WHAT HAPPENED TO "TUITION FREE" COLLEGE EDUCATION?

EXPLAINING WHY FEES HAVE RISEN SHARPLY IN THE CSU SYSTEM

A Thesis

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by

Christina Marie Kersey

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Abstract

of

WHAT HAPPENED TO "TUITION FREE" COLLEGE EDUCATION?

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The Master Plan for higher education, passed in 1960, expressed clearly the intention that college tuition in California should be free for legal residents. Students were responsible for paying "fees" that covered the costs of things excluding instructional minutes, such as lab equipment, health centers, and the student newspaper. However, as of January, 2011 the California State University (CSU) has officially begun to refer to the portion of college education paid by students as "tuition fees". What happened since the implementation of the Master Plan that has caused what appears to be a shift to a more state-assisted structure for funding higher education? This thesis uses an inductive approach to explore fees and fee policies over time to try and understand how we got here. While I consider higher education in California more generally, my focus is on the CSU system.

To determine more precisely what had changed with respect to fees and why, I reviewed budget documents, fee policy committee reports/recommendations, Trustee minutes, CSU documents, and conducted interviews with industry experts to determine

what changes have taken place over time. My approach was informed by literature suggesting why fees had risen so sharply since enactment of the Master Plan.

The findings suggest that the changes were incremental. There was no clear shift in public opinion of higher education. Although the fee policy committees over the years advocated for students paying a greater share of the cost of their education, the committees also recommended that the State continue to bear the primary responsibility for funding higher education. The percentage of General Fund dollars going to higher education has declined slowly since the 1960s. The higher education budget has also been hit particularly hard during economic recessions, at which point fees were increased fairly rapidly to offset some of the lost State funds. After these dramatic fee increases, a fee policy committee or commission would attempt to determine a "long-term" fee policy so that the dramatic fee increases would not happen again. But financial necessity, especially to ensure the CSU philosophy of access and affordability, prevailed with each economic downturn. Additionally, the data suggest that decisions to allocate a portion of fee increases to scholarships may inadvertently have made it easier to raise fees. Ultimately, the findings indicate that, despite what some students may think, fee increases are a result of the reality that the desirable is not always feasible.

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Chapter 1

INTRODUCTION AND BACKGROUND

The Master Plan for higher education, passed in 1960, expressed clearly the intention that college tuition in California should be free for legal residents. Students are responsible for paying “fees” that cover the costs of things excluding instructional minutes, such as lab equipment, health centers, and the student newspaper. These fees have increased dramatically in times of economic downturns, particularly during the recession in the 1990s and the current recession that began in 2008 and is still ongoing. These substantial fee increases have led the students and parents to question just what student fees pay for. As of Executive Order 1054 on January 14, 2011, the California State University (CSU) system is no longer trying to hide behind the specifics of a definition that differentiates fees from tuition. The CSU is now referring to the portion of college education paid by students as “tuition fees”. In short, it appears the state has moved a long way from the free education envisioned under the Master Plan.

As a CSU student who started graduate school in the fall of 2009, I have experienced the pain of fee hikes, beginning with my first semester in which they were raised by 30 percent. So while I do have personal interest in this thesis topic, I also feel an investment because of the many parents I know struck by the rapid rise in costs. This is particularly the case for those with more than one child in college or with at least one in college and another preparing to enter. For myself and for them, I wanted to take a closer look at how the CSU board of trustees comes up with its fee increases. Casual conversations about this topic prompted many to suggest that it is a crapshoot, a roll of the dice. However, perhaps there is a more systematic change in how fees are used that could be uncovered with closer analysis.

The shift in terminology from fees to tuition fees may seem minor, but it implies a more significant shift in the perception of the role of the State to fund higher education. It is very possible that in future years Californians will see a larger burden of college tuition being placed onto the shoulders of the students and families. And if this is going to become the trend, it would be helpful to have a better understanding of higher education funding.

Bottom line, we really do not understand why we are at the place where tuition fees appear to have become a substantial source of revenue for the CSUs. While there are ideas and theories, there are few attempts to look systematically at what has happened to this particular university system. This thesis will look at changes over time since the implementation of the Master Plan to try and understand if we have shifted to a more state-assisted structure for funding higher education.

Background

It is useful to offer some background information to understand the problem and how we got here. First, the financial support for the CSU is considered a three-legged stool made up of: State General Fund support, student fee income, and other external support (Gerth, 2010). When the Master Plan was created it was based upon a needs based budget: representatives for the colleges proposed the amount of funding they needed to the Department of Finance and/or Legislature and argued for that level of funding. At the time of the Master Plan fees were extremely low. The cost of going to college was essentially the cost of living, meaning room, board, and foregone wages, rather than the cost of the education itself (Gerth, 2010). The idea was that community colleges would be supported locally while state colleges would be supported by the state. There was also an assumption with the Master Plan that the State would always adequately fund higher education. However, not surprisingly, there have been some unexpected events that have made funding higher education at the desired levels problematic.

For one thing, the population of California has tripled since 1960 (Gerth, 2010). It takes more state resources to fund the growing number of students entering the colleges, and there are more people in general needing assistance from the state. Second, higher education is competing with the other areas of government service for money. Federal and State policies have led to a reduction in the pool of discretionary funds (the General Fund). Policies such as the Federal Medicaid mandates of the 1980s, State Proposition 13 which decreased revenue by limiting property taxes, and State Proposition 98 and the three strikes law passed in 1994 limit revenues and require larger pieces of the GF pie to go to K-12 education and corrections (Callan & Finney, 1997). All of this has lessened the amount of GF dollars available for higher education. Similarly, during economic recessions there is less General Fund money overall, meaning less for every governmental service.

According to Callan & Finney (1997), there has been a significant increase in the number and amount of student loans being taken out each year since the early 1990s. Unlike at the time of the implementation of the Master Plan, tuition continues to rise and take up a larger portion of a person or family's disposable income. Callan & Finney (1997) state that students across the nation are paying a larger portion of student aid through tuition increases, and if this trend continues it will have the greatest impact on middle class families. In 1994, CSU Chancellor Barry Munitz negotiated that one-third of student fee increases would go to financial aid (Gerth, 2010). According to Munitz the purpose was to "ensure continual access of low-income students" (Gerth, 2010, p. 317).

Ensuring access to all eligible students has been a key mission of the CSU system. The CSU's values have been described as: "access, affordability, and quality" (Gerth, 2010, p. 596). However, as the flush economic times have diminished, students are faced with increasing prices making college less affordable, and at the same time fewer students are being admitted into the universities. For those that do get accepted, students are experiencing larger class sizes and fewer course selections. All of these pieces make up the core of what the California State University is about. On any given day articles are prevalent in the newspapers discussing this issue of increasing cost and decreasing access and quality of higher education. While there is much to be argued for all of these points, this paper will focus on the financial aspects of what is happening in the CSU system.

Why do we care?

So what? Why is this important? This topic is a highly contentious issue that is constantly being discussed and dissected in the news. Students, faculty, and other unhappy citizens have participated in walk-outs and protests on campuses throughout the state and at the Capitol. In 2010 it was reported that student loan debt had for the first time surpassed credit card debt in this country. The increasing cost of college is becoming a huge burden, and it has been argued has the potential to be the next debt-crisis. From a policy perspective, if we understand why we have gotten to the place we have with fees we may have a better understanding of what is necessary to change this trend, assuming of course that Californians desire a change.

The literature suggests that there are two things that really drive higher education: discretionary funds available, and the question of it being a public vs. a private good. When it comes to fee increases, some would argue that it has been more about politics than economic necessity (Gerth, 2010). To get at the root of some of these arguments, this paper will analyze available documents and data to determine if these arguments are sound. If higher education were to have some policies enacted that changed the structure of its funding, could this change the volatility of student fee increases? Because when it comes down to it, one of the reasons this is such a hot topic is the question how do families save for a child to go to college when fee increases are so unpredictable.

In this thesis, I will first discuss in Chapter Two what the academic literature says about the topic of how tuition choices are made. Chapter Three will describe the methodology I used to research whether or not there have been changes in the views of funding higher education, which includes an analysis of primary documents, data, and interviews with several people closely involved in the decision making process in California. In Chapter Four I will discuss the findings of the research. Chapter Five will conclude with the implications of the findings and opportunities for further research.

Chapter 2

LITERATURE REVIEW

To better understanding the funding formulas practiced by states for higher education, I reviewed academic literature on the subject of how tuition choices are made. My hope was that the literature would also provide rationales for why certain choices are made, including possible alternatives to the funding formula. Higher education funding can be broken down into three main categories: General Fund support, student fee income, and external support. This relatively simple formula becomes much more complicated when trying to determine how much revenue should be generated from each of the three sources. From the literature I found three themes that direct the funding of higher education in California: a belief in the Master Plan and higher education as a public good, a shift in ideology to higher education being primarily a private good, and a lack of discretionary resources driving the funding.

When the economy is steady and/or booming, California seems to pride itself on showering the colleges and universities with adequate funds. In the 2000-2001 Governor's Budget Summary regarding student fees it states, "This Administration is committed to preserving access to higher education for all Californians by maintaining low student fees. For the sixth year in a row, there is no increase in system-wide mandatory fee rates" (DOF, 2000, p. 106). By the 2011-12 Governor's Budget Summary, when California was deep into the recession, there was no specific section dedicated to discussing student fees, other than the amount of revenue generated from increased fees (DOF, 2012). The summary did mention the dramatic decrease in State funds that were offset with similarly dramatic increases in student fees, and highlighted the intention of increased funding for higher education in upcoming fiscal years. However, those increases are dependent upon Californians passing a ballot initiative to increase taxes.

While it makes sense that as state fund contributions decrease the colleges and universities look to raise student fee income to offset the losses, it is not necessarily clear that the changes happen at comparable times and rates. I turn now to the themes from the academic literature to help explain how the decision makers in California seem to feel about higher education funding and what guides their choices, especially when it comes to state appropriations.

Belief in the Master Plan and Higher Education as a Public Good

Some, though seemingly fewer, people still believe in the philosophy behind the Master Plan. Established in 1960, the Master Plan detailed the different roles of the University of California, the California State University, and the Community College systems. "The Master Plan was explicit about public education in California being tuition free" (Gerth, 2010, p. 100). The Master Plan intended for the instructional minutes to be supported by state funds, with student fees paying for other things such as health centers (Gerth, 2010). However, the Master Plan also made some assumptions about how the state would fund higher education, including that it would always consider a priority and therefore adequately fund it. According to Gerth (2010, p. 510), "California is dependent upon three things when it comes to its ability to adequately fund higher education: the size of the state's economy, the effectiveness of the state's taxing instruments, and people wanting to devote adequate funds to that purpose".

When the economy is doing well, California does seem to focus on the original goals of the colleges to have low fees. Going back to the Governor's Budget Summaries, the governor and legislature were happy to report in better times their commitment to preserving access into the colleges by maintaining low fees. One justification for the state contributing more money to higher education, and a rationale for the Master Plan, is that higher education should be viewed as a public good. A public good is considered non-excludable and non-rivalrous (Munger, 2000). This means that the consumption of the good by one person or any number of people does not deplete it, making it consumable by others as well. When it comes to higher education, it can be argued that society benefits a great deal from an educated workforce and therefore should pay a larger portion of the cost of higher education because we are essentially funding the kind of society we want.

There are many different benefits attributed to higher education that make it a public good. The most common examples include: human capital, a skilled workforce, increased civic skills, and greater potential for research and innovation (St. John, 1991; Windham, 1976; Becker, 1962; Marginson, 2007). Human capital encompasses traits such as knowledge, skills, and values, all of which can be public goods (Windham, 1976; Becker, 1962; Marginson, 2007). Although human capital is a benefit to the individual because it improves his/her social mobility, it is also a public good because it creates equity, or at least opportunity, for more individuals across different socio-economic backgrounds to attain higher economic status. Therefore higher education can also be viewed as a public good because it provides the "structure of social opportunity" (Marginson, 2007, p. 319). Higher education is a means for society to level the playing field and provide opportunities for those interested to better their current circumstances.

In turn, this human capital gained transfers down to a more skilled workforce. Ideally, what is being taught in the colleges will prepare individuals for careers, including knowledge of up-to-date technology and other skills that meet the current needs of our state. The hope is that these skilled and trained workers will also be creative, out of the box thinkers that will come up with new innovative ideas and high quality research that will benefit society at large by increasing gross state product (economic development) and other industrial development (St. John, 1991; Marginson, 2007; Balderston, 1997).

Some have also argued that higher education increases civic skills, creating a "better citizen" which benefits the political system generally (Windham, 1976, p. 244). However, this reason was less frequently cited in the literature and thus will not be a focus in this paper.

Marginson (2007, p. 318) writes, "Free universities can be associated with the broadening of access to private benefits and even the flattening of status distinctions, enhancing the elements of non-rivalry and non-excludability and reducing the role of private goods: herein lies the political case for free education." Most scholars do agree that attaining a higher education is one of the best ways for individuals to ensure higher incomes and social standing. To increase the accessibility then, the state's role should be to fund higher education at a rate to make it more accessible and affordable for all income levels and/or disadvantaged populations. But although most people agree that there are these public goods associated with higher education, there is disagreement on who the primary beneficiary is: society (the public goods) or the individual (the private goods).

Arguments that Higher Education is Primarily a Private Good

The literature suggests there has been a shift in the perspective of who benefits more from higher education, society or the individual. The idea that society benefits but the individual benefits more, and thus should be responsible for a greater share of the cost, has been gaining momentum. The benefits to the individual from higher education are then viewed as a private good. A private good, unlike a public good, is excludable and rivalrous (Munger, 2000). The classic example is if I eat an apple, my consumption of the apple means you cannot consume it, making it a private good. The benefits from higher education are seen as a private good because students compete for access into the universities (and once accepted, that excludes another student from getting in since enrollment is limited), then continue to compete for jobs and other "status goods" (Marginson, 2007, p. 318).

As previously mentioned, one benefit individuals receive from obtaining higher education is human capital (Balderston, 1997; Marginson, 2007; Becker, 1962). The knowledge and skills and individual gains from human capital provide greater opportunities for higher incomes and social mobility. A degree acts as a "signal to potential employers" that an individual is more likely to have greater human capital as a result of attending a higher education institution (Balderston, 1997, p. 342). This human capital has a certain value in society (in some cases it is required for employment) that opens doors an individual may not have been able to obtain on his/her own.

The gains to the individual are then seen as greater than those to society. The earnings of more educated people are typically well above average (Becker, 1962). So while society may benefit from an individual's skills, it is argued that a person's increased income potential over his/her lifetime is a greater private benefit. Also, the unemployment rate for college graduates—which we are seeing right now in these poor economic times—is lower than for those without a degree (Windham, 1976). Again, the literature suggests improving one's odds to secure employment is a greater benefit to the individual than to society (although certainly society benefits when unemployment rates are low).

Although the Master Plan intended for the instructional minutes of higher education to be state funded with the student paying a minimal amount in fees to cover the costs of other benefits provided by the colleges, the Master Plan "lacked agreed upon public policy for financing higher education" (Gerth, 2010, p. 210). For decades now people have started to question who should shoulder the greater burden of the cost for a student to attend a higher education institution. This question extends beyond California and has been researched and discussed across the states and continents. Some scholars contend that the idea of higher education as a private good has increasingly taken hold in state capitols. Thus Selingo (2003, p. 23) writes: "Lawmakers increasingly view higher education as a private good that should be supported more by students and donors, rather than as a public good that deserves state support."

Whether it was the lack of specific policy in the Master Plan, a change in ideology, or just a change in financial circumstances, those that argue that higher education is primarily a private good believe students and/or their families should be paying the greater share of the cost. The Carnegie Commission on Higher Education suggested that an individual's benefits represent approximately two-thirds, the societal benefits represent approximately one-third, therefore based on this formula it would be appropriate for the individual to cover two-thirds of the cost of his/her education with the public paying one-third in the form of taxes (Callan & Finney, 1997, p. 30). Some states have formally or informally adopted policies based on perceived percentages of benefits. The legislature in Kansas assumes a twenty-five percent cost for tuition when appropriating funds, while Minnesota has the public providing two-thirds of the cost through appropriations (St. John, 1991, p. 274).

A final argument for individuals paying for a greater portion of their education is the belief that low tuition does not necessarily equate to more universal access across all socio-economic groups, but rather it subsidizes students from middle and upper income families that should be paying more (St. John, 1991; Windham, 1976). From a policy perspective, it seems difficult to pass high tuition policies, however, because the critics argue that it pushes out those from lower income families, especially if there is not adequate financial aid to make up the difference.

The question of who benefits more, and how to determine criteria to evaluate who benefits more, is still a fairly contentious issue. While people may continue to disagree over the private good vs. public good debate, another group of scholars believe the issue really is not about who benefits, but simply a matter of higher education competing for scarce resources, and it is losing.

Not About Ideology, Just a Lack of Funds

This last view suggests that the State's role in funding higher education is not about ideology at all, but the reality that there are not enough discretionary funds to substantially support higher education. Propositions and mandates have greatly diminished the amount of discretionary funds available over the years, and the population has grown dramatically since the implementation of the Master Plan.

The literature argues that higher education is in competition with the other services the government provides that are also supported by taxes such as K-12 education, health care (e.g. Medicaid), corrections/prisons, and public assistance (Callan & Finney, 1997; Okunade, 2004; Archibald & Feldman, 2006). Several articles suggested that public opinion on funding education has not changed that dramatically; in general the public still views higher education as important for social mobility and good for society, and would like to see the institutions adequately funded. However, while people want low tuition, high access, and quality higher education, the public does not want to raise taxes to pay for these benefits (Selingo, 2003; Doyle, 2007; Archibald & Feldman, 2006). So although the public may value higher education and is okay with tax dollars paying for it, it must be done using the resources already available. Meanwhile, those discretionary funds seem to be disappearing through mandates dedicating greater portions to other areas of the budget, and laws that limit the ability for the governor and legislature to raise taxes to generate additional revenue.

The literature cites several different laws that are believed to have contributed to the diminishing resources for higher education. For California, it began with Proposition 13, passed in 1978, which assessed property at their 1975 values and limited the amount assessed property values could increase per year to 2%, which ultimately reduced the total amount of property taxes collected (Gerth, 2010; Callan & Finney, 1997). To supplement the funds lost from property taxes, other appropriations from the General Fund, including the CSU, decreased and thus student fees were increased (Gerth, 2010).

Along with restricting property tax revenue, Proposition 13 established supermajority rule that required the legislature to have a two-thirds majority when passing increases in tax rates or other revenue generating policies. The literature suggests that such state limitations on the amount of revenue that can be collected through taxes directly affect higher education funding (Koshal & Koshal, 2000; Archibald & Feldman, 2006; Gerth, 2010; St. John, 1991). Archibald & Feldman (2006) found that two "tax revolt" responses, supermajority requirements (SMR) and tax and expenditure limitations (TEL), had significant impacts on state spending for higher education. "The presence of a TEL accounts for slightly more than one third of the average decline, while a presence of an SMR accounts for roughly one fifth of the average decline. States with very broad-based TELs have experienced much greater declines in higher education effort than have other states" (p. 637).

Another mandate that has greatly impacted the amount of available funds for higher education is Medicaid. Beginning in the 1980's, federal mandates dramatically increased the amount of money states spend on Medicaid (Okunade, 2004; Callan &

Finney, 1997; Selingo, 2003; Archibald & Feldman, 2006). Along with court decision and mandates, the population eligible for Medicaid has changed as well (Okunade, 2004). "North Carolina predicts that Medicaid costs will increase by $1 billion a year for the rest of this decade, basically eating every new dollar that comes into the state's coffers (Selingo, 2003, p. 25). A regression analysis (ordinary least squares and generalized least squares) performed by Okunade (2004) concluded that Medicaid spending does compete with state appropriations for higher education (p. 123).

Proposition 98, passed in California in 1989, is also reportedly responsible for decreasing higher education spending because it provides a minimum guarantee for K-14 education each fiscal year, and receives approximately 39% of the general fund budget (Gerth, 2010; Callan & Finney, 1997). Similarly, the three-strikes law, passed in California in 1994, is also accused of eating up more of the discretionary funds because it increased the time people convicted of felonies and other serious crimes spent in prisons, costing tax payers more (Callan & Finney, 1997; Okunade, 2004).

However, the literature is mixed on the effects of prison budgets on higher education spending. There was an increase in "public demand for crime prevention and tougher sentencing laws" (Okunade, 2004, p. 128) in the 1990s, which can be seen with the laws passed across the United States. While some academics suggest that increased corrections budgets also contribute to the "crowding out" of higher education, others have found this is not the case. The regression results by Okunade (2004) and Archibald & Feldman (2006) both found that prison budgets actually complement higher education. According to Archibald and Feldman (2006), the crowding out phenomenon is apparent in regressions that control for total state spending. Their results on the other hand, do not control for total state spending and show that when more money is spent on corrections, more money is also spent on higher education. "This result likely reflects differences in tastes for public goods that overpower any effect from budget tradeoffs" (Archibald & Feldman 2006, p. 634).

Conclusion

Ultimately, the literature is not conclusive or definitive. It suggests the possibility that an ideological shift has taken place around the idea of higher education as a public versus private good that now provides more individual than societal benefits. It also suggests that limited state funds and laws protecting parts of the budget have created a competitive environment for higher education in which it attempts to secure scarce resources from other programs fighting for the same discretionary funds. In addition, scholars would argue that higher education is at a disadvantage because of its ability to increase fees to generate supplemental revenue where other institutions cannot (Johnstone, 2004). Because of this legislators may not think higher education needs to be helped as much because higher education officials can raise fees. While these may be explanations for the changes that have taken place in the CSU system, there may be some other things going on that the literature is missing.

The literature review and background research generated six questions, including several alternate explanations. First, is higher education competing for scarce resources? Second, has public opinion of higher education changed? Third, has there been a shift in the idea of higher education as a public versus private good? Fourth, are fees increased out of financial necessity? Fifth, have financial aid policies made it easier to raise fees? And sixth, have these changes happened slowly over time? The next step will be to explore documents on fee policies specific to California to see if the answers to these questions, or other possible factors, have influenced the state toward its current direction of more "assisting" in the funding of higher education.

Chapter 3

METHODOLOGY

While much has been written about the CSU fee policies, there is no document that explains how we arrived at the current fee policy that now considers fees "tuition fees". This thesis is based on inductive research due to the lack of clear existing theories to test. Instead of using a deductive approach to test a current hypothesis, I will be searching for explanations in the process. The basis for my analysis is derived from literature, primary source documents, and face-to-face and phone interviews with several long-time players in the field of higher education policy. This section on methodology will explain the source documents I gathered and the justification of their relevance for this paper, how I conducted the interviews including the nature of the questions, and potential problems with either the data gathered or data that was unavailable.

Literature and Primary Source Documents

The academic literature suggested two main components that impact student fees: changes in ideology and a scarcity of resources. To try and identify potential changes that may have taken place in ideology, I initially began looking for public opinion poll data to see if there was a discernible time period when public opinion of higher education may have shifted. I searched The California Field Opinion Polls (ucdata.berkely.edu) using the search terms higher education funding (1 result), higher education fees (1 result) and higher education (43 results). While I found some questions related to education, I could not always determine if the questions were specific to a sector of education, such as elementary or higher education, because the question would generally just say “education”. Few questions were found related specifically to higher education, and even fewer regarding fees. This is a problem because the lack of polls asking the same questions over time about fees and/or higher education funding makes it impossible to determine changes in public opinion. One question that I did find in multiple polls was “Should the amount of state tax money for higher education such as universities, state colleges and local community colleges be increased, held at the current level or cut back?” Unfortunately, even with this question, there were four poll results during the years 1987-1995 which showed minimal variation in public opinion, and covered only a fraction of the time period this thesis is looking at. To work around this challenge, I also looked at academic literature about public opinion polls to see if others could glean a shift in the public’s perception of higher education.

To look for a link between higher education funding and the fight for scarce resources, I examined information on budget act appropriations. I reviewed expenditure data from the Governor’s Budget Summaries, online and hard copies, to see if I could find changes in the percentage of General Fund dollars spent on higher education versus the other programs with which it is considered to be in competition with, according to the literature. Examples of such programs included K-12 education and Medicaid. I also found General Fund budget information, actual dollars and percentage of the total budget, for higher education, K-12 education, and corrections from 1967-68 through 2010-11 on the California Postsecondary Education Commission website (cpec.ca.gov).

Apart from searching for documents directly related to the variables suggested by the academic literature, I researched sites looking for anything related to fee policies that could provide additional explanations and time lines for "how we got here". Is the academic literature missing key variables specific to California or the CSU system? From the California State University, Sacramento website I gathered available information on fees, such as the most recently adopted fee policy. I reviewed numerous documents from the California Postsecondary Education Commission beginning in the 1970s through 2011. These documents contained reviews of the 1960 Master Plan for Higher Education, analyses of the fees, analyses and recommendations for a long-term fee policy, and reports on the enacted 1985 Student Fee Policy (Senate Bill 195). I looked for additional literature on national trends in higher education fee policy changes as well using primarily Google Scholar and J Stor. I used multiple variations of the search terms: higher education funding, public support, public opinion, trends, and higher education policy. Unfortunately, a lot of the documents on "trends" discussed the evolution of the on-line colleges, or changes in the demographics of the colleges, which was not what I was looking for. I found a few articles that did mention whether or not the aging population would impact higher education funding.

I attempted to find CSU Board of Trustee minutes from the 1980s and 1990s. Unfortunately, those documents are not available online at this time. However they are available on the CSU Dominguez Hills campus. Although I think the minutes could have added to the richness and depth of this thesis, due to time and budget constraints I did not make the trip down to sift through the Board of Trustee minutes. After speaking with the Director of Archives for the Dominguez Hills campus, I did look at minutes, resolutions, and agenda documents for the CSU Academic Senate, which also addresses fee policies and CSU responses to recommendations from the Legislative Analyst's Office on fee increases and state funding. The resolutions go back to 1992-93, while the minutes were available as far back as academic year 1996-97, and agendas beginning with the 2002-03 academic year.

Interviews

I conducted five interviews with various individuals involved in higher education. The interviewees were all recommended and chosen based on their experience and knowledge over many years in different areas of higher education policy. Two interviews were conducted in person, while the other three, due primarily to location, were conducted over the phone.

My first interview was with Mr. Boyd Horne, a former financial administrator for the CSU, now retired. Mr. Horne was working for the State Department of Education in 1959 when the colleges were still under the department, prior to the Master Plan. Next I interviewed Mr. Bob Harris, a long-time employee of the Department of Finance, also retired. Mr. Harris' duties at the Department of Finance included higher education issues, and he spent a short time as the interim director of the California Postsecondary Education Commission when in its first year of operation. The third interview was with Mr. Patrick Callan who has many years of experience in multiple areas of higher education including the CEO of the California Postsecondary Education Commission, a comparable group in the state of Washington, and President of the National Center for Public Policy and Higher Education. My fourth interview was face-to-face with Dr. Donald Gerth, whose most notable position for the purpose of this thesis was his time as

President of the California State University, Sacramento from 1984 – 2003 (he is also now retired). Dr. Gerth also recently authored the most extensive history of the California State University System. Lastly was a face-to-face interview with Karen Zamarripa, Assistant Vice Chancellor of Advocacy and State Relations for the CSU.

I asked six open-ended questions related to fee policy in higher education (Appendix A) and the interviews averaged between 30 minutes and 1 hour. The interview questions focused on how the individuals viewed the academic literature's explanations for fee policies, if the interviewees had any ideas why long term fee policies have been so hard to create and implement, and if they believed the literature was missing any crucial piece of information. The interviews were conducted after I had already developed my own ideas of what has happened over time with the CSU fee policies, but the insight of individuals that have sat in on conversations about this topic was invaluable. My interview with Ms. Zamarripa was conducted a bit differently. Given her current involvement in the CSU I used her as a check to make sure I did not miss or misinterpret anything. I went through my whole thesis process with her—what I found in the literature, where I looked for information, my findings, and conclusion—then asked for her input and whether or not she concurred with what I had found.

Bias is a concern when conducting interviews. Using open-ended questions, I hoped to minimize any bias by allowing the interviewees to answer the questions in their own words. When conducting the interviews, I first explained to each participant that I was going to read the consent form, then ask the six questions. The consent form (Appendex B) explained the purpose of the research, the procedures for conducting the interview, informed the interviewee that participation was voluntary, and reminded the interviewee that the thesis may be publically accessible. I indicated that the interviewee could ask for anything said to remain confidential but I did request permission to identify each person by name which they all agreed to I did not deviate from the questions and rarely even asked the participants to elaborate.

After researching fee policies, higher education funding, documents related to CSU fee policies, and conducting interviews, I analyzed the information to determine what I believe is the best explanation for the literature has suggested is a change over time since the implementation of the Master Plan regarding how higher education is financed. As stated previously, the methodology implored for this thesis was inductive because I am exploring possible explanations for the changes, not testing an existing hypothesis.

Chapter 4

FINDINGS

As stated previously, the literature suggests that universities, including the CSU system, are shifting to a more state-assisted form of funding with students and their families shouldering a greater share of the cost for attending college through increased fees. Specifically I wanted to find an explanation for changes in fees and fee policies over time since the implementation of the Master Plan.

This chapter will begin by presenting data on higher education funding, which does show a distinguishable reduction in state funding over time. Next I will focus on themes that emerged from discussions, recommendations, and adopted fee policies throughout the decades beginning in the 1970s. A lot of work and analysis has been done on creating long term fee policies. Unfortunately the reality of bad economic times often undermined good intentions.

Higher Education Funding

Theory 1: Higher education funding is competing for scarce resources (and losing)

Finding 1.1: Relatively stable funding in dollars (except during recession years), but decreasing percentage of the budget

The Master Plan explicitly stated that the state should be the primary source of funding for higher education by covering the cost of instructional minutes (tuition), while students pay ancillary fees for things such as laboratories, health services, and student activities. We know that the CSU now considers student fees "tuition fees", but is it clear that the state is actually covering less of the cost of a student's education? The answer appears to be yes. Table 4.1 shows a reduction over time in the percentage of the budget issued to higher education funding.

Table 4.1

Various Expense Categories as Percentages of the General Fund Budget

Year	Total Higher Education*	K-12 Education	Corrections	Year	Total Higher Education*	K-12 Education	Corrections
1967-68	16.77%	41.50%	3.97%	1989-90	14.15%	37.26%	6.22%
1968-69	16.44%	36.45%	4.15%	1990-91	14.56%	35.60%	6.66%
1969-70	16.76%	35.30%	3.68%	1991-92	13.47%	37.91%	7.04%
1970-71	16.45%	30.82%	3.68%	1992-93	12.05%	39.84%	7.43%
1971-72	16.55%	31.12%	3.70%	1993-94	12.02%	37.17%	8.69%
1972-73	17.70%	29.64%	3.75%	1994-95	12.16%	37.02%	8.64%
1973-74	16.07%	31.01%	3.24%	1995-96	12.18%	39.19%	8.69%
1974-75	16.68%	28.58%	3.32%	1996-97	12.61%	40.58%	7.75%
1975-76	16.78%	27.77%	3.25%	1997-98	12.55%	41.83%	7.82%
1976-77	17.47%	27.61%	3.24%	1998-99	12.70%	40.58%	7.78%
1977-78	16.88%	26.55%	3.24%	1999-00	12.08%	41.15%	7.12%
1978-79	14.51%	34.47%	2.67%	2000-01	11.66%	37.40%	6.47%
1979-80	15.25%	38.03%	2.83%	2001-02	12.63%	39.19%	7.15%
1980-81	15.26%	35.37%	2.85%	2002-03	12.25%	37.15%	7.53%
1981-82	14.86%	35.20%	3.27%	2003-04	11.22%	37.62%	6.90%
1982-83	14.64%	35.57%	3.34%	2004-05	11.68%	42.80%	8.70%
1983-84	14.08%	38.61%	3.70%	2005-06	11.45%	41.70%	8.59%
1984-85	15.87%	38.66%	4.07%	2006-07	11.05%	39.53%	8.99%
1985-86	15.70%	38.48%	4.77%	2007-08	11.52%	41.24%	9.82%
1986-87	15.21%	38.93%	5.23%	2008-09	11.10%	37.49%	10.67%
1987-88	15.37%	37.97%	5.65%	2009-10	12.27%	40.14%	9.48%
1988-89	14.97%	38.27%	5.60%	2010-11	14.28%	43.43%	9.63%

Data from CPEC, 2012

* Higher Education includes

Hastings College of Law, University of California, California State University
GF portion of Community College budget, California Student Aid Commission
California Postsecondary Education Commission

** 2008-09 and 2009-10 information is estimated

*** 2010-11 is based on the governor's proposed budget

The data show that state funding for higher education as a percentage of the general fund budget has indeed decreased over time from a high of 17.70% in 1972-73 to between eleven and twelve percent for the majority of the last decade. Interestingly, the K-12 education budget hovered near 40% of the budget long before Proposition 98 passed (beginning around the late 1970s to early 1980s), making it less clear that higher education has been in competition with K-12 education. The corrections budget, on the other hand, has grown rather dramatically. The budget for corrections averaged around 3-4 percent in the earlier years and has steadily increased up to now over 9%. It seems more likely that higher education has been fighting for scarce resources with corrections and that the higher education budget has declined as the corrections budget has increased.

However, in different years these three components make up varying amounts of the total budget. For example, in 1971-72, these three pieces accounted for 51.37% of the budget. In 1984-85, they made up 58.6% of the budget. And in 2002-03 these three sectors received 62.58% of the budget. This is interesting because the literature suggests that states have felt a squeeze in their budgets since around the 1980s as Medicaid expenses have risen dramatically. If Medicaid costs have increased, and maybe even squeezed higher education funding, it is not clear where other funding cuts have been made.

Table 4.2 displays the dollar amounts received by higher education, K-12, and corrections during the same fiscal years. These data show that for the most part, despite fluctuations in percentages, each sector saw an increase in its budget over the years. During periods of less fiscal prosperity, the budgets did decrease a bit, but particularly the corrections budget shows just how dramatic of an increase a few percentage points can be over the course of multiple years.

Table 4.2

Budgets from the State General Fund Real Dollars in Thousands							
Year	Total Higher Education*	K-12 Education	Corrections	Year	Total Higher Education*	K-12 Education	Corrections
1967-68	$3,676,065	$9,098,419	$869,508	1989-90	$10,115,198	$26,633,063	$4,446,189
1968-69	$4,131,223	$9,160,565	$1,043,289	1990-91	$10,038,045	$24,551,404	$4,589,910
1969-70	$4,493,970	$9,463,379	$987,027	1991-92	$9,630,472	$27,111,737	$5,035,873
1970-71	$4,441,400	$8,321,702	$993,365	1992-93	$7,888,652	$26,079,072	$4,862,148
1971-72	$4,523,560	$8,505,242	$1,011,647	1993-94	$7,286,233	$22,541,939	$5,266,767
1972-73	$5,292,569	$8,861,145	$1,121,455	1994-95	$7,744,130	$23,576,131	$5,501,705
1973-74	$5,953,128	$11,483,106	$1,198,322	1995-96	$8,163,805	$26,258,604	$5,824,263
1974-75	$6,375,087	$10,921,608	$1,267,995	1996-97	$8,860,048	$28,520,244	$5,446,477
1975-76	$6,678,678	$11,051,954	$1,292,289	1997-98	$9,284,270	$30,945,195	$5,785,101
1976-77	$7,194,301	$11,371,286	$1,332,866	1998-99	$10,264,566	$32,805,984	$6,288,028
1977-78	$7,306,638	$11,489,070	$1,402,475	1999-00	$10,891,280	$37,105,530	$6,420,055
1978-79	$8,097,826	$19,234,502	$1,489,876	2000-01	$12,201,890	$39,122,690	$6,764,945
1979-80	$8,675,105	$21,634,026	$1,610,403	2001-02	$12,252,479	$38,023,419	$6,937,554
1980-81	$8,768,988	$20,326,782	$1,639,141	2002-03	$11,863,328	$35,995,867	$7,297,761
1981-82	$7,973,950	$18,885,398	$1,754,539	2003-04	$10,693,248	$35,859,281	$6,579,730
1982-83	$7,420,966	$18,035,934	$1,691,055	2004-05	$11,090,936	$40,652,901	$8,266,509
1983-84	$7,274,381	$19,942,882	$1,909,648	2005-06	$11,966,093	$43,599,190	$8,978,158
1984-85	$8,832,972	$21,523,664	$2,265,009	2006-07	$12,508,309	$44,727,058	$10,173,455
1985-86	$9,444,739	$23,147,064	$2,870,299	2007-08	$12,868,666	$46,073,901	$10,972,360
1986-87	$9,820,638	$25,131,019	$3,376,875	2008-09	$10,550,682	$35,618,865	$10,139,587
1987-88	$10,121,953	$25,013,403	$3,721,490	2009-10	$11,078,502	$36,228,691	$8,556,357
1988-89	$10,300,286	$26,322,036	$3,853,846	2010-11	$12,209,594	$37,140,207	$8,234,935

Data from CPEC, 2012
* Higher Education includes
Hastings College of Law, University of California, California State University
GF portion of Community College budget, California Student Aid Commission
California Postsecondary Education Commission
** 2008-09 and 2009-10 information is estimated
*** 2010-11 is based on the governor's proposed budget
**** Beginning with 1967, the dollars have been converted to 2011 constant dollars

The data indicate that in terms of dollars the higher education budget has remained relatively stable over the years, though certainly there have been patterns of reductions during periods of economic recessions. And of course the budget alone does not tell the whole story, since we know that the population has changed dramatically and the number of students being served in both K-12 and higher education surpassed early estimates.

Finding 1.2: Growing reliance on revenue from student fees

If the higher education budget in terms of dollars has remained fairly stable, but the percentage of funding compared to the total General Fund budget has declined, has this changed the amount of revenue collected from student fees? Table 4.3 shows first the amount of General Fund dollars received by the California State University from 1965-66 through 2010-11. The figures do not include Federal American Recovery and Reinvestment Act funding, which was $716.5 million in fiscal year 2008-09 and $106.5 million in 2010-11 each for both CSU and UC (CPEC, 2012). The second column shows the amount of revenue collected from resident student fees. The final column shows the resident student fees collected as a percentage of the fee revenues and general purpose funds combined.

Table 4.3

California State University
Resident Student Fee Revenue (in thousands)
and Resident Student Fee Revenue as a Percentage of Fee Revenues and General Purpose Funds Combined

Year	State General Funds	Resident Student Fee Revenue	Resident Student Fee Revenue as a Percent of Budget*	Year	State General Funds	Resident Student Fee Revenue	Resident Student Fee Revenue as a Percent of Budget*
1965-66	$136,624	$10,198	6.95%	1988-89	$1,503,854	$220,663	12.80%
1966-67	$167,705	$11,402	6.37%	1989-90	$1,631,540	$233,012	12.50%
1967-68	$192,689	$14,631	7.06%	1990-91	$1,653,399	$262,206	13.69%
1968-69	$237,549	$15,936	6.29%	1991-92	$1,634,366	$305,623	15.75%
1969-70	$284,963	$21,632	7.05%	1992-93	$1,490,055	$400,327	21.18%
1970-71	$305,132	$26,792	8.07%	1993-94	$1,452,290	$416,664	22.29%
1971-72	$316,250	$29,594	8.56%	1994-95	$1,578,128	$450,671	22.21%
1972-73	$373,180	$30,669	7.59%	1995-96	$1,629,674	$460,236	22.02%
1973-74	$428,919	$31,801	6.90%	1996-97	$1,810,062	$480,306	20.97%
1974-75	$481,546	$39,210	7.53%	1997-98	$1,872,390	$486,398	20.62%
1975-76	$537,990	$42,281	7.29%	1998-99	$2,098,729	$454,115	17.79%
1976-77	$604,833	$42,795	6.61%	1999-00	$2,194,060	$460,354	17.34%
1977-78	$666,072	$43,482	6.13%	2000-01	$2,473,014	$480,537	16.27%
1978-79	$682,983	$43,110	5.94%	2001-02	$2,607,424	$534,184	17.00%
1979-80	$814,453	$43,020	5.02%	2002-03	$2,680,280	$587,409	17.98%
1980-81	$952,052	$48,916	4.89%	2003-04	$2,492,021	$802,785	24.37%
1981-82	$955,683	$63,506	6.23%	2004-05	$2,447,958	$902,669	26.94%
1982-83	$907,338	$126,465	12.23%	2005-06	$2,597,452	$1,001,492	27.83%
1983-84	$949,984	$181,194	16.02%	2006-07	$2,675,375	$1,029,060	27.78%
1984-85	$1,142,928	$173,340	13.17%	2007-08	$2,970,706	$1,130,641	27.57%
1985-86	$1,258,499	$170,636	11.94%	2008-09	$2,155,261	$1,406,077	39.48%
1986-87	$1,345,175	$174,455	11.48%	2009-10	$2,350,054	$1,593,422	40.41%
1987-88	$1,423,010	$195,960	12.10%	2010-11	$2,723,435	$1,746,926	39.08%

Data from CPEC, 2012

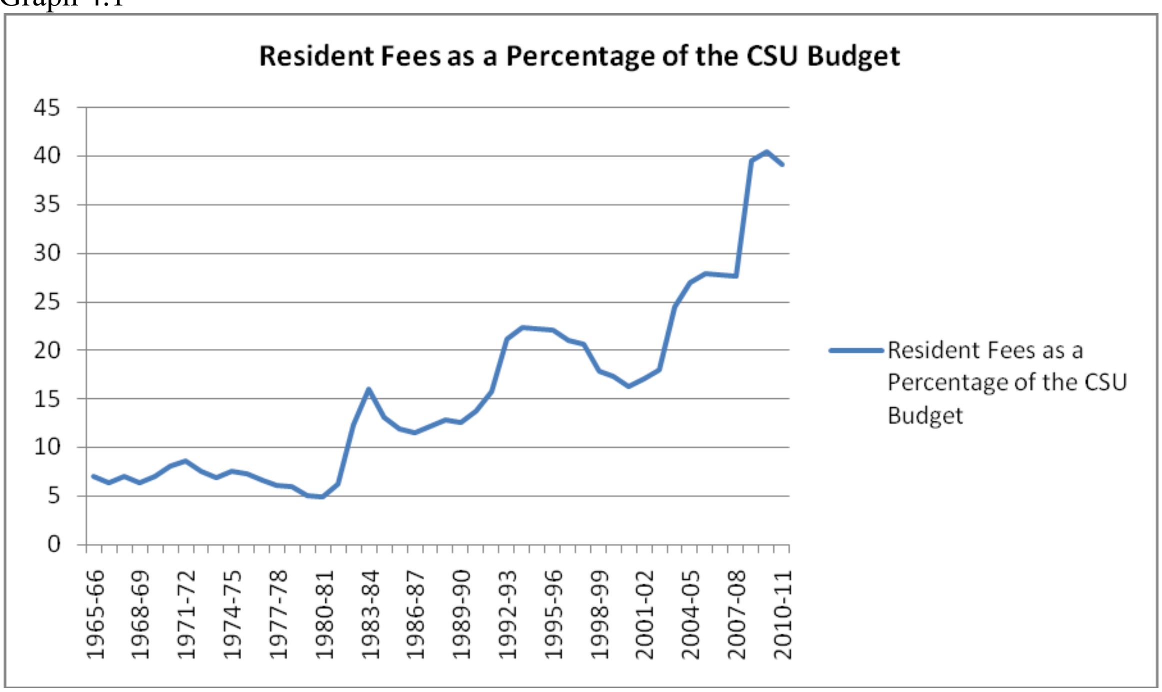
* Resident student fees as a percent of fee revenues and general purpose funds combined

** General purpose funds include state General Funds and local property tax revenue

*** The numbers do not include Federal American Recovery and Reinvestment Act funding in fiscal year 2008-09 or 2010-11

The variances in the amount of revenue the fees generated represented as percentages over time is shocking. In the 1960s and 1970s fee revenue accounted for between approximately five and nine percent of the primary revenue funding sources. By the early 1990s, another recession period, fee revenue made up over 20% and in 2008-09 it accounted for 39.48%. The data indicate that fee increases are particularly susceptible to decreases in the CSU budget, which comes about during times of economic downturns. In 1982-83 the amount collected from fees nearly doubled from the previous year and continued to increase from there with few reductions over the years. Graph 4.1 presents the same information in graphic form, thereby highlighting the dramatic increased reliance on student fee revenue.

Graph 4.1



It appears that fee revenue has become a critical source of funding for the CSU system, especially in the last two decades. This implies that students and their families have indeed begun to pay a greater share of the cost of a college education. "The relatively low level of student charges in the public sector means that increases in fees are a tempting source to replace State funds" (CPEC, 1985, p. 100). But were there other factors at play besides just funding? Again, the literature suggests that there may have been a shift in ideology around who benefits more from higher education, and therefore who should pay what. The next section is going to look at potential shifts in public opinion, policy discussions and recommendations over the decades to see if there is another explanation for the shift.

Policy Implications Across the Decades

Theory 2: Public opinion of higher education has gotten worse

Finding 2.1: No apparent shift in public opinion

As I mentioned in the methodology section, I found little in the way of public opinion polls to try and determine if public opinion had shifted over time with respect to higher education. Even when I switched to an academic literature search I found minimal information from which to draw conclusions that indicated that there had been a shift. The CPEC publication *Issues in Planning for the Eighties* included a section on public opinion of higher education. The report stated that "to some extent during the 1970s, public education was caught in society's general skepticism about the integrity of its political institutions." However, nationally polls did not indicate that public opinion was changing significantly and in fact, the public still considered it a high priority (CPEC, 1980, p.39). The report noted that despite the support, there was concern about the management of the system and a need for accountability.

The Public Opinion Quarterly published *The Graying of America and Support for Funding the Nation's Schools* in 2005. Plutzer and Berkman (2005) looked at dozens of polls to determine if the "graying generation" was less likely to support public schools. Instead, they found a "general value placed upon public education and a willingness to support public education" (p. 69). While it is difficult to determine if the same strong support extends to public higher education as to K-12 schooling, the key point is that general support for education is very strong. They also found this to be true regardless of what was going on in the political world; the support was there even before *A Nation at Risk* was published in 1983 talking about the failing K-12 schools.

A 2010 poll conducted by the Public Policy Institute of California (PPIC) found that 74% of California residents believe higher education is underfunded. Furthermore, a majority favor spending more on higher education even if it means reducing funding for other programs.

The information on public opinion does not seem to suggest that there was a significant shift in opinion on public higher education. Americans continue to consider it a high priority and deserving of more funding. Also none of those I interviewed felt that public opinion had really shifted significantly on the topic. Dr. Gerth suggested that public opinion, to an extent, may have shifted but more as a result of the media painting the picture of the ivory tower, with liberal faculty members making high salaries. But this may have tainted their opinion of the institutions not the product they are producing. While there was a belief that there may have been a "drift", no one felt that it had really played a role in the policy making at the State level.

Finding 2.2: To maintain public support, need to be accountable and show efficient use of funds

While public opinion on the value of higher education may not have changed, public opinion on the institutions themselves may have shifted. As Dr. Gerth mentioned, the opinion of the institutions may have led to the public wanting greater efficiency and accountability in higher education. The PPIC survey (2010) found that 86% of Californians believe a college education is very important, but if they believe the institutions are not efficiently using their resources, people may be less supportive of additional funding. In general, the media describes the public's dissatisfaction with what they view as "government waste".

In 1987 a commission convened to review the Master Plan, noting that economic and social conditions were vastly different than in the 1960s. The Commission believed citizens were still willing to pay to adequately fund higher education, an assumption of the Master Plan, but stated that higher education was competing for resources with K-12 schools, health care, and corrections and "therefore every effort must be made to assure taxpayers that funds for postsecondary education are being used as efficiently as possible" (CPEC, 1987, p.39).

Even the institutions themselves have recognized that as demographic and financial situations have changed, there is an increased need to determine how best to use their resources. The CSU Provost and Vice President for Academic Affairs recently asked, "Can our universities work seriously with K-12 on college readiness, so that we can use differently the more than $50,000,000 that we now spend on remediation just in the CSU?" (Hellenbrand, 2011, p.4). Unfortunately, there may be some resistance to looking at new options for educating the masses and doing so under public scrutiny. "Because we see ourselves as a righteous people, higher education resents accountability. In fact, by our accounts, we are owed a trove of inputs" (Hellenbrand, 2011, p.6).

This is also apparent with the latest news of several incoming CSU presidents receiving salaries 10 percent above their predecessors. The decision caused the State Superintendent of Public Instruction Tom Torlakson, an ex-officio trustee, to request a salary freeze for these top positions stating, "The students we serve and the public that supports our system enjoy no immunity from the consequences of the Great Recession…Why should those we select to lead our campuses be any different?" (Rivera, 2012).

Mr. Harris noted in our interview that there is a greater tendency not to change internal structures if fee increases are easy. "It is hard to change the number of units instructors teach, deal with the unions, harder to manage institutions. So to the extent that they can avoid it they do. The trustees are left with poor choices" (personal communication, March 6, 2012). But if higher education is going to compete for scarce resources it needs to show the public that it is doing everything it can to use the money it is given wisely and well.

Theory 3: Change in elite view of "public" aspect of higher education

Finding 3.1: Still supportive of State bearing primary financial responsibility

In the 1970s numerous publications began to ask questions such as "Who pays for higher education? Who benefits? Who should pay? And how much should they pay?"

The literature suggests that there was then a shift in the view of higher education from primarily a public good (a view shared in the Master Plan) to more of a private good. If the individual is a greater beneficiary, then the individual should pay a greater share of the cost. It is not clear that in discussion from the perspective of a private/public good debate occurred among California policy leaders, nor does it appear that the ultimate conclusion was that students should bear a greater share of the cost because of the individual benefits. Rather, the reports and recommendations for fee policies in California continued to reaffirm the intention of the Master Plan that the State should bear the primary responsibility for funding higher education.

The 1972 Select Committee on the Master Plan for Higher Education suggested that with rising costs for not only higher education (which had doubled in enrollment and the costs had risen more than fourfold) but other state programs, it was time to re-examine the tuition-free policy to determine if it was still appropriate and feasible (Select Committee, 1972). This suggests a look at the policy from a perspective of financial necessity, not a shift in ideology.

In 2004 the Academic Senate of the CSU resolved that higher education "is an essential public good and that the preponderance of its cost should be met through public funding" and determined that it was their intention to study the issue of the appropriate share of cost of undergraduate and graduate students over three years to propose a long term fee policy (item 1).

My interviews also suggested that the belief in the Master Plan is still present. Although there have been many attempts to redefine the Master Plan it still has not happened yet. Mr. Horne stated, "There is a strongly held view that the State and CSU should provide tuition free education, but financial necessity has made that impossible" (personal communication, March 5, 2012). Mr. Harris and Mr. Callan both stated that they did not remember there being a debate about the public versus private good; those are terms that economists and academics use. But to reiterate, people still seem to embrace the intentions of the Master Plan and continue to recommend that the State cover the majority of the costs for higher education.

Finding 3.2: Students should pay "more"

Although the committees and commissions on fee policies continue to recommend that the State should bear the greater share of funding higher education, over the years the reports recommended that students should pay more. But it is difficult to determine an appropriate fee level when there is a lack of agreement between all of the stakeholders as to whether the current amount being paid is appropriate. At any point in time some believe student fees are too high while others believe they are too low. Although it seems clear that the belief is students should bear at least a portion of the cost of their education, just how much is hard to determine.

The 1972 Select Committee on the Master Plan for Higher Education recommended that resident students with the ability to pay at UC and CSU should contribute towards the cost of their instruction, but the amount should be kept as low as possible and not exceed that of comparable universities. Despite this recommendation, we know that the CSU did not openly collect or use student fees for the purpose of instruction (the definition of tuition according to the Master Plan) until a much later date.

A 1992 CPEC publication discussed the option of setting fees to a certain percentage of the total cost of instruction (for example, fees at the CSU would be 25 percent of the total average cost of instruction). The report noted that this would be a departure from the history of providing "tuition-free" education and keeping fees as low as possible (CPEC, 1992a).

A 1993 report noted that "the question of how much of the costs of higher education should be borne by the students has still not been addressed systematically – the only answer to date (in terms of present practice in setting fees) being 'ever more than before,' with practice far exceeding State policy of moderation in fee increases" (CPEC, 1993b, p.21). The reported stated that per the Master Plan, fees were to be charged for costs not directly related to instruction, but the fees charged now clearly exceeded those costs. "This distancing of fees from costs probably began as policy under Governor Reagan" who believed students should pay a greater share of the cost of the education because it was the best in the country (CPEC, 1993b, p.21-22).

A 2002 fee policy Commission still recommended that the State bear the primary responsibility for the cost of higher education, that resident fee increases should be gradual, moderate, and predictable (as possible), and that indicators, such as the percentage change in per capita personal income, should be used to help determine fees to maintain gradual and moderate increases (CPEC, 2002).

What this shows is that over the years recommendations have been made to charge students based on different criteria such as ability to pay or a percentage of the total cost of education, but there still does not appear to be a specific methodology for determining how much students should pay. There does, however, appear to be general consensus that students need to pay a portion of the cost of their education, though there is still a desire for the State to pay a greater share of the total cost.

Theory 4: React to recessions out of financial necessity

Finding 4.1: Fee policies discussed or adopted after recessions

Based on my interviews, it was suggested that long-term fee policies were the result of reactions to fee increases, usually after recessions, when people looked around and said, “Gee, we don’t want to do that again.” The timing of fee policy committees/commissions coincides with years following recession periods in the 1980s, 1990s, and 2000s. This suggests that that when times are better and funding is more stable, determining an appropriate fee policy is less of a priority.

A 1984 report noted that the recession was clearly a major factor in the rapid rise in student fees, since other states had similarly seen large increases in student fees (CPEC, 1984). The report stated “the recent increases in fees at both institutions have stemmed less from any basic change in State policy toward student fees than from severe State budget shortages caused by the recent recession, compounded by tax-cutting measures such as Proposition 13” (CPEC, 1984, p. 15).

In 1996, the existing student fee policy in place from 1985-1996 expired. In 2002, after a period of economic stability followed by another decline, the Legislature once again directed CPEC to develop long-term fee policy recommendations, “Given the lack of a statutory fee policy and the Sate’s deteriorating fiscal situation” (CPEC, 2002, p.1).

Mr. Callan pointed to this trend as well. "Historically, proposals were usually after severe increases. Policies were put in place when things were on the upswing. Policies are made when the budget is good, but policies collapse as soon as the budget goes down again. In the cycle, fees increase when the economy is at its worst" (personal communication, March 8, 2012).

Ms. Zamarripa agreed stating that the process is reactive, not proactive which creates a very haphazard budget. Really, it is not done by policy, but a belief in "who we are, who we serve and we try to be sensitive to that" (K. Zamarripa, personal communication, April 13, 2012). The CSU is not like the UC. It has a different philosophy and mission, and Ms. Zamarripa believes decision makers do try to take that into consideration when fees are increased.

The intention to determine a long-term fee policy after fee increases also suggests that people are aware of the hardships caused by dramatic fee increases, and implies a genuine desire to maintain fees that are as low as possible. It also suggests fees increases are driven by financial necessity.

Finding 4.2: Reactions to recessions further exacerbated by optimistic budgeting and assumptions

Since fees and fee policies appear to be so tied to the budget, the State budget itself—and the amount of funding the State issues to the CSU—is clearly a factor. It has been argued that colleges and universities do disproportionately well during financially good fiscal years, but are disproportionately cut during periods of bad economic times (Hovey, 1999). Some claim this is because of the institutions' ability to raise additional revenue through fee increases, an option other state supported programs do not have. While much of the literature discussed tax structure, and limited term politicians as part of the problem (and both of these characteristics could be attributed to California's budget problems), another issue is not an economic force, but a behavioral force, or the "tendency to assume that the future will be like the immediate past" (Hovey, 1999, p.8). The State tends to take an overly optimistic approach to expected revenues, and when times are good assume that they will always be good. This also means over-committing resources during flush times.

> This favorable fiscal environment has meant that state elected officials have exerted little pressure for major changes in higher education. With minor exceptions they have not forced consolidation or closures of institutions, elimination of programs, restrictions on tenure, mandates regarding minimum faculty teaching loads, enrollment caps, and other devices to attempt to force cost reductions (Hovey, 1999, p.9).

Mr. Harris made a similar observation during his interview. There is a need for a stable input mechanism to project budgets, but our tax flow structure is very volatile. "There is no capacity to know what it will be, so there is a tendency to assume greater input to balance the budget and implement programs. Unfortunately, you can only divide a dollar so many ways. And when that dollar is really only 75 cents you have even more problems" (personal communication, March 6, 2012). Mr. Horne also noted, "the Master Plan was a good philosophy, but difficult to maintain when budget problems exist" (personal communication, March 5, 2012).

Better economic times did not seem to require or present the same need for fee policies compared to periods of recessions. The financial conditions that led to dramatic fee increases were followed by requests for long-term fee policies. However, despite times when fee policies were in place, the need for more revenue was a greater priority than following the established rules for keeping fee increases gradual and moderate.

Theory 5: Policy devoting 1/3 of fee increases to financial aid made it easier to raise fees

Finding 5.1: Financial aid policies may have opened a door for increases

In 1994, CSU Chancellor Barry Munitz proposed an additional fee hike and included a provision that one-third of all new student fee income be used to “ensure continual access of low-income students” (Gerth, 2010, p. 317). It is not clear how this percentage was derived, but it has been used consistently. It has been suggested that taking care of the “most needy” students with such policies makes it easier to raise fees. “Called ‘discounting,’ this practice has actually become one of the factors exerting upward pressure on tuition levels” (Gumport, et al., 1997, p.35).

Access is one of the fundamental cornerstones of the CSU system. One of the reasons behind keeping student fees low is to ensure universal access. Along the same lines, financial aid has become a major component for ensuring that needy students are able to attain their college goals. With each increase in fees, or decrease in State funding, the conversation also circled around maintaining adequate financial aid, and often times recommendations for fee policies included additional recommendations for explicit financial aid policies.

In 2003, in anticipation of continued fee increases, the Academic Senate recommended that "financial aid greater than the traditional 1/3 proportion be set aside to cover these needs" (Academic Senate, 2003, p.11). Another Academic Senate meeting in 2009 brought this topic up once again. The question was, "Raising student fees—the BoT used to put 1/3 of all increases in student fees for financial aid. The 1/3 number was arbitrary but has remained constant across time. Is there any data that suggests that 1/3 is a better number than other proportions?" (Academic Senate, 2009, p.6). The answer was unknown. However, in 2003 the CSU responded to an analysis of the 2003-04 Budget Act describing the Fees and Financial Aid Policies the Board had implemented in the early 1990s including "the priority that is placed on the use of student fee income to assist students with need" (CSU, 2003, p.12).

There was general consensus among those I interviewed with this theory as well. Mr. Horne stated, " federal and state financial aid is at play because the fee amount determines the dollar amount students are eligible for, making it a back door way to get additional aid" (personal communication, March 5, 2012). Mr. Callan stated this policy was "enabling, not causal" (personal communication, March 8, 2012). The policy itself did not cause fee increases, but it was a part of the rationale for why it could be done with minimal damage. Dr. Gerth agreed believing that the policy "gave a license to increase fees" based on the idea that everyone that needed help would be taken care of (personal communication, March 9, 2012).

Ms. Zamarripa (personal communication, April 13, 2012) noted that the CSU is often described by the terms "access and affordability." Access meaning keeping the doors open, and affordability meaning financial aid. Fee revenue has at times bought both access and affordability.

Going back to Table 4.3, students fees have made up a larger share of the CSU revenue since the early 1990s. Until 1992-93, there were only two years in which the fees exceed 15% of the total revenues—1983-84 and 1991-92—otherwise, fee revenue made up less than 14%. Since 1992-93, there was only 1 year—2000-01—in which fees made up less than 17% of total revenues.

It is clear that the CSU is committed to maintaining access to their universities by ensuring financial for the neediest students, to the point of implementing a policy dedicating a percentage of fee revenues to financial aid. The fact that fee revenues have made up a larger share of the CSU budget since right around the time that policy was passed (and other documents suggested the practice had been going on longer than the policy) indicates that this is a plausible argument.

Theory 6: The changes were incremental and happened over time

Finding 6.1: Fee increases should be "gradual, moderate, and predictable"…except during recession years

Some have argued that the changes that have occurred have been incremental over time. This would not undermine theories 1-5 in this thesis, but it would undermine other theories, such as the Trustees have intentionally tried to get the most possible out of students because they do not care. Certainly the policy recommendations suggest that students and their families have tried to be protected with gradual, moderate, and predictable increases. Unfortunately, as mentioned previously, economic realities often undermine good intentions during recession periods.

In 1978, CPEC released a five year plan update, noting that Proposition 13 had caused a fiscal crisis making fee increases a topic once again. Although concerned about the effects of fee increases, the commission noted that "increased student charges must be considered as one of several possible source of additional funding for the long-range financing of postsecondary education" (CPEC, 1978, p.11).

The 1984 Fee Policy Committee was partly the result of the Legislature's concern of the lack of "explicit" policies that had allowed State University fees to increase so dramatically in a few short years, and also the impact this would have on access to higher education (Fee Policy Committee, 1984). Part of the solution to this problem was the recommendation that fees should be fixed at least 10 months in advance and increases or decreases should not exceed 10% from the prior year (Fee Policy Committee, 1984). The policy adopted based on these recommendations, Senate Bill 195, stated fee increases should be "gradual and moderate" (SB 195, 1985, p.2).

Dire circumstances led to a 20 percent fee increase in 1991-92, though 10 percent was considered a one-time surcharge. However, a report noted that already for the 1992-93 year, the institutions were considering extending the "one-time" increase (CPEC, 1991). Additionally, the growing importance of student fee revenue was mentioned, as it now represented 15.4 percent of the revenue for the CSU, whereas in 1980-81 it represented only 4.9 percent.

The early 1990s marked another fiscal crisis and SB 1972 allowed the institutions to increase fees above the statutory cap of 10 percent, which meant a 40 percent increase in student fees for the CSU to "offset a portion of the reduction in State General Fund support" (CPEC, 1992b, p.7). This appears to be the first open use of fee revenue to supplant State funding for the cost of instruction.

> These higher fees have forced the State and its public systems of higher education to abandon –at least in practice—their long-held principle of "tuition –free" education, since student fees are now being used to support instruction and instructionally-related activities that were previously agreed to be the responsibility of the government (CPEC, 1993a, p.5).

In a 2006 CPEC report, the Commission stated "the basic tenets of the Master Plan regarding affordability have been eclipsed by the need to maintain access and educational quality in the face of declining state support" (CPEC, 2006, p.6).

What these reports show is that over the years as the conversation of a long-term fee policy has been discussed, people continue to go back to the intentions of the Master Plan. Everyone seems to want college to be affordable, and wants the State to pay the larger share of the cost. However, despite the desire to keep fees moderate and predictable, the reality is that over time the reliance of fee revenue has become greater and minor decisions here and there, and another recession all seem to have led to the current situation where the reliance on fee revenue is higher than anyone would have hoped for.

Putting it All Together

Ultimately there is an interconnectedness to most of these explanations for how we got to here. The key decision makers have continued to maintain the belief that there needs to be a long-term fee policy and that decisions should still be rooted in the original intentions of the Master Plan. The rationale for the Legislature requesting committees, what the committees reported back to the Legislature, and minutes from the Academic Senate all shared the themes that the State should honor the "social contract" of providing access to a quality postsecondary education. To honor the contract the State should be the primary source of funding but students should contribute as well. When possible fee increases should be reasonable and as moderate as possible to ensure access, unfortunately, volatile funding creates the need to increase fees to counter budget cuts, which also creates the need to provide adequate financial aid policies.

Chapter 5

CONCLUSION

The goal of my thesis was to understand the California State University's fees and fee policies to try and determine an explanation for the apparent shift to a more state-assisted form of financing that has occurred since the implementation of the Master Plan. This thesis began with some background on the topic of tuition/fees, a literature review on academic explanations for how colleges are funded, and an analysis of available information, data, and interviews to take a longitudinal look at the changes over time. This chapter concludes with a presentation of the major findings and offers recommendations for further research opportunities.

No Apparent Shift in Ideology

The literature review suggested two main arguments: a shift in ideology about higher education or a simple fight for scarce discretionary resources. There does not appear to be an obvious shift from viewing higher education as a benefit to the individual rather than a benefit to society. Certainly individuals benefit from increased human capital, and a college degree acts as an indicator that tends to provide access and opportunity to more jobs and greater earning potential over one's lifetime. However, society continues to benefit from and desire an educated workforce, and poll data show the majority of Californians consider higher education important. Ultimately policy committees, the Legislature, and the colleges and universities continue to advocate for fee increases that are moderate, gradual, and predictable and look to the State to shoulder the majority of the funding burden. The argument that a lack of discretionary resources plays a role in fee policies had more traction.

Fight for Discretionary Resources

While it is not crystal clear exactly which programs higher education competes with when it comes to discretionary resources, it was certainly suggested that cutting funding for the colleges—which are able to generate additional revenue from fees—is easier than cutting funding from some of the others such as prisons or social programs. The data did show that as the percentage of the budget for prisons has increased, the percentage of the budget for higher education has decreased. The two items do appear to be correlated, though I cannot be certain that the increased prison budget caused the decreased higher education budget. Nor is it clear that increased costs for K-12 education or Medicaid are to blame for the decrease in higher education funding. What is clear is that the percentage of the General Fund going to higher education has decreased gradually since the 1960s.

The Desirable is Not Necessarily Possible

There have been incremental changes over the years regarding fee policies. The desire to maintain the Master Plan has not ceased, though there is an increasing acceptance for students to pay a greater share of the cost for their postsecondary education, beyond just minimal ancillary fees. Each recession has brought another conversation about how to pay for higher education, and how much students should pay. Recommendations have been made for formulas based on a percentage of the total cost of a student's education, caps on yearly fee increases, using indices to determine increases, but nothing has really stuck. What has changed, slowly, is admitting that fees were no longer being used for things outside of instruction to a place where they are now openly referred to as “tuition fees”. Even though this has been the reality for many years, it represented a diversion from the belief that the State would pay the cost for tuition. But as Mr. Callan said, “Tuition versus fees is like fees versus taxes. It’s semantics” (personal communication, March 8, 2012).

Financial Necessity

Based on the data and interviews, it does not appear the Trustees have intentionally raised fees or set fee policies in an attempt to get the most they can out of the students. The CSU budget is directly tied to the State budget. Although the percentage of the General Fund going to higher education has declined over the years, the budget for higher education has really only decreased during recession years. Unfortunately, the revenue has to come from somewhere so when the State issues less to the CSU the burden has shifted to the students. Student fee revenue has become a substantial source of revenue, accounting for a growing share of the CSU budget.

While fee revenue steadily increased over the years, the most striking increases began in the early 1990s, which coincided with the policy to dedicate 1/3 of fee increases to financial aid. This timing may have been a random occurrence, or this policy may have made it easier to justify raising fees, as my interviews and some of the literature suggested. It was very clear from reading CSU documents that it was a priority to use fee revenue to ensure access, so while budget cuts at the State level have been at least partially responsible for fee increases, it is possible that this financial aid policy has created another form of "financial necessity" in order to ensure universal access.

Opportunities for Additional Research

In my research I was a bit surprised by the role financial aid policies may have played when it comes to fee increases. While some of the literature argued that the middle class benefits from highly subsidized public education, a few others suggested that it is the middle class that is actually being squeezed out of higher education because these families typically do not qualify for financial aid and must rely on student loans. According to the minutes from an Academic Senate meeting, 170,000 CSU students pay no fees. I think we would benefit from additional research to look at whether policies directing a portion of fee revenue to financial aid can be linked to more/higher fee increases by comparing similar policies across the nation. Along the same lines, I think another area for additional research is to look at whether an unintended consequence of setting aside fee revenue for financial aid has created an additional burden on middle class families, perhaps specifically those on the lower end that are just over the threshold to qualify for financial aid.

Conclusion

Despite decades of seemingly exhaustive research and analysis on determining an appropriate fee policy for the CSU, such a policy still does not exist. Recommendations are made, typically after recessions, and sometimes adopted, but as soon as there is a glimpse of a financial storm ahead the polices are abandoned. Fee revenue has become an increasingly important part of the CSU budget, especially during difficult financial times for the State. It is clear that determining what is viewed as a rational fee policy is no easy task or it would have happened already. If California desires a real change in the volatility of tuition fee increases, an honest policy conversation needs to happen. Even if it means finally admitting that we can no longer sustain the intention of the Master Plan because while it is desirable, it is not feasible. The CSU relies on State funding and when State funding dries up tuition fees are increased to make up the difference. This pattern is going to continue unless the State finds a less volatile revenue stream, or the CSU builds a hefty reserve for economic uncertainty. And one can only imagine how well that would go over politically.

APPENDIX A

Interview Questions

1. The academic literature suggests that there has been a shift in the perception of who benefits more from higher education, away from seeing society as a whole benefit toward seeing the individual benefiting. This literature also suggests that because of this shift, the belief is that the individual should pay a greater share of the cost of a college education. In your opinion, has this public good versus private good debate played a role in the consistent increases in student fees? And if there has been a shift in ideology was it driven by public opinion, political leaders, academics, or what?
2. Some academic literature also suggests that the raising of fees is not about ideology, but simply a fight for scarce discretionary resources. In your opinion is this a sound argument?
3. In the early 1990s the California State University system directed 1/3 of all revenue from student fee increases to be recycled dollars in the form of additional student financial aid/grants. Some have argued that this change made it easier to pass fee increases. In your opinion, could that be true?
4. Since shortly after the implementation of the Master Plan studies have been conducted to assess fee policies, and usually after fee increases have occurred. The commissions put in charge of this task continuously stated the need for a long-term policy that would allow moderate and predictable fee increases to take place so students and their families could plan for college. Yet we still seem to be having the same conversations about a need for a policy that makes fee increases more predictable. Do you have any idea why it has been so hard to create such a policy?
5. Reports from the 1990s state that the goal of the Master Plan was to provide free educational instruction with the student contributing nothing towards tuition and only a modest sum for additional fees. However, in bad economic years several reports explicitly stated that student fees were both supplementing and supplanting costs for "tuition" or instructional minutes. It wasn't until January 2011 that the CSU actually referred to the fees paid by students as "tuition fees". Do you think there is a reason it took so long for the university to be open about the use of the funds collected by students?
6. The goal of this thesis is to look at the change in fees and fee policies since the implementation of the Master Plan to try and better understand what has changed and why. There has been a consistent pattern of increases since the early 1990s, and even in the better years fees may have been maintained at a certain level, but

they never decreased. Is there anything you would like to add that you believe has contributed to how we got here and the changes that have taken place over the years? Do you believe there is a critical piece that is missing from much of the literature?

APPENDIX B

Consent Form

Introduction: You are being asked to participate in research conducted by me, Christina Kersey, as a thesis requirement for the Master of Public Policy and Administration program at California State University, Sacramento.

Purpose of the research: This thesis is exploring how fee policies have shifted over time since the implementation of the Master Plan. California appears to have gone from a belief that the State should bear the primary responsibility for funding higher education to a viewpoint where the State is "assisting" in the financing of higher education.

Research Procedures: I have six questions that I will be asking related to higher education financing and fee policies. They are open-ended questions and I am looking for your perspective based on the experience you had working in a field related to this subject.

Risks Involved: The research will be published as a thesis and may be publicly accessible in digital or print formats. You may decline to answer any question you wish. Your participation in the interview is entirely voluntary.

Confidentiality: I am requesting permission to identify you by name in the final report. If anything is said during the interview that you would like to remain confidential, please let me know. You may also request to see any part of the document that identifies you prior to submission if you have concerns about the content.

Contact Information: If you have any questions about this research, you may contact me at xxx-xxx-xxxx or kersey.christina@gmail.com or you may contact my primary academic advisor in the Department of Public Policy and Administration at California State University, Sacramento Ted Lascher at 916.275.4864 or tedl@csus.edu.

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