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*From the Los Angeles Times*

## Less to bank on at state universities

**Educators fear a 2004 funding deal has schools sliding toward mediocrity**

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October 7, 2007

SANTA BARBARA — Library assistant Linda Snook isn't usually someone to stand up in front of hundreds of people and discuss her personal finances. But when the UC Board of Regents met here this summer, she pleaded for help.

Snook told the regents that she makes \$26,000 a year working full time at UC Santa Barbara and pays more than half of that in rent. Her supervisors have recommended her for raises, she said, but there is never enough money in the budget. She'd like to enroll in graduate school at UCSB, but, on her pay, that's a distant dream.

"I am barely making it," she told the regents. "We're not paid what the private sector would make. We desperately, desperately need help. Please."

These days, such appeals are commonplace. Students, custodians, campus police, clerical workers, faculty and administrators regularly beseech the regents to give them more money.

But soaring student fees, huge fundraising drives and controversial corporate donations have not made up for a sharp decline in the state's commitment to higher education. UC administrators and faculty fear that waning commitment is eroding the 10-campus system's reputation for excellence and will trigger a slide toward mediocrity. Already, the salaries of professors and workers lag behind comparable institutions while faculty posts remain open and more classes are taught by teaching assistants.

Administrators and faculty also worry that the University of California and the 23-campus California State University will become de facto private institutions, where most of the costs are paid by students.

Officials at UC and CSU say that each institution needs about \$1 billion more in annual funding to match their level of quality in 2001, the last time the universities were in relatively good fiscal health.

University leaders say the two public institutions are the state's engine of long-term growth and its main supplier of highly skilled workers. But the universities' importance to state policymakers is declining, at least as measured in tax dollars.

In 1970, the state spent 6.9% of its budget on the University of California. Today it spends 3.2%. In 1965, the state covered 94.4% of a UC student's education. Last year it paid 58.5%.

This year, California will spend an estimated \$3.3 billion to operate UC. It will spend three times as much -- \$9.9 billion -- to run the state's prisons.

Unlike other state-sponsored programs -- such as health, schools and community colleges -- UC and CSU have no level of state funding guaranteed by law. Will the two huge university systems, with 665,000 students, become the equivalent of private institutions?

"I worry about it every day, because we must continue to look for other sources of support," said UC President Robert C. Dynes. "And the question is, do we end up becoming a private institution to get those resources?"

In May 2004, Dynes and his CSU counterpart, Chancellor Charles Reed, traveled to Sacramento to meet privately with Gov. Arnold Schwarzenegger. The state was facing a \$14-billion shortfall and the new governor was threatening the universities with major cutbacks for the third consecutive year.

The two university chiefs struck a deal with the governor: They agreed to slash spending that year by hundreds of millions of dollars in exchange for a funding formula lasting until 2011. Titled the "Higher Education Compact," the agreement calls for modest annual increases in state funds, private fundraising to help pay for basic programs, and large student fee hikes, especially for graduate and professional students.

There was no hearing on the pact; no legislative discussion; no vote. Many UC regents were not told of the deal until it was done. Richard C. Blum, who became the regents' chairman this year, called the lack of disclosure "an error in judgment."

Reed and Dynes, who will step down by June, say the compact stopped the universities' bleeding and gave them fiscal stability. But critics say the pact has left UC and CSU chronically underfunded and locked the universities into a steady decline.

"Bob Dynes and Charlie Reed fundamentally changed the nature of higher education in California without any public debate," said Stanton Glantz, a professor of medicine at UC San Francisco who chaired a faculty committee that analyzed the agreement.

"The effect of the compact is a permanent substantial reduction in the quality of the university."

The compact itself acknowledges that the universities have "significant unmet funding needs. . . and insufficient funding of programs critical to the academic enterprise."

Among its many provisions, the compact set a little-noticed precedent by calling for the use of private fundraising to pay for core university operations. "UC will continue to seek additional private resources and maximize other fund sources available to the University to support basic programs," it says.

Long gone are the days when Californians were willing to pay taxes to build three new UC campuses in a five-year span and subsidize annual student fees of less than \$250.

"There is this myth out there that citizens can get better roads, cleaner air, get their garbage picked up twice a week, be protected by police and fire and it won't cost them anything," Reed said. "People have been singing that song for 20 years."

Reed predicts that within five years the state will be spending more on prisons than on UC, CSU and the community colleges combined.

"That will be a real tragedy in this state," he said. "It will send out the signal that California has world-class prisons and second-class universities. If we had better-prepared citizens, a better-prepared workforce, we would have less need for prisons."

When Schwarzenegger took office in November 2003, the state faced a fiscal crisis. At UC, enrollment had risen 18% even as then-Gov. Gray Davis cut its budget by 14%, breaking his own pact with the universities.

To reorganize the state's finances, Schwarzenegger recruited Donna Arduin, an advocate of privatizing government services who had been Florida budget director under Gov. Jeb Bush. As California finance director, she soon became known as Schwarzenegger's "bad cop."

Her budget plan for UC and CSU called for hundreds of millions of dollars in cuts for the third consecutive year, major student fee hikes, a reduction in enrollment and a plan to steer thousands of students to community colleges instead of the universities.

Dynes and Reed quietly began negotiating with the popular Republican governor.

At stake was California's tradition of maintaining low student fees, which have helped keep the universities accessible to the poor and promoted ethnic diversity. CSU has the lowest fees of any public university in the nation, Reed says, and 54% of its students are nonwhite.

Supporters of more privatization argue that the universities' main beneficiaries are the individual students, who greatly increase their earning power by obtaining a degree. But public education advocates argue that the universities provide a major social benefit in preparing California's workforce and developing technology that helps power the economy.

In announcing the compact on May 11, 2004, Schwarzenegger said that he, Dynes and Reed had "found a compromise that will protect the quality of our world-renowned higher-education system."

But much of Arduin's agenda for the universities survived, including more budget cuts, major student fee hikes and shifting freshmen to community colleges.

"Behind the scenes we had great cooperation," recalled Arduin, who left California after 11 months. "The universities were one of the first to the table, and they proposed a comprehensive approach. It was a very amicable agreement among all the parties."

The compact is similar to deals worked out with the previous three governors. But critics accuse Dynes and Reed of undercutting the Legislature and negotiating a bad deal.

Democratic Lt. Gov. John Garamendi, who like Schwarzenegger sits on the governing boards of both institutions, calls the pact a disaster.

"This compact is a formula for the diminution of both UC and CSU," he said. "It's a formula that

ratchets down the state's funding."

A study by UC's Academic Senate concluded that during the life of the compact, UC will never return to the spending level of 2001, before the Davis and Schwarzenegger administrations' cuts.

During previous budget cycles, state spending cuts made in bad years were at least partly restored when the economy improved. But critics say the compact has locked in the reduced funding.

At UC, the spending gap means that faculty salaries lag nearly 15% behind comparable institutions, while salaries for campus workers like library assistant Snook trail the market by at least 10%. Needed seismic retrofitting and building improvements are delayed. And fewer top graduate students are choosing to attend UC, a key indicator of a research university's decline.

UC's spending gap is now \$1.1 billion, the faculty study found, and will steadily grow for the duration of the compact despite modest increases provided by the agreement.

Similarly, Reed said, CSU faces an annual shortfall of \$800 million to \$1 billion.

"The compact permanently reduces the fraction of core funds the state provides," UCSB professor Christopher Newfield, chairman of the faculty Senate's planning and budget committee, told the regents in July as he presented the faculty findings.

Private fundraising, he said, cannot offset the loss in public funds. For UC to return to its 2001 spending level without an increase in state funds, he told the regents, would require raising the basic annual undergraduate fee from \$6,366 to at least \$15,000 in three years, with large increases thereafter.

"We're at a crossroads in public investment," Newfield said in an interview. "California had a good record in the past, but I think we have lost our memory of what we did. We're living on our past investment."

Though defenders of the compact acknowledge the budget gap, they say the universities would be in even worse shape without the pact. Their mantra: The compact sets a floor for state spending, not a ceiling.

In some years, they point out, Sacramento has given the universities more than the compact requires, including last year -- an election year -- when the governor and Legislature absorbed an expected 8% student fee hike.

"I think that the compact is a very good thing," Reed said. "What people don't have a great appreciation for is how the compact has protected UC and CSU from a stability standpoint."

This summer, when Republican legislators proposed cutting higher education below the level of the compact, Schwarzenegger weighed in on the side of the universities. The lawmakers backed off. "Thank goodness for the compact right now," Reed said.

CSU trustee Jeff Bleich agreed that the compact had kept the university from suffering larger cutbacks.

"The reason to do it is to establish some commitment from the governor for a floor," he said. "As long as you believe the governor means what he says, you can have some confidence for planning

the growth of these massive institutions."

Under the compact, the need to find new money sources is most evident in UC's professional programs, especially including its renowned law and business schools. After the compact was signed, average fees at UC's 34 professional schools soared 30% in 2004 alone.

"We wound up having to take huge cuts in law and business, and they have been reeling ever since," said Larry Hershman, a former vice president for budget at UC who helped negotiate the compact. "This was the Donna Arduin view, to make these schools self-supporting, the students paying much more and the public paying much less."

Supporters of the fee hikes say that students in law, business and medicine can afford to pay more because they will be able to command large salaries later. They argue that the burden of paying for an education should fall more heavily on students.

Dynes said that some state institutions, such as the University of Michigan and the University of Virginia, have led the way in raising tuition and luring higher-paying students from other states and countries.

"If you look at Michigan and the number of out-of-state students, you realize they have privatized," Dynes said. "It's not a criticism. They have just chosen a different path."

But critics say higher fees deter underprivileged students from applying and make it harder for newly graduated lawyers, doctors or other health professionals to enter a life of public service.

The compact calls on UC to develop multiyear plans for fee hikes at the professional schools that take into account market factors and fees at comparable institutions, including Michigan.

In September, the regents approved a three-year plan to increase fees at the professional schools by 7% to 15% a year. At UC Berkeley's business and law schools, fees will rise to more than \$40,000 a year.

Undergraduates have fared better, but have seen fees rise by 90% over the last six years.

Earlier this year, the UC regents and the CSU trustees voted to raise undergraduate fees 7% and graduate fees 10%. Some expressed frustration that they had no choice in the matter.

"Every year when fee increases come up, it's treated as a big crisis, but it's programmed into the compact," Glantz said. "Students are paying more and getting less."

Glantz, a tobacco researcher who has spent years fighting the industry, says UC's need for corporate money has contributed to its reluctance to ban tobacco industry research grants, including \$16.6 million that Philip Morris USA is giving to researchers at seven UC campuses.

"People are desperate for cash because the infrastructure of the university is coming unglued as we watch," Glantz said.

Other grants also have stirred controversy, including a \$500-million donation by oil giant BP to form a joint UC-BP research laboratory at UC Berkeley to develop biofuels. BP researchers will work alongside UC professors, and the company will have exclusive rights to some of the expected discoveries.

"The compact is driving the UC and CSU systems to seek funds from corporations at an unprecedented rate," said John Simpson, an advocate with the Foundation for Taxpayer and Consumer Rights. "What we are witnessing is the corporate privatization of what was once the nation's greatest public education system."

Educators say that maintaining competitive faculty salaries is the key to preserving the quality of the universities. But during hard times, pay raises have been the first thing to go.

The pay disparity has left UC open to raids by elite private universities. To help shore up the faculty at UC Berkeley, the William and Flora Hewlett Foundation announced in September that it would give the campus \$113 million -- the school's largest gift ever -- to endow 100 faculty chairs.

Both UC and CSU have adopted plans to raise salaries to market levels over the next four years.

"The No. 1 goal is to get the faculty more money," said Blum, the regents' chairman, who in August called for overhauling UC's administration in hopes of saving many millions of dollars.

Whether Blum can solve UC's financial problems by restructuring its operations remains to be seen.

Linda Snook, the library assistant, wasn't the only university employee to ask for help at the July meeting in Santa Barbara. Victor Vincent, a custodian at UCLA for 17 years, told the regents: "We can't even afford to send our kids to the university, and we don't understand why you don't understand that. We are suffering, and we need somebody to help us."

William Schlitz, political and communications director for the American Federation of County, State and Municipal Employees, says UC is shifting more of its costs to campus employees, including doubling healthcare fees for some. UCSB, he said, has begun charging custodians who work the midnight shift \$150 a month to park in an otherwise empty lot.

"At some point there needs to be a frank discussion: Is this the public's university or not?" Schlitz said. "It's scary. These are great institutions, but it's an uncertain future, and it's an uncertain future for the employees."

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