

# CALIFORNIA FACULTY ASSOCIATION TASK FORCE ON FEES DRAFT REPORT

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## *PREFACE*

The various aspects of globalization provide the widest context for the problems that surround the financing of higher education in the US and California. The flow of resources to public sector institutions is reduced when, in search of lower costs and higher profits, transnational corporations pressure governments to reduce taxes and public spending.

At the same time, globalization produces a “race to the bottom” among salary and wage workers, reducing family incomes and savings and increasing demand for public services. In the era of neoliberal globalization public institutions which serve primarily working and middle class populations, such as the CSU, more and more are defined as unwanted expenses to be reduced whenever and however possible. Tax cuts replace progressive tax systems and public agencies compete for declining state revenues.

Mystified by the language of efficiency, accountability, productivity, and cost recovery, public institutions are starved of resources and otherwise weakened and dismantled. Unfortunately this is the context in which we now do our work.

## *DECLINING SUPPORT FOR PUBLIC HIGHER EDUCATION ACROSS THE NATION*

The United States government now operates on a “high tuition/high aid” model for financing higher education. In this policy, tuition is allowed to increase because financial aid is designed to address problems of access and equity. The model includes the notion that financial aid should “follow the student,” thereby establishing a marketplace logic within higher education such that private and public institutions compete for students and their money. In such a system, of course, students who can afford high fees gain more opportunity than poorer students who are at best only partially subsidized by the government. This model in itself amounts to at least a partial privatization of public higher education.

There are some general shortcomings of the high tuition/high aid model for financing higher education. Perhaps the most significant of these is the simple fact that raising tuition does not solve the revenue problem because each dollar of increased tuition results in a dollar of reduced governmental support. The politics of public university finance seems to be that state governments see increased tuition as a replacement fund that allows declines in state general fund support (Breneman, 1995; Ehrenberg

and Rizzo, 2004). In addition, having financial aid follow students means that public tax money is being used to support private and for-profit institutions. Currently 46% of proprietary institution revenue comes in the form of financial aid. Nationally state support for public higher education has declined but the governmental contribution to private higher education has increased from 1.9 to 2.3% of costs (NEA, 2004a). This, of course, furthers the de facto privatization of higher education.

In the 1970s governmental support for public higher education slowed down and tuition began to rise across the nation. Research indicates that the share of state general funds going to higher education has decreased by more than one-third since the mid-1970s (Ehrenberg and Rizzo, 2004). At the Federal level, programs like Pell Grants are being frozen even though they amount to only 25% of student costs at a four-year college (Reed and Szymanski, 2004). Across the nation, state support for higher education has fallen, declining by 4% in the last two years in general and by 21% in Colorado, 23% in Mass., 20% in SC, and 9.6% in California (NEA, 2004). At the same time, tuition and fees are rising faster than the cost of living. For instance, in the last two years public university tuition across the nation has gone up by 13% and 10.5% respectively, now averaging \$5,132 (Silverstein, 2004). 2004-2005 did see slight increases for higher education in many states, with Virginia and Florida increasing state appropriations by 10% and 11% respectively (Hebel, 2004). Unfortunately, California does not seem to be following this most recent change.

The CSU has experienced a 20-year trend of declining state support. In 1980 it received nearly \$11,000 (in current dollars) per student; in 2002 the state's contribution was \$8,426 (a drop of nearly 22%) (*California Educator*, 2004, 7). By the 1990s analysts were discussing a crisis in the financing of higher education in California as campuses faced "tidal wave II" in a context of declining governmental support.

Falling governmental support and rising tuition is one aspect of the privatization of public universities which also includes changes such as the increasing use of part-time faculty, the outsourcing of campus services, the marketing of students, faculty, and universities as "profit centers" to corporate capital, and the commercialization of research and teaching. The access and equity problems created by rising tuition and fees are, unfortunately, not solved by the financial aid system. Federal tax credit and income tax deductions bypass many working class and poor students and their families whose income levels don't match these programs. Many eligible families are not aware of financial aid policies and do not include it in their plans for their children. Others are deterred by the reporting forms and other bureaucratic aspects of financial aid programs. Some middle-class groups do not qualify. Currently, families with incomes up to \$25,000 will pay 71% of their income to send a child to a public university (while those with incomes more than 100,000 pay just 5-6 % of earnings) (Reed and Szymanski, 2004).

In addition, in recent years federal financial aid policies have emphasized loans over grants. Loans now represent 54% of total federal financial aid, in part actually underwriting increasing fees and tuition. Students increasingly rely on private loans.

Estimates are that perhaps 25% of students use credit cards to finance their attendance at university. These trends mean that nearly two-thirds of students graduate with at least \$17,000 in debt (Reed and Szymanski, 2004). These trends have a differential impact on opportunities of poor and working class students who are less willing and able to take on debt as a way to finance higher education (Campaigne and Hossler, 1998, 92).

### *STUDENT FEE POLICY IN THE CSU*

The California Master Plan for Higher Education directly opposed the high tuition/high aid model for financing public universities. Proposing tuition-free college attendance for all qualified students, the Master Plan established a three-tiered hierarchical system of higher education where in some ways the CSU was under-resourced relative to the UC system. The most important CSU revenue sources are: state general fund, enrollment growth money, tuition/fees, lottery funds, and federal/private money.

The more or less permanent state budget crisis of the last 20 years has resulted in the implicit decision to revisit and reconsider the Master Plan. By the mid-1980s the state began to defund the model and began to raise student fees so that in the early 1990s student fees accounted for around 20% of educational costs, close to national norms for public universities (Liu, 1993; Slaughter and Leslie, 1999). In 1993 CSU Trustees adopted a one-third (student fees)/two-thirds (state funds) revenue policy which included differential fees for graduate education. Due to the most recent state budgetary crises, recently the CSU has raised student fees dramatically, by 10% in 2002, 30% in 2003, 14% in 2004, another 8% next year. With costs greater than in states like North Carolina, Georgia, and Florida and fee increases that are amongst the greatest in the nation (Sherlock and Moore, 2004), California no longer really provides tuition-free higher education. In 2004 the CSU considered and tabled a fee policy that included gradual increases on an annual basis (up to 10% annually) until fees equal 33% of the cost of education (defined as per student costs of total general fund appropriation and fee revenue in the prior year) and graduate fees at 150% of undergraduate fees. Once fees reach the one-third level increases would follow changes in the state's per capita income. The CSU would set aside between 20-33% of new fee revenue for financial aid and the SUG program. All these plans are dependent on the state meeting its per student funding commitments.

### *STUDENT FEES AND THE REVENUE PROBLEMS*

Many analysts agree that California's budget problems stem in good part from its structurally-flawed tax system, founded in Prop. 13 and inadequate taxes on corporations and the wealthy. Trends and projections point to declining state support for higher education which must compete for budget dollars with K-12, health and welfare, and corrections. If the state does not reform its tax system, the CSU can increase its revenue only through increased student fees or increases in its percentage of a limited state general fund. Contrary to research universities, grants and corporate support will never be a significant funding source for the CSU, a

teaching university. The CSU seems to have turned to the high tuition/high aid model for solutions to the system's continuing fiscal problems.

The nature of the CSU student body places a significant constraint on high student fees as a revenue source. Currently, CSU student demographics include the following relevant figures (CO Report, 2004):

- 53% are students of color;
- 40% come from households where English is not the first language;
- 20% are first generation college students;
- 44% are economically independent;
- 85% live off campus;
- 80% work;
- 36% work full time;
- 40% have dependents to care for;
- 55% of dependent students come from families with incomes under \$48,000;
- 69% of independent students report incomes under \$18,000.

Simply put, many CSU students cannot afford high fees.

Increasing fees may be the final dismantling of the Master Plan's guarantee of educational opportunity to middle and working class families and students. Already, the net cost of college for low and middle-income students (40% of enrollments in the CSU) amounts to 49% of family income. Low-income families pay 77% of family income, and middle-income families pay 23-36%. Among all income groups, California families pay 32% of income to send a child to college. These figures, which do take into account the cost of living, rank the state below the best-performing states (NCPPE, 2004). California's undergraduate students (90% of whom are in public institutions) borrowed an average of \$3,710 annually to attend school (Sherlock and Moore, 2004). How much more can our students and their families be expected to pay?

It is important to note that growth projections predict that lower income families will become an increasing proportion of the CSU student population. It is estimated that 54% of student population growth will be in working class and lower-middle class families earning less than \$50,000 a year (Sherlock and Moore, 2004). Experts agree that increased educational attainment in this group is imperative for the future of the state. Now is not the time to close the doors of the university to lower income families.

It is clear that rising tuition and fees produce some very negative consequences for public universities. Perhaps the most important of these is that state governments interpret them as substitutes for state support so that when tuition rises, state support declines (Leslie and Slaughter, 1997e, NEA, 2004; Breneman, 1995). In addition, a high "sticker price" for higher education may lower parental goals, and thus student aspirations, in working class and poor families. And, tuition increases do not mean more spending on instruction. While tuition has increased across the nation,

expenditure share for instruction has declined from 35.1% to 33.7% and administrative spending continues to grow (Leslie and Slaughter, 1997).

Tuition increases affect enrollment. Research indicates that each \$100 rise in tuition creates a 1-2% drop in enrollment (Johnstone, 2001; Breneman, 1995). In the early 1990s CSU fee increases of 10% or more annually correlated with a drop in enrollments of more than 49,000 students. Heller (2001) found that in California a 10% increase in tuition resulted in a .52% decrease in enrollment at 4 year institutions. This research also shows students of color and low income students to be most sensitive to fee increases (Altbach, 2001).

Tuition and fee increases also affect of the quality of a student's educational experience. When fees go up, students must work or work more and this often results in reduced student course loads or dropping out altogether. Research suggests that 53% of low income students who work 35 hours a week or more will drop out before graduating as will 30% of those working more than 15 hours a week. This study also found that 52% of freshman working more than 15 hours a week also fail to graduate (Silverstein, 2002). Years of research point to the conclusion that graduation rates are highest when students are enrolled full-time and continuously (NEA, 2004).

Raising fees closes the door of opportunity for many students, decreases enrollments, and reduces the quality of the student experience; raising fees does not solve the revenue problem or increase funding for instruction. The CSU cannot solve its financial woes by turning to privatization but doing so will renege on the promise of the state's Master Plan for Higher Education.

#### *WHAT CFA CAN DO:*

The CFA can propose some better solutions to the CSU fiscal problem. We may want to consider some of the possibilities listed below (not in order of priority or recommendation):

- 1) The CFA could continue and increase its support for free higher education in the United States.
- 2) The CFA could continue to work in ongoing efforts to reform the state tax code, such as current proposals concerning taxing the wealthy (and closing egregious loopholes) and commercial property.
- 3) The CFA could become a leader in the campaign to resist the privatization of public higher education in the state. We can argue loudly and openly against proposals for "charter universities," performance funding, and other so-called flexibility measure which reverse or alter the state's long history of support for public higher education.

4) The CFA could investigate the creation of new dedicated resources for higher education such as the Angelides proposal for the sale of state-owned properties, an internet sales tax, Contreras's idea of a corporate tax surcharge for higher education, and the CTRA's call for an oil severance tax.

5) The CFA could propose legislation establishing a policy of no-interest loans to high school graduates enrolling full-time in the CSU, forgiving these loans for those who graduate in five years and/or allowing payment through public service employment.

6) The CFA could explain to the legislature that price elasticity studies seem to indicate that fee increases at research/doctoral universities have less effect on enrollments than comparable increases at undergraduate institutions (THECB, 2003). Combined with the demographic profile of the CSU student population, this fact makes it reasonable to consider different fee increase policies for the various public institutions of higher education.

7) The CFA could revisit the recommendations made for the 1993 Assembly Committee on Higher Education (Archie-Hudson) written by Christopher Calderon, especially:

a) The philosophy that "the best financial aid is low fees."

b) The proposal for determining fees with a "sliding scale" based on family incomes and family contributions so that wealthy families pay higher fees than middle and working class families. This system would make unnecessary much of the existing financial aid red tape and related hurdles for lower income families. This kind of income-based fee policy is a way to recognize that the state's low-income families pay 77% of their income to attend a public university while its highest income families pay 9% of their incomes for the same place in a public college. (Recently a UC Regent proposed a \$3,000 surcharge for all students with family incomes over \$90,000 and the state of North Carolina has announced a program where the full costs of a public higher education are covered for poor students who in turn work 10-12 hours a week in on-campus state and federal work study programs, funded by increased fees on other students, special state support, and revenue from the sale of university merchandise).

c) The recommendation that administrative budgets grow at a lower rate than enrollment.

- d) The recommendation that executive salaries be no greater than twice faculty salaries.
- e) The recommendation that an external audit of administrative spending be conducted in order to identify a 20% reduction in administrative costs.
- f) The recommendation for regular external audits of administrative expenses.

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