A PLAN

2012->

Briefly examines how CSU culture stymies planning. Then summarizes trends that the culture must acknowledge. Concludes with a revenue model.

HOW NOT TO BE PILLARS OF SALT

EFFECTS OF DENIAL

The CSU's money problem is straightforward. The state has less money. The system's organizational culture, however, compounds the problem. It cannot accept that.

This denial stops planning for the longer term.

Each year, we cycle through anxiety and uncertainty. Central administration tries to extract dollars from the state by scaring elected officials with the prospect of their constituents' children being denied access. Then when that fails, central administration intimidates the campuses with dire scenarios of reductions, furloughs, and mysterious synergies. Finally, we settle mainly on last minute fee increases.

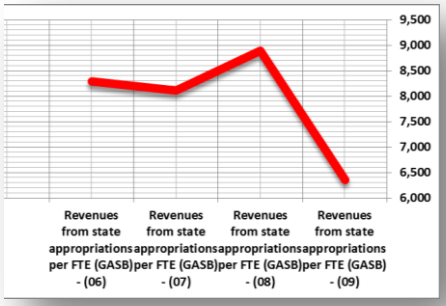
This circuit, albeit by now predictable, leaves campus administrators with enough uncertainty to justify amassing reserves. They set these funds aside from a central administration that bases its budgetary gambits on claims of entitlement and poverty. Meanwhile the reserves puff up with money that is not spent on meeting pent up demand; doing so would cross the gambits.

This state of affairs is dysfunctional. Rhetoric separates from reality. Planning gives way to feinting. The fiction of a structural deficit, as tuition replaces supposedly permanent state funding, discourages long-term commitments like hiring and giving raises.

CSU FUNDAMENTALISM

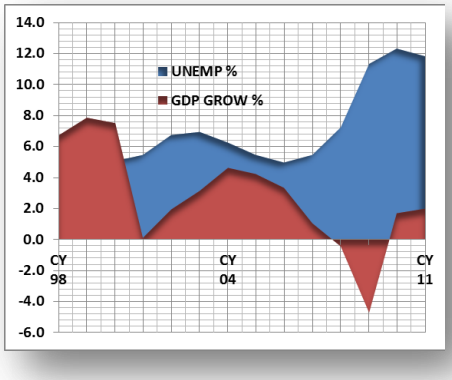
CSU culture is not deliberative about fees. We do not debate how to apply principles in changing circumstances. Rather, the culture is fideistic. We assert that the entitlement to low, if not free tuition is etched in that changeless covenant, the Master Plan.

The chancellor, a brilliant tactician who is on this issue a fundamentalist, views dissenters as apostates. Thus, presidents demur when at Golden Shores. The trustees venerate CSU as the people's university; they guard the legacy of low fees. They advocate from the vantage of either the governor, who pushes for low fees and low state dollars, or the chancellor, who presses for state support in lieu of fees. The special interests pronounce jeremiads on rising fees as the privatization of the CSU at public meetings of the board of trustees. They wrap themselves in the Master Plan. Disagree, and they dismiss you as a money-changer. Meanwhile, the governor and legislature fetishize the essence of the Master Plan, affordable access, as if that value was an immutable object. They try to preserve fees even as they withdraw state support.



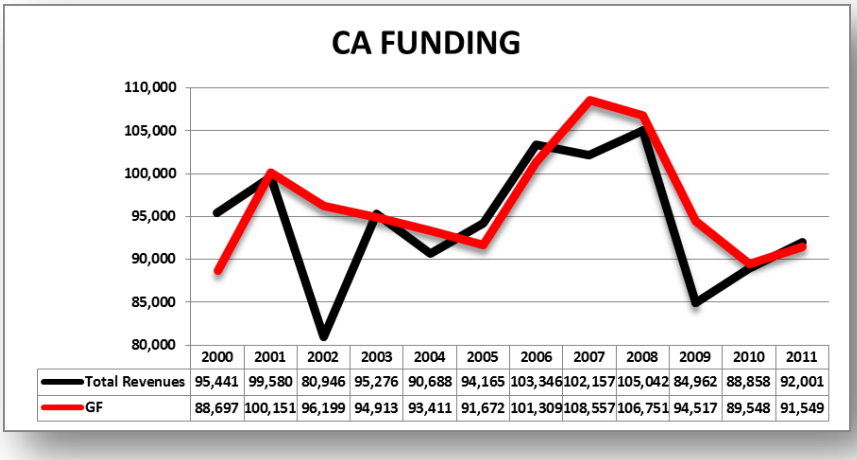
We need to move on, not become pillars of salt. While the tripartite arrangement in the Master Plan still is relevant, assumptions changed. No one envisioned that the community colleges would swell so much and drift so far from the funded mandate to prepare transfers for CSU and UC. We have committed billions of state dollars to staff adult and vocational education programs, which the Plan did not anticipate. We have committed millions of dollars to remediate vast numbers of high school graduates. The Plan, however, recommended that this occur in the community colleges and that the expense be reimbursed by the counties. But K-12 and its graduates changed drastically since 1960. We have spent billions of dollars on hiring faculty with advanced degrees and supporting their research. But the Plan projected that most faculty would not have an advanced degree and that the cost of research would be confined to keeping current. However, higher learning is not a spectator sport. The CSU changed.

APPROX ADDED COST OF ADVANCED DEGREE FACULTY	$440,000,000
APPOX COST OF REMEDIATION	$84,000,000



Today, therefore, we are asking the state to underwrite an institution with a more complex and expensive mission than in the Plan. Such expansion has been pressured by competing forces in the economy and politics. The Plan explicitly stated that given the proportion of the general fund spent in higher education and other agencies, the state would need an economy that grew annually at least by 2.5% and kept up full employment. From 1958 to 1968, revenue into the general fund increased each year almost by 35%. None of these conditions has been met for years. The economy changed.

Also, in 1978 after Proposition 13 lowered local property taxes that funded K-12, the state rushed to the rescue. Soon Proposition 98 locked down nearly 50% of the general fund for K-12, squeezing higher education. And by the '80s Californians had a new darling, the state system of



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Revenues	95,441	99,580	80,946	95,276	90,688	94,165	103,346	102,157	105,042	84,962	88,858	92,001
GF	88,697	100,151	96,199	94,913	93,411	91,672	101,309	108,557	106,751	94,517	89,548	91,549

prisons. Governor Pete Wilson proclaimed that the state would not fund another library, school, or university until there were enough prisons. Public priorities changed.

Tax revenue from several bubbles before they burst—junk bonds, tech, and real estate—offset these effects, to a degree. (See previous chart.) This trend fed the belief that investment income, although cyclical, could make up for the wages—and taxes—lost to globalized labor. But the collapse of '08 not only has shaken that faith but also exposed higher education to the consequences of a multi-billion dollar gap in the general fund between habitual expenses and predictable revenue. Still, the decrease to higher education has played out longer than the flush times lasted. In 1977, the sector was 18% of the general fund. Today it is 10%.

FACING FACTS

We can chant and rant ourselves into self-righteous frenzy, but these facts suggest that state disinvestment will continue. A conservative projection would assume the loss of another $1,500,000,000 over five years; this approximates the current rate. That is why rolling back fees and plugging the problem with $250,000,000 in new tax revenue are short-sighted.

What can we really do as actors in the CSU? Yes, we need tax reform, a better way to allocate health cost, more funds recovered from defense, and mechanisms to toll commerce that has migrated to the web and corporate profits that have shifted off-shore. But to advocate for these as immediate answers is to chant and rant.

In the CSU, we responded to budget cuts by doubling fees and lowering enrollment. Lowering students cost $150,000,000 in state funds. The decrease signaled that access would be hostage to affordability. But the system had no measure of affordability. And ironically, federal stimulus funds and fee increases yielded total funding in 2011 that nearly matched support in 2007. What was accomplished?

Over the same time, Arizona State saw state funding per FTES sink, too. But it raised FTES by 55%; it increased non-resident numbers and fees more than the CSU did. Arizona State kept up access. Its leaders also figured that volume—high enrollment—would yield an economy of scale to offset higher fees per student but fewer of them. We need to consider this approach seriously.

		HEADS	FTES	NON-R	FTEF	TUIT	TUIT OUT	SFR	ST/FTES	TUIT/FTES	TTL/FTES
CSU	2007	479,230	376,802	1,700	16,200	3,200	13,600	23	6,900	3,185	10,085
	2011	456,242	339,449	1,700	14,800	6,500	16,100	23	6,186	5,008	11,195
ASU	2007	59,179	41,113	2,800	1,955	4,700	16,000	21	7,808	7,905	15,713
	2011	79,274	63,782	3,200	2,580	9,700	21,000	25	5,973	8,874	14,847
CHANGE CSU		-5%	-10%	0%	-9%	103%	18%	-1%	-10%	57%	11%
CHANGE ASU		34%	55%	14%	32%	106%	31%	18%	-23%	12%	-6%

The approach raises two big questions. Can the university afford it, and can students afford it? So far CSU has answered, no, based on belief.

But consider these trends, based on 650 public universities outside California. On average, state funding fell 13%; tuition grew but not enough to cancel the loss. Nonetheless, enrollment increased 7%, unlike in the CSU.

We can test CSU beliefs. Fees average $6,500, while state dollars soon will be at $4,000, then lower. At $10,500 per FTES, $8,300 would be available for state funded enrollment once the set aside for the state university grant is removed from fees. $6,500 would be usable for FTES beyond the state supported target since subsidy for the grant is not removed. Now, distribute the cost of a new hire. Assume the average salary and benefits of an assistant professor, $92,000. According to the student to faculty ratio of 23 to 1, each FTES bears $4,000 in direct instructional cost. That leaves considerable margins for support functions.

So, as long as state funds subtracted are answered reasonably by fees added, finances should be sustainable. In other words, a dollar is a dollar, whether from fees or the state. Fees replacing state support do not make for a structural deficit. The margin needed beyond salary and benefits depends, for instance, on whether capital projects are funded under support instead of the state footing the bonds separately. Of course, salary and benefits can increase, too, driving fees up. But we can model these effects.

INCOME BRACKETS BY 12K		12	24	36	48	60	72	84	96	>	
1999	ST U GRANT	29%	32%	22%	11%	4%	1%	0%	0%	0%	100%
	GRANT AND SCH	27%	30%	20%	12%	6%	2%	1%	1%	1%	100%
	WORK STUDY	30%	30%	18%	12%	6%	2%	1%	0%	0%	100%
	LOANS	15%	18%	15%	13%	11%	9%	6%	5%	8%	100%
	TOTAL	20%	23%	17%	12%	9%	6%	5%	3%	5%	100%
2010	ST U GRANT	25%	26%	22%	15%	8%	3%	1%	0%	0%	100%
	GRANT AND SCH	20%	21%	18%	14%	10%	6%	3%	2%	5%	100%
	WORK STUDY	24%	24%	18%	14%	8%	5%	3%	2%	3%	100%
	LOANS	10%	9%	10%	9%	9%	9%	8%	7%	30%	100%
	TOTAL	14%	15%	14%	11%	9%	7%	6%	5%	19%	100%

However, fee escalation inevitably is a regressive levy on students. Increases in the total net cost of attendance, accounting for aid, bite disproportionately into lower incomes. CSU's effort to shelter the lowest rungs from net increases compounds the crunch on middle-income families. That is why we have seen a small shift in the number of awards toward the low middle incomes, as well as a big increase in loans in the upper rungs.

Nonetheless, relative to peers, CSU is well positioned on fees and grants. Fees still are comparatively low, while the grant dollars available per undergraduate are comparatively high. The current practice makes larger awards to a smaller percent of students than is common nationally. CSU cannot avoid fee increases, but it can buffer them selectively.

UNDERGRADUATES, 2011-12	CSU	PEERS
TUIT	6,521	7,361
PERCENT GRANTS	49	61
AVERAGE GRANTS	8,371	6,274
ST. U. GRANT EQUIV.	40	37
AVERAGE ST. U. GRANT EQUIV.	4,440	3,755
AVERAGE NET PRICE, STUDENTS ON GR.	8,524	11,375

PLAN

So, let's apply what we have learned to a likely scenario. The state drops $1,500,000,000 from its'10 funding, $2,100,000,000, over four to five years. To keep funding level, fees (including SUG surcharge) would need to double to $3,700,000,000, if we changed nothing else. But we could adapt the Arizona way: scale. Increase enrollment by 10%, 34,000 FTES; harvest the added fees but expect no added yield from the state. Then reform tuition discounting through the state university grant program. Lowering it by one-third would reduce the collective tuition by $400,000,000. We gain, in other words, over a 10% universal reduction to fees. Because state university grant recipients see this, too, the effective loss averages to $1,300, not $3,000, per recipient.

	STATE	TUIT	SUG CHARGE	FTES	HEADS	ST/FTES	TUIT/FTES	SUG/FTES	STTUIT/FTES	AV TUIT	AV SUG
CSU 2010	2,081,171,156	1,671,502,671	659,141,846	338,000	455,000	6,157	4,945	1,950	6,895	5,075	4,211
CSU 2016	500,000,000	3,100,000,000	1,200,000,000	338,000	455,000	1,479	9,172	3,550	12,722	9,451	7,667
CSU BY ASU	500,000,000	3,100,000,000	800,000,000	372,000	501,000	1,344	8,333	2,151	10,484	7,788	4,642

Why this way?

1. **This approach could keep the averaged new fees to $7,788.**
2. **This is near the peer average today, $7,361, and well below a projection for public universities four years hence, $8,641.**
3. **We can adjust the factors for inflation, salary increases, etc.**
4. **And we can phase in the plan.**
5. **The public, students, university personnel, and state officials would have multi-year predictability for resources.**
6. **The core enterprise of the university would be self-sustaining.**
7. **We avoid implosion and the moral hazard of balancing finances for the academic core by siphoning funds from the auxiliary operations on the campuses.**
8. **The vastly decreased reliance on state funding should allow that to stabilize; and if not, the impact of further reductions would be vastly smaller than when the state was highly invested.**
9. **When the transition is finished, there should be enough stability and predictability to offer two and four year tuition packages, conditioned on the student remaining on pace and track.**
10. **If we fix the budget long term, we can get down to business, which after all is not business. Right now, the need for one patch after another has become an iterative irritant. It merely allows ideologues and cranks to call for eliminating evil—that is, whatever they have been denouncing for years. Such vituperation demeans us all.**

STUCK ON STICKER PRICE

If a list price near $8,000 still seems too grand, consider the average dollars to be paid. Half the students will transfer from community colleges; they pay one-sixth of the rate in the CSU. In both institutions grants cover the obligation of 25% of the students, while another

25% have at least one-half of their fees covered. The average to be paid is near $3,950. Today, not in four years, similar patterns across public systems in other states exceed $4,000 annually. Today, for-profit universities in California average $14,000, while online universities average $15,000.

Even $3,950 on average can be lowered. But this no longer can be done through state-supported entitlements. Rather, we must devise offsets by changing habits. These offsets should favor resident undergraduates, our main trade, without exceeding the price tolerance of others.

1. **We could allow students to transfer in up to four free online courses that faculty pre-approve and then can authenticate.**
2. **We could accomplish remediation within BA credits, saving 10,000 students the expense of a pre-BA term.**
3. **We probably could increase the average student credit load—and decrease time to and cost of degree—by tiering fees/credits differently.**
4. **We could eliminate free electives as a degree requirement.**
5. **We could decrease undergraduate fees if we derive more revenue from non-residents and graduate students.**

ESTIMATED $ IMPACT ON ESTIMATED, POTENTIALLY DUPLICATE UG. LAST TWO TRANSFER REVENUE TO UG. 2010 FEE WAS @ $5,100.

ACTION	UG	TTL	AV NRMLZD
SEM ONL	78,000	198,900,000	635
REMED BA	10,000	25,500,000	635
INCR CR L	26,000	66,300,000	635
ELIM FREE	7,800	19,890,000	635
MAX GR $	375,000	112,000,000	299
40% INC NR	368,000	75,900,000	206

NEW AGE

What has happened to the Master Plan is too bad but too common. Like the systems of water works and highways, it was a grandchild of the New Deal mindset. Its planners were constructing the arteries and nervous system of an advanced industrial economy. They imagined the tiered higher education system as an organ for filtering from the democratic mass the strains of talent that can produce growth.

But today, even after ’08, we are far removed from the insecurities of the Great Depression. In the main, we attribute filtering intelligence not to public institutions but to the economy itself, through the ceaseless contest of private investment. We can and should dissent. To do so, we must adapt and survive.

Harry Hellenbrand
Provost and Vice President for Academic Affairs