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EDUCATION

# The New Era of Public-Private Partnership in Higher Education

**By Dr. Michelle Marks and James Sparkman**

These are complex times for institutions of higher education. Perhaps with the exception of the handful of universities that are buffered by endowments over $1 billion, most US colleges and universities face intense financial pressures and fundamental challenges to their business models. Simultaneously, those same institutions are being asked to do more — to improve student outcomes, provide more and better options for an expanding student base (especially the adult learner), and to compete in an increasingly online and global marketplace.

Given this context, today's universities are more open to partnering with the private sector, in ways that may have been unimaginable just a decade ago.

Colleges and universities have long collaborated with the private sector to execute select non-core administrative functions. In particular, services that a private company might perform better, faster, or less expensively have lent themselves to outsourcing. Typical examples include security, custodial and laundry services, bookstore management, and food services (the latter is currently outsourced at more than three-quarters of all US colleges and universities).

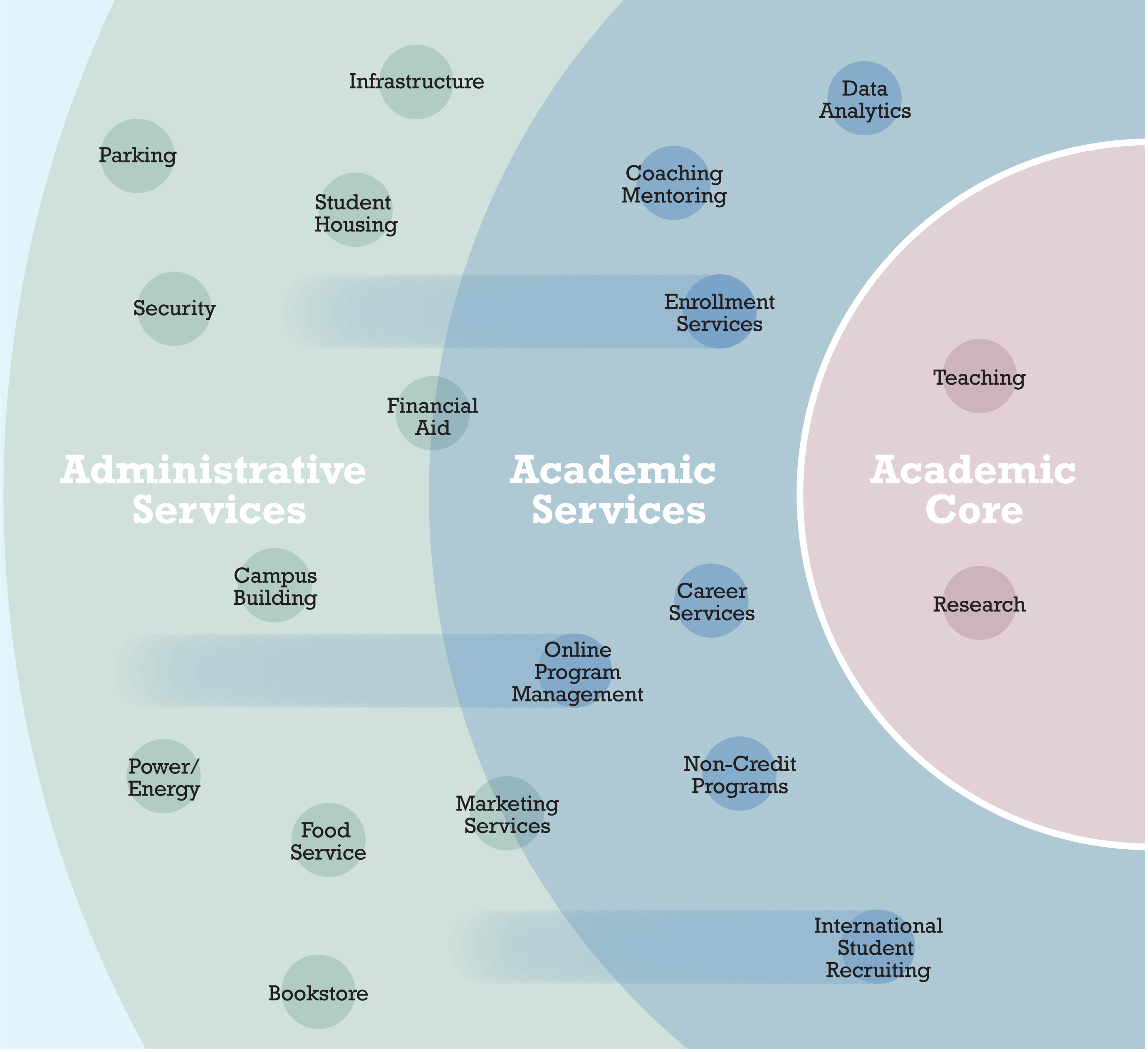
Private companies have also provided significant liquidity to higher education, as evidenced in examples such as brand licensing arrangements, television broadcast rights, and acquisitions of intellectual property. Recent infrastructure concession sales have brought in huge capital to cash-starved state schools. Consider Ohio State University's recent experience raising some $1.6 billion in capital through long-term arrangements for parking garage management ($483M in 2012) and energy/power management ($1.165B in 2017). Or New York University's return of over $1 billion on the sale of its patent of Remicade, a rheumatoid arthritis drug developed through academic research.

In certain functional areas, notably real estate development, true partnerships have evolved in which private capital has been brought to bear in the development of joint campus initiatives. In these public-private partnerships (P3s), colleges and universities collaborate with private equity capital firms, real estate developers, and builders to construct new campus infrastructure — often student residences but increasingly non-revenue-generating real estate assets. An entire class of dedicated real estate investment trusts (REITs) has emerged over the past two decades just to support universities' student housing needs.

More recently, this trend in public-private partnerships has expanded from the administrative side of the university to also support the academic side. Like the real estate partnerships that have preceded them, academic partnerships involve a private sector partner providing a bundle of services, capital, and expertise, sharing both risks and rewards over a long-term contract (sometimes more than 10 years). Instead of CFOs or auxiliary officers leading these complex initiatives, they are managed by provosts, deans, and other academic leaders. And instead of building physical assets, such partnerships are developing online programs, recruiting international students, and supporting student success.

## Evolution of partnerships in higher education

New services in support of the academic core



## Administrative vs. academic partnerships

| | Traditional P3s | Academic P3s |
|---|---|---|
| Growth Areas | Student housing, infrastructure | Online services, international pathways, non-credit programs |
| University offices leading efforts | CFO, Auxiliary | Provost, Dean |
| **Leading Reasons for Partnerships** | | |
| Budget constraints | ● | ● |
| Fastest path to market | ● | ● |
| Higher quality of service | ● | ● |
| **Impacts** | | |
| Students | ● | ● |
| Faculty | ● | ● |
| Brand | ● | ● |
| **Partnership Details** | | |
| Long-term arrangements | ● | ● |
| Complex contracts | ● | ● |
| School ultimately responsible | ● | ● |
| **Risks** | | |
| Has credit/financial implications | ● | ● |
| Has regulatory/accreditation implications | | ● |
| Requires faculty input | | ● |
| Integral to student academic experience | | ● |

This new era of academic partnerships in higher education brings new opportunities, but also a new set of risks. These ventures touch students and faculty directly and sit much closer to the core competencies of higher education institutions. Given the high stakes involved — financial as well as reputational — successful partnerships often pivot on a set of skills that many university leaders may need to develop. Specifically, these transactions require that academic leaders have the capacity to manage elaborate, often intricate business deals, including the ability to conduct deep due diligence on private companies, supervise competitive bidding processes, and lead complex negotiations. University administrators also need strong project management skills in order to oversee these relationships, protect the interests of their institution, and hold partners accountable.

While partnerships are occurring at hundreds of campuses nationally, many institutions work in a relative vacuum as they explore and pursue these opportunities. Never has it been so critical to gather information and find ways to network with peers. Our conference — *P3•EDU: Innovation & Public-Private Partnership in Higher Education* — and the associated P3•EDU 100 Directory were developed to address this need.

As university relationships with private companies evolve and potentially expand, success in large measure depends on an institution's ability to manage the partnership effectively. If done correctly, these partnerships — whether they are administrative or academic in nature — may be one path to a more sustainable future.

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