

“CSU: The Next 50 Years”

April 22, 2011

Panel 2: “Funding Models for the CSU”

Moderator Melanie Williams: Welcome everyone and thank you for coming, it is a thrill to see all of you here and to have our guests. My name is Melanie Williams; I am the chair the Department of business Law here at Cal State Northridge. And I'm thrilled to welcome our speakers today. They are Garrett Ashley who is the, and I've waited until he's digging around in his briefcase, Vice Chancellor of University Relations and Advancement at California State University. He oversees system wide fund raising and development programs, state and federal legislative affairs, community relations, alumni relations, communications, public affairs. He's also the President of the CSU Foundation. Our second speaker is Judy Heiman. Judy is a principle analyst at the legislative analyst's office. She is in a non partisan fiscal and policy advisement role. She provides budget and policy analysis and recommendations to members of the legislature on higher education issues. And finally we have our own Tom McCarran, VP for administration and finance and CFO here at CSU Northridge. He is in charge of a lot of services for students, faculty staff and the external community. He oversees University fiscal operations, facility construction and maintenance, police services, intercollegiate athletics, human resource administration, internal audits. He's also a member of the CSU Northridge Foundation, its investment committee and he's an executive committee member in risk management.

Let me talk a little bit about our format. One thing about having such an interesting topic and so many interesting people is you inevitably run late and that's what's happened today. I'm told that we'll be getting secret signals on when we should be moving on but we're planning to be running over so we can hopefully get the full 50 minutes in. The structure of our meeting today will be where each speaker presents for about 5 or 10 minutes, we will then open it up for discussion with the speakers and then finally for questions so if you could hold questions until the latter part of the meeting I want to make sure we have time for questions. I think it leads to the most interesting discussion so with all of that, as a preamble I'd like to ask Judy Heiman to speak first.

Judy Heiman: Thank you and good afternoon. Our topic today is funding models for the CSU. What I'd like to do in 10 minutes is to describe very briefly the master plan context for funding models, review the current funding model such as it is, describe some other models being implemented around the country and then end with some key policy considerations for determining funding models. I hope in the question and answer time we'll have a chance for you to also offer some of your thoughts on what should some of the key considerations be.

You heard a little bit about the master plan this morning. Chancellor Reed mentioned that it was the product of a booming postwar economy that was heavy on manufacturing, and there was large and rapidly growing demand for managers, engineers, technicians, and skilled labor. And that growth was expected to continue for the foreseeable future. The master plan study team looked at revenue projections, they looked at costs, and they were comfortable concluding,

"Given all the evidence, California can and will continue to provide adequate support for an efficient program of public higher education designed to meet fully the rapidly changing needs of society."

They were confident. Now remember, the planning horizon for the master plan wasn't 50 years, it was 15 years. Some of you may not have seen a copy, I brought a copy. This is the master plan report and it

says right on the cover, 1960 to 1975. It's a collector's item!
<http://www.ucop.edu/acadinit/mastplan/MasterPlan1960.pdf>

The assumptions pretty much held over that time period except that enrollment demand was actually much greater than they had anticipated and indeed the state did prove willing to provide the funds to accommodate that enrollment.

Not long after 1975 however, the economy started to unravel. Your Provost had actually a very good summary of the chain of events in one of the essays posted on his office's Web site about that unraveling and how we got to where we are today but suffice it to say that we no longer enjoy the same economy or state budget on which the master plan framers based their optimism. There are more demands on the state's revenue, the revenue streams are more volatile and restricted, we have a more diverse population as you heard, and more of the population is participating in higher education, and that makes the whole enterprise infinitely more complicated. The public still likes higher education and wants to see more funding devoted to it, but notwithstanding the confidence of that 1960 study team, the public is not at all sure that they're willing to pay more taxes to make that happen, according to the public opinion surveys.

So with that little bit of background, let's move on to the current funding model. We have a marginal cost funding model for supporting enrollment growth, looking at the cost of adding an additional student. It's a fairly simple model with one single marginal cost for all types of students within a segment. And for obvious reasons, it is only relevant when there's money to fund enrollment growth. We've also had, on and off, governor's compacts like the Chancellor mentioned, and those are agreements between the systems and the governor. For example, the ones under Governor Schwarzenegger guaranteed a flat five percent annual increase for base operations and two and a half percent enrollment growth using this marginal cost model every year.

Now, the problem with the governor's compacts as we've seen is that they tend to fall apart when the state cannot fund them. For a couple of years, Governor Schwarzenegger actually provided the funding called for in the compact (the five percent and the two and a half percent increases), and then in the same budget proposal included unallocated cuts equal to the same amount or greater. So what does it mean really? These unallocated reductions make it difficult to say that there is any rational basis for the amount of funding per student at the University. When and if the state regains the capacity to reinvest in higher education, there will need to be a rethinking of the entire base. Clearly your faculty leadership gets that, which is why we are here today.

What is the state of the art for funding models? There are two states that are seen as leaders in contemporary funding models, Pennsylvania and Washington. There are others doing innovative things as well but those are two of the states getting the most attention. I'll describe them briefly. The Pennsylvania State System of Higher Education or PASSHE which includes 14 institutions has had performance funding since 2002 and just this year revised their program based on almost a decade of experience and based on some new strategic objectives in their strategic plan, their model came from within the system it was not imposed by the legislature. And they can point to some good results. Between 2002 and 2008 PASSHE increased overall four-year graduation rates by 10 percentage points including significant increases for African-American and Hispanic students. They had a huge jump in second year persistence including a 15-point jump for Hispanic students. They accomplished all that while their enrollment grew more than 20 percent. An amount equivalent to about two and a half percent of their total core funding or eight percent of their state appropriation is allocated based on

performance. Their thinking was that that is big enough to make a difference but not so big as to cause instability in their budgets. They have 10 metrics that they base the performance on, half of which are the same for all of the institutions and half of which can vary depending on the institution. The metrics fall into three categories: student success, access for underrepresented students, and stewardship of resources. They put together an unimpeachable group of individuals to develop these measures and they met with faculty and administrators and institutional researchers around the system to make sure that they had good agreement and buy-in on what the measures would be and what they really meant.

Just to give you a few examples of some of the measures: degrees conferred, closing the achievement gaps, closing the access gaps, various learning measures, faculty and staff diversity, private support and administration expense as a percent of the cost of education. Those are some of the examples. The institutions get points for improving on their own score as well as for meeting a comparison group average or a state goal. They used to, but no longer compare institutions within the system. They no longer do that because they really want to foster sharing best practices and they found that if institutions felt like they were competing against each other they didn't want to share their secrets. So it's comparing to self and external.

I mentioned some of the results they attribute at least in part to this funding model but another major benefit is that having this system gives them tremendous credibility at the state house. When they go in front of committees to testify, legislators are always calling for increased accountability and criticizing many areas of state government for not having accountability and they are able to say, "We did this, we imposed this on ourselves." We can show you our numbers, we can show you our results, we're serious about this and everyone involved agrees that that has really helped them at the budget table. They were the only ones in the state protected from cuts in recent rounds of budget negotiations and they feel it's because they can point to this funding model and the accountability that goes with it. The other example is the Washington state student achievement initiative which was put together by the State Board for Community and Technical Colleges so it focuses on the community colleges. It was launched in 2007 and its purpose is to use data and performance funding to motivate colleges to make systemic changes that lead to improved students outcomes across the system. Like in Pennsylvania, the impetus came from within the system. The state board responded proactively to heightened expectations from policy makers—like you heard about today—and the public for more accountability and improved outcomes. Colleges earn points when students achieve one or more specified educational milestones which are organized along a continuum from developmental through degree completion. These milestones were selected based on research about where students tend to struggle and drop out.

A task force from across the system reviewed the research and developed the milestones. The conversation was very much focused on student success and these key access points. The milestones are basic skills gains, as evidenced by a standardized test, passing pre-college writing or math, earning 15 quarter credits of college-level course work, earning 30 credits, completing college-level math and then finally completions which include degrees and occupational credentials and apprenticeship training.

Their funding is also based on improvement over a base year and because they compared with themselves and not with others, there is no disincentives to enroll hard-to-serve students. Instead the incentive is to undertake systemic changes in practice to improve the outcomes for the students they do serve. These two examples illustrate some of the ways that the new generation of performance funding differs from some of the more rudimentary experiments in the 1980s and 1990s.

They address concerns about access and quality with measures that don't encourage institutions to simply become more selective or pass students who haven't mastered the material; instead they create incentives to really improve the student outcomes and to meet institutional and state goals. From these examples and others around the country we can pull out some key principles or policy considerations. Three come to top of mind for me. Number one is that any funding formula should be based on the state's goals for higher education. And furthermore, various finance policies should be integrated and coordinated in the service of those goals. For example a funding model, tuition policy, and financial aid policy should all work together in the service of those goals; they shouldn't be developed in isolation. Number two, there needs to be relative predictability and stability for funding. That involves a lot of moving parts—the funding sources, the state's commitment, the proportion of funding that's at risk based on performance. So there needs to be stability but at the same time there needs to be some flexibility to adapt to changing circumstances both in terms of the state budget and institutional circumstances. And then thirdly, we've got to get the incentives right. The model has to be sophisticated enough to account for differences in mission, roles, and student population without tempting institutions to game the system, yet it has to be simple and clear and understandable enough to guide institutional practices all the way down to the classroom level.

There are also practical considerations such as the availability of the public availability and reliability of data. I'm very interested in your thoughts on what other consideration should be and I hope we'll have time to talk about that in the discussion time.

Let me close with a few words about goals, which was my number one consideration. California has not articulated goals for public higher education. Without goals we don't have any common ground for the conversations that we need about how to structure higher education and how to fund it. The budget battles going on in Sacramento illustrate that painfully. We hear opposing perspectives but have no place to bring the parties together based on common goals and have a productive discussion about how to get from here to there. My office has recommended that the legislature adopt a clear public agenda for higher education with specific statewide goals that can be used to set priorities and to align higher education performance with the state's needs. Last year's master plan review committee echoed that call and now there seem to be redoubled efforts to do just that. There are bills in the Assembly and in the Senate that aim to articulate goals and set up an accountability framework, and concurrently there is a group of civic and business leaders that has put together an organization called California Competes to develop goals for postsecondary education and to recommend improve policies, practices and financing to meet those goals. Some of you may know Bob Shireman or David Roth who are involved in that effort and they will be having hearings around the state or public meetings to gather input on goals, particularly focused on educational attainment. Through these efforts, both California Competes and the legislative efforts, you have an opportunity to participate in setting the state's public agenda and goals and to help ensure that the ensuing targets and measures make sense from the ground. I encourage you to embrace this opportunity. This conference is certainly a good start and a great example of the kinds of conversations that need to take place. Thank you.

Moderator Williams: Judy, thank you for the history of the master plan, thank you for the best practices from other states and thanks for distilling some principles. Next we'd like to hear from Tom McCarran.

Tom McCarran: Thank you. Before I start I'd like to thank Judy and the LAOs office which is non partisan and has really helped tremendously with our legislature understanding from a pragmatic view

of the state and its finances. I have appreciated them for many years. Before we start discussing possible future funds, funding models for the CSU I'm going to do a quick review of the past and I promise I'm not going to give you too many more statistics, you've heard quite a few. Just two days ago our students newspaper the Daily Sundial showed a 40 plus year picture of the shifting cost of education from the state to students and this was CPAC data. The state paid 90 percent of that cost in 1967 which dropped to 64 percent by 2008. Now do the math on that, it's about .06 percent reduction per year over that time span. Three years later the state's contribution is now closer to 50 percent so look at the change in the slope of that line in three years. Please don't confuse some of the questions I'm going to pose as advocating for any particular strategy or solution for what needs to change over the next 50 years. I've tried very hard to void a value to of words in my comments and keep this somewhat separate from my role on the campus here.

And again, I have stewardship for financial and physical resources of this campus. Think of my comments as a partial menu of choices for the state, public higher education in California the CSU and in some cases Cal State Northridge to consider as we go forward. So I'm going to break this down into major categories, revenue and expense, what do you expect from a CFO? Followed by my favorite category of other.

I'm going to start with just a few comments about the expense side. Large CSU campuses including Cal State Northridge are already among the most efficient in the country and that's using publicly available data. Having said that, we continue to pursue efficiencies and I'm going to name just a few here. We're increasing our partnerships with other campuses, we're sharing risk management resources, information security, facility management, architectural, certain accounting functions, we're going live with the CSU common financial system on July 1st which has been several years in the making and should yield significant savings. Better utilizing the size of the CSU overall.

We just entered into a system wide purchasing agreement which we're currently pursuing through a contract with the educational advisory board. If you've heard of them, they are a well known firm in higher education. We're exploring in some cases the feasibility of less than full time appointments. If summer enrollment is still a fraction of the academic year enrolment what services can we scale back?

For decades our food service operations have closed units through the summer and furloughed employees and for many that works for them. Continue to leverage vacancies by attrition and retirements to reduce our total personnel costs. Any of you who work on this campus got a letter from me yesterday on our budget and I pointed out that 80 percent, over 80 percent of our total costs are labor. Transformational changes in some cases and let me give you an example at the state level of pension reform. It's been discussed for over a decade and until recently wasn't addressed since it had little impact on a current yea budget what will action or inaction on pension formulas mean in the next 50 years?

So regarding revenues a few ideas that might be worth exploring; a new tuition model such as per unit. While our original state University fee model of one price for one to six units and another for over six units made sense when fees were under \$100 per semester, is it still suitable at the current tuition rates and at the cost for seven units should cost the same as it does up to 21 or more units and that's how our model is right now. More differential fees. We have MBA fees, we have doctoral program fees. Others where the market forces are conducive to higher fees again it's potentially less for non others. Less dependents and we heard this from the Chancellor this morning on brick and mortar. On building new buildings for future growth. We have online hybrid courses alternative delivery methods that will

continue to develop here. increase in non resident students, it's not huge but it can add significantly to available funds, we happen to be one of those campuses in the top four of the CSU on attracting and retaining non resident students and it helps our budget tremendously. Commercial revenue, and again, they're going down in importance here a little bit right now. Increased focus on licensing of the campus grounds and facilities. We're within that magic zone of Hollywood and it's brought in a significant funds to this campus and improvements along the way. Would we ever consider advertising revenue in select physical locations or virtual locations of ours? Philanthropy. The economic downturn and loss in portfolio values did not hurt our operating budget because endowments still play a relatively insignificant role in the University's finances. How might this change over the next several decades? High enough tuition to maintain high levels of service to our students. And example I'd say, is our lower fees in comparable institutions and low course availability consistent with our core values here at Cal State Northridge?

I'm going to mention tuition policy in a minute, I think it goes well with what Judy had said earlier. Okay my favorite other. More lecture, large lecture halls, super smart classrooms, worth pursuing, like the one we were all just in this morning, which is our largest on this campus. Do the economics of expedited degree programs like fall states degree in three, do they make sense? Are enrollment reductions as a cost saving strategy sensible and what is the impact on the myriad of non academic support functions on a campus? What are the appropriate reserve levels to help manage our resources through good and bad economic times? Government Schwarzenegger proposed a rainy day fund in the last few years. But California has never maintained meaningful reserves.

I remember years of getting a tax rebate when the state had a slight surplus, many of you will remember too. How do we address funding for new construction and deferred maintenance? In the past this was accomplished by bond propositions with all segments of public education working together. It's easy to ignore this need during tough economic times. To butcher an old idiom, a dollar of prevention is worth ten dollars of cure. Not addressing deferred maintenance will catch up with us all. I mentioned tuition policy and Judy mentioned relatively predictability in funding models which is important for everybody.

Tuition policy is very helpful for students and their families for planning purposes but unfortunately it's not good politics. In good times the California legislature bought out proposed student fee increases. Even reducing fees twice during the 1990s and in lean times we've had tuition increases as high as 40 percent several years ago and last year a 32 percent increase. There have been attempts to legislate a maximum annual percent increase which would have been catastrophic last year with the deep cut in state funding. And finally, our institution and higher education is all about human capital. Over 80 percent of our budget is for labor and most have not seen a pay increase since 2007. And most endured furloughs last year, which is the only thing that got us through the catastrophic budget cuts of fiscal 2009, 2010. People have choices and we're operating in a global economy where some areas are beginning to recover. What are the impacts in this institution in public and higher education in California if we don't effectively address this issue? Finally I want to thank the faculty senate and the planning committee for convening this event and giving me the opportunity to participate along with you. Thank you.

Moderator Williams: Thank you Tom for a wonderful overview of strategies. Finally we would like to hear from Garrett Ashley.

Garrett Ashley: Thank you. I apologize for starting late today, I'm somewhat responsible, I wanted to listen to the Chancellor and the students after his remarks over in the hall and I appreciate that exchange so I apologize for starting late.

The beauty of going last is that I can simply say ditto and we can move on. In fact some of my notes I'm going to accuse Tom and Judy of plagiarizing as they did, although I can't believe something I wrote down was actually mentioned by them because they have years of financial experience in the state and with CSU, I however, have years of experience in politics and government and public affairs which I think probably makes me the panel cynic, so I'm going to do the best I can to remain positive and upbeat. But what I thought I would do without hopefully repeating too many of the things they already said is add a couple of historical points to what they both said and then talk a little bit about the challenges we have with the public attitude that presents themselves to us when we talk about future funding models. And I can't help myself but also address some of the myths out there, a couple of which and I feel confident saying this because I shared some of my notes with Tom, a couple of which that he mentioned, in terms of what we ought to talk about in terms of future funding.

I think they're missed because I think they're really unrealistic in terms of what we really need to make up the difference of what we've been cut over the years. As I look at the last 10 years, we have been cut significantly, higher education has been cut significantly five out of those last 10 years and I worry that that makes a trend. I worry about what that means for the future, I worry that the politicians, the legislative leaders are getting used to the idea of cutting higher education, my second apology, I've got a lingering five week cough that I'm almost over so I apologize for that. I worry that they've gotten used to this and I worry about when the economy returns, if that will be enough to produce an increase in state funding.

The conservative estimations of when the economy will bounce back, I think is more like three to five years and that's certainly what their looking for in the tax extensions in this most recent budget so we still have I think three to five years of really challenging times ahead. Judy mentioned compacts. Compacts are good but there really should be I think titled road maps because neither side, well, I think we feel beholden to a compact but the governor and the legislature, it's really easy for them to get around a compact when the state's economy takes a dive and revenues take a dive so those aren't iron clad. I do think they're important to start the discussion and give the institution a sense of where they want to go but you have to be prepared for when it's no longer a reality.

Demand continues to arise, demand for higher education, demand to attend the CSU, our enrolment has not been able to keep pace. It's tracked with our budget cuts unfortunately as we have had to make adjustments. We have not been able to keep up with demand. But interestingly enough, the Chancellor may have mentioned this, our funding is as it's proposed now, and likely to be, puts us back to where we were as a state allocation to 1996 1997 levels. We have 70,000 more students to serve. So that money has to be made up somewhere so those are the historical trends. The public attitude is mixed. It's somewhat on our side, as Judy mentioned, we've done a little bit of private surveying ourselves along with the University of California and PPIC is right, the public's perception of higher education is good. They feel the institutions are well run, they feel that students are getting a quality education, they feel very positive, they feel that the state should allocate more funding to higher education.

When you start asking them where and how it all breaks down. First of all they definitely prioritize K through 12 above higher education and we'd be hard pressed to say they shouldn't. They do prioritize higher education above social services which I found surprising and they obviously support higher

education above prisons and prison funding. The problem you get into when you start talking about cutting prisons is you then start to divide the people into two. You've got the people who think that we should cut all the services to the prisoners in the health care and save money there and then you've got a second set of people who think that we should reduce sentencing and minimum mandatory sentencing and let the lesser crime offenders out earlier and manage it that way. In reality much of the, and Judy can correct my math here, but much of the cost in prisons is tied up in labor as you have probably seen recently in the headlines with the new contract there so it's a very complicated message and solution with respect to the public.

The public is also very divided about how to solve the problem and how to fund higher education. You know, they want it to be fully funded but they don't want to raise taxes and they don't want higher fees. California is a really interesting place because we're very socially progressive as a state but very conservative when it comes to issues of crime or taxes. And that's why you saw the three strikes law and minimum mandatory sentencing in more prisons being built. That's why it's very hard to pass a tax in the state, whether it goes to the people or whether it's in the state legislature. I sat in a focus group where the question was posed to four different groups of 12 and the question was, "would you support a tax on oil companies to fund higher education?" and about 11 out of 12 hands went up. And then one person murmured to the other in the back of the room, and this happened every time, they said, well wait a minute, won't they pass that on to us? And all but three hands dropped immediately. The proponents of the oil tax that in the legislature now will tell you that it written into the law that they can't pass that on to the pump and to the consumer.

Well even if that's true, and you can get around anything in this state. Even if that was true it's going to be very difficult to convince the public of that if it went to the polls. The other thing, and you know, I promised not to let the Senate get me out but he's fighting right here, the problem I see with that, the other challenge there, and you know, the chancellor said earlier, he's all for addition revenue for higher education. And we believe that very strongly. But the problem with a decimated revenue and if it could -- if a tax like that could result in a net increase over the next 10 years to funding for higher education, that would be great. but I think what you would find is that as soon as we got \$3 billion from an oil extraction tax we'd see our general fund allocation drop by \$3 billion. And they would say yippee, we've got \$3 billion more to put in prisons and healthcare. That's really what I fear would happen. But again I'm trying to be positive.

Quickly just to knock some of the myths down, and I prefer to call them myths rather than Tom's ideas, a lot of people say well, you know, you've got huge endowments out there, why don't you fund the university through fundraising in your endowments? Well, number one, 98 percent of the donations that we get are restricted. They're meant for a specific purpose. Nobody ever gives us a big check and says here go fund your operations. They say build that building, start that science lab, put together this program for faculty, endow this chair in this program. And those are terrific, terrific opportunities, but it just doesn't happen like some people think that it does. And CSU has a relatively short history when it comes to fundraising. Our endowments are not large. We're not Harvard, Stanford or Yale, where it's billions and billions of dollars and it kicks off millions and millions of dollars every year in interest to fund operations. We just couldn't do that.

Cutting administration, selling the Chancellor's office, and moving all the employees to a campus, well, first of all we don't even own the chancellor's office, so I think the city of Long Beach would have an issue with us if we put a for sale sign out on the chancellor's office because I think they actually own the building. But we could cut administration, we could have all the presidents, the chancellor, the vice

chancellors work for free for the next year and we'd still have about a \$495 million problem to overcome. So we've done a lot of belt tightening.

Tom mentioned some of it and I won't take up a lot of time talking about it, but we've eliminated 100 positions at the chancellor's office. We are working on synergy projects so that we can share services between campuses to save money. We run as efficiently as we can and we have not stopped looking at how we can run more efficiently. Just two more quickly, make up the difference by using your reserves. Well, reserves help you get through a tough patch in one year if something comes up, but that can't solve multi-year funding. And finally Tom mentioned raising the number of out-of-state students because they pay twice as much and they help fund the university for everyone else. We are very low in the number of out-of-state students as a system: we could increase that percentage a little bit. And as we raise enrollment that percentage may rise a little bit but we will not become what UC is doing with Cal and UCLA. And I think they have a target of 16 to 20 percent out of state and out of country to make up that difference. We think that the university benefits from the shared experience of out-of-state and out-of-country students on the campus. Our students benefit from that, but we have an obligation to educate the students of California first and foremost and we can't make up -- well, we'd never be able to make up the difference solely that way, but we're certainly not going to do it at the expense of California's students.

Lastly, if I could try to turn positive and really address the question of the panel, which was future funding models, again I'm going to steal from Judy since she went first and first and foremost what's really important is whatever the model is, stability and reliability, predictability is paramount, it's really important. Having to make these decisions year after year putting enrollment on a yo-yo is not fair to the students, it's not fair to the institution, and predictability and stability is really, really what we need. And I was interested in Judy's comments about what other systems are doing, some of which we are already doing as well, with respect to graduation rates and performance and so forth. But I think those two factors should guide us in any future progress we make for future funding. So with that I don't know that I got us back on track, in fact I probably took more time than I said I would but I'll leave it at that. Thanks.

Moderator Williams: Thank you, thank you for all of our speakers and what I'd like to do now is open it up to any questions. I think the best way to do this would be if you ask the questions I'll repeat it just so we make sure that those watching on TV can hear the questions. Yes?

Audience Person: One of the things we've all seen in the history of CSU has been a reactionary model in terms of tuition increases, Tom mentions that when things are good they stayed basically funded good and when funds back out it's bad. [Inaudible] and the students make huge tuition increases in terms of the dues. If we're really looking at long-term planning, what are your thoughts concerning or looking at plans of enrollment growth coupling that with planned tuition? If it could be more predictable for families and other people trying to get into college.

Moderator Williams: That's a great question and I cannot possibly repeat it as articulately as you did. Given the reactive model we have with regard to funding, and the need for families and students to be able to plan what proposals do you have for greater stability?

Judy: I have a couple comments on that. First of all, I think I have a little bit of a different perspective on one key issue than Garrett and the Chancellor, and that's that they both mentioned when the economy comes back and how much we're going to have to fill back in of what we've been cut. The

budget deficit that we have is a structural one; it's not a temporary one. So the cuts that have already been approved by the legislature, the \$500 million, I would view that as a permanent cut, not as something that's going to go away. (It's not clear whether additional cuts, in the event of an all-cuts budget, would be temporary or permanent. The tax extensions Governor Brown proposed are temporary, and there's a possibility that the cuts that would be necessary in their place would also be temporary, until the economy rebounds.) But that first chunk of 500 million I would view as a permanent cut, and wouldn't predicate planning on that money coming back. Chancellor Reed talked about his prediction that in the future it's going to cost a lot less and take less time to get a degree, but it's unclear how we get there from here. We're going to be in an uncomfortable place between here and there in the meantime because I don't think the funding will be restored very readily and we're not there yet as far as even knowing what that future will look like.

So there's some struggling to be done here. It seems pretty clear to me that part of the answer to that is going to involve higher contributions from students, coupled with keeping the financial aid commitments. Because currently even though we're getting pretty close to half of the cost being paid by students and half by the state, there's still half of your students who aren't paying fees because either Cal grants or institutional aid supports their fees. The other half of the students who don't qualify for that aid, some of them need help, some of them don't, but we're still paying half of their costs. So a lot of states have done this, and it's not ideal but yes, my crystal ball would say probably we are going to shift more of the cost to the students -- and that might be okay as long as we continue to maintain a financial aid commitment to cover fees for students with financial need. Then the question becomes, how can you do that in a predictable way?

Provost Hellenbrand, in one of his posts on the web about how we deal with this problem, looked back at the history of fee increases and said you know, if instead of this up and down we had just done a predictable amount each year it would have been about 6 percent a year over the long term, over the last 30 or 40 years. He suggested we just say that and do it, even saying for four years we're going to only have small increases so get in here, get it done in four years and you're in good shape, and then it jumps up a little more each year for new students. There are strategies to do that without the feast and famine of "Oh, its good times, we're going to buy out fees. "

Moderator Williams: I'm told we have three more minutes, so I'm going to ask my colleagues, would you each like to speak on that issue or would you like one more question?

Garrett: It depends on what the next question is.

Moderator Williams: Good answer.

Garrett: I'll just quickly say I think that's a very fair question and the chancellor and the board tried to make these decisions as early as possible. Predictability is a word that comes up in those discussions and those considerations. I'm not sure before the last year or two anyone would have thought of doing multiyear increases, although Tom might correct me, since he's been here longer, but I think that's a fair question to consider at this time and I know the University of California has kicked that around as well.

I also know that our board is loath to increase fees if they don't have to, so you know, they don't want to -- if we did a multiyear increase over five years of 6 percent, the headline the next day would be CSU raises the fees 30 percent and that's got a sticker shock to it and so it's very hard to communicate that,

but I think that is something that gets discussed more now than it did two years ago maybe when as Judy says probably others have mentioned it should have been.

Moderator Williams: If we could have one question from Lisa Volendorff, I'm trying to read the tag now with Cal-State Long Beach.

Lisa Volendorff: Thank you. My question is I think many of us in the Cal States very much feel that we have tightened our belts significantly and we're all quite skinny [inaudible] unfortunately. So the question really is about how much more belt tightening can we actually be doing? And I understand from Tom and Karen's comments, they're very similar to what we're talking about on our campus also, where can we increase efficiencies, but at the same time I wonder if internally at CSU if we need to it about how we disturbed funding such that we actually incentivize rather than dis-incentivize innovative programming or thinking or partnering such that we can be system-wide for a certain amount of the funding for program level or department level or college level innovative programs to beat the model. Because we do need some room for creativity. So it's really -- I mean, I don't have an agenda, I'm just wondering what you think about for your level?

Moderator Williams: With one minute for tightening our belts and being innovative and not all of us are skinny -- Tom can you offer --

Tom: Lisa, I'm not going to talk to the academic programs because obviously it's on the other side but let me talk a little bit on the other side of the house here. Any program that would have a payback, and I'm getting very pragmatic, of two, three, four, five years, will find the money to fund that because we know long-term that is in the best interest of this institution. And I'm going to keep it that simple. We've had those discussions for years here, it's helped us drive us in so many of our sustainability efforts and that will be a focus going forward.

Moderator Williams: With that, I think we need to close and thank our speakers very much, thank you. and thank you.

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