

# **TWO ROADS DIVERGED: FUNDING THE CSU**



**CAN YOU SAY, TUITION?**

Now and then patients have breakthroughs in therapy. They learn to say mommy, daddy, or Rover without heaving. Reality has counseled us in the CSU. We now can call the thing that students pay, *tuition-fees*. That is big. But we still have issues.

This year, again, we behave passive-aggressively toward California. We beg for the return of money cut from the budget, ignoring thirty years of increasing state dereliction, disaffection, and destitution. And we threaten to throttle enrollment if funding falls short, ignoring that fewer graduates now yield far fewer high taxpayers later.

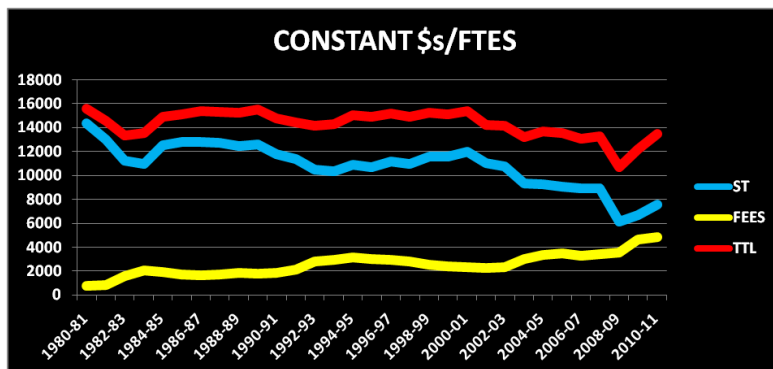
This approach frustrates everyone.

It is times for a new strategy. We should increase fees predictably and raise other revenue that does not raze the basic mission. Tuition increases can be offset by reductions in non-degree requirements, time to degree, and costs for books and trips to campus. We must risk new enterprises. New enterprises require changes in policies. We must be allowed to run large balances across years; we need flexibility to transfer funds among auxiliary, capital, and general accounts to marshal investments. And CSU must be unshackled from the *Master Plan*. Each campus should be permitted to match need with degrees that are at the right level, price, and cost.

Let the state hold each campus to equitable outcomes socioeconomically; but let each campus fix the means. Some will say this approach will encourage more disinvestment by the state. My answer is, yes, that will happen anyway. The real question is, are we prepared to capitalize on change?

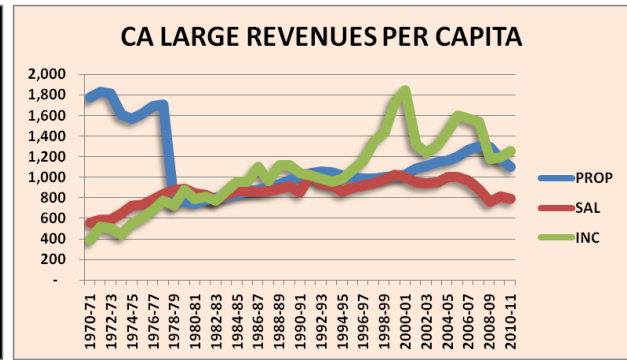
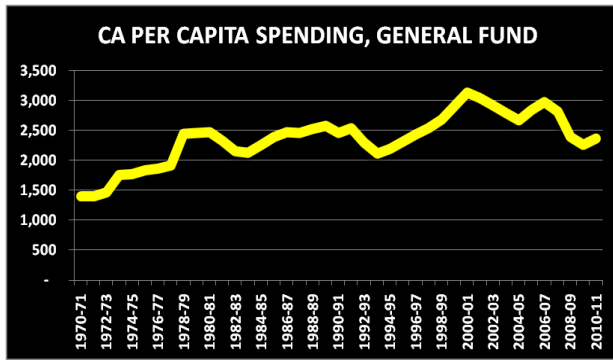
State disinvestment in the CSU—and public higher education nationally—is not momentary; it is a long trend. It is not an accident; it is embedded in how the state structures spending. It is not unintentional; it is ideological. (See changes, right.)

	HLTH+HS	CORR	K-12	HIGHER ED
1971	33%	4%	31%	16%
1981	33%	3%	35%	15%
1991	33%	7%	36%	15%
2001	26%	7%	39%	12%
2011	29%	10%	39%	13%



In constant dollars state funding per FTES has fallen nearly 50% since 1980, while fees have shot up almost 500%. Altogether, funding has decreased 15% in 2010 constant dollars.

This has occurred because of a long-term mismatch between



state revenue and expenses. The state increased *per capita* commitments in the years running up to 1978, 2001, and 2008.

But Proposition 13 in 1978 lowered by 1/3<sup>rd</sup> per capita funding. Counties had relied on property taxes to support K-12. Now, they turned to the state. The state helped, in part, by squeezing higher education.

When bubbles in technology, real estate, and finance popped in 2001 and 2008, losses in capital gains and employment mounted. Income tax returns fell to levels that supported less spending. Even so, the public infatuation with crime and punishment siphoned yet more dollars from the state, particularly higher education.

*The Master Plan* expressed modern liberalism. Higher education would identify and refine a meritocracy of intellectual talent. In turn, this meritocracy would yield the technocracy for extensive government oversight of the general welfare. But the state never fully embraced this view. Especially after the late 1970s, policy-makers often viewed government intervention as market interference. Government, many thought, should act only on priorities like K-12 and security that made civil society possible.

	FTES	ST	TU	SUB/FTES	CORE GF	LOSS
2012	360,000	7,000	5,000	12,000	4,320,000,000	-
2013	367,200	6,500	5,325	11,825	4,342,140,000	64,260,000
2014	374,544	6,000	5,671	11,671	4,371,349,842	123,178,158
2015	382,035	5,500	6,040	11,540	4,408,586,290	175,832,270
2016	389,676	5,000	6,432	11,432	4,454,900,479	221,206,452
2017	397,469	4,500	6,850	11,350	4,511,446,392	258,182,678
2018	405,418	4,000	7,296	11,296	4,579,490,077	285,531,574
2019	413,527	3,500	7,770	11,270	4,660,419,672	301,902,412
2020	421,797	3,000	8,275	11,275	4,755,756,298	305,812,228
2021	430,233	2,500	8,813	11,313	4,867,165,906	295,633,990
2022	438,838	2,000	9,386	11,386	4,996,472,155	269,583,740
2023	447,615	1,500	9,996	11,496	5,145,670,409	225,706,604

All this sets the context for handling the CSU budget over the next twelve years. State support will continue to slip, as it has since 1990. \$500 per FTES each year is likely, taking us below 15% in state funds for the core budget. 6.5% increases in tuition-fees (average since 1990) each year smooth out peaks and valleys. After a dozen years of FTES growth at CSU's thirty-year

average of 2.6%, the system would be short \$226,000,000; but it would be short over \$300,000,000 several years earlier, before 6.5% increases overtook \$500 decreases.

Oi vey, indeed.

This gap can be filled, but not without controversy. Here is why.

By 2010, the CSU student to faculty ratio ratcheted up to 24:1, past the 18:1 at national peers. Across the states temp faculty far outnumber the tenured and tenure-track. In the CSU the staff/management ratio is high—25:1 vs. 14:1 at peers—because of the scale of the large campuses. Operational budgets are lean; they are not fattened by the habits of support that research universities acquire in the consumption of grants and contracts, big-time sports, etc. So, without the usual suspects for sacrifice, we must take radical steps such as reducing state university grants (SUG), correcting for tuition disparities across the campuses, and enrolling more non-residents.

**SUG IT UP**

	SUG/FTES	3%	IN DOLLARS
2012	1,667	50	18,000,000
2013	1,775	53	19,553,400
2014	1,890	57	21,240,858
2015	2,013	60	23,073,945
2016	2,144	64	25,065,226
2017	2,283	69	27,228,355
2018	2,432	73	29,578,162
2019	2,590	78	32,130,757
2020	2,758	83	34,903,642
2021	2,938	88	37,915,826
2022	3,129	94	41,187,962
2023	3,332	100	44,742,483

Along with federal (like Pell), state (like Cal), and institutional grants, SUG lowers the costs of tuition, books and supplies, travel, and room and board. It is generated from 1/3<sup>rd</sup> of the tuition-fees that residents pay; it is allocated differentially to the campuses, based on student need that is not met by more stringently defined state and federal awards. Redirection of 3% of SUG to the CSU general fund could close the gap by 16%, \$44,000,000 down the line. Qualified students from families with less than \$70,000 in income still would not pay tuition-fees. If roughly 50% of students receive SUG, then the average award would be trimmed by several hundred dollars, 6%. Presume the worst: other grants and loans do not pick up this sum. Then, we have a classic choice between affordability and sustainability, between help for the disadvantaged and the general welfare.

**UNINTENDED CONSEQUENCE**

The appeal of this approach is that it raises tuition-fees overall while affecting individual students minimally. Fixing disparities in tuition-fees across the campuses would affect some students much more than others, by necessity.

The next chart shows that although CSU receives a standard amount of dollars per FTES from the state, it delivers different sums per FTES to each campus. In days of yore, memorialized in the orange books, these differences followed from the credit-hour multiplier assigned to

SCH	FTES	TF/FTE	ST/FTE
LB	28,495	4,193	4,386
SD	28,359	5,405	5,796
FU	27,721	4,949	4,966
N	26,787	4,461	5,595
SF	24,943	5,592	5,219
SAC	23,401	4,794	5,446
SJ	23,310	6,141	5,416
AV	26,145	5,076	5,261
SLO	18,225	5,840	6,099
FR	17,942	3,941	6,538
PO	17,576	4,110	6,384
LA	16,718	3,189	6,272
CHI	15,484	4,158	5,920
SB	14,816	4,466	5,665
EB	13,395	5,560	5,151
D	10,496	4,296	5,999
AV	15,582	4,445	6,004
SM	7,405	5,401	7,297
SO	7,364	5,513	7,033
HU	7,232	4,373	8,907
BK	7,202	3,093	7,160
ST	6,988	3,234	7,414
MB	4,364	3,981	10,798
CHA	3,154	5,341	13,714
MAR	1,031	5,694	18,029
AV	5,593	4,579	10,044

modes (lecture, seminar, lab, etc.) and levels (pre-college, lower, upper, graduate) of instruction. The system stopped funding by mode and level twenty years ago.

Today the differences partly reflect residues of these formulas in base budgets. They also result from CSU efforts to provide a buffer for the small and mid-sized campuses. The inadvertent effect has been to keep tuition-fees artificially low at many campuses, canceling the intent for the buffer.

The stakes are high. If tuition-fees at the small and mid-sized campuses ran at the average of the large campuses, the gain would climb from \$137,000,000 in 2012 to nearly \$300,000,000 in 2023. Individual payments would increase at least by \$600.

There are, of course, other ways to generate revenues through tuition-fees. Different pricing by program and by credits are two such ways. But varying charges by program encourages students to delay entry into their true majors if they are high-cost. Right now, the CSU bands tuition-fees simply—a flat, low rate for 1-6 credits and a flat, higher rate for 7- credits. Flat charges, rather than per credit charges, sacrifice revenue as students' credits mount; however, this sacrifice inspires taking more credits. This, in turn, hastens

T-F INCR AT SMALL/MID	
2012	137,344,542
2013	138,048,433
2014	139,689,351
2015	142,553,832
2016	147,005,356
2017	153,520,088
2018	162,741,602
2019	175,565,779
2020	193,275,013
2021	217,754,990
2022	251,853,413
2023	299,989,503

time to degree—a good thing. In fact, rising tuition-fees since the early 1990s correlate with increasing credit loads and decreasing time to degree.

### OFF THE RES

The CSU system has hesitated to pursue non-residents aggressively because state statute requires preference for residents. But the tuition-fees for non-residents essentially double the charges for residents; thus, several campuses have blasted through the yellow caution lights. While the state no longer

	RES FTES 2.5%	NR 3.5%	T-F/FTES W/O SUG	REVENUE	NET OF BASE AND OP
2012	360,000	17,595	12,424	218,605,383	8,113,353
2013	367,200	18,211	13,232	240,963,248	17,056,499
2014	374,544	18,848	14,092	265,607,764	26,914,306
2015	382,035	19,508	15,008	292,772,798	37,780,319
2016	389,676	20,191	15,983	322,716,136	49,757,655
2017	397,469	20,897	17,022	355,721,929	62,959,972
2018	405,418	21,629	18,129	392,103,389	77,512,556
2019	413,527	22,386	19,307	432,205,764	93,553,505
2020	421,797	23,169	20,562	476,409,608	111,235,043
2021	430,233	23,980	21,899	525,134,401	130,724,960
2022	438,838	24,819	23,322	578,842,522	152,208,209
2023	447,615	25,688	24,838	638,043,640	175,888,656

gives general fund dollars for these students, SUG is not removed. If we grow this group by 3.5% each year, slightly ahead of the pace for residents, revenue eventually will build over \$175,000,000; this sum is net of basic outlays for teaching and operations.

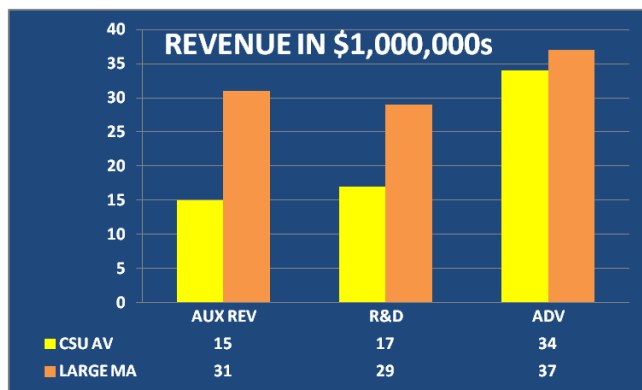
When campuses exceed the target that is budgeted for resident FTES, they generate only tuition-fees; they have outstripped state dollars. But since all revenue for non-residents is tuition-fees, the campuses do not lose funding if growth exceeds expectations. All in all, the surplus of \$175,000,000 amounts to full funding for 13,482 resident FTES. So, while statute implies that non-residents displace residents, financing suggests that non-residents prop open the door for more residents.

**GOD HELPS THOSE . . .**

The CSU can generate revenues other than tuition-fees. Indeed, auxiliaries like dorms, dining, parking, and bookstores do now. A few campuses have incorporated businesses that insulate the university from the risks that shadow investments in real estate and in the marketability of academic discoveries. Of course, grants and contracts typically yield some unobligated dollars, as do clinics and centers. And every campus has a hand in advancement.

Yet several demons bedevil expansion of these efforts. Limited in the kind of degrees that it can offer, the system lacks infrastructure and personnel to displace most R1 universities in the queues to major funding by NIH, NSF, DoD, etc. Advancement faces several obstacles: overcoming the master myth of a fully funded *Master Plan*, devising re-engagement with the large number of non-graduates, and branding campuses that have few of the traditions of residential universities.

Nonetheless, peer institutions do better than CSU in revenue from auxiliaries, grants and contracts, and advancement. We should analyze how and why. Do they mine data more



proficiently, to identify niche services for fees and to focus advancement efforts? Are they better at applying research to local problems in learning, wellness, small business development, etc., and then commercializing best practices through centers, contracts, and seminars? Do they pursue real estate more aggressively; do they co-invest with venture partners more creatively?

Since state funding began its latest plunge, the campuses stockpiled increasing tuition-fees. Management views such funds as one-time, as distinguished from—ahem!—permanent state

dollars, and hence it hesitates to make long-term commitments with them. Thus, these balances could be tapped to explore and establish more capacity to produce revenue.

AUX	2.6% UNIV GR	3% BUS GR	IPEDS EXP RATIO	EXP	NEW NET
BASE	346		82%	283	
2012	355	366	81%	295	8
2013	364	375	79%	298	14
2014	374	385	78%	301	21
2015	383	395	77%	304	28
2016	393	405	76%	307	35
2017	404	416	75%	311	42
2018	414	427	74%	314	50
2019	425	438	72%	317	57
2020	436	449	71%	321	65
2021	447	461	70%	324	74
2022	459	473	69%	327	82
2023	471	485	68%	331	91
CAMP AV		21		14	4

It would be a stretch for CSU auxiliaries to reach in twelve years the revenues of peers in 2009-10. Some increase will come with more FTES each year; I project additional business growth at 3%.

The process could gain even more if the operational expenses decreased slightly each year from 82%. Astute investments in knowledge/ technology transfer could go far in accomplishing this. However, the sense of the whole effort depends on

the degree to which auxiliary funds do not restrict transfers to where the needs are.

R&D, 000,000	1.5% FTEF GR	2% REV GR	UNDESIG	NEW NET
BASE	500	510	2%	10.20
2012	508	518		0.15
2013	515	525		0.31
2014	523	533		0.47
2015	531	541		0.63
2016	539	549		0.79
2017	547	558		0.95
2018	555	566		1.12
2019	563	575		1.29
2020	572	583		1.46
2021	580	592		1.64
2022	589	601		1.82
2023	598	610		2.00

Likewise, funded research would have to jump significantly, by 5% each year, to approach in twelve years the peer average in 2009-10. This chart models @3.5%. Of course, much of the funding underwrites the direct expenses on the projects and the indirect outlays for the supporting offices, operations and infrastructure, and personnel benefits. Unless part of a project overlaps with general needs, we can stipulate that the general fund

benefits no more than 2%. The payoff is the knowledge gained and transferred, salaries supplemented, equipment eventually recycled, and research expenses removed from the general fund.

On the whole, endowments are closest to the peer average. If gifts grow 5% each year, total endowments could top \$2,000,000,000 after twelve years.

However, it takes much planning and stewardship to wed donors' passions to real needs. Without a realistic financial plan, CSU cannot orient supporters strategically.

To assess the impact of fundraising on recurring general needs, we need

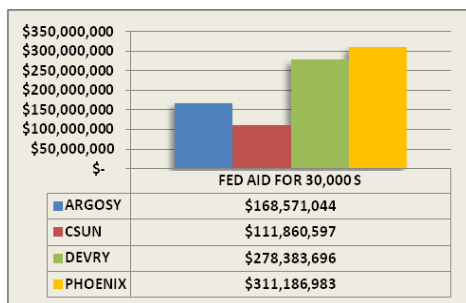
	IN MILLIONS							NEW NET GIVE
	ANN GIVE	TO ENDOW	BEQ, CPTL	1X GIFT	ENDOW	WITH INT	END DVND	
BASE	395	20%	50%	30%	793	7%		
2012	415	83	207	124	876	933	37	4
2013	435	87	218	131	963	1026	41	7
2014	457	91	229	137	1054	1123	45	11
2015	480	96	240	144	1151	1225	49	15
2016	504	101	252	151	1251	1333	53	20
2017	529	106	265	159	1357	1445	58	24
2018	556	111	278	167	1468	1564	63	29
2019	584	117	292	175	1585	1688	68	34
2020	613	123	306	184	1708	1819	73	39
2021	643	129	322	193	1836	1956	78	44
2022	676	135	338	203	1971	2100	84	50
2023	709	142	355	213	2113	2251	90	56

to know how the money flows. Large shares go to one-time, often capital projects and to goals in bequests to be funded later. Endowed funding typically supports enhancements—scholarships, lecture funds, professorships; they affect general needs indirectly—to the extent to which they free up core funds. Since the endowment is invested, the principal grows at a rate that normally exceeds the percent that the endowment can be drawn down in a year. This provision insures the long life of the fund. It also reduces considerably the effect of such funds right now. For example, an endowment of \$2,200,000,000 yields \$100,000,000.

We need to boost our efforts in both fund making and raising to supplement tuition-fees. Because of the challenges, some efforts will lag. To hedge risks, we need diverse strategies that target different sources of revenue. But we ought not to delude ourselves. These actions are sideshows to the main event, a muscular and coordinated plan to lift tuition-fees.

**JACK, BE NIMBLE**

The for-profits are admired because of business habits that keep them off the dole. Well, fine. On average, their tuitions (\$17,696 in 2010) exceed the combined tuition-fees and state appropriation per FTES in the CSU (\$11,890). This is the case even though they are well capitalized by market investors.



Indeed, when we equalize student counts, we see that the brand name for-profits sustain high tuition by channeling more federal student aid than CSUN, a leader among public universities in the number and amount of Pell grants.

It is time, therefore, for the CSU to compete for market with the for-profits. Extension should be the vehicle. It

is nimble programmatically, responding to transient needs. It can adjust charges, lease space, determine catchment, run terms of different length, and flex the teaching workforce more easily than the state-funded university.

Extension has twenty-three outposts on full-service campuses; these outposts have satellite locations. Already sixty-four Extension programs are fully online. The campuses can double online capacity quickly. Cohort programs that fix a price for four years, prescribe courses, and give credit for experience and testing out of basic requirements would attract students from the for-profits. Even more appealing to self-motivated learners would be self-paced, asynchronous programs.

The CSU could re-brand, without restructuring, campus programs into a network of offerings supplemented by open-university enrollment in a broad array of courses in the general-fund

curriculum. This breadth trumps the span of selections in for-profits. These programs, though, each link differently into campus resources like libraries and utilities like learning management systems. They call on the originating campus for help. Centralizing services and uniform portals are options; such work requires time and money. We need, rather, dispatch and economy.

While UC and CSU have slowed growth to protest the decline in state dollars, the for-profits accelerated by more than 10,000 FTES each year. Scrutiny of the default rate of student loans and of the accuracy of claims about job placements has slowed the surge.

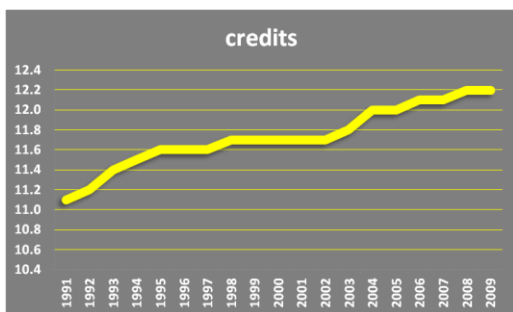
We should raid now.

	REG AT 5%	ONL AT 25%	TTL FTES	REG FEE GR 6.5%	ONL FEE 6.5%	REG REV	ONL REV	TTL REV	SUBTRACT BASE	5% CLEARED
BASE	17,000	2,000	19,000	11,000	9,000					
2012	17,850	2,500	20,350	11,715	9,585	209,112,750	23,962,500	233,075,250	43,075,250	2,153,763
2013	18,743	3,125	21,868	12,476	10,208	233,840,333	31,900,078	265,740,411	75,740,411	3,787,021
2014	19,680	3,906	23,586	13,287	10,872	261,491,952	42,466,979	303,958,931	113,958,931	5,697,947
2015	20,664	4,883	25,546	14,151	11,578	292,413,375	56,534,166	348,947,541	158,947,541	7,947,377
2016	21,697	6,104	27,800	15,071	12,331	326,991,257	75,261,108	402,252,365	212,252,365	10,612,618
2017	22,782	7,629	30,411	16,051	13,132	365,657,973	100,191,350	465,849,323	275,849,323	13,792,466
2018	23,921	9,537	33,457	17,094	13,986	408,897,028	133,379,735	542,276,764	352,276,764	17,613,838
2019	25,117	11,921	37,038	18,205	14,895	457,249,102	177,561,772	634,810,874	444,810,874	22,240,544
2020	26,373	14,901	41,274	19,388	15,863	511,318,808	236,379,109	747,697,918	557,697,918	27,884,896
2021	27,691	18,626	46,318	20,649	16,894	571,782,257	314,679,689	886,461,947	696,461,947	34,823,097
2022	29,076	23,283	52,359	21,991	17,992	639,395,509	418,917,337	1,058,312,846	868,312,846	43,415,642
2023	30,530	29,104	59,633	23,420	19,162	715,004,028	557,683,704	1,272,687,733	1,082,687,733	54,134,387

We should bundle online, cohort and self-paced programs, with minimal access to campus services, under a price just below the combined state appropriation and tuition-fee per FTES (6<sup>th</sup> col). Other Extension for-credit experiences should be priced just above, thereby not subverting regular programs (5<sup>th</sup> col). Were online cohorts then marketed intensively, CSU could turn a profit, only if it stayed innovative—a healthy challenge (11<sup>th</sup> col).

### OFFSETS

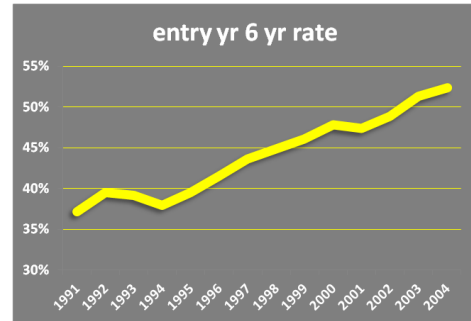
These options complement the main strategy of tuition-fee increases. We can offset these increases, too. By 2023, students would pay \$437,000,000 more than in 2012. If we reconceived remediation as diagnostic workshops within BA credits, 60% of freshmen could save \$84,000,000; they would not be paying for a four course, non-credit prelude to the degree. Indeed, the path from the Early Assessment Program through Early Start should be



re-engineered. Time to degree can be quickened if we re-stage them as online sequences of diagnostic assessments. With counselors and tutors on call, such assessments could prescribe exercises designed to close the gap with entry-level competency.

A common argument against increases in tuition-fees is that they discourage completion. The correlation, though, points the other way. As charges rose from 1991 onward, so did the student credit

load; so did the graduation rate. Reducing by one term the time in college can recapture, on average, the increases to tuition-fees over four years. If one-eighth of the students in 2023 could have had or have such efficient scheduling, they could bank \$284,000,000.



Students could save \$250 each yearly—over \$200,000,000 collectively in 2023—if instructors and departments found ways to reduce the cost of students’ books and supplies by 15%. (In 2009-10 students paid @\$1,700 on average.) Already textbook rentals have a toehold, and CSU libraries have large catalogues of e-textbooks in the public domain. A few departments are compiling material into e-guides for large courses. The guides sell at prices below market but sufficient to generate a small margin for the department.

Efforts like these are encouraging but sporadic; they require consistency and scale to be strategic. In turn, these characteristics need investment, sponsors, and project managers in order to develop.

**CHOICES**

Altogether, these offsets top \$500,000,000, whereas tuition-fees by 2023 would be @\$484,000,000 higher than in 2012. However, if CSU mends the tuition-fee differences that link to funding by size of campus, then tuition-fees in 2023 would be @\$783,000,000 higher than in 2012. The offsets reduce that to @\$283,000,000.

In either case, as long as CSU adopts a schedule of tuition-fee increases, it can thrive. The gap

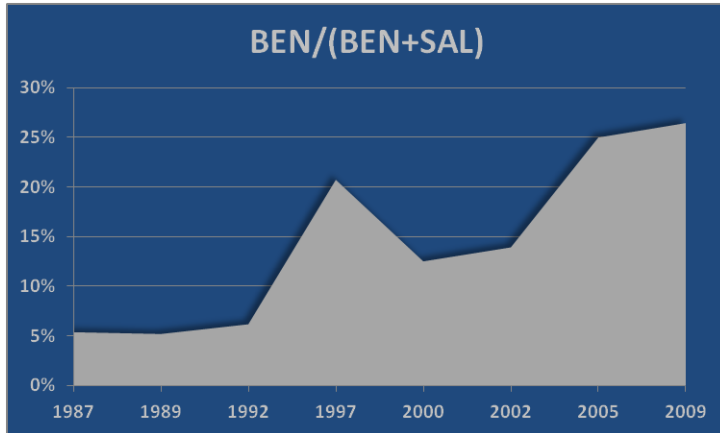
IN MIL										
<b>GAP</b>	SUG	T-F FIX	N-R	AUX	R&D	ADV	EX L	SUB T	<b>TTL</b>	
<b>226</b>	44.7	299.9	175.8	4	2	56	54	636.4	<b>410.4</b>	

between decreases in state subsidy and increases in tuition could be closed without tapping SUG and fixing inequitable charges. Would that be wise or expedient?

None of this is likely to occur until the CSU forges a new compact with the legislature that balances decreased subsidy with increased autonomy. Many will scoff, *how naive! To legislate is to meddle*. Of course, legislators always will. But cannot we try to turn sentiment against entitlement and regulation to our advantage?

Arguing for decreased subsidy with increased autonomy could work to mutual advantage. The state needs to clamp procedures that increase debt because the interest squeezes the general fund. So together we could re-conceive capital bonding in a way like this. Eliminate 35% of the bonding for bricks and mortar that growth in FTES generates; dedicate 15% for

virtualizing infrastructure for that FTES. In effect, \$65,000,000 buys \$100,000,000 worth of space, avoiding debt of \$35,000,000. The campus gets broad discretion over the \$15,000,000; it must show only the addition of the appropriate FTES virtually.



We could dampen increases in the cost of benefits with a similar approach. We bemoan what we ourselves cannot affect, the escalation of service charges. And we ignore what we can affect, retroactive supplements, buying down the contribution of employees, adding permanent obligations during spikes in market volatility, and

underestimating the *per capita* effect of historical obligations on a shrinking workforce. We could move authority and responsibility for such decisions to the CSU, even subjecting some to bargaining. The state—or the fund—reduces exposure; the system gets more say about cost and cost-sharing.

The most important change, though, is internal to the CSU. What should the Chancellor's Office become, as local revenues exceed state support? Fiduciary responsibility for a majority investment by the state rationalized central standards—in technology, services, and programs. Audit for compliance, not assessment for effect, has ruled.

But the campuses are evolving away from such a system to a network of more independent parts. Common solutions are less likely to be found for the whole network than for sub-sectors by campus size, funding, partnerships, and priority.

This is not an argument for shrinkage *per se* but for re-alignment of central capacity with local needs. We need expertise to capitalize on the limited synergies and possible savings from new technologies. We need help mining and decoding learning data to minimize the costs of failure. We need financial strategists who can transform disparate accounts into a whole fund that encumbers base commitments but also amalgamates investments.

We need political strategists who can connect the dots. 50% of CSU students transfer from community colleges; a majority there and here have grants that defray costs. And initiatives to save time to degree save students money. Yet we talk like the rube who thinks that the list price is the real price.

Above all, we need leadership across the CSU that views change as evolution, not extinction.