoulders of the students.

"This is not just a transfer from the government to the student, it's a transfer from parents to students," Goldrick-Rab said. "Instead of holding hands and taking care of each other, this moves everything to the backs of the people waiting to be educated."

The AFT also expressed concern that the payment structure would lead to an increased burden on low-income students, many of whom currently attend college at little cost due to need-based financial aid. "This is especially problematic when the prospect of long-term debt is cited as a primary barrier to low-income students seeking higher education," the paper states.

Mary King, an economics professor at Portland State and an instructor in the class that ended up proposing the plan, said that criticism fails to comprehend problems with the current system of student loans. "What students are paying in terms of loans and interest fees, they end up paying so much more than they anticipate, and that's not going back to higher education," she said. "It's better that they go to school and pay for it than they not go to school and be stuck without an education."

King and Saunders said the post-graduate payment plan envisioned in the bill might have an effect opposite to that feared by critics, noting that students afraid to take out loans might view this as a better option. ■

Not Business as Usual

By Kevin Kiley

UCLA wins approval to make M.B.A. program self-sufficient, which the school sees as key to long-term success. The UCLA plan remains controversial, but Berkeley's Haas School has changed its business model with much less

In business, the saying is "innovate or die." That also seems to be the mantra that business schools are taking.

The past few years have seen a host of developments in the financial model of business school, including new part-time M.B.A. programs, online courses, specialized degrees and innovative executive education programs.

One of the biggest changes came in June 2013 when University of California System President Mark Yudof approved a controversial plan to make the full-time M.B.A. program at the University of California Los Angeles's Anderson School of Management into a self-sustaining entity, meaning the program will cease receiving state support in exchange for greater budget flexibility. That flexibility includes more freedom in setting tuition and could potentially serve as a model for other programs in the system to become self-supporting.

The program Yudof approved is a step back from the university's original plan, proposed in 2010, to make the whole school self-sufficient. After pushback from UCLA faculty, the plan was pared back to just the M.B.A. program, leaving the doctoral program and undergraduate classes under traditional control. That plan received support from UCLA faculty but got what was essentially a "no" vote from the UC System's Academic Senate, which argued that the program did not meet any of the criteria for establishing a self-supporting program. Critics of the proposal also said the state has poured decades of operational and capital funding into the program and wouldn't be adequately compensated if it made the program self-sustaining.

Many thought the Senate's rejection effectively killed the plan, and the proposal had been simply sitting on Yudof's desk for about 10 months.

Yudof's approval tries to balance the Senate's concerns while pushing ahead on the plan, though it makes only small modifications to the version that stalled in the Senate. In the approved plan, the system also retains significant control over curriculum, and the president's office – but not the system's Board of Regents – retains control over tuition prices. "I want to acknowledge that the UC Academic Senate does not support this course of action," Yudof wrote in a letter to UCLA Chancellor Gene Block approving the program. "I do believe this action represents a compromise between two strongly held and competing points of view, each of which is understandable and both of which seek what is best for the university as a whole."

Anderson Dean Judy Olian, who pushed hard for approval, applauded Yudof's decision and said it will benefit the university overall, not just the Anderson School. "The reallocation of resources and the fees-for-service we pay to the university will provide some money to the university and we will get to keep all the tuition the program generates," she said in an interview. "It's a win-win."

But Yudof's statement of approval did little to assuage the concerns of the system's Academic Senate, whose leadership said the president's office (Yudof left the role later in 2013) should have waited for the completion of a review – launched last fall in the wake of the proposal – of the university's policies for approving self-supporting programs and an academic review of the M.B.A. program before rendering a final judgment.

"If [the president] waited until after the review to decide, no matter which way it went, I think people would have just said, 'Fine,' " said Robert Powell, chair of the system Academic Senate and a professor of chemical engineering and materials science at UC-Davis.

And Justin Chung, chair of the committee on graduate and professional schools for the UC system's student association, told *The Los Angeles Times* that taking tuition decisions from the regents reduces public opportunity to comment and challenge higher costs. Chung said that UCLA's M.B.A. program was being allowed to "to divorce itself from being part of a public university."

But while UCLA's plan was reshaped by, and continues to generate, faculty pushback, the administration at UC-Berkeley's Haas School of Business has managed to accomplish a similar level of innovation without generating the same resistance. While the main M.B.A. program is not self-sufficient like Anderson's will be, the Haas School has higher tuition for the full-time M.B.A., increased programmatic flexibility, several self-supporting programs and a plan to retain more tuition revenue from the full-time M.B.A. program.

UCLA's Anderson School of Management

FREEING THE PROGRAM

Anderson is not the first public university business school to seek greater latitude in tuition setting and management in exchange for giving up state funding. The University of Virginia's Darden School of Business and its School of Law have done so.

Anderson's proposal wasn't even particularly unusual within the UC system. As of February 2103, the UC system had 50 self-supporting programs. At Anderson, those included the Master of Financial Engineering, global executive M.B.A., fully-employed M.B.A. and executive M.B.A. Hass's evening-weekend M.B.A. program and Master of Financial Engineering are also self-supporting. Various iterations of M.B.A. programs are also self-supporting on other UC campuses.

What made the Anderson M.B.A. proposal different from the others in the UC system was that it was one of the first proposals to attempt to convert an existing program to self-sufficiency. The other programs in the system were created as self-sufficient programs.

For that reason it didn't meet the outlined criteria for such programs, including serving new, different populations, using different delivery models, serving a different geographic region or being offered at different times. That prompted much of the pushback from the Academic Senate and led to the system's review of the policies, which has yet to be completed.

One of the original reasons for pushing self-sufficiency for the program was to raise tuition prices to market level, something that has happened anyway over the past three years as the university has tried to reconcile sharp cuts in state appropriations.

In 2012 the school charged California residents about $48,200 in tuition and mandatory fees for the full-time M.B.A. program, and non-residents about $54,500. That's only slightly lower than many of its private peers, including the Massachusetts Institute of Technology ($58,200) and the University of Chicago ($58,760), as well as the University of Virginia's Darden School of Business, which charges in-state students $50,900 and out-of-state students $55,900.

It's also lower than UC-Berkeley, which charges California residents about $53,500 (about $4,000 more than UCLA) and non-residents about $55,500 (about $1,000 more than UCLA).

"That narrative changes over time because the market has moved over time," Olian said. "We were at a different place then than where we are today."

Olian said the larger factor now is predictability in setting tuition. Instead of waiting for the approval of the regents, which in recent years has come as late as June for a year that begins in August, the school can now receive approval from the president's office earlier in the year. Olian said she expects changes in the marketplace and the increased predictability brought by the new tuition-setting process to

> **"What they're doing at Haas is being entrepreneurial.... It's not serving a traditional student population, these aren't degree programs, but it's something one can imagine there's a market for. There's an audience for this kind of thing."**

lead to less-severe tuition hikes in the near future. "We see tuition rising more moderately under self-support than it has in the state support model," she said.

There is little difference between the original proposal to make the whole school self-sufficient and the plan that ended up getting approved, Olian said. With the M.B.A. program's approval, all of the school's six master's programs will be self-sufficient. Only a small part of the school's budget is composed of state support for the doctoral program. But because the school is not entirely self-sufficient, it is still subject to some general policies, such as the salary approval process.

INNOVATING UNDER THE RADAR?

While Anderson's move toward a different business model has proven time-consuming and contentious, Berkeley's Haas School has been pushing ahead on several projects that haven't generated nearly as much controversy.

Haas Dean Rich Lyons said in an e-mail that like the Anderson school, Haas has focused on moving the school away from rigid operational policies, but it has not gone the same route as Anderson. "For now, our school has focused on creating new administrative arrangements to achieve financial and operational flexibilities for our full-time Berkeley MBA Program," he said.

Much of the school's new flexibility comes from the establishment of multiple nonprofit organizations under the auspices of the school to oversee new programs and initiatives.

For example, Haas's Center for Executive Education is incorporated as a separate 501(c)3 organization. Administrators at the school say the distinct structure allows for greater flexibility in terms of hiring and paying staff, outreach and program design. Several other business schools, including those at Duke, U.Va., UNC Chapel Hill and Indiana, have set up their executive education in a similar manner.

The university also placed the development of its new building under a separate 501(c)3 organization. The project is being entirely funded by donors rather than state capital appropriations.

"What they're doing at Haas is being entrepreneurial," Powell said. "It's not serving a traditional student population, these aren't degree programs, but it's something one can imagine there's a market for. There's an audience for this kind of thing."

The university has also established a way to retain a greater share of tuition revenue from full-time M.B.A. students if it decides to grow its class, which it might do after the new building opens. At the moment, the school receives a share of general state appropriations to UC-Berkeley but must give 50 percent of its tuition revenue going back to the university's central administration.

But under a new agreement with the chancellor's office, if the school decides to grow, it will continue to receive the same level of the general appropriations but it will retain a larger share of the tuition revenue of each additional student, with only 15 percent going back to the central administration, meaning the school keeps 85 percent of the revenue from those additional students. That 85/15 split is how the school's self-supporting programs currently operate.

"Our public nature is no longer defined only by state financial support, which has been in steep decline in recent years," Lyons said. "Rather, we see our public dimension being realized through our mission and values that support serving the people of California and the world through world-class business education and research."

"In an era of dramatic budget cuts, there isn't a one-size-fits-all approach to the model, not even just for schools of management," Olian said. "Schools are going to take different approaches to achieve what they need. We've achieved something that is quite important to our students and university – predictability in tuition – and there are certain things you can't just achieve through financial restructuring." ▪

Community Colleges

Is Free Better?

By Paul Fain

Politicians in three states want two years of tuition-free community college. Higher education experts welcome the attention, but worry about unintended consequences.

Making community college free has become a hot idea. In January and February of 2014, politicians in Tennessee, Oregon and Mississippi proposed a tuition-free first two years of community college for their states' high school graduates.

Higher education leaders have welcomed the attention, as well as possible new pots of money aimed at lower-income students.

Terry W. Hartle, senior vice president of the American Council on Education, said the proposal from Tennessee's governor, Bill Haslam, was "extraordinarily important." He said it could be as "potentially far-reaching" as any state-based student access push since the creation of Georgia's HOPE scholarship in the early '90s.

However, Hartle and several other experts said the funding proposals raise significant questions. They urged a cautious, thoughtful approach and warned about a range of possible unintended consequences – such as driving students away from public, four-year institutions.

"This is not a minor proposition," Hartle said. "This will cost a lot of money."

More strategic ways of using state support could actually do a better job of helping students who need it the most, some said.

Kay McClenney, director of the Center for Community College Student Engagement, said state scholarship funds for lower-income students are often short of money.

For example, Oregon's Opportunity Grant, a need-based scholarship program, is "terribly underfunded," said Elizabeth Cox Brand, director of communications and research for the state's Department of Community Colleges and Workforce Development. That story is repeated around much of the country.

Some lawmakers may be feeling relatively flush as their states emerge from the recession. But McClenney said they must be careful about how they spend their "limited public funds" for higher education. By making tuition free for all, she said states run the risk of "subsidizing large numbers of people who don't need the support."

Hartle said the resulting expansion of student access could create challenges, particularly if the plans do not factor in students' likelihood of success. Without well-designed conditions, the tuition-free proposals "might be setting the institutions up to fail," he said.

Even so, Hartle and McClenney praised lawmakers in the three states for trying to help the most vulnerable of college students.

"The interest and the sentiment are powerfully welcome," said McClenney.

Major new funding proposals aimed at community college students are rare. And badly needed state support could draw more lower-income students into college and help them get to graduation.

"We know that many potential students, especially underrepresented and first-generation ones, see college as unaffordable," Dewayne Matthews, Lumina's vice president of strategy and policy, said in an email. "The Tennessee proposal addresses that concern very powerfully."

Matthews said he likes Haslam's strategy of linking the free tuition plan to the state's aggressive goals for increasing its number of college graduates.

David Baime, senior vice president for government relations and research for the American Association of Community Colleges, agreed with Matthews that the proposal sends a "loud and clear" message to lower-income students that college is for them.

"A lot of our students are so marginal when it comes to their ability to pay for

Tennessee Gov. Bill Haslam at this week's "State of the State" address

college," he said.

But Baime said policy makers must think carefully about the consequences before moving forward with two years of free tuition. He worried whether the tuition subsidies would be sustainable, because healthy budgets don't last long.

Raising tuition once it has been eliminated is never easy, as California's community colleges have learned. (Tuition was free at the state's two-year colleges until 1984. And current tuition levels remain far below the national average, at $46 per credit.)

Matthews also said states must continue to serve more students. That takes funding.

"If states forgo tuition revenue, they will need to find that money elsewhere," he said.

LEGITIMATE GOALS, AND WORRIES

Tennessee has drawn the most attention for its community college tuition plan. Haslam, a Republican, has won fans by prodding colleges to do better, and then finding ways to fund those initiatives.

In February 2014, the governor proposed making the first two years of community and technical college free to all Tennessee high school graduates. He suggested funneling $300 million from the state's lottery fund to create an endowment that would cover the cost of the tuition and fees.

The so-called Tennessee Promise would cost the state an estimated $34 million per year, according to a fact sheet the governor's office circulated. But Haslam said the proposed endowment should be able to handle that expense.

To be eligible students must enroll in community college the fall after their high school graduation. They must also take at least 12 credit hours per semester, maintain a 2.0 GPA and complete eight hours of community service per semester, according to the fact sheet.

The fund will be a "last-dollar scholarship," meaning it will cover only the fees left over after all other sources of aid have been applied. That includes federal funding, like Pell Grants.

The state expects 25,000 students to apply to the program. And the governor's office said it hopes to bring in at least 5,000 volunteer mentors to work with applicants.

"It is a promise that we have an ability to make," Haslam said of the plan, in a written statement. "Net cost to the state, zero. Net impact on our future, priceless."

A similar plan is moving forward in Mississippi, albeit more quietly.

In January 2104, a committee of the state's Legislature passed a bill that would make tuition free at all 15 Mississippi community colleges for students who graduated from high school within 12 months of enrolling in college. An appropriations committee and the full Legislature have yet to consider the plan.

To qualify under the language in the proposed bill, students would also need to be first-time, full-time students. Once admitted students would need to maintain a 2.5 GPA while taking a minimum of 15 credit hours each semester to continue to have their tuition covered by the state.

Mississippi would only pick up the tuition costs after all other federal, state and institutional aid sources have been tapped. As a result, lawmakers estimated the annual cost to be less than $4.5 million per year for the 75,000-student system, reported *The Sun Herald* of Biloxi.

The impetus for the legislation is concern over the "cost of higher education," according to the text of the bill, and the "growing financial burden of both out-of-pocket expenses and loans to be repaid, that are being placed on current and future students."

Those concerns are legitimate, said Sara Goldrick-Rab, an associate professor of educational policy studies and sociology at the University of Wisconsin at Madison.

Many people mistakenly believe community college is affordable, said Goldrick-Rab, who studies community college access issues. It is not, she said, at least for low-income students, who face an average net price of more than $8,000 a year even after all grants are considered.

"Many students are quite reasonably worried about borrowing $16,000 to $24,000 for a two-year degree, which often takes three years to complete," she said via email, adding that "it is increasingly hard for students to find flexible part-time employment that aligns with their school schedules."

Yet while Goldrick-Rab said the free-tuition plans are welcome developments, some are better than others.

She is concerned about whether the plans would harm access to four-year institutions. That's because academically prepared, low-income students experience a "smoother path" to a bachelor's degree if they start at a four-year institution.

Goldrick-Rab also said the benefits of free tuition are reduced if policy makers set "unreasonable criteria" such as high G.P.A. or credit thresholds.

"I'd recommend a closer look to see if additional sources of funding, including federal work-study and benefits access programs, could be aligned to bring even more resources to the table," she said.

IT'S IN THE DETAILS

Oregon's free tuition plan remains solidly in the conceptual phase. But as with the proposals in the two other states, momentum is building rapidly for the idea – thanks in part to all the attention President Obama and others have directed at community college students.

A committee of the state's Senate in February 2104 voted for a bill that requires Oregon's Higher Education Coordinating Committee to study the idea of free community college tuition for two years for the state's high school graduates.

Lawmakers estimate a cost between $100 million and $200 million per year, reported *The Oregonian,* a Portland newspaper. Roughly 32,000 students earn high school diplomas in the state each year.

Gov. John Kitzhaber, a Democrat, supports the proposal. But he included several caveats during his testimony before the state Senate.

"I'd suggest it's an excellent idea but not without its complexities or potential pitfalls," Kitzhaber said, according to *The Oregonian*. He suggested adding G.P.A. requirements and other incentives.

Cox Brand is among many state officials who will study the proposal as it emerges. She likes the overall concept. "It's a grand idea. We all want to have more affordable college, for everyone," said Cox-Brand. "It's the shiny, bright object."

But she said plenty of challenges and tricky details will need to be resolved to make the plan work.

"What is it really going to look like?" she asked. "How much does it even cost? Is it sustainable?" ▪

Debt Relief

By Lauren Ingeno

A community college in Michigan offers "tuition amnesty" to collect some of what former students owe and to re-enroll them.

As it struggles to reduce a sizable deficit, one community college on the outskirts of Detroit is waiting to see if a program intended to help former students settle their debt and re-enroll in classes will pay off.

Henry Ford Community College's Tuition Amnesty Program will give students who have a balance on tuition owed prior to the winter 2012 semester a 50 percent break on what they owe. A student does not have to choose to re-enroll in classes in order to pay off their debt at the discounted rate.

Even if students don't want to come back to the college, they may have incentives to clear their debts. If a student has an outstanding balance with a college, the college will not release his or her transcript. That can prevent students from finding employment or transferring credits to other institutions, said Kevin Culler, the college's director of enrollment services and financial aid. By clearing their debt, students can also improve their credit scores.

"Clearly our hope is to bring in some revenue, to clear some people off of our collection rosters and to have them re-enroll," Culler said. "It gives them a chance to move forward in their life in a positive manner."

Henry Ford Community College reportedly began budget preparations for the 2013-14 fiscal year with a projected deficit of $16.6 million. Through cost-saving measures, such as layoffs, salary reductions and the elimination of programs, that deficit has been reduced. The college currently has a budget gap of $4.3 million, though "additional strategies" are being put into place to address it, said a written statement from the college.

The statement said that the "real goal" of the tuition amnesty program is to get students "back into class and working toward their degree." Projections for how many students will take advantage of the program is "unknown," but college officials are hoping it will generate significant revenue -- both in paying off past debt and in new tuition payments.

Nearly 50,000 students have past-due balances with the college and are eligible for the program, Culler said. And around 38,000 of those students incurred their balances after 2002, making them the most likely to potentially re-enroll at Henry Ford. The total outstanding balance of those 50,000 students is $33 million. The majority of students (around 15,000) have balances between $100 and $200, and 10,000 student have balances between $1,000 and $4,000, Culler said.

Rhonda Johnson, bursar at the community college, said since most students' balances are below the $4,000 range, it is likely that students were unable to pay at the time they were enrolled because of an unexpected financial situation. Now that the economy has started to recover, those students' situations may have improved, and relieving them of some debt will allow them to return to college, Johnson said.

In a statement on the college's website, President Stanley Jensen said that the community, the college and students will all benefit from the program, because "with the amnesty, students will be able to return to school, which will generate revenue for the college, and have the opportunity to complete their degree to obtain a well paying job. These students become taxpayers with the job skills needed in the region."

All students participating in the program are required to attend a financial literacy workshop that is offered to all students. Students also may pay off their debt in installments, Johnson said.

The program began on July 15, 2013 and will stay open until August 15, 2013.

Students are able to pay their debts in person, online or by mail.

More than 700 students contacted the college about paying off their debts at the discounted rate, Culler said. And 64 students quickly paid off their debt to the college.

Johnson said there is no way to predict how many students will take advantage of the program, since she has not heard of very many other institutions with such programs. "We are the benchmark in this particular case," Johnson said. ▪

Will Work in Beer

By Paul Fain

Asheville-Buncombe Tech and two other N.C. community colleges move fast to create new "stackable" degree tracks for the fast-growing craft beer industry.

ASHEVILLE, N.C. -- People began setting up tents on campus here the night before registration opened for a new academic program at Asheville-Buncombe Technical Community College. Campus security officers made the wannabe students leave. But many in the crowd just got in their cars and started circling the surrounding parking lots.

The next morning it took all of 20 minutes to fill the 24 slots of the Craft Beverage Institute of the Southeast's inaugural class. That day in June 2013 was less than 10 months after a college administrator first pitched the idea for a two-year associate of applied science degree in brewing, distillation and fermentation.

The two-year degree program may be the first of its kind, at least in the United States. And Asheville, which has held the title "Beer City U.S.A.," is an appropriate place for it.

The small Appalachian city is home to more than 15 breweries, many of them new. And a few large craft brewers are building regional plants here as well.

Beer dominates the city's nightlife, with brewpubs that range from rustic to ritzy. And a growing number of beer tourists are coming to town to sample the high-end suds.

The burgeoning industry is also creating plenty of jobs. But until now Asheville's breweries, restaurants and distribution facilities have handled the training of their new employees.

A small group of administrators at AB Tech and at two other North Carolina community colleges recognized the unmet need. They moved fast to create the new degree, working closely with breweries and their peers in the state's community college system.

The result is three "stackable" degree paths for students, which allow them to specialize across institutional boundaries. The state and a regional accreditor gave green lights to all three programs.

AB Tech, Blue Ridge Community College and Rockingham Community College will have their hands full trying to meet the work force needs of North Carolina's craft beer explosion.

"The potential market is massive," said Scott Adams, director of AB Tech's new institute.

THREE PATHWAYS

Brewing and culinary training will be AB Tech's focus. That means the hard science and microbiology grounding necessary to brew, as well as expertise in marketing and business management, where most of the jobs are. The college hired a master brewer, Jeff Irvin, who has a decade of experience in the industry. AB Tech also forked up the money to build its own small brewery.

"We're all going to learn to brew," said Greg Hill, a member of the first class.

However, the 35-year-old Hill, who has experience in sales, plans to work on the business side.

The relatively rural Rockingham, which is 190 miles from AB Tech, is where students can learn about the agricultural components of brewing. Beer begins with the cultivation of hops and malted grains. And buying local is preferred by those in the craft-brew scene, so the demand for North Carolina-grown grains is increasing.

Blue Ridge Community College is taking on the industrial – or mechatronics – piece of brewing. The college, which is about 30 miles south of here, will train students in the equipment, packaging and maintenance experience necessary to run a brewing facility.

They don't have to look far to find one. Oskar Blues, a Colorado-based brewer, in 2012 opened its East Coast brewery in an industrial park in Brevard, one mile from a Blue Ridge campus. The facility produced 50,000 barrels (1.5 million gallons) of beer in its first year.

Sierra Nevada, a major California-based craft brewing company, is also building a brewery near the college. And New Belgium, which is headquartered in Colorado, is currently building a $150-million brewing facility in Asheville.

Blue Ridge, like AB Tech, offers popular continuing education courses in brewing. Those courses were developed in collaboration with Oskar Blues.

"They were able to hire many of our students," said Chris English, dean for applied technologies at Blue Ridge.

The creation of a degree program and certificates was a natural next step.

Experts praised the three community colleges for pouncing on a work force development need, and doing it in a smart, collaborative way.

Mary Alice McCarthy is a senior policy analyst at the New America Foundation who previously worked at the U.S. Department of Education and served as a liaison to the Labor Department. She said the North Carolina colleges did an impressive amount of labor-market research as they developed the partnership.

"This is exactly the kind of responsiveness to the local economy that you want to see," she said. "This is where community colleges can add so much value."

Community colleges aren't the only ones looking to tap into the booming industry. The Culinary Institute of America announced it had joined with Brooklyn Brewery to develop a small brewery at the college's Hyde Park, N.Y. campus. The brewery's operation will be incorporated into the curriculum of the institute's degree programs.

'RIDE THAT WAVE'

It was no easy task to create the new brewing programs, particularly on such a short timeline. And some academics

AB Tech's brewmaster, Jeff Irvin (R), with Brandon Lowery, general manager of the Asheville Brewing Co.

around the two-year system weren't sold at first.

"You want to make booze? Are you crazy?" was a refrain Adams said he heard often. His response was: "This is science."

Adams and others were able to make the case that brewing is a serious STEM field. They also did their homework to prove that nothing like the two-year degrees they wanted to create currently exists.

The University of California at Davis offers a wide range of brewing courses through its extension program, including a master brewers certificate (which Irvin holds). And the Siebel Institute of Technology, located in Chicago, has been a technical school for brewers since the 19th Century. The for-profit does not offer degrees, however.

Canada's Niagara College, however, has a successful two-year degree program for brewmasters and brewery operations managers. As they mulled options for tapping into the brewing industry, Adams and Sheila A. Tillman, AB Tech's associate dean for hospitality education, traveled to Ontario to study the program. They liked what they saw.

Around the same time, English visited UC-Davis and Sierra Nevada's headquarters. And administrators from Rockingham were talking to officials from MillerCoors, the mega-brewer that operates in a nearby county.

The three colleges got together to discuss what they'd learned, with Rockingham taking the lead at first.

"Our notes matched," said English.

They worked quickly to create degree and certificate programs that complement, rather than duplicate, each other.

"We each realized that this is a huge industry," Adams said. "So we each specialized."

It helped that North Carolina's community college system had recently completed a major curriculum shift around green jobs. That systemwide project resulted in stackable pathways, beginning with short-term certificates and culminating in graduate degrees from four-year institutions.

English said he and other administrators and faculty members drew from the experience of the green jobs project as they designed the new brewing pathways.

Stackable credentials' selling point is that they help students come in and out of higher education as needed, without losing credits or having to retake courses.

That's the approach the three North Carolina community colleges plan to use as their craft programs expand, hopefully adding more certificates along the way. The colleges are also talking to Appalachian State University about a transfer pathway to the university's new bachelor's degree in fermentation science.

Demand is almost certain to grow. English said Blue Ridge had a waiting list for its degree program, which currently enrolls 16 students.

The student mix at AB Tech is also evidence of the craft brewing industry's strong draw. All but five of the 24 students already hold a bachelor's degree. Three have master's degrees, and one is a Ph.D.

Geographically, the students hail from all over the country.

"This isn't your typical cohort" at a community college, said Irvin.

The program is getting plenty of notice. And students face good odds of landing a job in the industry, perhaps even before they graduate.

Hill moved here from Harrisburg, Pa., to enroll at AB Tech. The former district sales manager is a homebrewer and had been thinking about making the career jump for about eight years.

He liked that the college was offering an applied science degree, because these days brewers are "looking for people who are more educated."

Six weeks into his first semester, Hill applied for a job bartending at Urban Orchard, a cider bar in the city. He was offered a job as an assistant cider maker.

In addition to his studies, Hill works more than 50 hours a week at the cidery. "It's a hectic schedule," Hill said. But he's happy.

Cider may be the craft beverage industry's next big thing. Adams said AB Tech will be ready if it is.

"Our job is going to be to stay up on that," he said, "and ride that wave." ▪

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