

New Jersey Case Report:

A Managed Market Approach

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Organizational Performance and Policy Decisions in the U.S. and Mexico



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About the AIHEPS Project

The Alliance for International Higher Education Policy Studies (AIHEPS), a collaboration between New York University and the Centro de Investigacion y Estudios Avanzados (CINVESTAV) in Mexico City, was funded in September 1999 by The Ford Foundation to conduct policy research in Mexico and the United States over a three-year period with two primary objectives: (1) to improve comparative understanding of how changes in higher education policies (rules of the game) alter the nature of higher education services produced as well as the conditions under which they are provided; and (2) to serve as a vehicle for training a small cadre of younger policy scholars in both nations. The project is also aimed at building capacity at New York University and CINVESTAV for conducting further policy studies, and making the information available to appropriate policy audiences.

The following questions reflect some of the lines of inquiry the project has pursued:

- Higher education systems operate in very different policy environments as measured by such attributes as constitutional status, federal/state influence, political culture, and executive powers. Are there aspects of the policy environment that seem to be associated with particular performance patterns? Have states attempted to alter their policy environments? Are there particular combinations within policy environments that seem either to facilitate or constrain the capacity of a state to adapt to changes in the external environment?
- Starting from quite different points, states appear to be changing their system designs, their arrangements for collaboration, communication and accountability, and their fiscal policies to incorporate greater emphasis on market mechanisms. How have these changes influenced performance as measured by the indicators conceptualized by the National Center for Public Policy and Higher Education in the U.S. and comparable indicators in Mexican settings? Can aspects of performance be traced to particular configurations of these “rules of the game?”
- Federal governments may play the defining role in a national system of higher education (as in Mexico), or the role of change agent, consumer advocate, and research contractor (as in the U.S.). How are federal roles changing? To what extent are federal roles complementary to those enacted by states? Are there discernible differences in system performance patterns that can reasonably be

related to differences in the “rules of the game” as these are defined and implemented at the federal level?

The AIHEPS project has produced the following products, all of which are or soon will be available in Spanish and English on our web site:

<http://www.nyu.edu/iesp/aiheps/>. Links to these products are also available through the National Center for Public Policy and Higher Education (National Center) and through several sites that are regularly visited by the Mexican audience for these products. Products are written according to a mutually agreed upon framework that facilitates comparative analysis.

- Case reports for the states of Guanajuato, Jalisco, New Jersey, and New Mexico.
- Federal reports for the U.S. and Mexico.
- This conceptual overview describing the model for understanding linkages between policy and performance as developed to this stage of the project as well as graphic and textual representations of the remaining work.
- A summary report of the younger scholars who have been involved with the project and their contributions.¹

The following products are planned for the third year of the project and will be available on the web site.

- A synthesis report for the U.S. that incorporates insights from the federal report, and the two state reports. The intent here is to suggest propositions about the linkages between policy and performance that can be inferred from the data collected in the U.S. studies. This report will provide a “jumping off” point for the discussion involving policy leaders to be held in Jersey City, New Jersey, on June 21, 2002.
- A similar synthesis report for Mexico that serves as the “jumping off” point for the policy discussion to be held in Guanajuato in April 2002 (tentative).
- A policy paper reporting the conclusions from the U.S. meeting written in a format designed for wide distribution to a policy audience. The National Center will assist in the development and distribution of this paper.
- A policy paper reporting the conclusions from the Mexico meeting designed for wide distribution in that nation.
- A synthesis report that incorporates the results of the cross-national analysis of data from the two countries by the project co-directors.
- A revised report of the grounded model for understanding how policy can constructively contribute to the attainment of public priorities.

A proposal is pending to refine the model, add Canada to the national profiles, and increase from four to twelve the number of state and provincial profiles constructed around the model. Profiles will individually and collectively expand our understanding of the linkages between policy environments, rules of the game, and higher education performance in the U.S., Mexico and Canada. The addition of Canada will focus attention on the variation in federal involvement in higher education systems and provide a contrast between a system that is entirely “public” and systems that are mixed between public and private institutions. It will also make possible some comparison of the policies within different higher education systems for improving access and opportunity, including provisions for indigenous/aboriginal peoples.



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Introduction

Many Americans believe that the decisions of elected representatives influence goals, behaviors, and outcomes of the higher education systems their taxes help to support. At the same time, the consequences of any specific policy decision may be difficult to discern because of delays between changes in process and changes in results, because of conflicting decisions aimed at producing different results, or because of problems in accurately assessing outcomes. The purpose of this report is to describe key policy decisions that have shaped the New Jersey system of higher education during the past third of a century and to link those decisions to the outcomes the state currently experiences.

This report was written as part of a larger study undertaken with support from The Ford Foundation in 1999 that aimed at improving understanding of the linkages between policy decisions and higher education performance. The larger study was designed to produce comparative case studies of two states in the United States and two states in Mexico. Similar reports will be available for the state of New Mexico in the U.S., and the Mexican states of Jalisco and Guanajuato.

While our study was in progress, the National Center for Public Policy and Higher Education (National Center) published *Measuring Up 2000: The State-by-State Report Card for Higher Education*.² This report gave A–F grades to each state in five categories: preparation, participation, affordability, completion, and benefits. We have chosen to use these five categories as the indicators of performance our study will try to explain. To the measures developed from national data by the National Center, we have added data provided by the state and information from the interviews we conducted with a wide range of elected and appointed higher education leaders in New Jersey between August 2000 and June 2001.

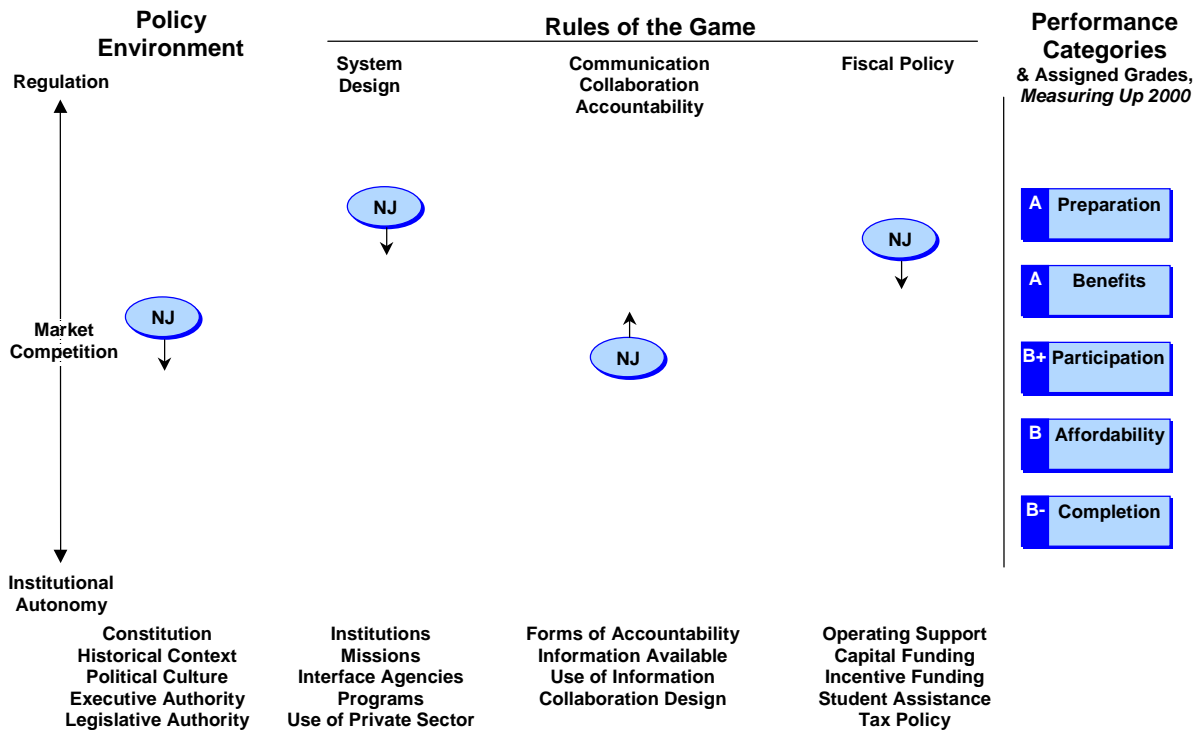
Figure 1 depicts the categories we used to organize the evidence about the policy decisions that have shaped New Jersey’s system of higher education. We grouped those policy decisions specifically focused on higher education under the headings of system design; communication, collaboration and accountability; and fiscal policy. We refer to these three categories as “rules of the game.” While policy environments as depicted in Figure 1 are not immune to change, we think that the rules of the game are the principal means governments typically use to influence higher education performance. Arrows in the diagram suggest the directions of changes in the policy environment and the rules over the last decade. After examining the ways in which the policy environment and rules

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of the game shape the behaviors of individuals and institutions, we consider the linkages between these behaviors and the grades New Jersey received for each of the five performance categories. Finally, we discuss the implications of this analysis for policymakers and institutional leaders concerned about improving higher education performance.

While we acknowledge the importance of economics, demographics and geography, we focus in this study on decisions that policy leaders use to try to change higher education performance in predetermined directions.

FIGURE 1: How Rules of the Game Influenced Performance in New Jersey: 1990 to 2000



General Policy Environment

The Goheen Committee's report of 1966 provided a picture of New Jersey higher education in crisis.³ In that year, there were 30,000 places for New Jersey students in the state's public colleges and 60,000 were attending out-of-state. Ten thousand well-qualified New Jersey students were refused admission to Rutgers and the six state colleges. The state ranked third from the top in its support of elementary and secondary schools and second from the bottom in per capita support of its colleges and universities. On the measures used by the Goheen Committee, New Jersey lagged far behind the comparison states of Ohio, Michigan, Illinois, and New York. Even allowing for the

inclination of study committees to describe problems in the bleakest possible terms, the description of system performance was far less impressive than the assessment provided by *Measuring Up 2000*.

New Jersey took one important step toward the creation of its current higher education system in the mid-1950s when Rutgers University was converted by the Legislature from private status to become the state's public research university. For the following 20 years, Rutgers operated under the supervision of two governing boards, one essentially private. The state colleges remained predominantly teachers' colleges. As a result of the Goheen Committee's recommendations, the state established a Board of Higher Education with a powerful chancellor who served as a member of the governor's cabinet. A former chancellor described the Board as the "strongest in the country, with the capability for providing strong central direction." A former state college and university president told us, "Before 1985 these nine institutions were arguably the most over-regulated institutions in the nation."

Despite an attempt by New Jersey to emulate the Michigan model in the Higher Education Restructuring Act of 1994, no public college or university in New Jersey has ever enjoyed the constitutional status of senior institutions in Michigan, which have been described as the "fourth branch of state government." While each of New Jersey's three research universities (Rutgers University, the University of Medicine and Dentistry of New Jersey, and the New Jersey Institute of Technology) were created by separate legislative acts and are thus subject to different levels of state regulatory authority, such acts can be amended, and are. For example, governance arrangements for Rutgers were changed to provide for a single governing board, a majority of whose members were appointed by the governor.

Those we interviewed described the 1994 legislation as completing a process toward greater autonomy for the state colleges and universities begun under Governor Thomas Kean in 1985. The 1985 legislation granted to trustees significantly greater authority, including the right to appoint a chief executive without approval of the chancellor of the Board of Higher Education. Personnel decisions related to managerial and professional staffs were separated from civil service, and institutions gained more financial and operational freedom. Also during the Kean administration, state funding for four-year public institutions was decoupled from enrollments.

The 1994 changes made state colleges and universities more like independent institutions. Institutional trustees, appointed by the governor, were charged with responsibility for institutional policy and planning, student tuition and fees, admissions, degree requirements, investment of institutional funds, legal affairs, and a budget request for state support. Institutional governing bodies also gained authority for academic programs, personnel decisions, and

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initiatives for improving institutional facilities. Many of the old responsibilities remaining with the Board of Higher Education after the 1985 legislation were discontinued. Now there is less emphasis on what universities do and more on the outcomes they achieve. To document such outcomes, public institutions prepare annual accountability reports, for which the New Jersey Commission on Higher Education approves the operating format.⁴

The governor in New Jersey is extremely powerful. A representative of a higher education lobbying organization described the governor as a “czar,” adding, “There are no other statewide elected officials. The governor has veto authority and can rescind numbers in the budget. No one is equal to the governor.” Success in implementing new initiatives depends upon leadership from the governor. The governor sets the priorities and brings an “executive budget” to the Legislature. “Depending upon how the political majority lines up,” said a legislator, “there is more or less tampering.”

During most of the 1990s when Christine Todd Whitman served as governor, fellow Republicans were a majority in both the House and Senate. Governor Whitman ran on a platform emphasizing lower taxes and smaller government. One of her first actions in 1994 dismantled the Department of Higher Education and its Board, and distributed many of its functions to other branches of state government.

A senior administrator at the Commission on Higher Education described Governor Whitman’s objectives in restructuring as improving higher education by making it more market-driven. A college president who served on the restructuring panel appointed by the governor described the change as “redefining and deregulating higher education in a collective bargaining state.” A second president described the effects of restructuring as allowing institutions to pursue chosen directions more intensively, for the most part without additional state support. The decision to introduce stronger market conditions was a conscious one on the part of the governor. The intention was also to reduce the costs of higher education supported by the state. Although the Legislature made sure that support for state colleges and universities did not decline in absolute dollars, the relative share of costs provided by the state declined significantly. The inevitable consequence, according to those we interviewed, was price increases in public sector tuitions (other than community colleges) that have been rather significant. When higher education was restructured in 1994, the governor made a commitment of \$12 million a year in new funds to community colleges, provided that they made an effort to limit tuition increases.

New Jersey has a part-time Legislature that meets on Mondays and Thursdays. In addition to a well-staffed Office of Legislative Services (OLS), which is non-partisan, each legislator has \$100,000 to spend on support staff. Most members have other jobs. Several serve as mayors. Legislators assume a kind of defensive posture on higher education, which according to one legislator is “a second-tier priority grouped with environmental issues and health-care.” The 1994 restructuring helped reinforce

legislators' views that they don't have to be too concerned about higher education. We were told by a staff member in OLS that since restructuring, "We have not had very many bills on higher education, and that was the whole point: to deregulate higher education. Authorizations to spend money require legislative approval and are pretty much pro forma. Some of the bond acts still require a bill specifying the project and there is a bill pending to expand tuition aid grants to part-time students."

Elected officials in New Jersey believe that state policy has helped to improve higher education performance and that despite increased state emphasis on a market model, legislators remain able to influence higher education performance as necessary. As noted by one legislator, "The relationship between policy and higher education performance is not direct. Part of the process is to create expectations in the minds of the public. Higher education doesn't move quickly. It's not a sea change; more tinkering." And a state senator responding to a question about the 1994 restructuring told us, "The appropriations process allows the Legislature to exercise all of the influence over higher education that is necessary. The reality is that all of the structure in the world doesn't prevent legislators from exercising necessary influence through appropriations."

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While "autonomy" was frequently mentioned by state college and university constituents, a president supported the senator's observation when he explained, "Autonomy does not mean an institution can set its own goals in a vacuum. It must respond to state goals and priorities. Ultimately, autonomy is about how state goals are achieved at the institutional level. Performance funding, while a very small percentage of the total, has importance out of all proportion to the actual amount because it signals state priorities."

Legislative success in influencing higher education performance is determined to a degree by type of institution. One legislator explained:

Community colleges are the most easily influenced because they are an outgrowth of county government and their board members are the most pliable. Influencing higher education becomes increasingly difficult as you move upward through the state colleges and universities and then the research institutions. Private institutions are of course the most difficult to influence. Legislators focus on the budget. Policy guidance comes indirectly as a result of action on the budget.

System Design

System design describes the arrangements for providing services to the citizens of a state and for integrating those services with other actors in the political, economic and social environment. We begin by providing a snapshot of New Jersey's system of higher

education during the 1999–2000 legislative year. Next we discuss significant changes to that design over time and we assess how these changes affected outcomes, based on our interviews and other available data.

New Jersey, if it was not the last state, was certainly among the last states to establish higher education systems in the United States. The 1966 report of the Citizens' Committee for Higher Education in New Jersey outlined the steps needed to create a system oriented toward the needs of all citizens in the last quarter of the 20th century and beyond:

The state needs a much enlarged system of public two-year county colleges, a major expansion of Rutgers, the state university, a doubling of the enrollment capacities of the six state colleges and their conversion to multipurpose institutions, the establishment of new state colleges, a substantial increase in the graduate and professional offerings, and finally provision for extensive research facilities to enrich the industrial and cultural life of the state.⁵

By 1999, all of these objectives and more had been achieved. There were 19 community colleges, each governed by its own eleven-member board, nine appointed by county freeholders and two by the governor. All residents are within reasonable commuting distance of a county college. Two small county colleges that some believe should not have been established faced “numbers” problems both because the populations they served were smaller than ideal for supporting a comprehensive community college, and because many county residents preferred to attend colleges in adjacent counties that were more comprehensive as well as closer to where they lived. This issue aside, New Jersey had as close to the “ideal” arrangements for community colleges as might be found in any U.S. state.

By 1999, New Jersey also had created nine state colleges and universities that were spread throughout the state geographically. One of these, Thomas Edison, was a non-campus college that focused on removing the barriers of time and place for adults. Each institution had its own governing board with all of the responsibilities normally assigned to such entities, including appointment of a CEO, retaining independent legal counsel, and setting tuition and fees. Only in the area of collective bargaining, where the state continues to serve as employer for negotiating collective bargaining agreements for the state colleges and universities, were vestiges of earlier heavy state regulation still evident.

The governor, with advice and consent of the state Senate, appoints trustees. Both CEOs and institutional governing boards may recommend individuals for appointment. The senator from the county where a college is located may block the appointment of a specific individual. State funding is divorced from enrollments, permitting institutions to cap enrollments without penalty, as several have done.

State colleges and universities appear to be located effectively to provide baccalaureate and master's degrees to all residents, especially given the state's compact geography and outstanding arrangements for inexpensive and convenient public transportation.

New Jersey also supports three public research universities. All three have their own governing boards, a majority of whose members are appointed by the governor with advice and consent of the state Senate. The largest and most comprehensive university, Rutgers, enrolled more than 48,000 students in fall 1998 on its main campus in New Brunswick and on less comprehensive campuses in Camden and Newark. The New Brunswick campus is a short walk from the New Jersey Transit rail line that connects Newark and Trenton, making Rutgers one of the most accessible major research universities in the nation. More than 90% of Rutgers undergraduates are New Jersey residents.

About two-thirds of the students attending the University of Medicine and Dentistry of New Jersey (UMDNJ) are in health-related graduate and professional programs. More than 92% of the undergraduates who enroll in specialized health-related programs are from New Jersey. The New Jersey Institute of Technology, located in Newark, enrolls in excess of 8,000 students in engineering and technology-related programs at its campus and in extension programs throughout the state. More than 90% of its 5,000 undergraduates are from New Jersey.

Fourteen independent colleges and universities are defined by statute as having a "public purpose." They receive direct state support based on the number of New Jersey residents who enroll, and many of their students receive state financial aid. New Jersey also licenses three degree-granting proprietary institutions and eight theological institutions. All are considered part of the state system of higher education and, with the exception of the seven "charter" institutions founded prior to 1887, are subject to state coordinating arrangements.

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In addition to institutional governing boards, several organizations operate in the interface between institutions and state government. Community colleges and the state colleges and universities each have a professionally staffed organization with statutory status as an advocate and advisor to the governor. These organizations operate under the guidance of institutional CEOs and trustees and are supported by member institutions to provide system maintenance, advocacy and some policy research. A similar organization without statutory authority performs these functions for the independent colleges and universities. Rutgers, UMDNJ, and the New Jersey Institute of Technology (NJIT) each have their own lobbyists representing their interests before the Legislature and the public.

The New Jersey Commission on Higher Education (the Commission) is the state-level coordinating body. Its responsibilities include:

- statewide planning and research on higher education issues;
- advocacy on behalf of higher education;
- making recommendations to the governor and Legislature on higher education initiatives and incentive programs;
- licensing institutions and granting university status;
- rendering final administrative decisions on programs that go beyond institutional mission, on new academic programs referred by the Presidents' Council because they are unduly expensive or duplicative, or on changes in the programmatic mission of an institution;
- reviewing budget requests from institutions in relation to their missions and statewide goals and proposing a coordinated budget policy statement to the governor and Legislature;
- applying for and accepting grants from the federal government and acting as the lead agency for communication with the federal government regarding higher education;
- approving capital projects financed by state bonding, leasing or trust fund acts; and
- establishing the format and content of the annual institutional reports to the public on the condition of each institution.

The Commission consists of 11 members. The governor, with advice and consent of the Senate, appoints six members of the public and a faculty member from an institution of higher education. Two members of the public are appointed by the governor upon recommendation respectively of the president of the Senate and the speaker of the General Assembly. The chairperson of the Presidents' Council serves ex officio, as does the chairperson of the board of the Higher Education Student Assistance Authority (HESAA). The governor also appoints two students who serve one-year terms. The executive director of the Commission is a non-voting member.

An Equal Opportunity Fund (EOF) program was created by statute in 1968 to ensure meaningful access to public and private New Jersey colleges for residents facing economic and educational disadvantages. The EOF program operates under the general supervision of the Commission, but has its own eight-member public board of directors appointed by the governor. The EOF board sets eligibility criteria, approves regulations, and develops an annual budget request. The Commission chair or designee sits on the EOF board. The EOF program uses the services of HESAA to distribute grants to about 13,000 eligible students.

The Presidents' Council shares responsibilities for the statewide coordination of higher education with the Commission. The Council, an advisory and member-funded

body, is made up of the president of each public institution of higher education and of those independent institutions that receive direct state aid. Also serving as members of the Council are the presidents of the two largest proprietary and two largest theological institutions. These four individuals are charged with representing the interests of all such schools. A 14-member executive board carries out most of the Council's work.

While patterned conceptually after the Council of Presidents, which provides voluntary coordination to four-year public institutions in Michigan, the New Jersey arrangements differ by bringing together under a single structure all sectors of state higher education, including community colleges, independent colleges and universities, public four-year colleges and universities, and proprietary and theological institutions. The following are among the Presidents' Council responsibilities:

- providing public information and research;
- reviewing and making recommendations to the Commission on new programs which exceed an institution's programmatic mission or which require significant added resources or raise significant issues of duplication;
- reviewing and making recommendations to the Commission concerning changes in the programmatic mission of an institution;
- encouraging the formation of regional and cooperative programs among institutions and developing criteria for "full faith and credit" transfer agreements between county colleges and other institutions of higher education;
- advising and assisting the Commission in adopting and updating a statewide plan for higher education;
- making recommendations regarding state aid levels, higher education issues, and student aid; and
- upon referral from the Commission, providing recommendations concerning institutional licensure and university status.

The coexistence of the Presidents' Council and a Commission on Higher Education with overlapping and sometimes competing responsibilities mandates a close working relationship between the two if either is to be effective. Initially the Presidents' Council had no staff, an arrangement some thought would promote close communication between Commission staff and Council members. Instead, the arrangement caused presidents who served in positions of leadership to rely on their institutional staffs to carry out Council responsibilities. The chairmanship of the Council rotates every two years among one of the presidents of a research university, a state college president, a county college president, and the president of an independent college or university. Relying on institutional staff, while always problematic, imposes fewer burdens on a large research university than on a small independent college. Gradually the Presidents' Council is developing its own professional staff.

The Higher Education Student Assistance Authority (HESAA) is the most important of the remaining actors in the interface between institutions and state government. As an independent state authority, HESAA works with institutions and other state agencies to coordinate programs, advance policies, leverage state and federal resources, and provide direct services to students.⁶ A representative of the Commission on Higher Education serves on the HESAA board and the chair of the HESAA board serves as a member of the Commission.

There is also an Educational Facilities Authority (EFA) that issues bonds and notes to finance campus construction and renovation projects, and capital purchases for the states' public and private colleges and universities. The chair of the Commission or a designee serves on the EFA board.

Not fully revealed in this description of higher education structural arrangements are the many direct and indirect links between state government and institutions. A policy advisor in the governor's office serves as the governor's primary contact with most presidents. The policy advisor relies on the Commission for research and information in developing initiatives authorized by the governor. Four-year public institutions submit budget requests directly to the Department of the Treasury. Community colleges, as a sector, submit their budget requests to this department as well. EFA is described in the enabling legislation as "in, but not of" the Department of the Treasury. Similar language links the Commission and EOF to the Department of State.

The interface elements of this system design were six years old at the time of our study. Trial-and-error learning among participants was very much in evidence. Nevertheless, most of those we interviewed had positive comments about the new arrangements. Clearly, they had learned how to make the system work, at least acceptably. Critics were considerably less certain than earlier about the possibility that a new governor would change the system back to its former configuration.

System design in New Jersey seems to be constantly evolving. Most changes involve incremental adjustments, which one legislator described as "fine tuning." Changes of the magnitude of the 1994 restructuring are rare. In that year, the governor eliminated the Department of Higher Education and its Board, which had been established in 1965 and was regarded by many as the strongest coordinating agency in the nation. In their place, institutional governing boards were strengthened, sector organizations for community colleges and state colleges and universities acquired added responsibilities, and the New Jersey Commission on Higher Education was created to provide general coordination, planning, and policy development in collaboration with a newly created Presidents' Council. Restructuring also created an independent Office of Student Assistance.

The 1994 restructuring was accompanied by substantial criticism both in New Jersey and nationally because of the magnitude of the changes and the way they were

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implemented. Governor Whitman began the process without formal study or advance consultation through her budget message of March 15th 1994, and the process concluded on July 1 of the same year when she signed the enabling legislation. In between these two dates, an advisory panel (charged to redefine and deregulate the higher education system in a collective bargaining state) offered guidance. The panel concluded its month-long work by endorsing the ideals of the 1965 Goheen report and declared that such ideals could only be achieved under a “dramatically different” governance system.

A Commission staff member described the elimination of the Department of Higher Education as primarily a budget initiative, but added that the 1994 restructuring was simply the logical conclusion of the process of granting additional autonomy to state colleges and universities begun under former Governor Kean. A private college president provided a concise and graphic summary: “The governor was unhappy and wanted to jettison costs. She wanted policy-level decision making to go to institutional boards. So she essentially said, let’s get rid of both elements of what we already have; you in higher education figure out what to do instead. And by the way, there is no money to do it.”

This may sound like an unattractive proposition, but given the power of the governor in New Jersey, the unpopularity of the chancellor, and state college and university presidents who, in the words of a former senior elected official, “jumped up in the air with joy when Governor Whitman ran on a platform to do away with state government, beginning with the Higher Education Department,” restructuring quickly gathered significant momentum.

Restructuring from the perspective of most of those we interviewed does not appear to have saved the state any money. The functions of the former Department of Higher Education, along with the staff who carried them out, were distributed among other offices of state government. While the state’s responsibility for funding the budgets of state colleges and universities declined as a proportion of their total operating budgets, increases in student assistance, a negotiated increase in community college operating support, and state investments in facilities and infrastructure more than offset these savings.

Observers agree that state colleges and universities (SCUs) benefited the most from restructuring. “The SCUs are much more significant players now in the New Jersey arena,” said the executive of a sector organization. An SCU president added, “The state colleges and universities have become equal partners in state governance and coordination.” A representative of the governor’s office noted that every college had changed its name in the past six years with five adopting the title “university.” Name changes have been accompanied by the addition of new programs both at the undergraduate and graduate levels. A graduate program proposed by the College of New Jersey and denied by the former Board of Higher Education because the program was already available at nearby Rider College was approved without delay after restructuring.

“New programs fly through the Presidents’ Council system,” said one private university president.

While the state did not increase appropriations as most SCU partisans had hoped it would, restructuring nevertheless helped the institutions financially. A former president told us the change legitimized the aggressive pursuit of private funds by allowing the creation of endowment and development boards separate from trustees and freeing them from the requirement to invest funds only through the state treasurer. State colleges and universities also gained greater freedom to raise tuition as a means of attracting a larger share of state and federal student assistance funds.

In effect, SCUs were freed to focus and become distinctive. The College of New Jersey and Rowan University seized this opportunity partly because their leaders had already committed them to this course of action. But many of the remaining SCUs have yet to capitalize on this opportunity, according to those we interviewed. Nonetheless, most believe that the institutions are attracting a new breed of leaders, more independent-minded and entrepreneurial while still capable of working with their colleagues cooperatively.

No gains come without a price. A legislator suggested, “SCUs have lost their laser focus and are trying to be all things to all people.” He added that increased autonomy, which began in 1985, has had an adverse impact on access. Transfer from community colleges also has become more dependent on institutional priorities.

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A senior administrator of the former Board of Higher Education said there was no acceptable arrangement for planning. Supporting his perception was the “Strategic Vision 2008” initiative by the SCUs acting through their sector organization. This unilateral initiative by the SCUs, operating in an area of responsibility specifically assigned to the Commission by statute, upset the Commission’s executive director. An SCU president justified the initiative by noting that the plan produced by the Commission was nothing the SCUs could “get their arms around.” One of his colleagues reported about the same number of end runs around the system as before, but added that SCUs were responsible for more now because “they are more out of control.” A legislator said, “The Board of Higher Education and the chancellor may have been stifling, but under restructuring we have gone to the opposite extreme.”

Community colleges benefited from restructuring to a lesser degree than SCUs. They also gained greater autonomy. Their sector organization, the Council for Community Colleges, was empowered to recommend the division of state funding for member institutions. This Council also determines which academic programs submitted by its members get forwarded to the Presidents’ Council for further review. A Commission staff member told us that the purpose of restructuring had been to increase institutional flexibility and this had been a clear outcome. He added, “You can get actions

on programs very fast. There is no requirement for the approval of certificate programs, which helped community colleges move on programs related to industry.” A president summarized the advantages and disadvantages of restructuring for community colleges:

- elevation of responsibility and authority for community colleges;
- increased collaboration within and across sectors;
- increased expectations that colleges would adapt, modify, and define;
- exposure of weak presidents and mediocre boards; and
- stimulation of joint ventures and creativity.

On the downside, institutions were stratified by the transition to a market mode. The protective environment against excessive local political intrusion provided by the former Board of Higher Education disappeared. Two small community colleges are suffering as a result.

Leaders from research universities and the independent sector were considerably less enthusiastic about restructuring than their counterparts in SCUs and community colleges. A Commission spokesman offered one explanation: “The Commission has tried to treat all institutions equally. We don’t kowtow to Rutgers as much as they would like.” A state college and university president added, “Try as we might, we cannot convince Rutgers that we do not want to be great research universities.”

Even though not much has changed structurally for the public research sector, the environment in which institutions operate is different. All institutions have greater freedom to start new programs. As one result, Rutgers monitors what other institutions do more carefully than before. There is more of a tendency to respond to the market and to potential competitors. Rutgers and NJIT, according to observers, have become more entrepreneurial, more concerned about the bottom line, and more willing to offer high-demand, low-cost programs with the potential for yielding a profit. NJIT and Rutgers, from the perspective of most of those we interviewed, would have liked to keep the state colleges and universities under constraints. Rutgers has not been very supportive of restructuring, and NJIT has been ambivalent.

The new system precludes the kind of regulatory controls on any one sector that would limit competition with another. This characteristic and the lack of a visible champion to represent higher education to state government are the most serious concerns of the independent sector. Independent institutions under the old system were protected against the expansionist aspirations of public institutions. Now there is more direct competition. Public institutions have expanded, and many are perceived to be in pursuit of even more expansive missions. Still, enough has gone well under restructuring for the independent sector that most of its representatives are at least ambivalent about the desirability or feasibility of returning to the former system.

New Jersey's system of providers was essentially in place by 1985. During the past 15 years, the state has moved from governance structures designed for regulation to arrangements that rely primarily upon market forces. Each approach has contributed to the current high level of performance reported by state policymakers and confirmed by the data in *Measuring Up 2000*. The regulatory arrangements permitted management of a period of growth and acquisition. The design also gave independent institutions time to adjust to the presence of an increasingly dominant public sector.

The most visible outcomes of restructuring include more diversity among public institutions, a wider choice of programs offered in more locations, more rapid response times for the delivery of new programs, and greater responsiveness to the needs of students and employers on the part of all sectors, including independent and research universities. Such outcomes have been accompanied by increased costs, reduced emphasis on access, and increased difficulty in planning for future needs and in coordinating the implementation of plans that do emerge.

The strengths and weaknesses of the new arrangements should come as no surprise. Market approaches are antithetical to centralized planning. Events of the last half century provide convincing evidence that central state planning, however useful during periods of conflict, transition and growth, is over time much less efficient than reliance on the market.

Communication, Collaboration and Accountability

This section of the report focuses on arrangements for collecting and reporting data, the uses that are made of information, and the arrangements that promote or inhibit effective collaboration across institutional, sector and system boundaries. We discuss how changes in system design affected these variables as well as the impact on higher education performance.

New Jersey is an information-rich state. The Office of Research and Policy Analysis of the Commission on Higher Education has access to three databases: the Institutional Postsecondary Education Data System (IPEDS), a unit record system for enrollments and degrees, and the state financial aid system. The unit record system can be linked to the financial aid system. If retention or graduation is defined in relation to student financial aid, data going back to 1981 is available. State databases cover all public and a few independent institutions. For these institutions, the Commission aggregates data and uses it to report to IPEDS.

In addition to being used by the Office of Research and Policy Analysis, the databases are used by the Higher Education Student Assistance Agency and the Office of Legislative Services (OLS) to generate reports that respond to requests from policymakers for information. Legislators regard the well-staffed and nonpartisan OLS as an excellent source of information, especially on fiscal questions. Commission reports are

also well received, but tend to be viewed as providing information supportive of the priorities and perspectives of the higher education community.

The Commission is heavily involved in benchmarking, a process that is based on its “three pillars of accountability,” which are:

- Commission Accountability Reports (the first after restructuring was published in 1996),
- Institutional Accountability Reports (prepared in a format specified by the Commission and using Commission-generated data as well as institutional data), and
- Performance Funding Indicators (discussed in greater detail in the next section of this report).

The general approach taken in tracking performance makes use of national benchmarks in conjunction with state indicators and takes into account the magnitude and direction of change occurring in other states as well as New Jersey. The Commission Accountability Report for 1998, for example, provided a long-term analysis of graduation rates and other outcomes similar to the information provided in *Measuring Up 2000*.⁷ Thus, the grades awarded to New Jersey by the National Center for Public Policy and Higher Education came as no surprise to policymakers or institutional leaders, as evidenced by the steps the state had already taken in such areas as need-based assistance for part-time students and community college articulation and transfer.

Section 31 of the 1994 restructuring act charged the Presidents’ Council and the Commission with responsibility for submitting an interim report by July 1, 1996, with recommendations for modifying the structure. The act required a comprehensive assessment by July 1, 1999. For the 1999 report, a restructuring assessment committee surveyed 475 selected participants from all sectors. “Cooperation among the various higher education entities,” and “availability of information on higher education” were rated as good or excellent by a majority of the respondents and these ratings were attributed to restructuring. “Systemwide coordination of higher education,” “coordinated systemwide advocacy,” and “progress toward statewide master planning” were rated as fair or poor and these ratings were attributed to restructuring.

While participants in a state conference on restructuring, held as part of the assessment process, noted the favorable impact of recently increased levels of communication between the Commission’s Executive Committee and the officers of the Presidents’ Council on budget development and advocacy efforts, the first recommendation in the conference report urged:

frequent and stronger lines of communication between the two bodies, as well as with boards of trustees, [to] further enhance the ability of the structure to meet system and state needs. Similarly, communication and collaboration among the

institutions and sectors have increased substantially, but will require additional attention. All relationships need ongoing nurturing and development, and this will be particularly necessary, both among the institutions and among the coordinating entities, to ensure the continued success of this governance structure.⁸

While those we interviewed generally agreed with the 1999 assessment, they cited two factors that produced significant improvements in communication and collaboration by the time of our study. Participants had benefited from the additional time to learn how to make the new system work. They also expressed confidence in a new Commission executive director, widely regarded as a good fit for the position.

A legislator told us that information was easily available through OLS. “The problem is summarizing and interpreting.” He added, “The Commission is certainly a source of information and the executive director does a good job. As with all trustees, however, they know what they are fed. The typical trustee has a lot of money and very little time.” The tripartite structure of trustees, the Commission and the Presidents’ Council inhibits the Commission’s ability to represent the public interest even though individual commissioners described this as an important part of their responsibilities.

A staff member in OLS also praised the Commission’s role in providing information, but supported the legislator’s perspective on its pro-higher education stance. “I’m very pleased with many of the reports and communications we get from the Commission,” he said. He then added, “They seem to be doing a very good job of speaking for higher education and providing the Legislature with information. It seems to me that it does as much as the chancellor ever did. The reports seem to indicate a high degree of satisfaction with restructuring.” While Commission views made public may be constrained by the need for preserving good relationships with trustees and presidents, a sector executive, nonetheless, described the Commission as a “real champion for students, making sure they get what they are paying for.” He added, “Their advocacy for students is much more visible than was true for the former board.”

“Their advocacy for students is much more visible than was true for the former board.”

Supplementing the work of OLS and the Commission in providing information to legislators are the efforts of the partisan staff,⁹ who provide briefings and background papers, including political comments about who is likely to be supporting or opposing a bill. Such valuable information for elected lawmakers is outside the scope of permissible activity for either OLS or the Commission. If legislators have a close interest in a bill, they talk to OLS and do their homework. Otherwise, they are likely to depend on the notes they get from the partisan staff. A proprietary college administrator described how he worked in the post-restructuring environment: “Before, you didn’t care about communication; now you are concerned, and it’s better. After all,

legislators will always go back to ask questions of others after hearing from certain individuals.” In New Jersey, there is no lack of these other sources of information.

Despite abundant communication, multiple sources of information, and annual accountability reports, “New Jersey has not been as successful with accountability as with some of the other priorities,” said a legislator. The problem does not result from any disagreement about the importance of accountability. Everyone seems supportive of the concept. The devil, as always, is in the details. “How,” asked a community college president, “do we compare persistence, performance, retention, and labor market outcomes? And how do you measure what appears to be negative but may be necessary: the student learns that college is not for him?”

Each institution has its own reasons for disliking some of the performance indicators. Uniform indicators are problematic. Some colleges lack the institutional research budgets to measure outcomes. Others argue that a specific indicator is inappropriate because of a unique institutional mission. Perhaps these problems could have been anticipated. The panel that advised the governor on restructuring was concerned about the relationship between control and accountability. They hoped for accountability that was more visible and real and that was developed by institutions rather than by the Department of Higher Education.

What they got might be characterized as “accountability light.” A former governor who believed that the advantages of deregulation outweighed the disadvantages nonetheless argued for the need for someone to be watching the shop, for some force to keep institutions accountable. Clearly, the Commission is not widely perceived as playing this role.

Despite underlying problems and a certain level of grumbling, public institutions do issue accountability reports on an annual basis and the Commission does issue a report for the system. All of these reports are available to the public. While not required to do so, the independent colleges and universities also provide an annual report to the governor in which they cover many of the same items addressed in the public institutional accountability reports. If the information provided falls short of the ideal, there is still enough substance to allow policymakers to compare the performance of their investment in higher education with the performance of similar investments in other states.

Participants were considerably more enthusiastic about the impact of restructuring on collaboration. A proprietary college president told us, “There’s been a tremendous change since restructuring. Because of the Presidents’ Council and the executive committee, you really understand issues from other sectors. There’s more collegiality; before restructuring I never knew anybody. As a result of restructuring, there’s more synergy and more collaboration between institutions.” The president of an independent university added, “College presidents know each other across sectors; this did not happen before. There is increased understanding of collaboration among institutions, although it is not necessarily implemented. There is more emphasis on interpersonal relationships.

Presidents personally know and like each other. The new voluntary alliance is more real than the structure it replaced.”

A member of the executive committee of the Presidents’ Council and president of an independent college concurred with these assessments: “Among members of the Presidents’ Council, a lot of the working together is informal. There is a sense of being part of a larger whole. Now you get to know the presidents of public institutions in a way I had not previously experienced. We work together on the budget. It is not just one sector screaming for itself.” And a Commission staff member told us that New Jersey higher education institutions have become more collaborative and cooperative since restructuring: “There are more joint degrees. There is also a lot more collaboration within and across sectors. Because of the Presidents’ Council, presidents must, at least in some areas, take a statewide view.” Presidents of the more prestigious independent universities do not, however, participate very much in Council activities.

Developing an effective Presidents’ Council has taken time and much learning. A Commission board member said, “When we first got together after restructuring on issues that were controversial, the Presidents’ Council would not take a position. And they might not support positions once taken behind the scenes. We have outgrown that. Meetings and the willingness to make decisions are much better.” An executive director of a sector organization offered a somewhat more qualified assessment: “There is still contentiousness within the system, but there is more collaboration among the public institutions.” A Commission staff member added, “The New Jersey system should receive high marks for collaboration but the adversarial characteristics are there as well. It is a given that everyone is going to operate in their self-interest. Overarching initiatives and umbrella goals bring out the parochialism.”

“There are more joint degrees. There is also a lot more collaboration within and across sectors.”

The issue of articulation and transfer illustrates both the strengths and weaknesses of the restructured system. While community college transfer is a top priority for the Commission, the articulation process remains problematic. There are countless bilateral articulation agreements in place, but missing is a common agreement about general education. The Commission has tried to provide leadership in addressing this issue, but institutions resist, arguing that no one except the Presidents’ Council can really speak to it. The Presidents’ Council now has a standing committee on articulation and transfer, but, as one sector organization executive pointed out, “Oversight would be too strong a term for what the committee does.”

The Commission’s strategy for dealing with articulation and transfer was described by a senior staff member as “comparative embarrassment,” underscoring the degree to which publicizing information is the strategy of choice whenever state priorities and strongly held institutional interests conflict. The Commission has contracted with Burlington County Community College to implement the University of Maryland

computer articulation system (ARTSYS, renamed “New Jersey Transfer”) with the blessings of the governor and plans to spend \$5 million on the project. The system does not, however, get to the disciplinary level to address questions about what should and should not count. And not all of the public institutions have agreed to participate.

Collaboration between higher education and the K–12 system has much in common with articulation and transfer issues. Much goodwill and many regional projects are aimed at improving student preparation for college. The Commission estimates over 500 collaborative projects involve the state’s colleges and universities and elementary and secondary schools. Such programs as College Bound, the Statewide Systemic Initiative, the Network for Education Renewal, and a recent Commission-sponsored Gear-Up grant involve specific institutions in a variety of activities focused on improving student preparation.¹⁰ A representative of the Department of Education described the working relationship with the Commission as “very close, especially in teacher education.” Also noted was the close relationship between county colleges and schools. County superintendents serve on college boards of trustees to promote this linkage.

At the same time, the challenges of coordinating state efforts are well illustrated by a recent experience with the governor’s teacher education initiative. According to one SCU president, the Commission “opened up a wound by turning to Rutgers in an area where state college and universities believed they had the greatest expertise.” SCU presidents struck back by contacting the governor and attempting to broker their own proposal with the commissioner of education. In the restructured system, no one except the governor can unilaterally resolve this type of dispute. Since she chose not to intervene, the parties ultimately had to work out the matter on their own. Despite the bruises, the conflict resolution process seemed healthy. An experienced senior administrator for the Commission acknowledged the problems that arise within the system, but added that such issues were easier to resolve in New Jersey than in other places where he had been.

Fiscal Policy

New Jersey supports public and private higher education in four significant ways: appropriations for direct operating support; capital funding for buildings, technology infrastructure and deferred maintenance; incentive grants; and student assistance. In this section, we examine the logic and processes that govern how these resources are allocated and then consider changes in the rules of the game during the past decade, and especially as a consequence of the 1994 restructuring. Finally, we consider how these changes influence outcomes from the perspectives of those we interviewed.

Providing funding recommendations to the governor and the Legislature is one of the areas of responsibility shared between the Commission and the Presidents’ Council. Public four-year colleges and universities submit individual budgets directly to the

Department of the Treasury, as do community colleges through a consolidated request coordinated by their sector organization.

Planning guidelines or statutes establish targets for state support amounting to two-thirds of the operating costs of four-year public institutions, one-third of the costs for community colleges and, for the independent sector, an amount equal to one-quarter of the direct net state support for full-time equivalent (FTE) students for the SCU sector in the previous academic year multiplied by the number of FTE New Jersey undergraduates in eligible independent institutions.¹¹

In practice, the state has consistently provided less support to all three sectors than called for in the guidelines. In FY 2000, the state provided 28% of the operating costs for community colleges, 57% for senior public institutions, and about 79% of the amount specified in the statute to independent colleges and universities.¹² State support for community colleges improved following restructuring as a result of a bargain the governor struck in return for the sector's commitment to limit tuition increases. Support for public four-year institutions declined as a proportion of their total operating budgets, but thanks to the Legislature, this decline was not as significant as the governor probably would have liked. State funding for the independent sector remained relatively unchanged.

The process that produced these outcomes is not easy to describe. The Higher Education Restructuring Act of 1994 charges the Commission with annually "proposing a coordinated budget policy statement to the governor and the Legislature," but it does not specify how this will be done or who will provide the advocacy necessary for its translation into an appropriation.¹³ Because New Jersey is an "executive budget" state, the role of the governor is key in determining what type of budget policy recommendations are likely to have any effect on the appropriations process. The Commission has the unenviable task of working, essentially with very little authority, with the Presidents' Council and the governor to produce a statement acceptable to both. The task may be eased somewhat by the fact that some of the presidents have at least as good communication with the governor as the Commission, and are therefore under few illusions about what the governor will find acceptable.

The process of working together to develop and support the annual appropriation has, like other aspects of the restructured system, required considerable learning. In 1997, the process may have reached a low point. In the midst of an effort by the governor to enact a "hold the line" budget that required the state's nine four-year public institutions to "find" \$13.5 million to cover salary increases for faculty and staff earlier negotiated by the state, the Commission published a draft report that concluded, "Higher education in New Jersey, compared to other states, is relatively well supported."¹⁴ The ill-timed release exacerbated concerns about advocacy for higher education in New Jersey. The president of an independent university described how answers have evolved:

The process that produced these outcomes is not easy to describe.

Before restructuring, the message was sent by the chancellor; then the governor had a non-plan. The first idea was that the Commission would advocate, but this concept was flawed because the Commissioners couldn't respond to the Legislature's questions. The second approach was to have six or seven presidents, representatives of the different sectors, submit the higher education budget as a group. After four years we learned that the presidents did not advocate for the whole, but rather for their piece. Now, there are a few representatives who speak for the whole, but advocacy remains weak.

A Commission representative provided a slightly different perspective:

The Commission hopes to influence the governor on how she addresses the budget request that comes up through the system as well as to influence institutions so that they give appropriate attention to the public interest. We develop our document in concert with the Council of Presidents in the hope they will follow our lead. Sometimes they do not and they may prevail if they have a powerful legislator. But there is a price to pay for going outside the channels. Colleagues ostracize you.

"There is a price to pay for going outside the channels. Colleagues ostracize you."

The process that produced the 2002 request was widely regarded as a model of collaboration, and the results were received with considerable satisfaction by all sectors. In the preceding year, however, Stockton College, which had consciously worked to limit tuition increases, made a successful appeal through outside channels for an additional \$1 million in operating support and then used the funds to provide tuition remission to its students.

Differences in funding approaches as well as the involvement of third parties further complicate the budget process. For public four-year colleges and universities, "There is no formula, and increases are not related to enrollments," said one sector organization representative. "The funding is purely discretionary and administered on the basis of history. There is a process; we start with the base and come up with priority packages. However, this is simply an exercise. The actual increase will be whatever you received historically plus some percentage increase." A staff member in the office of the governor confirmed this assessment: "All colleges essentially receive the same percentage increase. Institutions are not currently being rewarded in return for what they are doing or for what they want to do."

There is an enrollment-driven funding formula for two-year colleges and for independent institutions. Sponsoring counties are supposed to pay one-third of the operating costs. While some counties substantially exceed this guideline, others see increased state support as an opportunity to reduce their own level of funding. Where counties fall substantially below the guidelines, county colleges are hard pressed to

maintain services and honor their sector agreement with the governor. Some have not been successful in doing both.

In an effort to offset some of the obvious shortcomings of the formulas, elected officials have turned to performance funding based on four statewide goals articulated by the governor's office: graduation and retention rates, transfer and articulation, diversity of funding sources and affordability, and efficiency and effectiveness. There is a system of indicators developed for each sector to determine how well institutions perform. Institutions are rewarded both for making progress toward a goal and for achieving benchmarks. Even though the proportion of funding linked to performance is only one percent, the funds are important because they communicate to the public the success of higher education in responding to state priorities.

Despite the evident effort that has gone into developing relevant and responsive indicators for each of the colleges, "colleges hate performance funding," said a staff member in the office of the governor. A report on accountability given by a committee at a meeting of the Commission supported this interpretation. The Commission appoints joint committees with the Presidents' Council whenever an issue is especially thorny. The joint committee on accountability reported continuing concern among colleges about some of the reporting requirements and emphasized that those on the committee were in complete agreement that performance funding should not impact the base budget.

Each year the Commission publishes reports for each sector describing and explaining indicators and decision criteria. The Commission also publishes results for each institution in an annual press release that always includes the disclaimer, "The targeted performance areas are consistent with state goals identified in New Jersey's plan for higher education. Specific indicators and benchmarks for each public higher education sector were developed in collaboration with sector representatives to reflect differing missions. Colleges and universities are not compared to each other, but are evaluated with respect to their own performance and improvement."

Given this caveat, it is clear from the releases that some institutions consistently earn higher percentages of available funds than others. In the most recent year, the 31 public colleges and universities overall earned 93% of available performance funds. For the public four-year institutions, however, results ranged from 100% for four institutions to less than 55% for the lowest performing institution. For community colleges the range was from 100% to 75%.

Performance funding may be the most important post-restructuring strategy New Jersey uses with its operating allocations to encourage attention to state priorities. A staff member in the office of legislative services suggested that despite institutional fears there was not a lot of evidence that restructuring had significantly affected funding levels. A former administrator from Rutgers noted that while the state colleges and universities would have experienced reductions in state support under the original plan, legislators made certain operating support stayed at the same level. And a 1993 background paper

published by the former Department of Education suggests that the “erosion of state support to institutions” is nothing new.

In contrast to the rules of the game for operating funds, which, except for performance funding, seemed to have changed very little since restructuring, the rules for capital funding were clearly redesigned to encourage entrepreneurial activity and to put both public and independent institutions on a more equal footing. “Governor Whitman,” said a sector representative, “deserves an A+ on capital funding. While direct appropriations to state colleges and universities have been very meager, in areas available to all institutions, the governor’s record has been impressive.”

Capital planning is now decentralized, with primary responsibility vested in institutional governing boards. Restructuring eliminated the oversight role of the former Board of Higher Education, allowing institutions to address campus facilities needs more quickly. The 45 institutions eligible for state capital grant programs are now free to select their own processes and timing, and to assess needs and priorities with or without up-to-date facilities plans. The Commission’s role is limited to ensuring that proposals submitted under five of the debt-financed programs are consistent with legislative intent. The Commission also addresses the need for capital support in its long-range plan, in annual budget policy statements, and in testimony before the Capital Budgeting and Planning Commission, which recommends projects to the governor and the Legislature for inclusion in the annual budget. Only rarely in the past decade have these recommendations led to appropriations.

Capital planning is now decentralized, with primary responsibility vested in institutional governing boards.

Since 1980, direct state appropriations for capital maintenance and renewal have amounted to about \$140 million, and counties added an additional 90 million to the community colleges between 1992 and 1999. There is, however, a long history of one-time-only, debt-financed capital programs dating at least to the mid-1980s, along with the expansion of a pre-existing, so-called “Chapter 12” program for community colleges. The Chapter 12 program provides debt-financed capital funding for the 19 two-year colleges, with debt service equally supported by counties and the state. Since its inception in 1971, a total of more than \$520 million has been allocated to community colleges. And the initial \$80 million capacity had expanded by FY 2001 to \$330 million. Funds may be used for new construction or capital maintenance. The New Jersey Council of Community Colleges aggregates sector-wide needs through periodic allocation of the funds according to institutional priorities, but does not undertake comprehensive planning for the sector.

Beginning in 1993, the Legislature and the governor developed a new series of renewable debt capacity programs for the four-year colleges and universities under which new bonds can be issued as old ones are retired. These included:

- the 1993 Equipment Leasing Fund of \$100 million for scientific, technical, computer, communications, and instructional equipment, which the governor committed to renewing in her FY 2001 budget message;
- the 1994 Higher Education Facilities Trust Fund of \$220 million to finance construction, reconstruction, development, extension, and improvement projects for instructional, laboratory, communications, and research facilities;
- the 1997 Higher Education Technology Infrastructure Fund of \$50 million to be matched on a dollar-for-dollar basis by institutional funds;
- the 1999 Higher Education Capital Improvement Fund of \$500 million to public four-year colleges and universities and \$50 million to eligible independent institutions to address long-standing concerns about deferred maintenance; and
- the 2000 Dormitory Safety Trust Fund, which (in the aftermath of the Seton Hall fire) provides zero interest loans to public and private institutions to install fire suppression systems in residence halls.

During the past decade, eligible independent institutions realized a total of more than \$86 million from the first four of these programs.¹⁵

While the state has demonstrated a clear commitment to supporting capital needs through goal-oriented funding programs, state policymakers and institutional leaders generally believe a process is needed to better manage capital planning and to provide predictability if the state is to deal effectively with problems of capacity, affordability, use of debt, and the attendant requirements for technology and facilities that loom on the horizon.¹⁶

A listing of programs authorized by state government provides only part of the picture of capital funding in New Jersey. In the absence of direct state appropriations or available debt service funds, public institutions may arrange their own capital funding by pledging student fees for debt service. Through this means, the College of New Jersey (which surely has one of the most beautiful campuses of any public comprehensive college in the nation) has incurred \$200 million in debt for new facilities with an annual debt service in excess of \$11 million secured by student fees. The college has an endowment of less than \$4 million. Likewise, Rowan University has added an engineering school and doctoral programs with the assistance of a \$100 million private donation.

Incentive grant programs represent the third approach through which New Jersey funds higher education. The Commission recommends higher education initiatives and incentive programs to the governor and Legislature, and administers those that are authorized. From the perspective of a senior staff member, this Commission role is especially important because it symbolizes how statewide leadership can occur in a deregulated system. Not surprisingly, institutions resist funding by grants, arguing that

New Jersey is a state where higher education is underfunded. While the Commission supports getting institutions the operating dollars they desire, its representatives also argue that the state needs to preserve the capacity to intervene in selected ways to address gaps in service the institutions might overlook if left to their own devices.

As was the case with debt-financed capital funding, the incentive grant strategies of the last decade trace their conceptual origins to the Kean administration, during which similar awards encouraged state colleges and universities to diversify missions and helped Rutgers strengthen its presence as a major research university.

After a slow start following restructuring, the state has given increasing emphasis to incentive grants. Some examples include:

- 1997 incentive grants to improve graduation and transfer rates for minority or low-income students (10 institutions received a total of \$1 million);
- 2000 high-tech workforce excellence grants to develop nationally recognized programs of technology excellence and to give local businesses the workforce they need (seven colleges and universities received \$14.3 million); and
- 2001 grants in the amount of \$10 million to improve university research in biomedical and other high-tech areas (grants went to three public and three private universities with 80% of the funds going to public institutions).

Both the workforce excellence and university research grants are part of a longer-term, \$165 million initiative by the governor titled, “New Jersey Jobs for a New Economy.” A proposal pending at the time of our study would allow the Commission to allocate \$10 million in the 2002 budget for a specialized teacher preparation and development initiative. The planning for this initiative created the previously described confrontation between the Commission and seven presidents of the state colleges and universities.

At least one false start suggests the caution that has accompanied the state’s decision to place increased emphasis on a strategy not favored by institutional spokespersons. In 1999, the Commission awarded 13 planning grants to 12 institutions in eight eligible cities to develop proposals for implementation grants for urban revitalization. The implementation phase of this project was not funded. The Commission has also used the special grant process to acquire the Maryland computerized transfer and articulation system (ARTSYS) and to contract with a community college for statewide implementation. The system allows students to determine which courses will transfer for credit and enables colleges to review transcripts electronically.

Experiences gained in the sensitive process of learning how to administer incentive grants seem to have carryover value.

Experiences gained in the sensitive process of learning how to administer incentive grants seem to have carryover value. A representative of the Department of Education had high praise for the improved cooperation that characterizes the

development of joint proposals between his department and higher education. Exhibit A in support of this assessment was the 1999 U.S. Department of Education GEAR UP award of \$10 million for the Commission to recruit and serve students from 10 middle and 7 high schools in the cities of Camden, Jersey City, Newark, and Trenton. The proposal built on existing state-funded College-Bound programs.

State student assistance represents the final stream of state resources for higher education. Unlike other state appropriations, the majority of student aid funding goes to independent institutions because of the higher tuitions they charge. However, removing restrictions on the authority of public institutional boards to increase tuition has allowed them to compete for a larger share of student aid funding.

New Jersey initiated its first comprehensive merit-based scholarship program in 1959 and subsequently added Educational Incentive Grants and Tuition Aid Grants to assist students attending higher-cost institutions. The Educational Opportunity Fund was later added as well as two additional programs focused on students in community colleges and at other public institutions. Until 1994, a division within the Department of Higher Education administered most student aid programs. In 1999, legislation growing out of the restructuring process transformed the Office of Student Assistance into the Higher Education Student Assistance Authority (HESAA), a single, fully-integrated governance and administrative structure with responsibilities for coordinating programs, advancing policies, leveraging state and federal resources, and providing direct services to students. Current state award programs are divided into three distinct areas: need, disadvantage, and academics. Programs include:

- Tuition Aid Grants (TAG) awarded to students on the basis of demonstrated financial need,
- Educational Opportunity Fund Grants awarded to students with exceptional need and educationally disadvantaged backgrounds, and
- Garden State Scholarships awarded to students on the basis of academic merit.

HESAA administers a number of smaller programs as well, the most important of which is the Outstanding Scholar Recruitment Program, designed to encourage high-achieving high school graduates in New Jersey to attend college within the state.¹⁷

Student aid funds now approach 20% of the total New Jersey appropriation for higher education. The most important program, TAG, can provide eligible students up to 100% of the cost of tuition at public institutions and 50% of the average tuition cost at independent institutions. For 2000–01, the maximum award in the independent sector was \$7,700, and the most needy students going to public institutions received full tuition. For several years, the Commission and the Presidents' Council have included language in their budget statements supporting tuition aid grants for part-time students, provided that they are funded by a line in the budget separate from the one that funds full-time awards. Currently, there is a bill pending in the Legislature to authorize such a program.

Everyone we interviewed was highly enthusiastic about student assistance and the work of the restructured HESAA. One legislator, who held a generally negative view of the 1994 act, nevertheless described the financial aid system as the “greatest success of restructuring.” He added, “We have the best financial aid program in the country. It improves accessibility.” The president of an independent university told us, “New Jersey does a great job of public aid for college students, and institutions have worked hard to keep that coming along. This may not have happened without restructuring.” And an administrator in a sector organization struck a similar note: “New Jersey has one of the best student financing systems in the country. It is not that far behind the Cal grants, about which there was so much hullabaloo recently. The governor’s office of policy and planning has a lot to say about what happens at HESAA. Financial aid has been a real shining light of restructuring. The HESAA board has been very effective in advocacy.”

“In the past, there were years when language in the budget restricted the amount of increase in tuition that could be offset by financial aid,” said a staff person in the governor’s office. “The legislation also provided that institutions would have to hold students harmless. This approach is no longer in use.”

Outcomes for New Jersey

Preparation

Preparation is defined in *Measuring Up 2000* to include high school completion, K–12 course taking, and K–12 student achievement. New Jersey was awarded the grade of A in this category largely upon the strength of the percentage of its students earning a high school credential, where it was identified as one of the seven best-performing states. As *Measuring Up 2000* notes, New Jersey does not participate in the national surveys used to assess K–12 course taking. The state ranked 16th in the number of scores in the top 20% on the SAT/ACT, and 7th on scores that were 3 or higher on an advanced placement subject test. For the overall category, New Jersey tied for 3rd place.

The *Five-Year Assessment of Higher Education Restructuring* (1999) reports some institutional data that vary by sector.¹⁸ For community colleges, the report notes that institutional policies differ with regard to who needs to be tested, when, with what instruments, and using what cut scores for placement. While data are therefore not comparable across institutions, it is still possible to report the percentages of students that institutions believe in need of remediation in reading, writing, computation, or algebra. For 1998 the range of students requiring remediation in at least one of these areas ranged from 43% to 94%. The mean percentage needing at least some remediation for all 19 institutions was 67. These figures take on added significance when one considers that in 1999 almost half of all entering

New Jersey was awarded the grade of A in this category.

full-time, first-time, African-American or Hispanic freshman in New Jersey enrolled in a community college.¹⁹

Fall 1998 mean SAT scores for first-time freshmen in the public research universities and state colleges and universities ranged from a low of 877 to a high of 1205. The mean SAT for the 10 schools was 1048. Significantly, mean scores at the College of New Jersey (formerly Trenton State) were the highest in the state at 1205, exceeding by more than 60 points the scores reported for Rutgers and NJIT.

The general picture of students going on to public four-year colleges and universities in New Jersey seems to confirm the A grade for preparation awarded by *Measuring Up 2000*. At the same time, the proportion of students needing remediation in the community colleges, as well as the concentration of African-Americans and Hispanics within these institutions, suggest potential problems that are more fully revealed in the discussions of participation and completion that follow.

Participation and Choice

Measuring Up 2000 based its score for participation on the high-school-to-college going rate (40% of category score), the young adult enrollment rate (20% of the category score), and the proportion of working age adults enrolled (40% of category score). Among the fifty states, New Jersey ranked 3rd on the first measure, 6th on the second, and 30th on the third. The weighted index of these scores placed New Jersey 11th, good enough for a grade of B+.

State data supports the National Center's assessment of low participation by working age adults. Between 1994 and 1999, full-time undergraduate enrollment increased steadily. Part-time enrollment declined sharply at community colleges as well as in all four-year sectors, causing an overall decline in enrollment, which reached its low point in 1997. During this same period, the proportions of undergraduates who were black, Hispanic, or Asian-American increased marginally in the public sectors, while the white share fell from 71% to 65%.

Many state leaders identified system capacity as their most significant higher education concern. The *Fifth Annual Systemwide Accountability Report* points out that increasing enrollments of full-time students suggest the need to increase capacity in targeted areas to meet specific needs.²⁰ A university president described the absence of state planning for additional capacity in light of New Jersey's estimated 25% growth in high school graduates as a "dangerous game," adding, "The policy is to outsource higher education, and the current system maintains the *status quo* by decoupling changes in enrollment from changes in funding. There is no additional capacity except at community colleges."

Fueling capacity concerns is the rate of student out-migration, highest in the nation. Relatively few students from other states attend New Jersey public institutions,

partly because of their selectivity. Over 90% of the students attending all public sector institutions come from within the state.

To the participation category in *Measuring Up 2000*, we have added a choice factor defined as the variety of programs of reasonable quality available to students and the ease with which students of all ages can access them. Statistics from the Commission on Higher Education describe the significant number of programs added during the past five years. Between 1995 and 2000, institutions requiring Presidents' Council approval as a result of the 1994 Higher Education Restructuring Act added 386 new programs.²¹ During the same period, 160 programs were discontinued. Net program additions by sector were: community colleges, 58; state colleges/universities, 44; public research universities, 72; proprietary, 12. Of the net additions, 79 were at the level of the associate's degree, 60 at the baccalaureate, 68 at the master's or post-master's, and 18 at the doctorate. The seven "charter" institutions added 100 more programs than they discontinued during the same period. All but one of the new programs for the charter group were at the baccalaureate level or higher.

New programs provide only part of the picture, however. A community college representative suggested that choice has increased since 1994 as a result of greater flexibility within the system to develop programs and to have them approved in a timely fashion. The representative for a proprietary institution said, "Restructuring allowed us to move on offering baccalaureate programs. It has eased the approval process for institutions who are trying to meet market demand." He added, "Competition forces a higher level of programs. The ultimate beneficiaries are students. In the old system, you could have existed without cutting-edge programs. Today you cannot."

A community college president described how, confronted by a high and growing demand for baccalaureate degrees, he collaborated with eight senior institutions to form a "communiversity," where students may make the transition to classes leading to the baccalaureate offered by the participating four-year institutions without leaving the site. And a staff member from the Commission on Higher Education summarized the new choices available to students: "Many tiny programs are gone and a lot of new and more viable programs have been added. When the public checks institutional programs now, they are more likely to find an actual program where one is listed."

Choice has increased since 1994 as a result of greater flexibility within the system to develop programs and to have them approved in a timely fashion.

A senior administrator at Rowan University noted the development of engineering and doctoral programs at his university, pointing out that before these programs were added, South Jersey, with 30% of the state's population, lacked both options. Both Rowan and the College of New Jersey (CNJ) have chosen to emphasize the residential experience for undergraduates as well as greater selectivity in the admissions process. At the College of New Jersey, a senior administrator talked about the institution's focus on

undergraduate education, pointing with particular pride to offerings in teacher education, pre-medicine in biology and chemistry, an intensive internship with the pharmaceutical industry, and new programs in the business school in marketing and pharmaceuticals. Legislators frequently singled out the program decisions of these two institutions as examples of “excellence.” One recommends CNJ to his constituents by arguing, “There should be a state institution of this caliber in New Jersey. It’s a terrific bargain for very strong students who want to remain in the state but who cannot afford private higher education.”

Such progress is not without a price. Institutions like Rowan and CNJ, praised for increasing SAT scores and for higher GPAs among entering students, have accomplished these goals by focusing on full-time residential undergraduates and accepting a smaller proportion of applicants from growing admission pools. While concerned about the adverse impact on access, institutional representatives believe their actions to be entirely consistent with the institutions they saw as their peers. When asked about minority participation, administrators noted that proportions had not declined, results they considered satisfactory, especially in light of a perceived lack of state priority on achieving more diversity in enrollments.

Not everyone viewed the increases in student choice in the same light. An administrator at the state’s largest public research university suggested that the result of all of the activity aimed at creating new programs was to drive up the cost of higher education, to dilute the high-quality programs as many more programs are created, and to create a more homogeneous higher education environment as institutions strive to match program offerings to remain competitive. He also suggested that deregulation had led to the proliferation of proprietary institutions as the availability of student aid dollars at federal and local levels supported their ability to generate profits.

Affordability

Measuring Up 2000 gave New Jersey a B for affordability based on: (1) family ability to pay at community colleges, at public four-year colleges and universities, and at private four-year colleges and universities; (2) strategies for affordability, including the amount of state grant aid targeted to low income families and the share of income needed by poorest families to pay tuition at the state’s lowest-priced colleges; and (3) student reliance on loans. The logic behind New Jersey’s grade defies easy understanding. New Jersey outperforms the benchmark state, California, on every one of these measures except the percentage of family income required by the poorest families to pay tuition at lowest priced colleges. Even with this bias in the grading process, New Jersey emerges for the category in a three-way tie for tenth among the most affordable states.

State reports amplify the picture provided by *Measuring Up 2000*.²² Between 1994–95 and 1999–2000, tuition and fees for public senior colleges and universities

increased by 49%. By contrast, increases for community colleges and public mission independent colleges and universities increased 25% and 29% respectively. While tuition and fees at public institutions continued to exceed the national average, the gap for community colleges (\$90 in 1999) had been reduced while the gap for public senior institutions had widened (\$1,100 for state colleges and universities and \$1,650 for research universities in 1999).

New Jersey makes an unusual commitment to student assistance. In every sector, a higher percentage of full-time undergraduates receive need-based aid and the average grant is significantly higher than in the nation as a whole. In 1999, New Jersey ranked second in the U.S. both in terms of the full-time students receiving state aid and the average state grant. The loan amounts are about the same as national averages for community colleges and the state college and university sector. Loan amounts are higher in public research universities and lower in the independent sector.

New Jersey makes an unusual commitment to student assistance.

From our interview notes it is clear that preserving affordability is one of New Jersey's top priorities. The two principal strategies supporting this priority are Tuition Aid Grants (TAG) and Educational Opportunity Fund (EOF) programs. Both have benefited from increased legislative appropriations during the past five years. In addition, most public and private institutions assist students through tuition discounting and scholarships. The greatest threats to affordability in New Jersey involve the ineligibility of part-time students for state aid, the tuition and fee increases among public senior institutions stimulated by declining state operating support, and the "squeezing out" of middle income families in the high cost/high aid environment.

Completion

Measuring Up 2000 based its grade for completion on first-year community college students returning for a second year, freshmen at four-year colleges and universities returning for their second year, the proportion of first-time, full-time students completing a bachelor's degree within five years, and the certificate degrees and diplomas awarded at all colleges and universities in the state per 100 undergraduate students. On this category, New Jersey received its lowest grade, a B-. On the first three measures the state performed quite well, ranking 11th, tied for 1st, and tied for 11th, respectively. However, the state ranked 6th from the bottom for the all-degrees category—which *Measuring Up 2000* calculated as 50% of the total grade. To the National Center's measures, we have added transfers from community colleges.

According to state accountability reports, graduation rates at New Jersey public four-year colleges and universities significantly exceed the national average and continue to improve. This is true as well for third semester retention rates at public four-year

institutions. Graduation rates at community colleges and non-doctoral independent colleges lag their national peers. For community colleges, third semester retention rates are slightly better than the national average.²³

Over the past five years, four-year transfer rates for New Jersey community colleges have gone from being virtually even with the national average to slightly above. Historically, New Jersey has not done a particularly effective job in promoting articulation and transfer. Some of those we interviewed suggested the undistinguished three-year graduation rate for community colleges could be traced in part to the lack of incentives for students to graduate before transferring. Students who do transfer perform nearly as well as native students from comparable cohorts. Two-thirds of all transfer students graduate within six years.

The 1996 systemwide accountability report included a statement suggesting “an inverse relationship between access and graduation rates, including time to completion... [F]actors that threaten access to higher education, also threaten academic success [so that] maximizing access increases on average the cost to educate students, and it negatively affects graduation rates and the average time it takes to complete a degree. Striking the appropriate balance between access and productivity is a challenge for the future.”²⁴ If this assessment is correct, New Jersey is struggling to achieve that balance, especially at the community college level, having somewhat greater success with participation than with completion. New Jersey’s grade for completion would be higher if it were based exclusively on the outcomes of its four-year public sector. At the same time, continuing articulation and transfer issues suggest that four-year institutions may be doing less than they might to assist community colleges in improving their outcomes.

Benefits

The National Center defined the benefits category to include the percentage of adults with a bachelor’s degree or higher, the amount of increased personal income from education, the number of eligible residents voting in national elections in 1996 and 1998, the percentage declaring charitable gifts of those who itemized on their federal tax return, and three measures of adult literacy: quantitative literacy, prose literacy, and document literacy. New Jersey received an A in this category, tying for 4th place on the category index. The state ranked 5th on the proportion with bachelor’s degrees, 2nd on increased income from education, 40th in proportion voting, and 2nd on charitable contributions. The literacy scores are somewhat problematic because of the date of the survey (1992) and the number of states with missing scores (22). Among states with scores New Jersey ranked 10th on quantitative literacy, 11th on prose literacy and 6th on document literacy. These last three scores contributed only 20% to the category grade.

To the National Center’s assessment of benefits we add comments from those we interviewed. New Jersey has more high-tech companies than Silicon Valley. It is the

center of the pharmaceutical industry. A number of those we interviewed attributed these and similar economic developments to the partnerships and effective working relationships among higher education institutions, the private sector and state government. Rutgers has helped to lead an increase in New Jersey's research capacity; the state now ranks among the top five to ten states. Rowan University received a large private gift to help start an engineering program in South Jersey. Increased emphasis on technological and distance education at such institutions as Thomas Edison has expanded opportunity for all students.

The *Fifth Annual Systemwide Accountability Report* describes a workforce with an increasingly large share of women and minorities who remain significantly underrepresented among those who complete high-tech degrees.²⁵ NJIT is a participant in the Philadelphia-based Alliance for Minority Participation, which has as its goal the doubling of minority participants in technological fields. CNJ places service learning at the core of its freshman experience. Both public and private college presidents reported a significant increase in student volunteerism. And colleges and universities report more interaction with their local communities on a variety of programs, including student preparation and teacher improvement. Several public colleges located in inner cities participate in a state program designed to help faculty obtain affordable housing nearby. For example, Rowan University provides stipends to encourage faculty to live near the campus.

Economic development has become a key factor in state funding decisions, and institutions have responded positively. Opportunities for system collaboration include articulated programs, state-sponsored virtual universities, and international and interstate consortia. Such collaborations produce competitive advantage, moderate costs and increased opportunities.

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Conclusion

As we began our interviews in New Jersey, we were told frequently that legislators were not interested in higher education. The small number of bills introduced with higher education as their focus was cited as support for this assertion. We wondered how a state could achieve good results if elected representatives had little or no interest in higher education, so we included a question about this puzzle when we interviewed legislators. They told us a high level of satisfaction with performance was a better explanation than low interest. A senator summarized his colleagues' viewpoints: "Given the current satisfactory performance of higher education, the last thing that is needed is [the senator's name] on higher education theory."

New Jersey legislators have every reason to be pleased with their higher education system. According to *Measuring Up 2000*, New Jersey is tied with Illinois as the top performing state in the nation, overall. Further, most of the trend lines in the assessment are favorable, and policymakers remain open to initiatives aimed at eliminating threats to acceptable performance. The state has identified low numbers of part-time students as a barrier to improved participation. Currently pending in the Legislature is a bill that would extend state tuition aid grants to part-time students. Work is also in progress to improve community college transfer and articulation, a step that might help with completion, where New Jersey received its lowest grade of B-. What policy decisions have contributed to the current performance of New Jersey's higher education system? We turn to this question in the final section of this report.

Over the past 45 years, New Jersey has demonstrated both the willingness and the capacity to modify its higher education system to change performance in the pursuit of state priorities. There is no evidence that this process of continuing adjustment ended with the 1994 restructuring. A representative from the independent sector advised us that a governor created the new system and that any new governor would have the right to revise it. A vice president of an independent research university elaborated: "If the system was working less well, there would be some chance a new governor might change it. A lot of people thought there would be dramatic pruning, followed by grafting on pieces of the old plan as the system proved inadequate. This is now unlikely because the system is working."

Nevertheless, a senior legislator introduced a bill in the most recent session to create a study panel to look at the results of the changes. The intent, he said, "is to look at where we are before we do some fine tuning. We need to see what's working and make it better." Perhaps his comment better than any other summarizes the contribution of the legal structure in New Jersey to higher education performance. The state has the capacity to change the system and is not reluctant to use that capacity when there is an opportunity to improve performance.

Changes in the legal structure during the past decade have strengthened the influence of the governor by weakening elements of the interface intended to support regulatory actions and by diffusing elements of the former Department of Higher Education into other departments of state government. These changes were consistent with the intentions of a governor to reduce the size of state government and to rely more on market influences as a way of limiting public expenditures for higher education. The outcomes include more competition across sectors, greater choice of programs, and increased prices for consumers. These outcomes have been offset in considerable measure by increases in student financial aid, by increases in state appropriations to community colleges (provided that they limit tuition increases), and by the creation of the Presidents' Council, which increases collaboration across sectors.

There are clear winners and losers among the institutional sectors, and there are changes in the locus of influence as well as in the relative use of regulation and market forces. But it does not appear that the state has given up any of its capacity to manage higher education. Nor does it appear that services have been significantly altered, although it seems likely that students ineligible for financial assistance are now paying a greater share of the costs of their higher education. At the same time, federal legislation has focused increasingly on the needs of the middle-income student.

In effect, New Jersey swapped a system that promised security for one that stresses managed competition. One private college president contrasted the new arrangements—“a system of voluntary good will that may deteriorate over budget issues”—with the old system that “was inefficient but consistent for all—nothing moved for anyone.”

New Jersey has moderated the potential problems of a market approach by subsidizing poor students, by “leveling the playing field” on which public and independent institutions compete, by establishing formal structures that compel “voluntary collaboration” among all sectors and institutions, and by not hesitating to intervene in the market when it appears that valued state objectives may be compromised. For example, the state increased operating support to community colleges in exchange for restraint in raising tuition, and invested in the infrastructure for technology for all sectors including independent institutions. These selective interventions continue a tradition that can be traced at least to the incentive grants focused on promoting greater institutional diversity and excellence during the Kean administration.

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This case study of New Jersey system design suggests that a state can achieve or maintain high performance using a market-oriented approach, provided that it has good information about outcomes and remains vigilant to threatening trends. Necessary to the market approach as well is the capacity to make significant changes in management strategies when necessitated by changing times.

Shifting from a regulatory to a predominantly market-driven system has placed heavy demands on communication. Consumers need information to make better choices. The state needs information to administer and monitor a massive program of student assistance. Elected leaders need information to assure that the system is producing reasonable outcomes in the absence of state regulation. And employers and potential donors need information to assure that their contributions are making a difference in areas they value.

In retrospect, New Jersey was well positioned for the transition in large part due to the excellent information systems already in place before the 1994 restructuring. It was not possible to decide from available evidence whether New Jersey joined the accountability “bandwagon” simply because other states were moving in that direction, as

some alleged, or consciously developed accountability requirements along with performance funding as an undeclared part of the restructuring plan. Clearly, the current system requires performance monitoring to reassure those on both sides of the political spectrum who continue to be discomforted by the absence of regulations or an agency with the clout to enforce them.

Intention with respect to collaboration is much clearer. Those who designed the restructured system were well aware that efficiency and effectiveness among institutions freed from regulatory oversight depended upon a level of cooperative activity previously unknown in New Jersey or, for that matter, in most other states not operating under a unified governing board. The interface between state and institutions was deliberately designed to ensure that none of the three key entities (trustees, the Commission, and the Presidents' Council) could get where they wanted on the basis of unilateral activity. As institutions have learned to collaborate, presidents have discovered unexpected benefits. The jury is still out, however, on whether the restructured system can deal with such complex issues as community college transfer solely on the basis of information, goodwill, and fairly weak accountability arrangements.

Incentive grants and performance funding are the two major fiscal strategies the state uses to influence institutional outcomes in its current market-driven environment. The larger incentive grants the Commission has been asked to administer were authorized only after enough time elapsed for elected representatives and institutional participants to gain experience with and confidence in the complex and interdependent arrangements created by restructuring. Institutions, of course, would prefer to have the state provide all operating funds in the form of direct appropriations, but increasingly state political leaders have turned to incentive grants to plug the gaps left by New Jersey's market driven approach to higher education. And institutions are cooperating, especially as confidence builds in the integrity and competence of Commission staff.

Generous funding for state student aid has helped to offset the impact of tuition increases produced in the public sector by constrained state support and the transition to a market environment. The creation of an independent HESAA has helped to ensure a level playing field for all providers. Institutions that have been especially attractive to students have been able to use tuition increases to fund program and plant expansions. As tuition and fees have become a more important part of the revenue mix for all institutions, incentives to respond to customer need have been strengthened. Finally, state government, while disapproving of the magnitude of the tuition increases imposed by some of the state colleges and universities, has refrained from interfering with the authority of institutional boards to set levels, thus providing opportunity for market influences to function.

State colleges and universities were the most affected by the 1994 restructuring. While restructuring had little direct impact on Rutgers University or the independents, the environment changed as a result of the greater freedom of all institutions to start new

programs. There was no Board of Higher Education to limit competition. Even those institutions most removed from regulatory influence had to pay at least some attention to the competition when the market became an important determinant of success.

Arguably, the most important policy decisions that have shaped the higher education outcomes reported by *Measuring Up 2000* for New Jersey and confirmed by internal assessments can be traced at least to 1965 and the decision to create a rational and comprehensive response to the projected needs of state residents. Also important was the early commitment to a strong, need-based program for student assistance and the decision to incorporate the independent sector both through student aid and direct funding. The successful development of a complex system involving many disparate pieces almost certainly benefited from the strong central coordination and management provided by a Board of Higher Education and a chancellor. By 1985, policy leaders had concluded that the development of the state colleges and universities was suffering because of excessive regulation. Decoupling enrollments from tuition, encouraging diversification of missions, and strengthening the powers of institutional boards set in motion a movement toward greater institutional autonomy that culminated in the 1994 decision that it was time for the state to substitute market forces for many, if not most, regulations. To their credit, elected representatives did not go about the transition in a half-hearted fashion.

As a result, the New Jersey case provides useful and interesting insights into the strengths and weaknesses of turning to a “managed market approach.” On balance, it seems fair to say that a market approach—given mature institutions, good information, and a willingness to intervene when outcomes appear headed in the wrong direction—can achieve or maintain high performance for a well-designed higher education system. There is little evidence to suggest that the comfort levels of those who manage a system and the capacity of the system to produce desired results for intended clients are necessarily closely related. Further, as participants learn how to make a system work, they gain the necessary experience to emphasize strengths and compensate for weaknesses. Most surprisingly, many of the strongest critics of the 1994 act (including representatives of employee unions) are now either in favor of the new arrangements or at least uncertain about the desirability of returning to the former system.

To their credit, elected representatives did not go about the transition in a half-hearted fashion.

Notes

- ¹ Since inception of the project, ten younger scholars have contributed to the research.
- ² National Center for Public Policy and Higher Education, *Measuring Up 2000: The State-by-State Report Card for Higher Education* (San Jose: National Center for Public Policy and Higher Education, 2000).
- ³ The Citizens' Committee for Higher Education in New Jersey, *A Call To Action* (Princeton: The Citizens' Committee for Higher Education in New Jersey, 1966).
- ⁴ New Jersey Commission on Higher Education and the New Jersey Presidents' Council, *The Five-Year Assessment of Higher Education Restructuring* (Trenton, NJ: 1999).
- ⁵ The Citizens' Committee, *A Call*.
- ⁶ Higher Education Student Assistance Authority (HESAA), *Policy Manual* (Trenton, NJ: undated).
- ⁷ New Jersey Commission on Higher Education, *Focusing on Higher Education Outcomes: The Third Annual Systemwide Accountability Report* (Trenton, NJ: 1998).
- ⁸ New Jersey Commission on Higher Education and the New Jersey Presidents' Council, *The Restructuring of New Jersey Higher Education: The Interim Report to the Governor and the New Jersey Legislature* (Trenton, NJ: 1996).
- ⁹ In addition to the non-partisan Office of Legislative Services, the New Jersey Legislature provides for the appointment of partisan staff selected by Republican and Democratic leaders in the House and Senate to provide services that reflect the interests and priorities of each party.
- ¹⁰ A.C. Koeppe, "Higher Education—K–12 Collaboration: Critical to School Reform," editorial in New Jersey Commission on Higher Education web site (<http://www.state.nj.us/highereducation/oped5.htm>).
- ¹¹ Association of Independent Colleges and Universities in New Jersey, *The Report of the Independent Colleges and Universities in New Jersey to the Governor and State Legislature* (Summit, NJ: 2000).
- ¹² New Jersey Commission on Higher Education, *Fiscal Year 2002 Budget Policy Statement* (Trenton, NJ: 2000).
- ¹³ New Jersey Commission on Higher Education, *Budget Policy Statement For FY 1997* (Trenton, NJ: 1995).
- ¹⁴ Peter Schmidt, "Restructuring Puts New Jersey Colleges in the Thick of Budget Battle," *The Chronicle of Higher Education* 43, no. 37.
- ¹⁵ Association of Independent Colleges and Universities in New Jersey, *The Report of the Independent Colleges and Universities in New Jersey to the Governor and State Legislature* (Summit, NJ: 2000).
- ¹⁶ Most of this section is drawn from the report of the Commission and Presidents' Council Joint Task Force on Higher Education Facilities Planning, *Higher Education Capital Planning for New Jersey's Future* (Trenton, NJ: Dec. 14, 2001).
- ¹⁷ HESAA, *HESAA Grants Manual* (Trenton, NJ: 2000).
- ¹⁸ New Jersey Commission on Higher Education and the New Jersey Presidents' Council, *The Five-Year Assessment* (Trenton, NJ: July 1999).
- ¹⁹ New Jersey Commission on Higher Education, *Status of Minorities in New Jersey Higher Education* (Trenton, NJ: 1999).
- ²⁰ New Jersey Commission on Higher Education, *Fifth Annual Systemwide Accountability Report* (Trenton, NJ: 2001).
- ²¹ Centenary College, Drew University, Princeton Theological Seminary, Princeton University, St. Peter's College, Seton Hall University, and Stevens Institute of Technology were founded prior to 1887 and are considered "charter" institutions exempt from the new program review process of Presidents' Council.
- ²² New Jersey Commission on Higher Education, *Accountability in Higher Education: The Fourth Annual Systemwide Report*, undergraduate tuition, 1990–91 through 2000–01 (Trenton, NJ: Jan. 2000).
- ²³ New Jersey Commission on Higher Education, *Accountability in Higher Education: The Fourth Annual Systemwide Report*.
- ²⁴ New Jersey Commission on Higher Education, *New Jersey's Renewable Resource: A Systemwide Accountability Report* (Trenton, NJ: 1996).
- ²⁵ New Jersey Commission on Higher Education, *Fifth Annual Systemwide Accountability Report*.