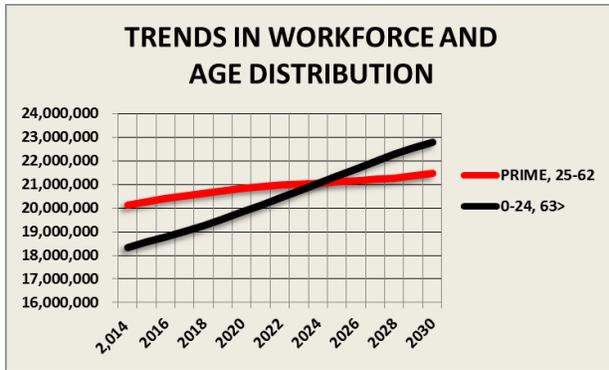


CSU AND THE DEGREE GAP:

SHOWDOWN AT THE NOT SO OK CORRAL

We have heard it before. We are at a crossroad. Disaster impends. The promissory note is long overdue. Typically, the language concerns a social obligation, shirked.

Let us add one more to the list, “We sowed; now we reap.”



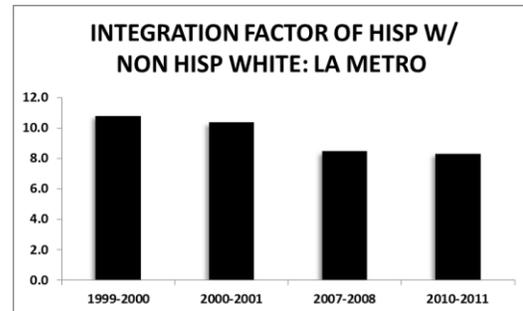
By 2026 in California, the number of people in prime wage-earning years will become smaller than the number of people older and younger. One would hope that earning power would compensate for smaller size. But look at an important part of this trend.

In 2026, 40% of these prime wage earners will be Hispanic. Only 17% will have college degrees. The BA is the ticket to wealth in a

post-industrial society.

Hispanics will have grown from 28% of the prime earning population in 2000, with 8% college completion. College completion will have doubled. Still, the rate will lag the 26% for Whites in 2000. It will trail the 43% completion rate that, according to the Public Policy Institute of California, is needed to fill all the BA qualifying jobs that will open through 2030.

One third of Hispanic children in California have grown up in poverty. “De facto” segregation subjected generations of Hispanic children to poor schooling. For example, the LA Metro has had the third lowest factor for Hispanic-White integration in the schools in the nation; indeed, it is worsening. The schools suffered from misbegotten testing regimes and hapless bureaucracy. To make matters worse, the community colleges and universities turned their backs on these children in the 1980s-2000s. Higher education began to close doors and raised prices.



	A-G/HS GRAD	CCC/HS GRAD	CSU/HS GRAD	CSU/A-G	UC/HS GRAD	UC/A-G
2000	35%	31%	10%	29%	7%	21%
2005	35%	29%	11%	31%	7%	21%
2010	36%	29%	11%	29%	7%	19%

According to the Master Pan, the CSU was to enroll the top third of high school graduates. However, by 2000 it enrolled 11%; it did

not even enroll 33% of those graduates who made in through the A-G college-qualifying curriculum in the high schools. And fees skied, from under \$200 in the 1960s to tuition above \$6,500 in 2014.

So, now we reap.

A winning economic strategy, by contrast, would prepare a workforce capable of mastering the churn of change. This workforce would have the analytical and communicative skills to adjust to new symbol systems, technologies, and cultural mixes.

Indeed, forecasters say that by 2030, California will need to produce 1,000,000 more BA graduates than we are likely to yield. Approximately 38% of those would fall to the CSU, given current ratios. CSU is on track to reach 1,660, 550 BAs from 2014 to 2030. It would need to add at least 380,000 to its graduates through 2030. Typically, it produces 38% of the state's BA degrees. Experts debate these numbers, especially whether the sectors have the capacity to absorb them.

WHAT TO DO?

There are "answers."

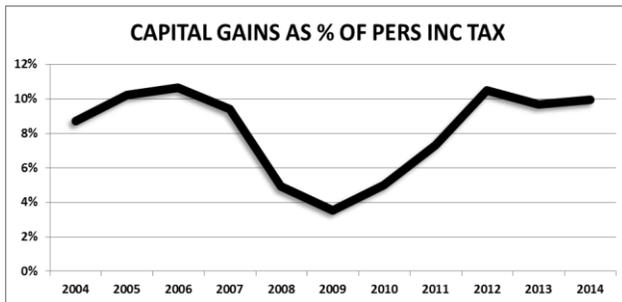
Some say that for-profit institutions and/or MOOCs (massive online open courses) can save the day. But the former raise the specter of private cost. On average, tuition and fees ran \$17,800 in for-profit universities in 2012-13; they averaged \$6, 500 in the CSU. Also, the for-profit sector probably would exacerbate the gap in general skills. Market logic compels them to produce students employable in specific product lines within sponsoring/underwriting industries. Once outdated, these workers can be trashed and replaced by newer workers. MOOCs have yet to prove their value for serious higher education for a degree, not just a badge for a suite of skills.

Others say that public institutions can save the day. But, they add, California needs to honor the spirit of the Master Plan. It must restore lost funds, between \$250,000,000 and \$500,000,000 . Then it must add more, using the restored formulas for marginal cost of new FTES, small and large capital projects, step increases for employees, and etc. (A full-time equivalent student stipulates thirty semester credits, usually over two terms.) But the Master Plan was no help by the late '60s. The Free Speech movement exposed its financial dependence on income generated by the military industrial complex and the brief hegemony of California industrialism.

In effect, the Master Plan assumed that the unprecedented rates of growth in the population, income, and industry would be the norm. There always would be more workers than retirees; they always would make more money than the generation before. Higher education fed and fed off these surpluses.

When that complex decamped after the Cold War, Vietnam, and the space race, revenues in the state tightened. A revitalized Europe and a newly vital Asia rivaled our technology and challenged our cost structure. Industries left the state. As the state became weary of crime, support for higher education dwindled. Defense of life and property now outweighed the pursuit of happiness. Over thirty years, higher education fell from 18% to 12% of the state budget.

The Brown administration concedes that the looming education gap is a problem for the workforce and the state. But there is no more money to fix it. Indeed, “You have more than enough money in your control to get the job under way,” it tells CSU.



Brown’s people argue that, in the past, California raised its permanent expenditures to match temporary peaks in its revenues. Planners ignored that these peaks often represented one-time surges in capital gains—through speculation on bonds, real estate, technology, etc. So, the Brown administration pegs the permanent

expenditure at a lower level.

When asked, how higher education can do more with less, the administration will answer as follows.

“If you do not like that the state has poured more into corrections than higher education, then convince the electorate to spend otherwise.”

Or the administration will answer, “We might not be giving you a lot more money. But you now have autonomy over the money. Spend it wisely.”

IT’S A NEW DEAL

Brown’s approach makes sense in post-industrial California.

We no longer have the federal largesse of the New Deal or the taxes on the military industrial complex (and its employees) to build the aqueduct, pave the highway system, and sustain a tuition-free higher education system.

We no longer have the industrial dominance over East and West wasted by wars. Large revenue ebbed, exposing social decay.

Brown sees this. His new “answer” is an old answer. He is the Progressive to his father, the New Dealer. Lean government, coupled with private/public partnerships, must be the “answer.”

We have been spinning our wheels in ruts at least for a decade. We argue that we need a tow to get out. A governor says, “Help is not on the way.” We get a sop like Proposition 30 in 2012. We trade in a fee increase and, indeed, the prerogative to claim one in the future for state general funds that, at best, keep up the status quo. The bargain lasts seven years; it barely funds mandatory costs. It does not fund large growth. Then what?

We will get out of the rut by lifting and pushing the car ourselves. We do not get out by convening experts on lifting and pushing the car in order to tell us to lift and push the car.

In other words, we do not need another Master Plan, a constellation of planning committees, a tsar, or a star chamber. We need common sense. We need a reality check. We need honesty.

COMPACT

To start, higher education requires a compact with the state. I know; we have been gulled before. But I proceed on faith.

- We must strive to meet the state’s needs for graduates.
- The state must agree to let the professionals in education determine how this is to be accomplished. We need clarity, structure, roles, and goals.

All parties must agree on a common data system for reporting, tracking, and forecasting. We should link P-16 with labor data.

- It is farcical to demand outcomes data for planning without providing access to such data. To make wise decisions, we need a CPEC on steroids, staffed by analysts who can interpret as well as compile (California Postsecondary Education Commission).

We need to think about “system” differently.

- We must temper its current meaning. CSU is a bureaucratic tier that coordinates some functions of state universities; it does not govern all functions. The CSU system once controlled 90% of a campus’s revenue. No more. The CSU “system” is one of many systems that enmesh parts of the campuses.

The governor must require public universities in a region to show how they expect to meet/redirect enrollment; they, too, are a “system.”

- Right now, 42% of new students attend a

	FROM REGIONAL HS TO REGIONAL/ OTHER CSU				
2010	HIGH SCH	STAY HOME	LEAVE	CSU	VISIT
CENT CST	1,513	556	957	3,580	3,024
INLAND	4,755	1,596	3,159	1,745	149
INYO	21		21		-
LA	13,298	10,108	3,190	13,952	3,844
MONT BA	847	144	703	808	664
NORTH C	284	119	165	1,156	1,037
N SAN JOA	3,984	2,628	1,356	3,676	1,048
ORANGE	4,239	1,956	2,283	3,867	1,911
SAC	3,093	1,330	1,763	2,691	1,361
SD	3,869	2,361	1,508	4,223	1,862
SF	9,189	5,462	3,727	9,056	3,594
S SAN JOA	1,873	833	1,040	1,004	171
SUP	185		185		-
UPPER SAC	404	298	106	1,796	1,498
TOTAL	47,554	27,391	20,163	47,554	20,163
		58%	42%		42%

CSU outside of the region of their high school. Remember, a founding premise in the history of the CSU was that most students would go to a nearby CSU. Given the expense of living away from family, we need to make sure that this migration is justified. What are the effects on graduation rates and indebtedness?

- Ideally, regional alliances among educational institutions would reflect what San Diego, Santa Ana, and Long Beach have achieved. They have a common understanding of pathways and goals, enhanced by leaders and employees who are familiar with the culture of partner institutions. Of course, these alliances have the advantage of small to mid-sized scale. Regions like LA are much larger and more complex. Determining sets of alliances within them will be complicated.

We need to be realistic about how tuition and fees are set. Periodically, the LAO (Legislative Analyst’s Office) will commission a cost study that measures dollars for hours worked, new equipment, etc. But tuition and fees do not follow logic, economics, or science. The state makes the decision politically; it relies on past practice. But it adjusts this to accommodate external political demands.

- The next chart illustrates this. Since 1981, the combined tuition and general fund per FTES have not risen faster than the California Consumer Price Index, the Advanced Degree Price Index, the R and D Price Index, and the Higher Education Price Index. Cost has not gone crazy, nor have fees and tuition. Fees and tuition have risen to make up for the collapse in state support. State support floats—or sinks—because it is not pegged to anything,

- The chart to the left telescopes what happened to fees over time. In 1965, the state covered over 90% of the cost of college (line A).
- The legislature raised fees sufficiently to cover a 33% set aside for institutional aid (line B).
- Also, the CPI (consumer price index) inflated by a factor of 8.4 since 1965 (line C).

		STATE	FEES
A	STATE COVER 90% IN 1965	\$ 1,169	\$ 87
B	INCR FEES FOR SUG	\$ 1,169	\$ 132
C	CONVERT TO 2011 \$s	\$ 9,819	\$ 1,108
D	STATE NOW AT 60%	\$ 6,557	\$ 4,371
E	REFLECTS 300% INCR IN	\$ 894	\$ 596
F	BENEFITS, TECHNOL, ETC		
G	APPROX 2011	\$ 7,451	\$ 4,967
H	NON-GRANT \$s	\$ 7,451	\$ 3,278

- Increases in funding for social services and corrections squeezed out 25% of the budget since the ‘60s. State dollars fell from 90% of total cost. Tuition rose from 7% of total cost to 40% to offset the loss (line D). Lines E and F represent economy-wide changes in the perception of necessary expenses. Line G sums D, E, AND F, Line H backs out the discount for grants, since those dollars do not go to operation.
- The two biggest impacts on tuition and fees over time are inflation and the withdrawal of the state subsidy. Because of the misleading views of so many pundits, people tend to believe that public colleges and universities consume recklessly and therefore charge

egregiously. The only way to minimize that withdrawal is to peg state funds to an external factor, like mean disposable household income.

- So, here is a model for deriving tuition and fees. In 2012, the mean disposable household income was nearly \$38,000. We raise that over the next five years. If we ignore the deviant years within 2001-2012, when the economy either buckled or spiked, tuition and state subsidy per FTES averaged 33% of this income.

MEAN DISPOSABLE HH INC	PER FTES			HC TUIT
	TUITION + SUBSID	SUBSIDY	TUITION	
38,000	33%	53%	47%	
38,000	12,500	6,625	5,875	6,866
38,570	12,688	6,724	5,963	6,969
39,149	12,878	6,825	6,053	7,074
39,736	13,071	6,928	6,143	7,180
40,332	13,267	7,032	6,236	7,287

- Once we stabilize the combination of tuition and subsidy at 33%, we can allow tuition to rise or fall against the subsidy. In other words, legislators would be raising tuition explicitly, if they lowered state funds. Of course, the likelihood that the legislature would assume responsibility for raising tuition is not high.

Without changes to proportions within the general fund, the CSU will not get a lot of money for growth. Nonetheless, there are ways to grow graduates considerably.

To excite people about such growth, leaders must advance a strategy that integrates remediation, transfer, retention, and budgeting. Leaders must step outside of parochial habits of thinking` only about their institutions' or agencies' priorities.

We should capitalize on the innovations that have reduced the remediation rates from 50% in both Math and English in 1997 to 30% today. We can phase out remediation in the CSU by requiring high school students interested in the CSU to enroll in the EAP (Early Assessment Program)—or other assessments-- as juniors. Then they can conclude the remedial classes before college either in their senior year in high school or the summer before college.

Indeed, this approach is entirely consistent with the new Common Core. Increases in the passage rates for the CAHSEE (California High School Exit Exam), completions rates for the A-G requirements (courses in seven areas) for admission into both CSU and UC, and scores in reading and writing on the NAEP (National Assessment of Educational Progress) suggest that the strategy is realizable.

- At least 31,000 new students will be affected annually—26,000 who take as many as four to six remedial courses, and the 5,416 baccalaureate students who could fill these FTES. (26,000*5 courses/ 30 credits for an FTE*30/24 to convert to headcount.)
- We gain in several ways by this one significant change. We can admit 5,416 more freshmen. We can direct funds to reduce the logjams that slow graduation rates. We improve the retention and graduation rate of those freshmen who otherwise would have

languished in these classes. Over 15 years, with a 57% graduation rate, these students yield an added 60,000 graduates (assuming a growth rate of 1.5%).

Improve the CCC transfer rate to the CSU by 5% (again, assuming a growth rate of 1.5%). This requires, as does remediation, that we understand that the CSU is embedded in a multi-tiered “system” that is largely local. Pathways and prerequisites must align perfectly. Both the state and the student can pay less for a degree if the student completes the AA in community college before transfer. This savings, of course, can be plowed back into the system to admit more students.

- **For example, a 5% increase, with a 1.5% growth rate would yield an additional 336,000 transfer students over fifteen years (44,000 transfers*1.015%*1.05%-44,000*1.015 factored over 15 years). If those students, instead, began as new freshmen in the CSU, the bill to the state would be almost \$6,300,000,000 for four years (across the fifteen years). However, if the 336,000 originate as transfers, they would add only \$3,700,000,000 to the bill. (Subsidy in the community colleges runs approximately at 1/5th the CSU rate.) Also, they would yield nearly 240,000 graduates (71% graduation rate). In fact, if they replaced freshmen, they would increase the yield of graduates by 60,000 and reduce the overall cost.**

Eliminate penalties that contradict goals. In both instances that follow, we look hapless. We are applying twentieth century solutions to twenty-first century problems.

- **Usually the credit load for each student (SCL) increases when they graduate in a timely manner. This swells FTES. Ironically, it reduces our capacity to accommodate new headcount because we are not to exceed prescribed targets of FTES.**
- **Assume that the credit load will continue to build, as it has the past five years, by 1% each year. But assume as well that target will not be adjusted to account for this internal improvement. Inevitably, the increase in credit load decreases the capacity for more new students. For example, start with 407,000 students and an average credit load of 12. After fifteen years, the credit load has increased by 14% or by 1.65 credits. That results in barring entry to 47,000 new FTES or 51,000 head count.**
- **We can mend this simply. Exempt from target the FTES that is gained due to credit load. Let the campuses collect the tuition and fees.**
- **In total, it is possible to graduate 350,000 more students over fifteen years in the CSU, without a dramatic increase to the state budget or radical surgery to existing bureaucracies.**

Of course, radical surgery is possible.

- **For example in 2009-10 (the last year for which clean data are fully achievable), CSU’s targeted FTES ran the state slightly more than \$2,000,000,000.**

- However, if campuses that received more than mean subsidy per FTES were reduced to that mean, the state could redeploy \$140,000,000.
- In turn, that could fund 25,000 FTES or 30,000 students. Over ten years, the yield could be as high as 150,000 graduates, increasing the projected total by one-third.

Also, we are in a new budgetary world. We audit as if we were in the old one. There are no ongoing allocations for minor capital improvement, major capital projects, and technological upgrades.

- Logic dictates that a campus “tax” its multiple revenue streams to accumulate reserves for these periodic expenses. Logic also suggests that a campus would develop such alternative streams—in extension, non-resident students, etc.—to compensate for state withdrawals.
- But campuses are chastised for such reserves. And alternatives streams are treated as plunder by the state. We need to accept that we are market-driven institutions that are state-assisted. We are no longer state-driven institutions that are market-assisted.

The relation between financial aid and tuition, fees, and total cost is terribly complex, well beyond my scope. But there are some basic matters that can be fixed.

- The combination of grants and discounts in the community colleges is nearly 250% of total tuition. Yet completion and transfer are among the lowest in the nation. The discount should be reduced to stabilize budgets for the BA transfer curriculum in the CCCs. The aid, especially the remaining discount, should be tailored to incentivize completion and transfer.
- The SUG (state university grant) in the CSU is a mystery. It needs to be examined in this context: is there evidence that it contributes to increased graduation rates that close gaps? Implemented in the ‘80s and expanded in the ‘90s, it replaced equal access through a fixed price with equitable access through a price that varied according to need. However, the linkage of discount to need is not spelt out. Nor are the mechanics of the computations and transfers among the campuses.
- It is tempting to get rid of it or lower it; it accounts for 33% of tuition, sequestering considerable resources from operations.

But does the completion rate benefit from even steeper discounts to a few students? If it does, then SUG should be modified to reflect these rules.

- It should be drawn against the projected total tuition and fee revenue in the CSU, since neither wealth nor poverty is dispersed evenly.
- The SUG grants should be disbursed to campuses to increase their total grants to a stipulated percent of the total cost of attending college.
- Since SUG is adjusted annually, the formula should use the most recent data.

- We should question whether **SUG** must rise with every tuition increase. **SUG** revenues traditionally have been bolstered by rate increases to graduate and post-baccalaureate students.

Both the state and the CSU system must stop the silly game of thwarting—and denying that they are thwarting—enrollment and financial success.

- They regularly threaten the campuses for admitting students beyond the state-funded allocation.
- The system says such behavior thwarts their case for more money.
- The **LAO** says this proves their case that higher education is over-funded. I say this proves my case that silliness, not funding per se, is the major issue. These “watchdogs” are paying scant attention to the future of California. Each is intent on enforcing its rules.

QUALITY, LEADERSHIP, AND REWARDS

It probably is time to read W. E. Deming again. He argued that the nagging problem with American productivity was neither intransigent unions nor obsolete technology. Rather, it was us--leadership.

Effective leadership acquires deep knowledge of its organization. The leadership is diverse and experienced enough to foresee unintended consequences. Also, it is trusted enough to receive news without blaming subordinates for projects that fail.

Often we impose rules, like not growing beyond funded targets, that should control cost. But these efforts cost more in other ways. We did not parse growth finely enough to see that improved retention, when it ran up against targets, would squeeze out new enrollment.

Or, consider how we set goals for projects like Early Start. We define success in first-year remediation independently of the bureaucrats and teachers who work with students before after. We treat the deviant student; rarely do we engage with the deviance in the system that produces such disheartening but continuous results. Narrow success trumps a broader inquiry.

We do not need disruptive technology as much as we need disruptive leadership. Such leadership can wrench purpose and coherence from purblind organizations. It can align local team work with global goals. Effective Leaders knows that management requires right-minding more than the workforce needs right-sizing and the budgets need right-spending.

**Harry Hellenbrand
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June 2014**