

Cornerstones Task Force II

“Meeting the Enrollment and Resource Challenge”

**** Draft Report ****

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**Task Force Draft Report:
Bridging the “Gap”**

Draft for Discussion Only

Report Outline

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I. Introduction

The charge to Cornerstones Task Force II, “Meeting the Enrollment and Resource Challenge,” has been to identify options for financing the institution to meet the goals of quality and access, and thereby preserve the values of a collegiate education that have been identified by Task Forces I and III. The articulation of the elements of quality, and the framing of the priorities within the institution for assuring continued excellence in a collegiate environment, are presented in their reports. The responsibility of Task Force II has been to figure out how to pay for them.

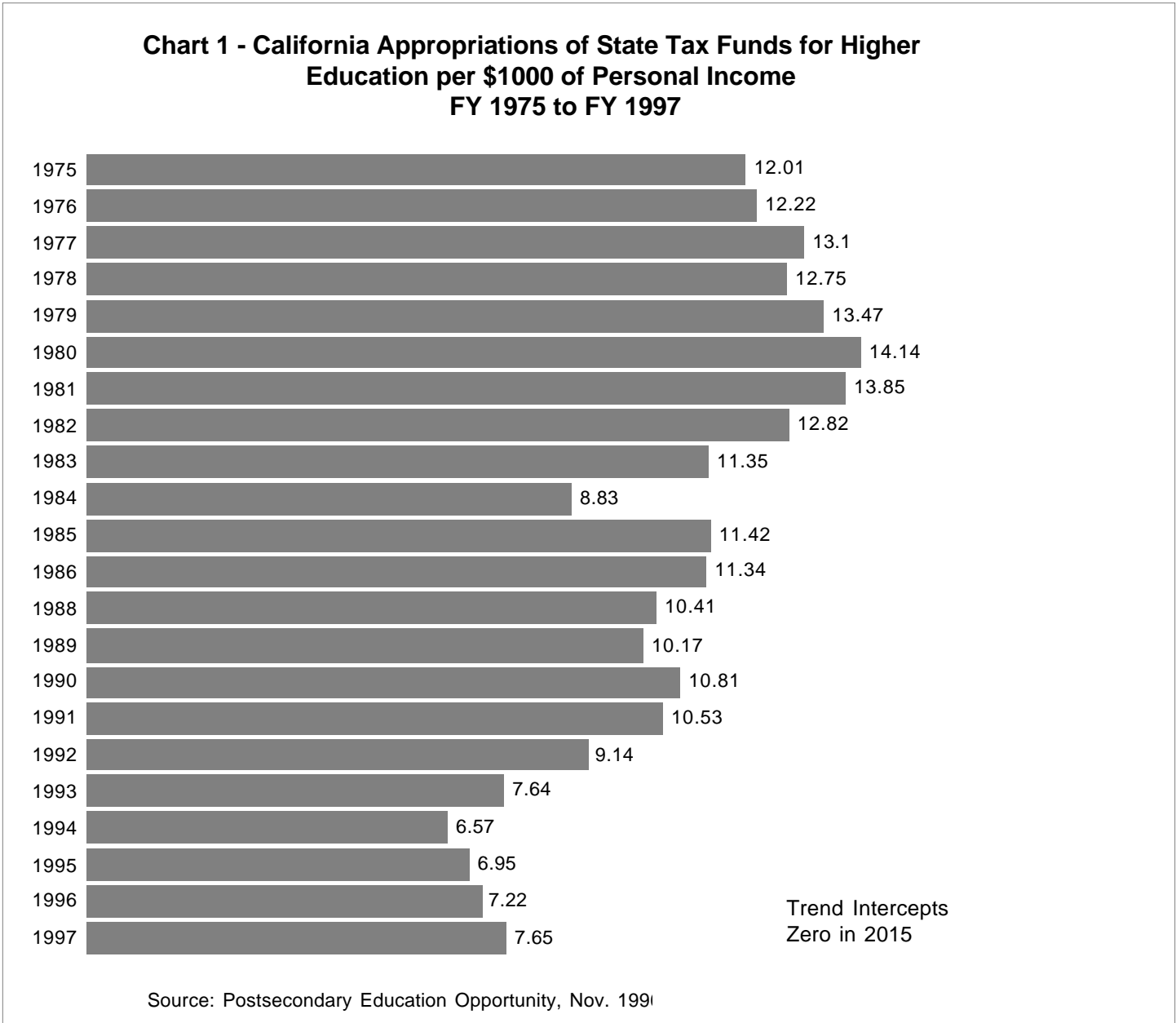
In the course of our work, we developed a number of scenarios for identifying the range of our potential enrollment/resource gaps and the possible consequences of these gaps for our commitments to access and quality. We believe that a new public policy framework for financing higher education in the next century must be developed to guide financing strategies and decisions, and our recommendations regarding this framework should help to initiate that discussion. Using our proposals for this framework as a guide, we identified several options for reducing the enrollment/resource gap while preserving access and quality. These options are still a work in progress; we seek advice and new ideas about them from our colleagues. Our goal in turning these options into recommendations will be to find a balance among them, to spread responsibility for restructuring finance among all elements of the university community, and to reject options which in our judgment cross the line and damage quality. When they are finalized, we do not expect that our recommendations will serve as “top-down” policy directives from the Chancellor’s Office to the campuses; rather, we view them as an array of carefully evaluated alternatives which the system and campuses should utilize to initiate efforts for achieving the savings and productivity gains *essential* for assuring continued access and excellence in the CSU. In this sense, campuses should retain the flexibility to determine the balance and proportion of change pursued through these options, in addition to ones of their own development, relative to their unique operating contexts. The need for change itself, however, is clearly non-negotiable. The CSU and its campuses must begin implementing changes leading to greater productivity now and relentlessly sustain those initiatives over time, or face gaps in our ability to serve that will significantly undermine our basic commitments to access and quality. The examples provided in the appendices should be viewed as models for pursuing these essential savings.

II. Financial Support for Public Collegiate Higher Education - A Policy Framework

A. The Need for a New Framework

The historic level of public resource commitment to higher education in California is absolutely unmatched by any other state in this nation. The policy premise of the Master Plan is that open access and selectivity can be combined in a tripartite public system that is differentiated in mission and function. A companion state policy has been that these obligations be funded almost entirely with public resources, although a financial master plan to accompany the policy master plan has in truth never been developed. While the goal of ensuring continued access to high quality education remains inviolate, the current reality of public finance in California is that public resources alone are no longer enough to

sustain equal access to quality education. The following chart illustrates the declining trend in state support for higher education over the past two decades, a trend that will in all probability not change in the coming decade:



The options are clear. The consequences of continuing to operate as we have in the past are either reduced access or diminished quality. The people of the State of California need not accept either of these options insofar as the CSU is concerned. Improved management through strengthened attention to goals and outcomes, productivity and effectiveness, has become an essential feature of the institution's culture. The commitment to public access is a non-negotiable part of the Cornerstones process. Yet while the CSU is giving serious

attention to enhancing efficiency and productivity, the imperative to maintain access and quality at the same time requires new formulations of historic funding practices.

The articulation of a future-oriented public policy framework to guide decisions about alternative mechanisms for financing collegiate higher education has been a central part of our deliberations. In this regard, Task Force II has focused on the need for comprehensive, integrated funding policies and practices to appropriately classify and manage revenues and expenditures. Included in this discussion are issues regarding the viability of a hard distinction between operating and capital budgets, the role of student tuition in California's higher education system, and the increasing failure of the state's fragmentary student financial aid system to meet the access needs of many low-income students. We also address the disproportionate subsidization of graduate education with undergraduate fee revenue and the need for faculty engagement in resource management decisions. We intend that this framework match revenue strategies with program and policy goals, rather than set academic and fiscal policies separately from one another. An additional goal for the framework is that it serve to guide (rather than direct) decisions about where and at what level private revenues can be matched with public subsidies while ensuring that the public good is protected. We do not concede that acknowledging the expanding role of private revenues in the CSU invites the eventual "privatization" of the university. To ensure, however, that the essential public mission and purposes of public collegiate higher education are maintained as revenue from private sources increases does require policies that identify where public revenues should go based on the state's priorities and which educational activities can or should be enhanced through a combination of public and private revenues. This broad policy then should become the basis of advocacy for state funding of collegiate higher education in general and the CSU in particular, the framework within which student tuition levels are set and their overall effect evaluated, and the compass which determines the direction and balance of student aid programs.

To help in the development of this framework, the task force drew upon the experience and perspective of its faculty, student, and administrative participants in addition to reviewing the literature on the economics of higher education finance, including material on human capital theory, student aid, higher education prices and costs, and institutional finance. We also evaluated recent works specifically regarding California higher education finance, including reports by the Legislative Analyst, the California Postsecondary Education Commission, and the California Higher Education Policy Center. Finally, we looked at both national and state-based research on the benefits from investment in collegiate higher education, including information on both its individual, non-economic benefits as well as surveys of the private and public economic impact of collegiate higher education.

B. Purposes and Priorities: What Are Higher Education's Core Purposes? Who Pays and Who Benefits?

The Task Force recommends that the policy framework for financing public collegiate higher education be undergirded by a combination of social, democratic, and economic

principles regarding the role of collegiate higher education in society. In concert with Cornerstones Task Force I's development of the core values and essential elements of the CSU baccalaureate, as well as the standards for financial and academic accountability formulated by Task Force III, the principles presented in this framework help to identify the fundamental basis upon which state support for the CSU and collegiate higher education in general should be provided. They serve to directly link the policy framework to the non-negotiable commitments to access and quality stated in the original Cornerstones charge by grounding responsibility for those commitments in the benefits received by the state and the student, as well as in the institution's fundamental mission. These plainly stated ideals derive from social and economic theory as well as empirical research about the role and contributions of collegiate higher education.

- **Purpose:** The core purpose of collegiate higher education is education, defined as the development of human talent and the expansion of knowledge, leading to the improvement of the individual, the economy, and society in general. Associated with these core purposes are a number of derivative benefits, such as citizenship development, job preparation, enhanced personal/life possibilities, and economic expansion.
- **Benefits from Investment:** There are public and private benefits to investment in higher education, and the system of finance should recognize both aspects. There has been a tendency in the last decade to describe the benefits from investment in collegiate higher education in largely economic terms and as accruing primarily to the individual. Yet there is solid evidence that points to both the broad-based economic benefits from collegiate higher education that accrue to the public in general as well as the cultural and social benefits it generates for the public and the individual alike. The following table provides examples that indicate the range of public and private, economic and social benefits stemming from investment in collegiate higher education:

Table 1

<i>Individual Benefits (those that primarily accrue to the direct recipients)</i>	<i>Social Benefits (those that benefit non-recipients as well as direct recipients of education)</i>
<p>Greater sense of one's self-worth, capacity for growth, and life possibilities</p> <p>Increased tolerance and ability to adapt to change</p> <p>Higher income</p> <p>Lifetime enhancement of cultural and other experiences</p> <p>More satisfying jobs</p> <p>Enjoyment of education and its benefits</p> <p>Greater prestige</p> <p>Better ability to effectively allocate time and money</p> <p>More/higher quality leisure time</p> <p>Greater effectiveness as consumers</p>	<p>Preservation of the nation's multi-cultural legacy through education in history, literature, art, music, drama, and the arts and humanities in general</p> <p>Development of well-educated and ethical leaders to secure our civic, social and economic well-being</p> <p>Greater economic growth based on general advancement of knowledge and elevation of skills</p> <p>More effective functioning of society through better understanding and mutual tolerance</p> <p>Greater ability of groups and individuals to accept and adjust to rapid change</p> <p>Higher proportion of the population in the labor force (both associated with higher productivity and lower social costs)</p> <p>Greater effectiveness of a democratic society</p> <p>Enhanced mobility of members of the labor force</p> <p>Contribution to elementary/secondary education from teacher education</p> <p>Greater potential contribution of educated parents to the welfare of their children</p> <p>Increased tax revenues and decreased social expenditures from increased employment and higher earnings</p> <p>Basic and applied research that contributes to the common good (including improved health care; advances in technology; agricultural productivity resulting in lower food costs)</p> <p>Colleges and universities as employers that contribute to local economies</p>

The higher education production function is not a straight-forward input-output continuum. The kind of students served, the quality of their prior academic and social preparation, the nature of the program, and the variety of products provided (including research, community and public service) in addition to instruction mean that there is a blend of public and private benefits from collegiate higher education at all levels of the educational continuum.

- **Individual Responsibility:** Students -- and their families -- should bear responsibility for paying a portion of the costs of their education. This is justified because there are substantial financial returns specifically to the individual student from achievement in collegiate higher education. Because these individual economic returns to investment go up at higher levels of educational attainment -- e.g., personal income goes up with each successive level of education -- the portion of the cost of education that should be paid by students should also increase as they move from undergraduate to graduate and professional education. The higher cost of graduate education also justifies increased student charges for those programs.
- **Access and Need:** Student tuition charges should not be a barrier to higher education access by academically qualified but financially needy students. Economic access can be maintained despite increases in tuition through appropriate financial aid programs. The purpose of financial aid is to equalize economic access to higher education. The task force believes that the equalization of economic access to higher education is a fundamental public responsibility and not a role that should be distributed to students through higher fees. However, in so far as the state does not fulfill this responsibility and the CSU from its own resources cannot close the gap, internal reallocation of a portion of student fees will continue to serve as the source of last resort for financial aid funding.
- **The Role of Cross-Subsidies:** It is an axiom of higher education finance that some programs are less expensive than others. Because of the intensity of faculty time involved, graduate programs are generally more expensive than undergraduate programs, laboratory programs are typically more expensive than lecture programs, and classes at small campuses are generally more expensive than those at larger campuses. Some means of distributing revenues across these different cost categories is necessary to assure quality and breadth of curriculum. Yet, the tradition of not charging differential fees within baccalaureate programs to reflect cost differences is well-founded -- both because of the essential breadth of curriculum required to maintain the quality of the baccalaureate degree and the potential for such differentials to serve as barriers to student exploration and choice of alternative courses of study. Differential student charges based solely on cost differentials that occur by discipline should be discouraged as a result.
- **Quality and Efficiency:** The goals of educational quality and institutional efficiency can be complementary. Effective management, including attention to institutional goals

and outcomes, must be achieved as a shared responsibility between the faculty and the administration. The public must believe that costs being charged are reasonable and that quality is being maintained.

C. Identifying the Disconnects

1. Public/Private Revenue Policies

The historic generosity of the State of California in funding higher education has produced revenue policies that presume that public institutions must be funded with general funds, and that other revenue sources are "extras" that either augment the core mission or, in some cases, detract from it. Variations in this policy were tolerated and even encouraged for some non-instructional activities which could be funded through alternative revenues. However, the core instructional program was presumed to be the exclusive funding responsibility of the State of California, and revenues from alternative sources, including student tuition, were not only discouraged -- they were not permitted. General Fund support for collegiate higher education has eroded to a point where it is simply unrealistic to expect that it will be sufficient to fund the CSU's mission at an appropriate level of quality, and new funding policies must be developed as a result. The state should continue to bear the responsibility for funding the core purposes of the university, but the CSU must be prepared to increasingly shoulder the responsibility for supplementing limited state resources in order to preserve access, enhance quality, and lay the groundwork for meeting those commitments into the future. Examples of specific areas where fresh thinking is needed are:

- **General vs. Special Purpose Revenues:** We have entered a period in which the classic distinctions between public, private, and not-for-profit do not work as well as they once did. Joint ventures, partnerships of all sorts, and entrepreneurship among and between public and private organizations may become a more effective way to achieve both public and private goals. If the fundamental mission of the CSU and public governance of the institution are maintained in the public interest, the public nature of the institution is essentially preserved. Yet in our current environment, neither State of California nor internal CSU policies exist to guide where public revenues should be invested as contrasted to where private funds should be utilized to enhance public revenues.
- **Need for Integrated Funding Policies:** Expenditures of public funds to support physical capital together with those provided for operating purposes and for student aid should be considered in a framework that is better integrated than is the case today in California and most, if not all, other states. For example, these alternative uses of funds, which are often strictly segregated, can be substitutes for one another - funds used to construct new campuses could also be used to lease telecommunications networks and equipment to serve students at off-site locations. Moreover, changes in accounting practices for higher education are

occurring that report financial health more accurately than traditional fund accounting. The public policy framework should likewise consider all sources and uses of funds in an integrated perspective. Funding policies should be comprehensive and integrated.

2. The Role of Student Tuition

The equation of low charges with public access to collegiate higher education in California has made a dispassionate re-examination of state student tuition policies analogous to opening up Social Security at the federal level. As a result, student tuition and fee policy has become the third rail of higher education finance in California; and yet, these charges are not integrated into funding policy for the whole system, but historically have been set as an ad-hoc political afterthought to fill in what the general fund has left out. Charges have increased irregularly in the past and too often as a result of a crisis and at the last minute, sending shocks through the system that adversely influence enrollments, in turn reinforcing the political belief that tuition hurts access. The artificial distinctions between student fees and tuition mean that campus-based fees have become a back-door vehicle for tapping student revenues. The whole system is manipulated rather than managed, inadequately connected to the financial aid system, and needs to be re-thought.

3. Financial Aid and Access

One consequence of the separation between tuition policies and financing strategies is that the student aid structure is failing to ensure access to collegiate higher education for a large number of needy students in California. There are a number of specific manifestations of the aid problem:

- **Cal Grant vs. Institutional Aid:** The Cal Grant program began as a vehicle to enhance access to independent colleges when public tuitions were essentially zero. As student fees at public universities have crept upward, there has been no comprehensive reformulation of the role of the Cal Grant program in providing public access in contrast to the institutional grant programs. The levels of state-based grant resources -- including institutional aid -- that are available to needy students in the four systems (CSU, UC, CCC, and private institutions) are quite disparate as a result. The role of institutional aid as a vehicle for public sector economic access needs to be clarified.
- **“Packaging/rationing”:** There are no policies that distinguish between appropriate uses and roles for grant aid, work-study, and loan aid. As the federal government has tried to increase middle income eligibility for aid, access to grant aid from the Cal Grant program, which utilizes federal need analysis criteria in its selection process, for the poorest California students has been put at risk. With only one in five students who meet eligibility requirements receiving a Cal Grant, higher income students with slightly higher grade point averages have

crowded out fully qualified, poorer students. The California State University supports the principle of aid for achievement, but support for achievement should not erode the priority of economic access in the aid programs. If broad guidelines were developed for packaging policies to determine where alternative forms of aid could replace grant aid for middle and upper income students, this kind of competition would not need to occur.

- **Changed Federal Role:** The federal government has substantially reduced its commitment to economic access as a core federal responsibility for higher education. Inadequate grant aid has been replaced by a huge increase in loan availability. The grant/loan imbalance (please see Appendix D) means that the public responsibility for equalizing access has been replaced by shifting generational responsibility from society, parents and families, to students themselves. Moreover, as financial aid for lower-income students becomes increasingly financed through student fees, these practices place state tuition structures at risk politically as students increasingly must directly shoulder this burden through higher student loans.

4. The Subsidization Of Graduate Education

The current financing system subsidizes high-cost programs, including graduate education and research, disproportionately to undergraduate, teaching-centered programs which are typically less expensive. Revenues to support instruction in these higher cost programs primarily come from redistributions of subsidies away from undergraduate education. While programmatic cross-subsidies are appropriate and necessary, the volume of redistribution away from undergraduate education to graduate education is insupportable in a climate of reduced public revenues. Moreover, the practices of cross-subsidization obscure the real costs of programs, making efforts to sharpen priorities and contain costs more difficult.

5. Effective Shared Governance

Attention to the model of shared governance in the CSU must be given if the values of consensus and participation, and the historic role of faculty in setting program priorities, are to be preserved. The capacity to set priorities, identify outcomes, and manage costs must be a shared responsibility in the community, particularly between the Trustees, the Presidents and the faculty. In CSU as in most higher education institutions, shared governance historically has meant a bifurcation in roles between the administration and the faculty, with the faculty being responsible for program and the administration being responsible for resources. Those practices protected faculty autonomy and promoted quality in a time of resource growth; they are seriously problematic in the current environment of tighter resources and essential priority-setting. Now, declining resources require the faculty and administration to join together to identify the university's priorities

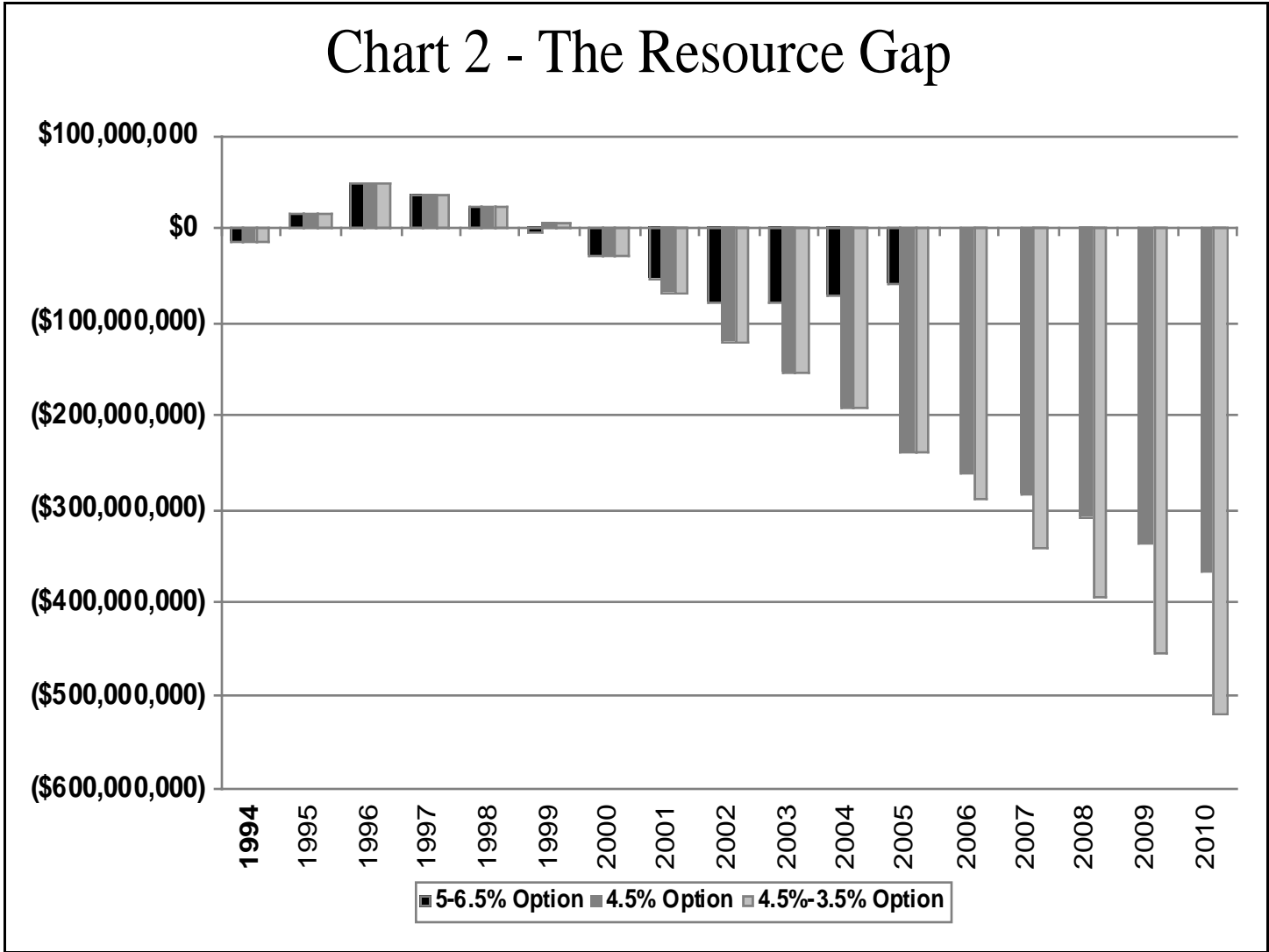
in light of available resources. Only through such cooperation can effective planning with the broad-based institutional support necessary for success take place.

III. Defining the “Gaps”

Our evaluation of resource/management options began with a discussion of how to establish the baseline revenue/enrollment gap that must be covered. To do this, we juxtaposed projections of future enrollment demand with the resources that would be needed to accommodate them against reasonable assumptions regarding future state funding. The details of the models used to develop these estimates and a more complete discussion of the revenue and enrollment estimates we used may be found in Appendix A. It is important to note that all of our “gap” models assume no changes in CSU’s current operations or expenditure patterns in order to fully illustrate the potential dangers of maintaining our internal status quo. One should also recognize the interrelated nature of the capacity, resource, and financial aid “gaps.” Although they are disaggregated in this report for purposes of discussion, their potential impacts are intertwined, and efforts to address one “gap” are likely to have important implications for projected deficits in other areas. Thus, options for addressing capacity, resource, and financial aid needs will ultimately have to be evaluated in light of their overall impacts, not just their effects on the particular concern that gave rise to them.

There is considerable consensus among different estimators -- including CSU, CPEC, the Department of Finance, and others -- about the likely volume of future enrollment demand for the CSU. The “full-access” enrollment goal of accommodating all eligible students in “Tidal Wave II” means that the CSU must prepare to grow from 256,000 FTES in 1997 to 325,000 FTES by 2005 and 358,000 FTES by 2010. Under existing campus enrollment ceilings and with currently available space, the CSU will be short of the space needed to accommodate its projected enrollment growth by roughly 25,000 FTES in 2005 and 58,000 FTES in 2010.

There is much more uncertainty about how to estimate the baseline state general funding that will be available to pay for the CSU as it experiences the impact of “Tidal Wave II.” Rather than attempting to pin down precise estimates without reliable means, our task force has identified a range of realistic future state appropriations within which we have developed our projections. Under our most optimistic scenario, with annual state appropriations assumed to grow between 5-6.5 percent annually through 2005, we project a \$58 million “gap” in 2005 between available revenue and the total resources needed to fully fund enrollment demand. Our most pessimistic scenario, which assumes growth in state funding at 4.5 percent through 2005 and then at 3.5 percent until 2010, projects deficits of \$240 million in 2005 and \$520 million in 2010. These projected deficits are graphically displayed in the following chart, which illustrates the range of potential sizes for the resource gap based on the different assumptions regarding future state funding for the CSU evaluated by the task force:



“Tidal Wave II” enrollment estimates for the CSU have significant implications for financial aid funding requirements in addition to their impact on our capacity and resource needs. The financial aid “gap,” also known as unmet need, is the difference between the aggregate financial need of enrolled CSU students and available financial aid funding, regardless of source. Assuming no significant increase in either federal or state-funded financial aid, and limited capacity to increase financial aid from institutional sources, the “gap” between the financial aid need of CSU students and the funds available to serve that need will increase dramatically as a direct result of projected enrollment growth - from a current level of \$312 million to \$774 million in 2005 and \$1.183 billion in 2010. Even if the CSU finds ways to resolve successfully its projected capacity and resource “gaps,” this projected lack of financial aid resources will make more difficult CSU’s commitment to accommodate “Tidal Wave II” enrollment growth. Because of the complexity and depth of these issues, and the need for fresh thinking and approaches to financial aid, we are recommending that a critical evaluation of the financial aid issues arising from “Tidal Wave II” and potential options for addressing those issues be undertaken in Phase II of the Cornerstones process.

“Gap” Summary:

	<u>2005</u>	<u>2010</u>
Physical capacity shortage	-25,000 FTES	-58,000 FTES
Best case state appropriation (5-6.5%)	-\$ 58 million	Undetermined
Mid-case state appropriation (4.5%)	-\$240 million	-\$ 365 million
Worst case state appropriation (4.5-3.5%)	-\$240 million	-\$ 520 million
Unmet financial need	-\$774 million	-\$1.183 billion

IV. Recommendations for Bridging the Capacity “Gap”

To bridge the anticipated capacity “gap” of up to 58,000 FTES, the task force recommends a number of options for consideration. These strategies all assume that sufficient resources will be available in the operating budget to support the additional FTES served, including additional maintenance costs. Campuses would retain the flexibility to combine these options, or develop additional alternatives, to meet their needs and missions. As the size of the projected capacity “gap” demonstrates, however, the need for campuses to develop and implement comprehensive plans for addressing their capacity needs through greater utilization of existing facilities will not be optional.

In order to provide sufficient physical space, better use of current campus facilities throughout the year (consideration to year-round and special session utilization), more intensive use of space during the week (Fridays, evenings and weekends), and a redefinition of how space is used for instruction (classrooms, labs, offices, and other related space) will be necessary. In addition, creative opportunities for worksite and expanded distance learning should be explored further, and the on-going re-examination of the need for the physical classroom presence of the student in the learning process (i.e., “seat time”) should continue to be vigorously pursued.

As a further benefit, better space utilization efforts also might allow for greater course and program scheduling options for students. For example, greater utilization of facilities on evenings and weekends would carry with it the added benefit of enabling working students to take courses at times that might present fewer conflicts with their job responsibilities, potentially reducing the stress associated with their academic pursuits and improving both their academic experience and time-to-degree. Therefore, efforts at improving space utilization within the CSU should also place a priority on increasing student flexibility wherever practicable.

It is the conclusion of Task Force II that the CSU can meet the anticipated growth without creating new “traditional” campuses. The analyses considered by the task force, displayed in Appendix B, provide examples of the ranges of incremental FTES that can be accommodated through year-round operations and extended scheduling. It is acknowledged that more complete use of current facilities alone will not totally eliminate projected shortfalls at a few campuses -

those “gaps” will need to be addressed by the other, more creative, alternatives identified above, as well as by creative solutions developed at the campus level.

V. Recommendations for Bridging the Resource “Gap”

As the last several years have demonstrated, increases in state appropriations for the CSU at the rate of enrollment growth are no longer a given. In fact, if the Governor’s Compact may be considered a model for the future, the CSU is likely to receive state support for some increment of growth and then face the prospect of acquiring resources from other areas in order to ensure its commitment to access while maintaining quality. Within this context, increasing institutional and learning productivity will be crucial for the CSU. Simply put, by increasing productivity in our institutions and classrooms, we will be able to provide access to higher education for more students while maintaining, or even enhancing, the quality of that education. Moreover, such efforts will demonstrate to the State and the general public that funds spent on higher education are well-spent within the CSU. *We must take care, however, to stress that “productivity” includes quality as well as cost considerations, and we must be vigorous in reminding others of this fact. Simply increasing the number of students served does not necessarily increase the system’s productivity if the quality of the education that each student receives declines as a result. For this reason, Task Force II has defined productivity as “the maintenance or reduction of costs while increasing outcomes and maintaining or increasing quality.”*

In seeking to develop a set of options for bridging CSU’s projected resource “gap” that effectively balances the required effort across CSU’s stakeholder community, Task Force II evaluated options for conserving resources as well as increasing revenues. In each case, we considered a potential recommendation’s possible impact on the CSU’s overriding commitments to access and quality, and rejected those where the potential negative effects on access and quality outweighed the possible gains. We believe that the set of options presented in this report offers a path for effectively coping with the resource challenges posed by “Tidal Wave II” without adversely affecting access and quality within the CSU. We also believe that it provides for a fair sharing of the burden for meeting those challenges among CSU stakeholders. *It is important to note, however, that while the following options demonstrate the potential for producing significant savings no historical example exists, either within the CSU or elsewhere, of a higher education institution achieving large efficiency increases over a relatively short period of time while maintaining overall institutional quality.* Our analyses do indicate the important gains which might be achievable through increased productivity, as defined in terms of quality *and* outcomes. Therefore, they illustrate the significant value of the continuing efforts of the CSU and its campuses to further enhance institutional and learning productivity through the integration of technology into the life of the university as well as other initiatives at both the system and campus level. They also demonstrate the importance of continuing to seek out additional creative solutions that may have yet to be considered.

We wish to reiterate that the task force views these options as an effective starting point for the campuses to utilize as they work internally and with the system to plan for and manage the challenges facing us all as a result of “Tidal Wave II” and declining state support. We envision that the array of options presented in this report will spur further creative solutions at the campus level, and that campuses will choose from among a total range of options -- ours, theirs,

and each other's -- in determining their best courses of action for achieving the productivity gains and savings goals that *must be achieved* in order to preserve the CSU's non-negotiable commitments to access and quality.

A. Savings Options

Through our analyses, Task Force II found that the CSU and its campuses should attempt to achieve annual savings of \$200 million by 2005 and \$300 million by 2010 through restructuring and increased productivity. The following comprise an array of options which the CSU and its campuses should utilize, either singularly or in combination with alternatives developed at the campus level, to achieve needed savings:

Faculty Renewal and Reinvestment Strategies - Task Force II analyzed CSU's management of faculty resources, with the goal of determining how to maximize the benefits received from those resources by the faculty and campuses. We found that more effective management of such resources could have a significant impact on our projected deficits while serving as an avenue for reinvestment in our faculty. For example, the task force evaluated the financial impact of hiring junior tenure-track faculty, primarily at the assistant professor level, to fill positions vacated as senior (associate and full professor) faculty retire. Based on historical trends, we expect to see faculty retirements grow from 200 per year today to 400 per year between 2005-2011. Assuming the CSU does not hire new faculty at the same level of salary and benefits as the retirees, there are considerable savings that accrue annually and across time which could be used to address the professional development needs of CSU's faculty while still providing resources to address operating budget deficits. If a significant amount of the savings that would occur annually through this rehiring strategy were reinvested in professional development and departmental enhancement (i.e., providing faculty with the technological tools and support to further enhance the quality and productivity of their efforts), a powerful mechanism for faculty renewal in the CSU emerges that has the potential to increase learning productivity while preserving a core of tenured and tenure-track faculty at its present strength.

It is important to note that no changes in current practices were assumed regarding the replacement of the roughly 400 annual *separations* of tenured and tenure-track faculty (as distinct from faculty *retirements*). In addition, our analysis did not assume any changes in the ways in which the CSU meets the instructional needs of students (e.g., we assumed no changes in class size or student/faculty ratio in our evaluation of faculty renewal and reinvestment strategies).

Reduce remediation - The CSU already has set a goal of reducing freshman need for remediation from about 50 percent of the entering class today to 10 percent by 2007. The primary purpose underlying this Board of Trustees policy is to improve the preparation of K-12 students for higher education in order to enhance their possibilities for success. This statewide effort to improve K-12 education also has important resource implications for the CSU. The level of resources currently committed to remedial education would be even greater under "Tidal Wave II" if the need for remediation is not reduced. The 80% reduction in the costs associated with remedial instruction by 2007 that is expected as a

result of the existing policy is notable and further supports the importance of eliminating the need for remediation in the CSU and California higher education.

Reduce administrative costs - Task Force II analyzed the potential results from reducing institutional support costs by set percentages over a five-year period. As stated above, no historical example exists of a higher education institution being able to achieve the large efficiency increases modeled by the task force over a relatively short period of time while maintaining overall institutional quality. Our scenarios do demonstrate, however, the significant savings that might be achievable through efforts to increase institutional productivity. For example, one of the primary outcome areas for CSU's Integrated Technology Strategy (ITS) focuses on specific administrative productivity and quality initiatives, such as developing integrated, collaborative administrative systems across CSU campuses, achieving economies of scale in data management and technology procurement, and reengineering the procurement process itself. The productivity targets developed as part of these initiatives indicate the potential for achieving savings in administrative costs (e.g., it is estimated that the range of potential annual savings from consolidating campus data centers would be \$5-20 million; estimates of potential savings from reengineering procurement processes at the campus level range between \$50-100 per transaction).

Increase learning productivity - Task Force II evaluated the possibility of deriving savings from a gradual increase in learning productivity that is consistent with the maintenance of or increase in educational quality. Many of these increases in learning productivity potentially could be achieved through steps that may not require large investments and could yield benefits to students and cost savings relatively quickly. Increases in learning productivity may be achievable through improved academic advising and course scheduling. A greater availability of courses during evenings, weekends, and summers would enhance program flexibility and provide a broader range of scheduling options for students, helping to improve time-to-degree and decreasing the possibility that students might take excess units. Academic programs better focused upon student competencies and learning outcomes could improve completion rates, and thus increase retention and reduce course repetitions. Task Force II recommends that these avenues for increasing learning productivity be vigorously explored by each campus and, where possible, implemented.

Additionally, expanded use of multimedia and Web-based instructional tools and distance education technologies may have the potential to significantly reduce the time- and place-bound nature of instruction while enabling the educational process to become more student-centered. Through these technologies, we may find opportunities for serving more students while increasing educational outcomes without increasing faculty work hours; such opportunities should be vigorously explored and pursued where practicable, meaning where increases in learning outcomes can be achieved while maintaining or increasing the quality of teaching and learning. In order to realize technology-based increases in learning productivity, however, we believe that necessary investments in equipment, infrastructure, and faculty development and support must be made now. Because efforts to determine the potential for increasing learning productivity via

technology are still in their formative stages, no specific estimates of possible savings from these applications were included in our general savings targets for 2005 and 2010. As yet, no one in higher education has been able to precisely delineate the distribution of effects from increases in learning productivity, much less from trying to achieve such increases through technological applications. Significant questions regarding what part of learning productivity improvement is made manifest in quality enhancement and what part in cost savings remain to be answered, for learning productivity initiatives in general as well as those predicated on technology. It is, however, reasonable to expect that CSU will be able to respond, following the completion of analyses now underway, to questions such as: Is it feasible for specific percentages of CSU enrollment in 2005 and 2010 to participate in the teaching and learning process through asynchronous and/or broadcast technologies? What are the likely cost ranges (both capital and operating) associated with these modes of instruction as compared with more traditional modes? In conjunction with these ongoing analyses, Task Force II has identified a comprehensive evaluation of the academic and resource issues related to increasing learning productivity, including the application of technology to the teaching and learning process, as a key Cornerstones Phase II project.

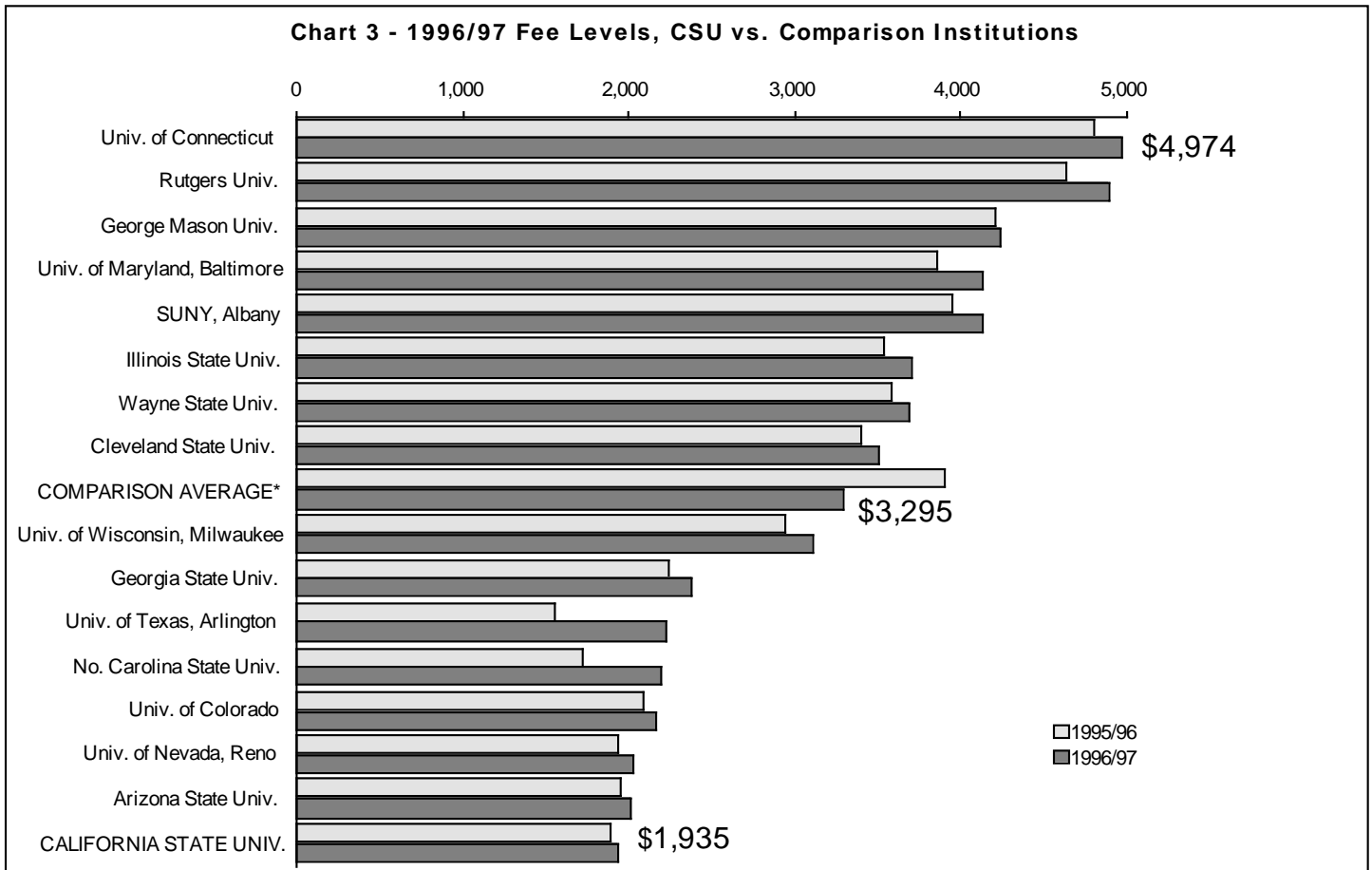
Campuses should also reevaluate their current course and program offerings in light of their individual campus missions, long-term goals, and resource priorities. They could then effectively restructure their curricula based on their core missions, as defined by the campuses themselves, and thereby improve instructional productivity by reallocating resources from marginal courses and programs to those of higher priority to the institution. This also offers the potential to increase instructional productivity across the system, as distance learning technologies enable campuses to focus on their central academic programs while still offering their students access to specialized courses and programs at other CSU institutions.

B. Revenue Options

In addition to evaluating potential savings from improving productivity within the CSU, Task Force II considered various options for bringing its projected revenue levels more in line with its fiscal realities. Deriving from the task force's policy rationale for public financing of higher education, the recommended actions listed below seek to balance the system's needs with their financial impact on students and their families by relating student fees to a limited percentage of the real cost of their education. The higher costs of graduate education in relation to undergraduate education and the tradition of subsidizing those higher costs through undergraduate fees are addressed as well. Opportunities for increasing revenues from other activities are included as a further indication (in addition to the productivity savings identified above) of the CSU's responsibility for meeting its share of the burden along with the State and students. **Task Force II recommends that the CSU pursue the following revenue options:**

Increase Student Fees to 1/3 of Cost - Task Force II explored the revenue potential from fully implementing the existing CSU Board of Trustees policy regarding student fees. Board policy indicates that student fees should be related to some portion of their cost of

education and establishes 1/3 of the cost of education as the acceptable level. To mitigate the impact of higher fees, the policy also directs that a third of any additional fee revenue should be dedicated to student financial aid. A scenario was developed that phased-in an increase in student fees over a 6-year period until the fee level equaled 1/3 of the cost of education at the CSU with 1/3 of the additional fee revenue dedicated to State University Grants, as approved in the existing Board of Trustees policy. Calculated relative to our resource “gap” models, this scenario projects that significant reductions in CSU’s estimated deficits could be achieved via this strategy. Moreover, under this policy, CSU student fees would still be below the *current* 1996/97 average fee level for comparable institutions through 2001, holding the average fee level constant for the basis of comparison. The following chart illustrates clearly just how low CSU student fees are relative to comparable institutions:



Graduate Fee Differential - Existing CSU Board of Trustees policy also supports a graduate fee differential based on the higher cost of education generally associated with graduate education in comparison with undergraduate education. This policy also, however, identifies postbaccalaureate education credential students as a group that should be exempt from a graduate fee differential due to the importance of their service to the State’s future. In keeping with this policy, Task Force II modeled an increase in graduate student fees to 150 percent of the undergraduate state university fee, with fees for education credential

students maintained at the undergraduate level. These higher graduate fees would help to offset the greater fiscal burden to the CSU of providing graduate education. However, in order to preserve access to graduate education for lower-income students and those wishing to pursue professions with lesser financial benefits, the increased financial burden of higher graduate fees would need to be offset by some level of increased availability of financial aid for graduate students.

If, as the task force's public policy framework assumes, future state support for the CSU will be focused primarily at the undergraduate level, a graduate fee differential could provide a source of funding for maintaining and expanding graduate programs to meet market demand. Given the strength of demand for many CSU graduate programs and indications that our graduate fees are well below market equilibrium, allowing campuses to set graduate fee levels in accordance with the markets in which they compete may be the next logical step. Such a policy could enable campuses to generate additional revenue for meeting enrollment demand as well as provide the capital necessary for developing new credential/certificate programs to serve the growing market for postbaccalaureate education. Additionally, a portion of the fee revenue from higher-fee programs could be used to subsidize lower-fee, less market-driven programs, thereby enhancing the overall health of a campus's graduate education division. The graduate fee differential model developed by Task Force II presents only a conservative estimate of the revenue potential that could be tapped to further enhance graduate education within the CSU. The possibilities for expanded financing of graduate education within the CSU through greater flexibility in setting fees definitely deserves further evaluation.

Increase extramural revenues - Existing Board of Trustees policy directs campuses to increase the level of revenue raised from external sources by an amount approximately equal to 10 percent per year of their General Fund allocation. Other Board policies place a priority on the development of partnerships and joint ventures between campuses and private entities. These efforts offer the potential for significantly expanding the pool of resources available to CSU campuses for meeting their access and quality goals. The task force modeled the revenue potential if the CSU's total volume of grants and contracts could be increased by 6 percent per year. Projections at these levels indicate significant revenue potential, and thus demonstrate the importance of increasing extramural revenues to the future fiscal health of the CSU and its campuses.

VI. Continuing Work

As our baseline models illustrate, the combination of Tidal Wave II enrollment growth and static or declining state support threatens to engulf the CSU in a flood of resource and capacity shortfalls in the near future if steps are not taken to adapt the CSU to these new realities. The potential "gaps" in the CSU's ability to serve certainly pose a tremendous risk to our fundamental commitments to access and quality, challenging the CSU's capacity to fulfill our traditional mission within California higher education. In response, Cornerstones Task Force II has put forward a framework for redefining the roles and responsibilities of the state, the CSU, and CSU students for maintaining the university's promise into the next decade. This framework sets forth the principles which we believe should govern those relationships, based

on the relative balance of public and private benefits at different levels of education and the sharing of responsibility among the institution's stakeholders for its present and future health. Regardless of what specific actions are ultimately adopted to secure the CSU's basic principles and mission, the public policy framework presented here should serve as a guide for their evaluation, selection, and implementation.

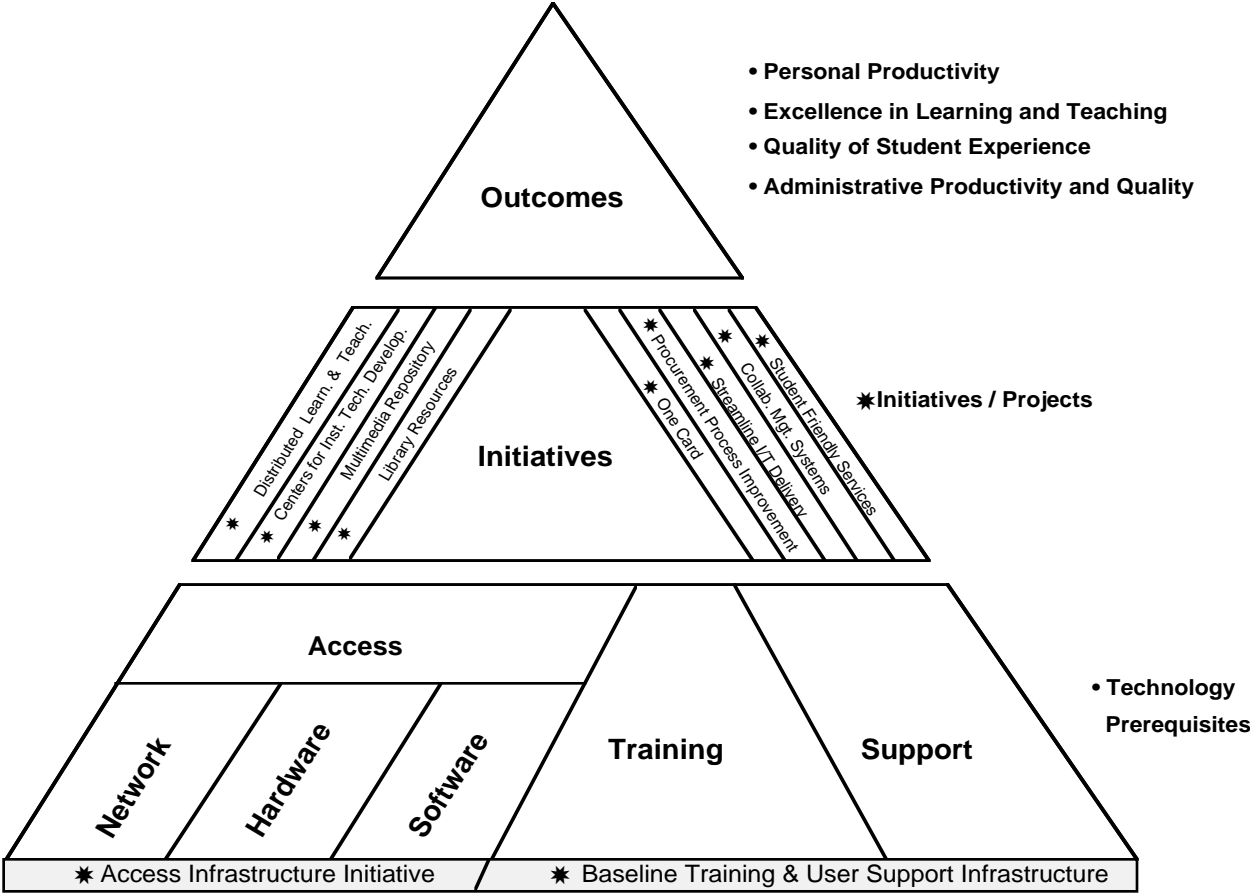
Similarly, in developing our list of recommended actions, Task Force II derived the basic criteria for governing its decisions from the public policy framework for state support of public collegiate higher education as well as the CSU's core commitments to access and quality. We also maintained the central premise that our mission was not to produce a set of edicts to force change at the campus level, but rather to formulate an array of options that would serve as a starting point for campus-specific and system-wide efforts to meet our common challenges. As our report demonstrates, we believe that there are a number of steps that the campuses and the system can take together to increase productivity throughout the CSU, thereby freeing resources to maintain access and further enhance the quality of a CSU education. This need for collaboration between the system and the campuses is embedded in our report. The framework within which that collaboration will ultimately take place - how campus plans will be developed and harmonized with system goals, how the system and the campuses will establish criteria for mutual accountability in implementing and pursuing productivity initiatives, and how the natural differences between campuses will be balanced across the system as we attempt to achieve necessary savings - will have to be fully considered and structured as the Cornerstones process continues to evolve in Phase II. Because of the scope of change involved in some of the options we have proposed and the unique missions and goals of CSU campuses, their specific adoption and implementation by individual campuses also will have to be carefully explored. Through this process of evaluation, the CSU and its campuses may find other ways to meet the enrollment and resource challenges that are more effective given campuses' institutional characteristics and plans. We would encourage such creativity. We do not consider our recommendations to be exhaustive. We do, however, present them to the CSU community as a set of carefully studied options that could have a significant impact on bridging the gaps we face and whose implementation should be seriously evaluated and considered.

Task Force II has also identified a number of areas in which further substantive studies are warranted but could not be pursued within the first phase of Cornerstones. More comprehensive, detailed, multi-year plans will have to be developed in the following areas in order to fully address some of the major challenges and opportunities facing the CSU:

- Technology for Access and Quality:

CSU's Integrated Technology Strategy outlines major goals and a number of initiatives that would aid in addressing the enrollment and resource challenges that have occupied the work of Cornerstones Task Force II. In some ways, the strategic framework for technology outlined in the ITS is the prototype for multi-year, multi-pronged plans in other areas identified by Task Force II for further work.

Chart 4 - INTEGRATED TECHNOLOGY STRATEGY FRAMEWORK



August 27, 1996

The ITS plan focuses on the following major goals that will permit CSU to fulfill its mission: excellence in teaching and learning; enhancing the personal productivity of individuals; a high-quality, student-friendly experience by learners; and high-quality, highly productive administrative support services. The ITS plan was developed in a CSU-wide, broadly consultative and inclusive process aimed at integrating, prioritizing and building upon previous CSU planning efforts. The plan focuses upon investments that must be made in order to achieve improvements and mandates cost savings as well as revenue enhancement. The ITS provides a framework which enables CSU to leverage its market position as the largest senior system of higher education in America, yet allows for differentiation as each CSU campus chooses the technology strategies and emphasizes best suited to its needs and goals.

- Development of the Future Professoriate:

The analytical work undertaken by Cornerstones Task Force II demonstrates the dramatic, secular change that will occur within the CSU professoriate during the next ten to fifteen years. Given the age profile of CSU faculty resulting from the confluence of several historical forces, a significant fraction of CSU faculty are projected to retire in this time period. It is certainly no less important that we begin planning for the professoriate of the future than it is to develop a strategic framework for information technology. Indeed, the development of such a plan is an essential priority that stems directly from Cornerstones. The CSU must attempt to identify the general skills that professors in the future will need to maintain or further enhance the quality of a CSU education and work with academic leaders from the major Ph.D. producing universities to ensure that faculty with those capabilities will be available when such needs arise. We also must begin addressing the competitiveness of CSU faculty salary structures, evaluating how a lack of competitiveness in this area may negatively influence our ability to attract and retain the finest teaching faculty. We must develop plans for bringing the CSU faculty salary structure in line with those of comparable institutions. We must further ensure that faculty receive adequate technological tools, training, and support to take full advantage of the potential emerging technologies may offer for the teaching and learning process. For all of these reasons, as well as issues that may yet be articulated by campuses or our current faculty, the importance of preparing now for the professoriate of the future cannot be overstated.

- Capital Planning and Financing:

In addressing the "capacity gap," Task Force II proposes major changes in the intensity of CSU facilities utilization -- more weeks of the year, more days of the week, more hours of the day. Yet, the achievement of such strategies has very substantial implications for the way space and physical capital planning and financing are undertaken. Clearly, different, more extensive, multi-year planning for capital will be required.

Related to the Integrated Technology plan cited above is a strategy for accommodating some part of the projected growth in CSU enrollment with technology intensive approaches. For example, part of the continuing planning business of Task Force II is a cost-benefit analysis of two basic alternative uses of information technology to extend learner access to instruction:

- the use of various broadcast means for delivering instruction (one way or two way video conferencing via satellite, and various network strategies);
- the use of asynchronous forms of learning to carry instruction into homes, schools, businesses, libraries and community based organizations over computer networks, such as the Internet.

- Improving Learning Productivity:

Substantial effort has been invested by faculty and numerous other groups within the CSU in addressing strategies for improving the productivity of learners through enhancements to the teaching-learning process. More planning and more strategies remain to be developed. The ideas presented by Cornerstones Task Forces I and III regarding the future of the baccalaureate and the development of more comprehensive, effective accountability structures provide some specific directions for exploring improved learning productivity which should be pursued. The possible applications of communications, information management, and multimedia technologies in enhancing the teaching and learning process, and their potential for increasing learning productivity as a result, need to be more fully explored. The non-technology methods for improving learning productivity mentioned in our report have a multitude of academic and resource implications which require more complete evaluation prior to implementation efforts. And these are only a few of the many areas touched on by the Cornerstones task forces which hold the promise for improving learning outcomes within the CSU while reducing students' time-to-degree and providing them with more options and greater flexibility in pursuing their education. The potential for increasing both access and quality through improved learning productivity demands that the CSU community seriously evaluate options for achieving such improvements and pursue their implementation where outcomes can be increased while maintaining or increasing quality.

- Cost Measurement and Administrative Efficiency:

CSU has undertaken many efforts at benchmarking, process mapping, partnering and collaboration of many sorts to achieve improvements in the quality and efficiency of various administrative support services. The work of Task Force II makes clear that such efforts must continue to be vigorously pursued and in some cases expanded, and that new initiatives will have to be explored and developed, in order for the CSU to achieve necessary gains in these areas.

- Diversifying Revenue:

Throughout its history, CSU has been excessively dependent upon a single, generous patron for its resources -- namely the State of California. The evidence and analyses contained in the proceedings of Task Force II make it abundantly clear that California is not likely to sustain a pattern of resource support that will provide for the coming generations of students in anything like the manner in which previous generations were supported. Therefore, it will be incumbent upon CSU to develop plans for diversifying its sources of revenue in ambitious and systematic ways, including: fund raising, grants and contracts from both governments and industry, entrepreneurship, and joint venturing/partnerships with public and private entities whose core competencies are complementary to the CSU and bring added value to our mission.

- Financial Aid

Financial aid programs are a critical factor for many of the students that are eligible and seek enrollment at the CSU. Additional impact simulations will need to be conducted as more details become public about President Clinton's financial aid, financing, and scholarship proposals. Congressional Reauthorization activities, expected to be completed in 1998, may change the landscape of federal financial aid. State financial aid reform efforts must be carefully evaluated to determine their potential impact on financially needy students attending CSU.

While the potential financial aid "gap" has been discussed in this report, the development of new options for addressing this problem requires further research and review during Phase II of the Cornerstone process. Fresh thinking is required in order to develop innovative financial aid reforms that go beyond current proposals and offer real potential for effectively addressing the financial aid "gap."

Bridging the gaps requires that we act now. That is the clear message sent by our enrollment and resource projections. Failure to act in the near term, both in firmly defining the basis for state support of the CSU and changing the ways in which we operate to increase institutional productivity, most likely will result in annual deficits counted in the hundreds of millions of dollars by the middle of the next decade. The positive effects of improving productivity and linking fees to a portion of costs will compound over time as well, however, significantly reducing the projected resource "gaps." To gain the full impact of these changes and avoid crippling shortfalls, the CSU and its campuses must fully engage the process of change now and sustain that process relentlessly in the coming years. Consciously adopting a culture of continuous improvement will not be easy. Long-established patterns and modes of operation must be challenged, judged, and in many cases changed to successfully adapt the CSU to the new defining features of its environment. As difficult as this process may be, the alternatives - sacrificing access, quality, or both - are simply unthinkable.

VII. Appendices

Appendix A - Detailed "Gap" Analyses

Appendix B - Selected Capacity Options

Appendix C - Faculty Renewal/Reinvestment Analysis

Appendix D - Financial Aid Analysis/Recommendations

Appendix A - Detailed "Gap" Analyses

Multiple government, university, and think-tank organizations within the state, including the CSU, have forecast dramatic increases in undergraduate enrollments over roughly the next decade, and those forecasts have been relatively consistent. They project a surge in new enrollments that has been dubbed "Tidal Wave II," in reference to the last "tidal wave" of new students in the late '60's - early '70's and their significant impact on higher education in the state and nation. The California Postsecondary Education Commission (CPEC) estimates that the state will experience a 24.3 percent increase in public higher education enrollments by 2005, equating to a headcount increase of almost half a million students. CPEC also predicts that the CSU will experience the largest percentage gain of California's higher education segments, projecting an increase of 26 percent or roughly 85,000 students by 2005. Translating headcount or actual student projections in terms of the units of instruction which the CSU must provide to serve these students, the CSU estimates that its full-time equivalent student (FTES) enrollment will increase from a targeted 256,000 FTES in 1996-97 to 325,000 FTES by 2005, and possibly to 358,000 FTES in 2010. These figures represent potential increases of approximately 27 percent or 69,000 FTES by 2005 and just under 40 percent or 102,000 FTES by 2010. These projected increases in enrollment demand come at a time when most higher education analysts predict that state support for higher education will remain relatively constant or perhaps even decline further as a share of General Fund revenues. CSU, CPEC, and others agree that these two contradictory trends are likely to produce significant "gaps" between enrollment demand and the resources available to meet that demand, with severe implications for quality, affordability, and access in California public higher education. The following define the size and scope of those problems for the CSU given our non-negotiable commitments to: 1) maintain access to a CSU education for all qualified California high-school students as defined by the state's Master Plan for Higher Education, and 2) preserve or enhance the high quality of education currently provided within the CSU.

The Capacity "Gap"

The most recent CSU enrollment estimates indicate that the CSU would need enough capacity to serve roughly 325,000 FTES in 2005 and 358,000 FTES in 2010. CSU's physical capacity, the actual space available in CSU classrooms and laboratories, as calculated in accordance with current state space allocation formulas, is approximately 273,000 FTES. If we assume that this level is essentially fixed, CSU would face a capacity "gap" of approximately 52,000 FTES in 2005 and 85,000 FTES in 2010. (Note that the definition of the resource "gap" provided below assumes that only capital investments necessary for preserving the CSU's existing capital plant will be made, and thus the fixed physical capacity assumption is consistent with reasonably conservative expectations regarding future resources.) Including CSU's "other capacity to serve," meaning the variety of ways in which students are served in settings other than traditional lecture halls and labs, such as off-site facilities or field supervision, would increase CSU's current capacity to serve by an estimated 27,000 FTES, to approximately 300,000 FTES. The capacity "gap" would then be roughly 25,000 FTES in 2005 and 58,000 FTES in 2010.

For the purposes of this report, we considered this category of “other capacity to serve” fixed through 2010 since the growth dynamics of this element of CSU’s capacity require further study. For example, the delivery of educational services via broadcast and computer networks is in its early stages; with no existing models for evaluating the potential capacity of this mode of service delivery, we have taken a conservative approach to estimating its future impact on the CSU in these projections. However, Task Force II has also initiated a study describing and analyzing the costs and benefits of various technology strategies for accommodating enrollment growth in comparison to the traditional approach of constructing new facilities. Although the study is ongoing, its results should be available prior to the end of the Cornerstones project. We expect that the study’s findings will describe the fiscal implications of attempting to bridge a portion of our projected capacity “gap” through different technological applications.

The Capacity “Gap” (Defined as the difference between projected enrollment and the maximum enrollment that the CSU could accommodate given current standards for determining physical capacity and current usage of off-site facilities):

2005 - 25,000 FTES

2010 - 58,000 FTES

The Resource “Gap”

There is no one set of resource and enrollment projections for the CSU upon which everyone agrees. There are several more or less optimistic (or pessimistic) projections. Of these scenarios, perhaps the darkest derives from RAND’s projections issued in 1995 regarding the future of state spending for higher education. According to their model, a sharp jump in corrections spending due to the state’s “three strikes” law, Proposition 98 spending requirements for K-14 education, and estimated long-term demand for spending on health and welfare programs will eventually squeeze state funding for higher education, reducing it from 10 percent of General Fund expenditures in 1995 to “optimistically” 5 percent in 2005. CSU estimates based on these projections show that it would face tremendous future deficits, reaching \$850 million in 2005 and \$1.5 billion in 2010. However, RAND’s draconian picture of state funding for higher education has not been borne out by the actual state appropriations for higher education since their report was published and seems unreasonably negative in light of the projections of other respected organizations. Therefore, Task Force II developed a series of baselines to define a realistic range for the size of CSU’s potential resource deficits given our firm commitments to access and quality:

- CSU/CPEC Baseline - the most optimistic of the projections, this model is based on CSU’s most recent enrollment projections and CPEC assumptions that predict 5-6.5 percent increases in state support for the CSU from 2000-05; since CPEC projections end at 2005, this scenario also concludes at that point.

- 4.5 Percent Baseline - this set of projections also assumes CSU enrollment estimates, but models the size of the resource “gap” if state appropriations continue to grow at a constant rate of 4.5 percent (4% growth under the current Governor’s Compact plus some funding for debt service on capital bonds) through 2010; this baseline’s projections, as well as those of the following model, were extended through 2010 to provide a basis for comparison with estimates proposed by other higher education studies.
- 4.5-3.5 Percent Baseline - this baseline carries the same assumptions as the 4.5 percent model except that state appropriations are projected to decline by a full 1 percent following 2005, thus illustrating the potential impact on the resource “gap” if Compact funding levels cannot be maintained into the future.

From these models, CSU’s projected gap between enrollment demand and the resources needed to service that demand range from \$58 million to \$240 million in 2005 and \$365 million to \$520 million in 2010. These models demonstrate the extreme sensitivity of CSU’s financial outlook to changes in state appropriations and the broad scope of change required within the CSU to avoid large deficits and fulfill its stated mission in the years ahead. They also highlight the importance of developing a stable basis for determining state support for the CSU in order to maintain access to the CSU’s current high-quality postsecondary education for the next generation of Californians. A more detailed explanation of the baselines follows:

CSU/CPEC Baseline: CPEC’s relatively robust assumptions regarding state support for the CSU from 2000-05 are the most optimistic of the projections presented by any group thus far. In calculating this baseline, those assumptions were combined with the most recent revenue and enrollment projections developed by the CSU. While not identical to CPEC’s enrollment and revenue projections, CSU’s assumptions are relatively consistent with those presented by CPEC. CPEC projects that state appropriation levels will remain at the level prescribed by the Governor’s Compact through the end of the 1999-2000 fiscal year and then increase at roughly 5-6.5 percent from 2000-05. The revenue and enrollment assumptions of this baseline include a 10 percent fee increase (or a corresponding supplemental appropriation) through 1998-99 as prescribed in the Governor’s Compact, with annual fee increases at the rate of inflation (estimated at 3 percent) thereafter.

All three scenarios include the cost of debt service on \$150 million worth of bonds per year for maintenance of CSU’s existing capital plant plus \$16 million per year in operating expenses to address the deferred maintenance backlog. All three scenarios also assume no changes in CSU’s operations or expenditure patterns over the period of analysis in order to illustrate fully the potential dangers of maintaining our internal status quo. With these assumptions, this baseline model projects an annual deficit of \$58 million in 2005. Since CPEC’s projections only extend to 2005, this scenario ceases at that point.

The “Gap” (CSU/CPEC Baseline): 2005 - \$58 million

2010 - Undetermined with this baseline

4.5 Percent Baseline: A second set of resource projections was calculated with the same assumptions regarding student fees as the CSU/CPEC Baseline and the same level of state appropriations through the end of the Governor's Compact in 1998-99. Starting in 1999-2000, though, this model projects annual growth in state appropriations at 4.5 percent per year through 2010. This baseline is intended to simulate essentially a continuation of the status quo in state support for the CSU with the addition of some funding for maintaining the University's existing capital plant. It assumes that growth in state support will not be consistent with CSU's enrollment growth, but that the CSU will continue its commitment to access as defined under California's Higher Education Master Plan. This results in projected annual deficits of \$240 million in 2005 and \$365 million in 2010.

The "Gap" (4.5 Percent Baseline):	2005 - \$240 million
	2010 - \$365 million

4.5-3.5 Percent Baseline: In this scenario, state appropriations were projected to grow at a 4.5 percent annual rate from 1999-2005 and then drop to a 3.5 percent rate through 2010. All other assumptions were held identical to the first two scenarios. The drop in state appropriations for the CSU after 2005 modeled in this baseline explores the assumption that the state may not be able to sustain the higher appropriation rate indefinitely. Since this model is identical to the 4.5 percent baseline through 2005, it also projects a \$240 million deficit in that year, but the assumed drop in state support thereafter leads to an estimated \$520 million deficit in 2010.

The "Gap" (4.5-3.5 Percent Baseline):	2005 - \$240 million
	2010 - \$520 million

Analysis of the Resource "Gap": The projections modeled by Task Force II demonstrate the extreme sensitivity of the CSU's resource picture to the level of state appropriations. The optimistic assumptions of the first model lead to a projected "gap" in CSU's 2005 operating budget of \$58 million. Essentially continuing the state's current funding pattern, with no changes in CSU operations and projected enrollment increases, would produce a deficit in 2005 over 400 percent larger under the same model. Similarly, a 1 percentage point drop in state appropriations beginning in 2006 leads to over a 40 percent increase in the projected "gap" in 2010. The impact of variations in state funding in these models clearly illustrates the overriding significance of developing a consistent basis for state support of the CSU. Efforts by the CSU to plan for and manage "Tidal Wave II" enrollments while preserving its dual commitments to access and quality could be severely hampered by relatively minor fluctuations in the level of state support. Thus, the principles governing the relationship between the CSU and the state should be clearly delineated and explicitly define the basis on which the CSU can expect to receive funding from the state. The public policy framework presented in this report regarding the rationale for public financing of higher education puts forward what we believe are the most effective principles for guiding state support of the CSU and higher education in general. This framework lays

out the basis on which the relationship between the state and the CSU should move forward into the next millennium, guided by mutual accountability and the fundamental higher education interests of California.

These analyses also indicate the importance of getting ahead of the curve in adapting the operations of the CSU and its campuses to the long-term outlook for state funding. Initiatives for improving institutional productivity and sharing the burden of "Tidal Wave II's" projected impact among the state, the university, and its students must be implemented soon and relentlessly sustained over the coming years if large deficits are to be avoided. The recommendations presented by Task Force II provide an array of effective options for the CSU and its campuses to pursue productivity improvements and revenue options that could contribute greatly towards helping the system to meet the challenges confronting it. The list of options is by no means exhaustive, but indicates avenues for serious consideration and change. The task force hopes that its efforts will spark further development of creative solutions at the campus level, where ultimately many of the actual changes must be implemented.

The Financial Aid "Gap"

The CSU enrollment estimates outlined above in The Capacity "Gap" have significant implications for financial aid funding requirements. The financial aid "gap," also known as unmet need, is defined as the difference between the aggregate financial need of enrolled CSU students and financial aid funding. Assuming no significant increase either in federal Title IV or state-funded financial aid, the financial aid "gap" (unmet financial need) of students enrolled in CSU will increase significantly as a direct result of projected enrollment growth as illustrated below:

Academic Year	Enrollment		Needy Students	Aggregate Need	Total Aid Available	Financial Aid Gap (Unmet Need)
	FTE	Headcount				
1996-97	256,000	328,392	148,105	\$1,168,252,240	\$855,894,616	\$312,357,624
2005-06	325,000	416,903	245,556	\$2,672,631,504	\$1,898,253,071	\$774,378,433
2010-11	358,000	460,296	314,382	\$4,009,942,410	\$2,826,878,966	\$1,183,063,444

The unmet need/financial aid "gap" is based upon the following assumptions:

- The proportion of enrolled students demonstrating financial need will increase gradually over the years;
- The maximum Pell Grant will be increased to \$3,000 for 1998-99 as proposed in the President's budget and then will remain constant;
- Other federal student aid programs will remain at current funding levels;
- Student budgets will increase modestly at the rate of 3% per year;
- CSU student fees will not increase until 1999-2000 and thereafter will increase at the rate of 3% per year;

- The CSU will continue to devote one-third of increased fee revenues (either from enrollment growth or fee increases) to the State University Grant (SUG) program;
- The number of CSU students receiving Cal Grants will remain constant;
- Needy students will show modest increases in borrowing; and
- Other student aid programs (e.g., scholarships from institutions and private organizations) will increase modestly (3% per year).

Even if projected capacity and resource deficits are resolved satisfactorily, failure to increase available financial aid resources may result in CSU's inability to achieve its anticipated enrollment targets in 2005 and 2010 based upon "Tidal Wave II" projections. Increasing capacity will provide additional classroom seats, but lack of financial resources will prevent students from enrolling to fill these seats. Solutions must be found to address concurrently all three gaps -- capacity, resource, and financial aid -- to ensure that CSU is able to accommodate all eligible students who wish to enroll in CSU.

Appendix B - Selected Capacity Options

The following analyses illustrate the potential for generating additional capacity through greater utilization of existing CSU facilities. They indicate the possible gains that could be made in this area, but are not intended to address the full range of issues that would need to be carefully evaluated by the CSU and its campuses prior to any implementation effort. They are intended, however, for serious consideration and evaluation as the CSU and its campuses attempt to address the projected capacity “gap.”

Year-Round Operation (YRO)

Task Force II’s analysis indicates that CSU can significantly address its projected capacity needs through year-round operation (YRO) of system campuses. These strategies assume, however, that sufficient resources, including maintenance, will be available in the operating budget to support the additional FTES served through YRO; without this operational support, an expansion of YRO to all CSU campuses would be untenable.

CSU currently has four year-round campuses with state-supported summer quarters - Hayward, Los Angeles, Pomona, and San Luis Obispo. Task Force II explored expansion of summer quarter enrollments at these four campuses and implementation of YRO at the remaining CSU campuses at various levels of effort based on campuses’ academic year (AY) term average FTES:

40 percent/21 percent Option: We assumed that current quarter system campuses could achieve 40 percent of their current AY term average FTES in their summer quarters (note that in 1996, three of the four current YRO campuses reported summer quarter FTES close to this rate). We also made the assumption that, adjusting for the cultural and operational difficulties potentially associated with implementing YRO on traditional calendar campuses, semester campuses could achieve 21 percent of their current AY term average FTES through a compressed, 10-week summer term. With these utilization rates, we project that the CSU could gain roughly an additional 23,000 FTES in capacity through expanding YRO systemwide.

60 percent/40 percent Option: The task force then considered the potential benefits of a more significant commitment to YRO. Under this option, we assumed that quarter system campuses could achieve summer quarter FTES equal to 60 percent of their current AY term average FTES. For semester campuses, we again assumed a more moderate rate to account for the possible effects of a compressed time schedule for state-supported summer semesters. We set the summer term rate at 40 percent of the semester campuses’ current AY term average FTES. Given these assumptions, the CSU could generate an additional capacity of approximately 45,000 FTES through YRO.

100 percent Option: Finally, Task Force II looked at the potential results from achieving full summer quarters/terms on all CSU campuses. Each campuses’ capacity to serve was increased by one third to accommodate a summer quarter or compressed summer session with FTES levels comparable to current academic year terms. Since this option would require historic efforts and major cultural change within the CSU, the goal of this exercise was primarily to define the outer

boundary for what we could achieve via YRO. At this maximum level of utilization, based on current utilization standards and academic year FTES, the CSU could gain a total additional capacity of 87,000 FTES.

Extending operations into the summer would increase certain costs. The options we evaluated assume that the instructional and non-instructional costs for students served during summer quarters/terms would be covered in the regular support budget. In addition to these costs, however, the plant operation and maintenance budget would be affected due to increased utilities costs and custodial/maintenance care for the facilities under conditions of increased use. Initial estimates for increased utilities/custodial costs indicate that they would start at \$16 million in 1998 and reach \$20 million by 2005 and \$23 million by 2010.

Extended Scheduling

Current space utilization standards are based on classroom scheduling of 70 hours a week, between 8:00 a.m. and 10:00 p.m., Monday through Friday. Laboratory standards are based on a 45-hour week, that is, 8:00 a.m. to 5:00 p.m., Monday through Friday. However, Fall 1995 scheduling patterns indicate that most credit hours were generated, and thus most classes were scheduled, Monday through Thursday between the hours of 9:00 a.m. and 3:00 p.m. The CSU provided approximately 90 percent of its credit hours on Monday through Thursday in Fall 1995, with roughly 60 percent of credit hours generated between the hours of 9:00 a.m. and 3:00 p.m. Only 9.5 percent of credit hours were provided on Fridays, and less than one-half of 1 percent of credit hours were generated on Saturdays and Sundays. By increasing the number of classes scheduled in afternoons and evenings, and extending the hours of operation to weekends, the CSU could increase its calculated physical capacity and provide additional units of instruction within existing facilities.

The California Higher Education Policy Center estimates that the CSU could provide roughly an additional 22,000 FTES of instruction within existing facilities through this strategy. Task Force II's analyses indicate that for every 1 percent increase in scheduled courses the CSU would generate approximately an additional 3,000 FTES. Thus, the CSU and its campuses could pursue some level of increased courses through extended scheduling that, when combined with the YRO options identified above, would generate sufficient additional capacity to significantly enhance CSU's ability to handle projected enrollment growth within existing or planned facilities. It might also assist CSU campuses in meeting the growing needs of many students for greater flexibility in course scheduling. As with YRO, however, the analyses concerning this option assume that the state will fund the operating costs of the additional FTES served. Without state support, the potential for increasing FTES served through extended scheduling will be lost. This does not reduce the benefits of extended scheduling to students under existing FTES levels, and therefore campuses would still be encouraged to increase their flexible scheduling options on that basis.

Assignable Square Feet Per Full-Time Equivalent (ASF/FTE) Model

The ASF/FTE model, a new model for allocating space that the CSU is currently exploring, fully incorporates existing space utilization and planning standards presently used by the CSU in its

capital outlay program. This model for space allocation would improve the ability of the CSU to accommodate students because it recognizes that instruction can take place across types of space not previously included within the definition of capacity. By incorporating campus data on instructional offerings by discipline, level, and mode of instruction, the ASF/FTE model would provide a dynamic tool for assessing instructional space needs based upon current space standards and the latest reported campus data on FTE distribution. It also would allow for increased flexibility in adjusting the uses of instructional space and provide campuses with incentives for managing the use of space to best meet the needs of instructional programs. The campuses would benefit because the model identifies space needs based upon current use patterns and can be used to internally adjust space allocations.

Appendix C - Faculty Renewal/Reinvestment Analysis

Over the next ten years, the faculty of the CSU will be reshaping itself. By 2005, today's faculty will have selected a quarter of the new faculty to lead the CSU into the 21st century. By 2010, half of today's faculty will have retired. As today's senior faculty retire, there is a unique opportunity for the faculty to continue building and developing itself through the savings derived from the difference between the salaries and benefits of retiring professors and those of new hires.

Based on historical trends, we should expect to see faculty retirements grow from 200 per year today to 400 per year in 2005-2011. Assuming the CSU does not hire new faculty at the same level of salary and benefits as the retirees, there are considerable savings that accrue annually and across time, a sizable portion of which could be utilized for professional development and departmental enhancement.

In this analysis, no changes in current practices are assumed regarding the replacement of the roughly 400 annual separations of tenured and tenure-track faculty (as distinct from faculty retirements). In addition, we do not assume any changes in the ways in which the CSU meets the instructional needs of students (e.g., the scenario does not assume any changes in class size or student/faculty ratio).

This analysis is based on the following assumptions:

- Retirement rate continues as observed historically.
- Salary at retirement - \$65,004 + 25.5% benefits
- Entering salary, Asst. Prof., Step III - \$38,892 + 25.5% benefits
- Entering salary, Avg. of Assoc. Prof. III & Full Prof. III - \$50,568 + 25.5% benefits
- Replacement annual salary changes (step or averaged step increases) is 2-3%
- Dollars are 1996 current
- 1994 tenured/tenure track faculty by age is used to represent 1996 faculty

Annual savings from retirements, after replacement salary and professional development commitments, are not one-time. Annual savings of cumulative replacements slowly decrease to zero and then become deficits as replacement salaries approach retiree salaries. This does not occur in the span of the scenarios. Salary changes for base-year tenured/tenure track faculty (2-3%, equivalent on average to step increases) are not taken from the retirement/replacement savings.

Retirement/Hiring Scenarios

In 2005-06, projected retirements will be about 25% of today's CSU tenured/tenure track faculty. In 2010-11, projected retirements will be approximately 47% of today's CSU tenured/tenure track faculty.

Scenario 1: Fill all positions vacated through retirement at the Assistant Professor, Step III, level.

Scenario 2: Fill 50% of positions vacated through retirement at the Assistant Professor, Step III, level and 50% at the Associate/Full Professor level.

Scenario 3: Fill all positions vacated through retirement at the Associate/Full Professor level.

Annual systemwide savings from the year's replacements and the continuing savings from previous replacements are projected as follows:

<u>Scenarios</u>	<u>2005</u>	<u>2010</u>
100% Asst. Professors	\$74M	\$120M
50% Asst. Professors - 50% Assoc./Full Professors	\$54M	\$ 80M
100% Assoc./Full Professors	\$32M	\$ 42M

Appendix D - Financial Aid Analysis/Recommendations

STUDENT FINANCIAL AID:

Prepared for CSU Cornerstones Project Task Force 2: Meeting The Enrollment And Resource Challenge

CRISIS IN STUDENT FINANCIAL AID

Student aid is in crisis both nationally and in California. The 1993 final report by the National Commission on Responsibilities for Financing Postsecondary Education *Making College Affordable Again* identifies four factors that contribute to the crisis in the affordability of higher education: (1) rising costs of attendance; (2) failure of student aid programs to keep pace with college costs; (3) failure of the postsecondary education financing system to encourage families to save for college; and (4) significant demographic changes.

At current enrollment levels, the higher education finance system has failed to ensure adequate access to postsecondary education. The state's population will grow twice as fast as the U.S. population between 1990 and 2000. In response to this population growth, enrollment projections estimate that California faces an increase of 445,190 students for all three public higher education systems, with 85,356 expected at CSU by the year 2005. Thus, while students and their families have a responsibility for meeting college costs, government and higher education institutions committed to ensuring that all qualified students have access to college by providing financial aid are hampered severely by the lack of resources and the traditional structure of existing programs.

NATIONAL PERSPECTIVE

DETERIORATION IN AVAILABILITY OF GRANT FUNDING FOR NEEDY STUDENTS

Recent attention to issues of college affordability responds in part to a relatively invisible but fundamental shift in federal student aid policy which drives much of state and institutional student aid policies. Two events occurred in combination to cause this change: a shift away from grant aid to student loans as the primary source of federal support for financially needy students and a Congressionally-mandated change in the technical measurement of financial need that increased the number of students eligible for federal, state, and institutional financial aid. Congress revised the need analysis methodology to achieve two goals: (1) to expand federal financial aid eligibility to students from "middle-class" families and (2) to simplify the financial aid application process for the majority of students applying for financial aid. While the change in the technical measurement of a family's ability to contribute to educational costs was an important, overdue change, neither the federal government nor the state increased grant aid to ensure that the newly-eligible needy students received grant aid. Instead, Congress increased the annual and cumulative borrowing limits under the subsidized federal student loan program. As a result, the new unfunded financial need was met largely through increased student loan borrowing, which

increased nationally from \$15 billion to \$26 billion from 1992-93 to 1994-95. At the state level, it increased pressure on California's Cal Grant programs, to which the California Student Aid Commission responded by focusing greater emphasis on a student applicant's grade point average. Because of the well-documented correlation between a student's grades and income, i.e., students from higher income families tend to demonstrate higher grade point averages, the neediest students have been denied Cal Grant awards.

Impact of Federal Need Analysis Changes on CSU Students

In an effort to determine the impact of the changes implemented in federal need analysis provisions, analyses were performed on CSU aid applicants who were enrolled and applied for aid both for the 1992-93 and 1993-94 academic years. This review indicates that the average decrease in the dependent student family contribution was \$1,318, and the average decrease in the independent student contribution was \$1,072. The total average decrease in the family contribution for dependent and independent students was \$1,178, resulting in a \$69.5 million decrease in the amount students and their families contributed to their college education in 1993-94.

This decrease in the family contribution represented a corresponding \$69.5 million increase in the financial need of CSU students from 1992-93 to 1993-94. The State University Fee increased by \$132 in the same period, increasing student financial need by \$16 million. The combined effects of these two changes resulted in an increase in CSU students' financial need of \$85.5 million. Nineteen percent of this total increase resulted from student fee increases; eighty-one percent was caused by changes in the measurement of financial need. While the student fee increase contributed slightly to greater student loan dependence, the most significant cause of increased student loan borrowing is attributable to changes in need analysis methodology, increased annual and cumulative borrowing limits, and introduction of a federal unsubsidized student loan program available to students and their families who do not demonstrate a financial need.

Sources of Federal Financial Aid

In its report *Trends in Student Aid: 1985 to 1995*, The College Board reports that total available student aid in 1994-95 was \$46.8 billion. Seventy-five percent was provided from the federal government, a decrease of five percent since 1984-85. Institutional and other grants have grown from 13 to 19 percent of the total over the same period with state grants remaining steady at 6 percent.

Total federal grant aid to students showed no increase between 1985 and 1995. The buying power of the maximum Pell Grant declined steadily over the past decade. In 1985-86, the maximum Pell Grant covered 20 percent of average cost of attendance at private universities and 50 percent of the cost at public universities, dropping to 10 and 30 percent respectively in 1994-95. Federal grants now represent only 43 percent of total federal, state, and institutional student aid. A decade earlier, grants and loans represented 48 percent and 49 percent of total aid respectively.

Increase in Federal Student Loans

The largest single source of aid in 1994-95 was federal loans. Loans provided \$26 billion in aid to students, 56 percent of all available aid. Most of these loans are subsidized to the extent that the government pays the interest on them while borrowers are enrolled in school. However, a growing share of student loans are now unsubsidized, adding in-school interest charges to the borrower's total cost of each loan. In 1994-95, students borrowed \$15.2 billion in subsidized loans and \$7.6 billion in unsubsidized loans. The number of students borrowing unsubsidized loans increased 178 percent between 1993-94 and 1994-95, rising from 751,000 to over 2 million borrowers. In contrast, growth in the larger subsidized loan program was moderate, rising only by 7.5 percent in the same one-year period. The number of borrowers increased only by 24,000.

Although the number of parents borrowing Parent Loans for Undergraduate Students showed no change, the average loan increased 14 percent from \$4,531 in 1993-94 to \$5,181 in 1994-95.

CALIFORNIA PERSPECTIVE

TRENDS IN STUDENT AID

The California Higher Education Policy Center issued in April 1995 *Trends in Student Aid: California* prepared by Larry Gladieux and Jacqueline King of The College Board. The report documents changes in student aid for the years 1990-91 through 1993-94 that appear to have been driven by ad hoc responses to the state's fiscal emergencies rather than by thoughtful policy. The study reports the following major findings:

- Financial aid has not kept pace with increases in the costs of higher education;
- Most available financial aid is provided to students from federal student loans resulting in an explosion in student borrowing;
- Most of the increase in grant aid in public four-year colleges has been financed not by the state or federal government but by students through student fee dollars; and
- For the first time, UC students now receive more state grant aid dollars than students from private colleges and universities. This represents a major shift in the students who benefit from the state student aid program, a program originally designed to provide choice to eligible and qualified students interested in attending a private college in California.

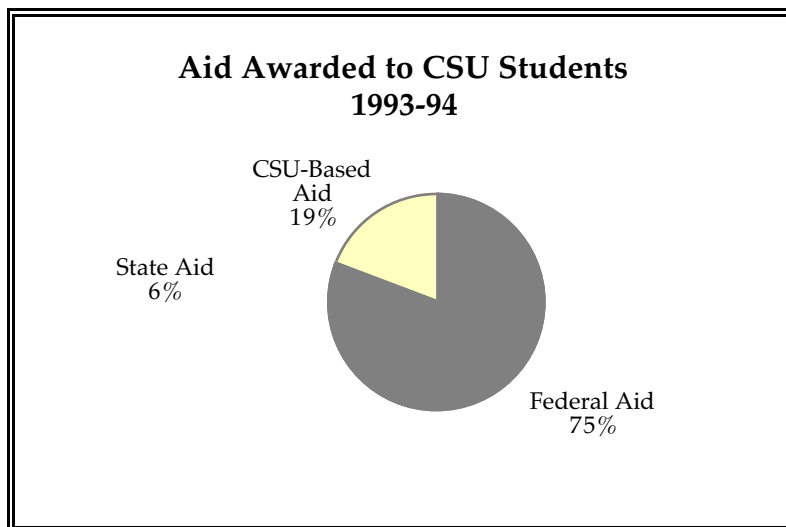
The report asserts that continuation of these trends will result in reduced access for students seeking higher education in California, unused space in California independent colleges and universities, and increased borrowing for many who enroll in California colleges and universities.

In 1993-94, students in California received almost \$3.5 billion in student aid, 70 percent of which came from federal programs, 6 percent from state programs, and 24 percent from institutional sources. Of the \$3.5 billion, CSU students received \$598 million, of which \$450 million came from federally supported programs, \$34 million from state aid, and \$114 million from institution-based aid.

These sources approximate the same share of available aid nationally. Of the 70 percent of all federal aid received by California students, 45 percent was provided by student loans (\$1.56 billion); 18.5 percent in Pell Grants (\$641 million); 5.3 percent, campus-based (Federal Work-Study, Perkins Loan, Supplemental Educational Opportunity Grants, \$182 million); and 1.4 percent, other federal sources (\$50 million). Statewide, total student aid grew by 40 percent in constant (inflation-adjusted dollars), but more than half of this increase was in student and parent borrowing.

From 1990-91 to 1993-94, inflation-adjusted aid to students at public institutions grew by over 60 percent while average student fees grew by 70 percent at CSU, 90 percent at UC, and 180 percent at community colleges. These increases occurred while the income of California families declined relative to inflation.

Institution-based aid increased by 70 percent in the public sector, twice the growth rate of state aid. At CSU, this growth has been financed from student fee revenue.



CAL GRANT PROGRAM STRUCTURE

California's state grant program is the Cal Grant Program administered by the California Student Aid Commission (CSAC). The Cal Grant Program consists of three separate programs for undergraduate students, the Cal Grant A,

B, and C programs, and one program for graduate students, the Graduate Fellowship Program. The differences in the program descriptions are important to distinguish in order to understand the impact of state funding decisions and CSAC policy actions on students.

The *Cal Grant A* program provides assistance to low- and middle-income students. Recipients must demonstrate a financial need and meet minimum grade point average requirements. The qualifying minimum grade point average is increased to ration the number of awards since the number of eligible applicants exceeds the number of awards funded by the Legislature. Approximately 17,400 new Cal Grant A awards are funded annually by the Legislature. For 1995-96, the maximum Cal Grant A award for CSU students was \$1,584. Approximately 23 percent of new Cal Grant A awards are received by students attending CSU (N= 4,115); 41 percent, UC; 30 percent, independent colleges; 5 percent, proprietary schools.

The *Cal Grant B* program provides assistance to high-potential students from disadvantaged, low-income families. Recipients are selected on the basis of financial need and consideration of the applicant's low-income, disadvantaged background, and potential for academic success. Approximately 12,150 new Cal Grant B awards are funded annually by the Legislature. In 1995-96, the maximum living allowance is \$1,410 and the tuition/fee awards are the same as Cal Grant A (\$1,584) for students enrolling at CSU campuses. Nineteen percent of new Cal Grant B awards are received by students attending CSU (N= 2,523); 62 percent, community colleges; 15 percent, UC; 3 percent, independent colleges; 1 percent, proprietary.

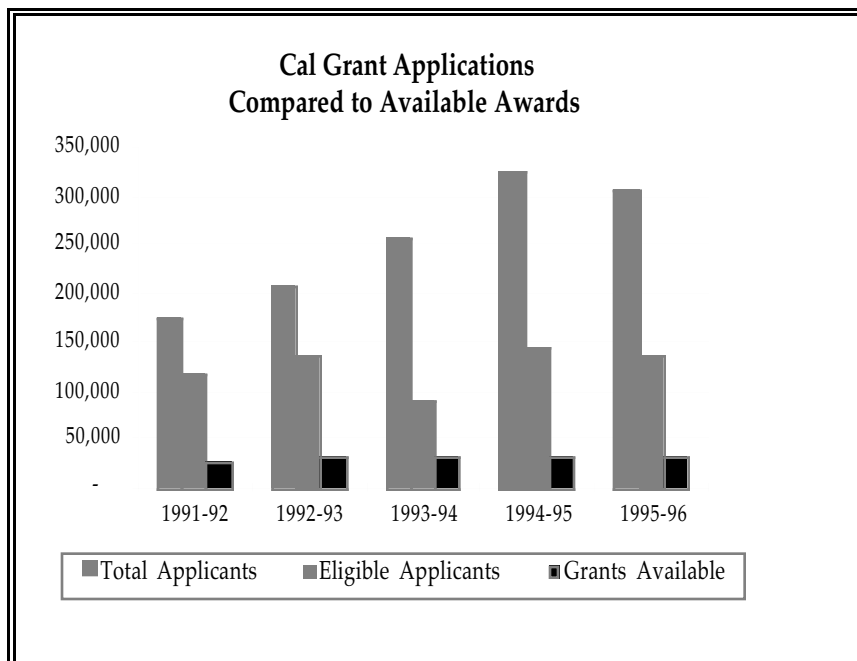
The *Cal Grant C* program provides tuition/fees and funds for training costs for students attending vocationally oriented programs at community colleges, private vocational schools, and independent colleges.

The *California Graduate Fellowship Program* provides assistance to approximately 300 students who plan to pursue recognized graduate degrees with the intent to become college or university faculty members. In 1995-96, 105 CSU students received new awards of \$882.

IMPACT OF CAL GRANT PROGRAM STRUCTURE ON CSU STUDENTS

Several weaknesses in the Cal Grant program affect CSU students adversely: (1) an award eligibility process in which required student GPA minimums have been raised to unreasonably high levels as a means of rationing need-based aid; (2) distribution of over 70% of new Cal Grant A awards to freshmen; and (3) no relationship between the number of Cal Grant awards available and the number of Cal Grant eligible students.

The Cal Grant system has remained basically the same for the past 30 years despite the changing needs of students, increased fees at public institutions, a restructuring of the economy, and the changing demographics of the state. Chronic underfunding permits only one out of five eligible new applicants to receive Cal Grant aid.



These factors result in the systematic exclusion of CSU students from participation in the Cal Grant Program. Over 50 percent of eligible Cal Grant applicants who do *not* receive an award indicate a CSU campus as their intended campus of attendance. The overwhelming majority of these students are regularly admitted freshmen who fall into the top one-third of graduating high school seniors.

CSU enrolls two transfer students for every freshman. Yet, less than 30% of new Cal Grant A awards are allocated by the California Student Aid Commission to transfer students. Because of the limited number of Cal Grant A awards available for which transfer students compete, the qualifying grade point average for transfer students is significantly higher than for entering freshmen. Very few students transferring to CSU qualify for a Cal Grant A even though they meet CSU regular admission requirements. Since students may apply for a Cal Grant B only when enrolled in high school, the Cal Grant A is the only state grant program for which transfer students may apply.

Adult re-entry students represent an increasing population of students choosing to attend CSU. The majority of these students have not attended school for several years. However, qualification is based upon the student's last reported grade point average. Judging academic performance for students who have not attended school for

several years is irrelevant in the determination of their ability to succeed in college-level courses. Alternative criteria should be developed that would assess more accurately the student's ability.

Simply increasing the funding and the number of Cal Grants recommended in the Master Plan without first determining the types of students the state should serve may result in a continuation of the status quo. These criteria do not recognize adequately the growing demand of California's diverse student population that will be seeking postsecondary education opportunities in the next five to ten years. A significant portion of these students will be transfer students and older, adult reentry populations. The state must define more clearly the population of students it intends to assist to ensure that additional awards are received by a more diverse set of students.

CALIFORNIA STATE UNIVERSITY

DEMAND FOR AID EXCEEDS AVAILABLE FUNDS FOR ELIGIBLE STUDENTS

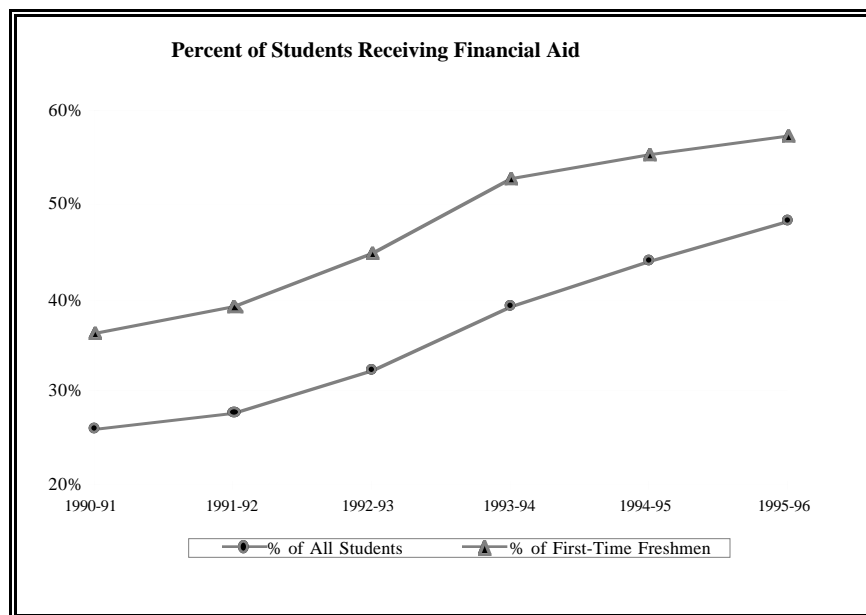
The state's budget crisis, limited federal financial aid funding, increased numbers of eligible financial aid applicants, and significant increase in students' financial need resulting from need analysis changes mandated by the 1992 Reauthorization have generated a demand for financial aid far greater than federal and state funding levels. This dilemma has left many students and families confused and uncertain about financing options and discouraged about the prospects of attending college.

Changing Economic Profile Increase Number of Eligible Students

The number of students who arrive at CSU in need of financial aid has grown dramatically during the 1990s. The number of CSU students eligible for student aid increased from about 30 percent in 1990 to nearly 50 percent in 1995-96. The increase is even more stunning because it occurred during a period when CSU headcount enrollment declined by approximately 60,000 students. This increase reflects the changing economic profile of students who attend CSU.

According to the initial draft of the *1994/95 Student Expenses and Resources Survey (SEARS)*, 279,044 dependent, full-time undergraduate students are enrolled in California four-year colleges. Thirty-nine percent of these students (109,086) are enrolled in CSU. Until 1991/92, CSU served just under half (47 percent) of all dependent full-time undergraduates with parental incomes under \$72,000 attending four-year colleges in California. By 1994-95, this had dropped to 38 percent. The percentage of first-time CSU freshmen from low-income families earning less than \$30,000 annually increased from 36 percent in 1991-92 to 49 percent in 1994-95. The percentage of undergraduate transfers to CSU from these low-income families increased from 28 percent in 1991-92 to 33 percent in 1994-95.

Overall, the percentage of entering first-time freshmen demonstrating need and receiving financial aid has increased dramatically in just five years — from 36 percent in 1990-91 to nearly 56 percent in 1994-95. CSU has continued to provide access to California's neediest students, but the data provide a persuasive argument for major reform in the state's financial aid policies if CSU is to continue in this role.



Total financial aid to CSU students has more than doubled over a five-year period, growing to \$724 million in 1994-95 from \$335 million in 1990-91. Preliminary data show that CSU students received \$858 million in 1995-96, an increase of \$133 million in one year, nearly all of which represents a further increase in student loan borrowing. The percentage available as scholarships and grants declined from 53 percent to 43 percent. Student loans have been making up the difference, rising from 44 percent to 55 percent.

Inadequate Cal Grant Funding

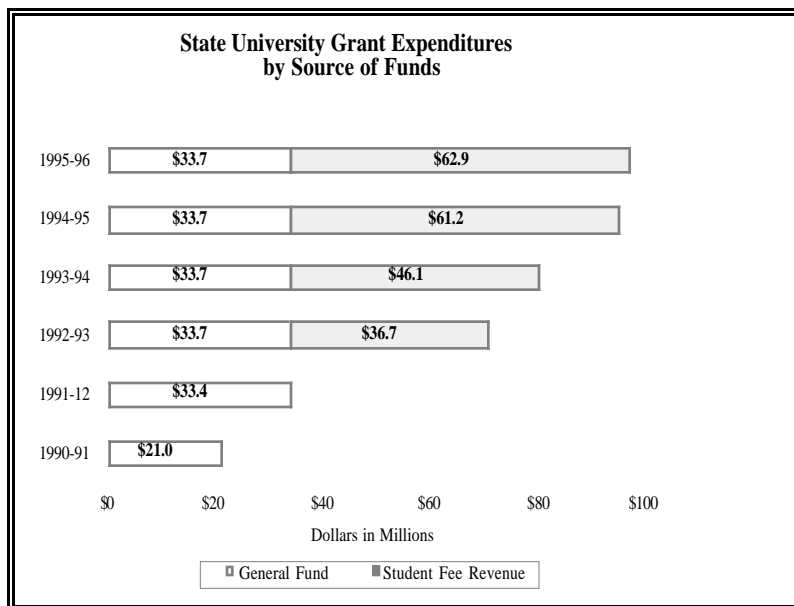
In California, state-sponsored financial aid programs have not kept pace with the increase in the number of financially needy students. In 1995-96, the number of new Cal Grant awards for students attending postsecondary institutions in California was sufficient to accommodate less than one of every five eligible applicants. Over 50 percent of eligible Cal Grant applicants who did not receive an award indicated a CSU campus as their intended campus of attendance. Aid dollars available through the Cal Grant programs declined relative to inflation from 1990-91 to 1992-93 then increased sharply in 1993-94. This trend reflects the uneven effort by the state to cushion fee increases. For example, Cal Grant monetary award levels were cut significantly in 1992-93 in response to the state's fiscal crisis, the same year that the CSU State University Fee increased by \$372. In 1994-95, an additional \$20 million was appropriated to cover increased fees at CSU and UC.

The *number* of new Cal Grant awards was last increased in 1989-90, increasing from 29,720 to 31,220. The number of new awards has remained at this level through 1995-96. Recent infusion of \$20 million in the 1996/97 state budget marks the first significant investment by the state in the number of new Cal Grant awards available in addition to an increase in the maximum grant level for students attending independent colleges and universities. Yet even with this increase, the shortfall is still enormous given the current and expected need into the next decade.

The inability of the state to increase the number of new awards between 1989-90 and 1995-96 during the period when the number of eligible Cal Grant applicants increased from 83,000 to over 136,000 resulted in a shift in the type of student qualifying for a Cal Grant. The Gladieux/King *Trends in Student Aid: California* documents that

the share of Cal Grant aid awarded to UC students increased substantially, surpassing the share of aid awarded to students at independent, nonprofit institutions. In total, UC and independent college students receive over 70 percent of Cal Grant aid. In contrast, students at UC and independent institutions receive only 16 percent of Pell Grant funds. Pell Grants are targeted by federal law to low and lower-middle income students. Therefore, a significant percent of Cal Grant funds are received by students who are largely dependent and from middle to upper income families.

Eligible Students Exceed Continued Growth in State University Grant (SUG) Funding



General Fund support for the State University Grant (SUG) program leveled off at \$33.7 million in 1992-93. In response to the additional student financial need generated by the 40% fee increase in 1992-93, CSU provided nearly \$37 million from the \$104 million revenue raised from the fee increase to augment the SUG program. As described in the Cal Grant Funding section above, Cal Grant monetary award levels were cut as well in 1992-93, the same year the state ceased augmenting the SUG program to cover fee increases, a process it had followed since inception of the State University Fee in 1982. This action transferred to CSU the sole responsibility for meeting the increased student demand for financial aid in the absence of

adequate federal and state financial aid.

The responsibility for financing student need shifted from federal and state sources to CSU without adequate or thoughtful public policy discussion or direction. The gap that has been created between the number of students eligible for and the number of available SUG awards cannot be filled solely by CSU. The significant shift of responsibility placed on CSU to meet students' need generated by inadequate federal financial aid and state support both for the SUG program and Cal Grant program prompted an assessment by CSU of the role of financial aid to meet the CSU goals of access and persistence. In March 1993, the Board unanimously approved the framework for a new student fee and financial aid policy. The new policy dedicated one-third of annual incremental fee revenues to augment the SUG program. Fee revenues could be generated by fee increases or enrollment growth without fee increases. Annually since 1992-93, CSU has augmented the SUG budget even in years in which there has not been a fee increase. Augmentations recognize the additional financial need generated by enrollment increases even in years in which there are no fee increases.

To target SUG funds to students with the greatest financial need, awarding criteria for the SUG program were revised for 1993-94. For the first time since the inception of the SUG program in 1982, SUGs were limited to students with a family contribution less than \$5,000. A sliding scale based on the expected family contribution of eligible students was employed to determine the maximum SUG award. The awards ranged from 20% to 100%

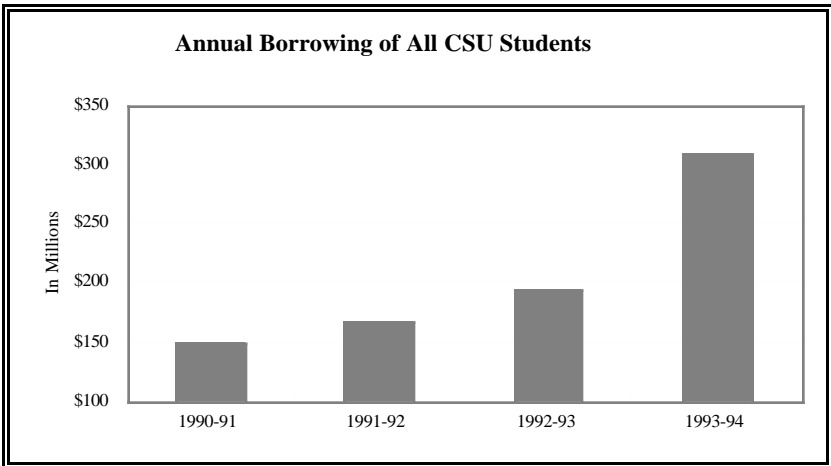
of the State University Fee. The SUG award criteria were revised in 1994-95 in response to increased numbers of financially needy students generated in part by changes in federal need analysis as well as the changing economic profile of students choosing to attend CSU. To ration limited SUG awards, the family contribution eligibility threshold was reduced from \$5,000 to \$4,000.

The number of eligible applicants for the SUG program continues to exceed the number of available grants. In 1994-95, 96,003 students were eligible to receive SUGs totaling \$109.5 million. Over 82,400 SUGs totaling \$93.6 million were awarded. Over 13,000 CSU enrolled students with family contributions below \$4,000, the neediest students enrolled in CSU, received neither a Cal Grant nor a State University Grant. These students received higher than average multiple student loans to offset the lack of available grants either from the state or CSU.

INCREASE IN STUDENT LOAN DEPENDENCY

CSU students have experienced dramatic changes in the amounts and sources of financial aid. Reductions in available grant aid support have resulted in significant increases in student borrowing. Borrowing in 1992-93 totaled \$193 million and \$310 million in 1993-94. Borrowing almost doubled in CSU and increased by more than half in UC. UC students borrow more per student than students at CSU or CCC, but loans represent a larger percentage of aid awarded to CSU students. During this same period, the percent of aid received by students in the form of loans increased from 38.5 percent to nearly 50 percent. The increase in student loans was mirrored in the decrease in federal and state student grant aid. Absent change in state and federal financial aid policies, this trend will continue in which loans will replace public support for grant assistance.

The significant increase in CSU student borrowing during 1993-94 can be attributed to several factors. While the State University Fee increased by 10 percent, the actual dollar increase was only \$132, and the average increase in the total cost of attendance was \$441. These increased costs should not, in and of themselves, have prompted a \$795 increase in average student loan borrowing.



Need analysis changes authorized by Congress in 1992 took effect in 1993-94. These changes reduced the eligibility of single independent students for Pell Grants, thereby creating a greater need to be met through student borrowing or earnings. The reduction in expected family contributions for dependent students generated additional need which led to increased reliance on borrowing alternatives.

Borrowing limits also increased. The limit for

second-year undergraduates increased from \$2,625 to \$3,300. For undergraduates beyond the second year, the limit was raised from \$4,000 to \$5,500. The aggregate undergraduate borrowing increased from \$17,250 to \$23,000.

Lastly, inadequate numbers of Cal Grant and State University Grant awards have forced campuses to award higher than average multiple loans to students to compensate for the lack either of a Cal Grant or State University Grant.

FUTURE CONSEQUENCES OF INADEQUATE FUNDING AND INCREASED BORROWING FOR CSU STUDENTS

If the trend of inadequate funding continues, the percentage of students enrolled in CSU who qualify for financial aid in the year 2005 will have increased significantly to 70 percent. This will place enormous pressure on CSU to implement alternative financing plans for students beyond today's federal, state, and institutional financial aid programs. This has dramatic implications for CSU's fiscal health and ability to sustain and improve academic quality, especially if the pattern of limited state resources continues. Extraordinary measures are needed to ensure continued access to college by low and middle-income students. It appears that students from upper-income ranges are choosing to attend institutions other than CSU. If this trend were to continue in the face of projected enrollment increases and if there were a lack of adequate federal, state, and institutional financial aid, the combined effect on CSU enrollment and student access for financially needy students in the year 2005 is bleak.

Because grant aid is limited, students with financial need increasingly turn to student loan programs. Sixty-four percent of student aid recipients, 28.3 percent of enrolled students, relied on borrowing from student loan programs in order to meet a portion of their educational costs in 1994-95. This percent of enrolled students receiving loans is expected to increase to 33 percent by 1995-96.

Such reliance on borrowing can affect a student's choice of career. During required student-loan counseling, recipients are informed of their future total indebtedness, the monthly payments that will begin after graduation, and the average starting salary of the profession in which they indicate interest. Often, students who are interested in pursuing fields that do not offer high starting salaries, e.g., teaching and social work, find that it will be impossible to work in such a field and meet the financial obligations imposed by their student loans.

SUMMARY

It is clear that student financial aid programs, including the Cal Grant program, cannot support the growing demand and need for financial aid by California's students. Inadequate resources, outdated program structures, and limited financial aid options for students and families threaten California's commitment to the Master Plan tenets of affordability and accessibility. Public policy makers and educational leaders must continue to seek additional grant funding and financing alternatives both at the federal and state levels. Neither CSU nor its students can depend upon receiving the level of funding required to meet the financial needs of students today and in the future. Even in promising economic times, the public's commitment to fund adequately student financial

aid programs is uncertain. California and its postsecondary education institutions must continue to examine current financial aid programs to ensure they are as responsive as possible to growing student demand. New strategies and approaches that will provide alternatives for financing students attending higher education must be explored.