



# FOR-PROFIT HIGHER EDUCATION & THE CAL STATE UNIVERSITY: A CAUTIONARY TALE

## FACT SHEETS

- **The Private For-Profit Model of Higher Education**
- The “For-Profit” Model in the CSU: Executive Compensation
- The “For-Profit” Model in the CSU: Soaring Tuition
- The “For-Profit” Model in the CSU: Expansion of Extended Education Operations
- The “For-Profit” Model in the CSU: Cal State Online
- Conclusion

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## THE PROMISE

- Promoters of “edu-businesses” have been touting a For-Profit model as the “wave of the future” for higher ed – a boon for students and cash-strapped state governments – and even as a model for public, non-profit universities.
- Between 1998 and 2009, enrollment in For-Profit programs increased by 236% while enrollment at public and private non-profit universities grew by only 20%.
- Today, 12% of all college students are enrolled at For-Profits.
- Stocks of For-Profit higher education companies outperformed the S&P 500 by 40% between 2008 and 2010.

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## THE REALITY

- Congressional investigators found the majority of CEO’s of the top For-Profits received more than \$3 million annually; CEO’s of DeVry, ITT, and University of Phoenix are paid over \$6 million per year.
- Faculty teaching in For-Profit programs are mainly hired part-time on a short-term, temporary basis.
- Tuition at For-Profits (\$61,000 for a BA) is almost *double* the cost of public universities (\$36,000).
- 96% of all For-Profit grads have student loan debt (compared with 62% of public school grads).
- Student loan debt of For-Profit grads is \$31,000 (compared with less than \$8,000 for public school grads).
- Most students in For-Profit programs fail to complete their programs: withdrawal rates range from 67-84%.
- For-Profits account for 50% of all student loan defaults, but enroll only 12% of students.
- Investigations have uncovered numerous unethical outreach and recruitment practices including:
  - Paying recruiters by commission and pressuring them to misinform prospective students about true costs.
  - Falsifying student academic records and financial aid applications.
  - Registering students without student’s consent
  - Manipulating enrollments to receive larger amounts of financial aid.

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## HOW DID THIS HAPPEN?

- Demand for higher education was strong and not being met by public colleges and universities.
- Entrepreneurs and investors saw opportunities to generate a profit by offering a low-quality product (education on the cheap), charging high prices (tuition) for it, and relying on large public subsidies (federal student aid) and aggressive marketing (unethical recruiters).
- The “success” (high profits) was based on a model designed to benefit executives and shareholders, not students or the community.
- Higher ed corporations grew almost overnight and became very powerful without the benefit of public scrutiny and democratic oversight.
- The cost in debt to millions of students and to taxpayers in wasted subsidies is the prices we are now paying for failing to look beneath the hype and ask hard questions.
- **The For-Profit model for higher education is a costly failure that should be reformed rather than replicated.**



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### CSU EXECUTIVES ARE HIGHLY COMPENSATED

- Last year, 29 CSU executives were paid between \$240,000 and \$451,000 in salary. In addition, each receives a \$12,000 per year auto allowance and presidents get a house or housing allowance of \$50-\$60,000 per year.
- The CSU Chancellor and Board of Trustees continuously search for ways to increase executive pay. The Chancellor repeatedly complains that executive compensation is unfairly restricted by laws that cap pension benefits at \$245,000 per year.
- Lawmakers and other observers believe CSU executive pay is extreme, both in absolute terms (e.g., a \$100,000 raise to a campus president last year) and in the context of other high-level public service.
  - “At a time when the state is closing its courts, laying off public school teachers and shutting senior centers, it is not right to be raising the salaries of leaders who – of necessity – must demand sacrifice from everyone else.” – Gov. Jerry Brown.
  - “Top-level CSU employees ought not to be given raises on the backs of higher student fees. That’s unconscionable.” – Sen. Elaine Alquist
  - The majority of the CSU board of trustees is out of touch with reality, and that’s why we need legislation to take discretion away from them.” – Sen. Ted Lieu

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### RELENTLESS PURSUIT OF HIGHER PAY FOR EXECUTIVES AND TOP MANAGERS

- The CSU Chancellor is unapologetic about executive raises: “Nothing that I have done in the 14 years that I have been here have I spent more time on that this one issue [executive compensation].”
- Under Reed’s leadership, salary for campus presidents has increased 71% and his own salary rose by 66%.
- CSU spent over a million dollars on a consulting firm to justify its approach to executive pay. The Governor said this about the consultants’ conclusion that CSU execs need raises: “I think they’re rigged...They create a false paradigm that ensures that college presidents are always ‘underpaid’.”

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### PROFITING AT THE EXPENSE OF STUDENTS AND INSTRUCTION

- Between 2008 and 2011, CSU cut expenditures on instruction by 4%, or \$88 million.
- During Reed’s tenure as Chancellor, there has been no growth in the number of permanent faculty positions even though enrollment grew by 18% and an entire new campus was added to the system during this time.

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### WRONG PAY MODEL FOR PUBLIC INSTRUCTION

- The Chancellor’s Office described current executive pay as “bargain basement” revealing how out of touch that office is and also revealing to whom they compare themselves: CEO’s of For-Profit corporations.
- CSU execs are not and should not be driven by profit motives or compensated like corporate CEO’s; they are public servants.
- **When CSU leaders choose to charge more to students while lining their own pockets, they violate the both the mission of the CSU and the public trust.**



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### CSU MANAGEMENT ACCEPTS CUTS, OPPOSES FUNDING

- 2009: CSU Chancellor tells Legislative Conference Committee on Budget: “I will not waste your time calling on you to refrain from the reduction to the CSU...we can manage them.”
- 2011: California higher ed leaders hold press conference to announce they will not fight proposed budget cuts. CSU Chancellor refuses to endorse extension of temporary taxes even though additional CSU cuts were linked to success of tax measure.
- Why not fight for funding? The answer is simple in a For-Profit mindset: the most predictable source of revenue lies in students’ wallets, not state coffers.
  - Last year, \$1.75 billion came from tuition and fees, up \$69 million from the previous year and 7 CSU campuses received more funds from tuition than from the state of California.

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### PERPETUAL TUITION INCREASES PRICE MIDDLE CLASS OUT OF COLLEGE

- CSU Trustees voted to raise fees and tuition 14 different times over past decade.
- A student who entered the CSU in 2008-09 will be charged next year almost double the amount they were charged when they started, in university fees alone.
  - The cost of a CSU degree is now more than \$40,000 excluding books and other mandatory expenses. Ten years ago, it was less than \$10,000.
- Median income for California families increased by only 25% while CSU tuition quadrupled over past 10 years.
- The Chancellor’s Office repeatedly suggests most students do not even notice the rising fees, but they do feel the pain each time tuition is raised and for years after they graduate in the form of student loan debt.
- CSU students graduate with loans averaging around \$14,000 and average annual debt burden for CSU students increased 44% between 2002 and 2009.

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### GETTING LESS FOR MORE

- 5 years ago CSU spent \$2.1 billion on expenditures its auditors classify as “Instruction”; in 2009-10, this dropped to \$1.9 billion.
- Last year, only 34.8% of total expenditures went to Instruction.
- Between 2008-09 and 2010-11, 8,000 courses were cut.
- Chancellor Reed argued against any legislative restrictions to protect instruction from further cuts, declaring he needed “broad discretion” to make more cuts to instruction and warning against “micromanage[ment]” from Sacramento.
- **The high tuition model replicates the approach of the private For-Profit higher education sector. With every fee increase, the CSU strays further from its mission of providing Californians an affordable, quality education.**



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### EXPANSION OF EXTENDED EDUCATION NEEDS OVERSIGHT

- Tuition for CSU Extended Education courses and programs is not voted on in public by the CSU Board of Trustees, reported to the Legislature, or scrutinized in the media. Students can be charged whatever CSU management believes the market will bear.
- Laws requiring public notice and comment on increases to CSU fees and tuition do not apply to fees and tuition for courses offered through CSU Extended Ed.

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### GROWTH OF EXTENDED EDUCATION

- Extended Ed (also known as Continuing Ed or University Extension) has always co-existed with the regular (public) CSU, historically catering to mid-career adults who did not want to become regular students.
- Today all 23 CSU campuses offer programs all year round, concurrent with regular state-supported sessions.
- Revenue generated by Extended Ed was projected to hit \$263 million this year.
- 189,000 students enrolled in for-credit courses through Extended Education in 2009-10, equivalent to the total enrollment in the 6 largest CSU campuses.
- CSU Trustees requested a study in 2010 to explore opportunities to expand Extended Ed operations.
  - The study concluded there were barriers to expansion that should be promptly addressed “if the CSU is to be competitive in this environment of for-profit and private institutions...”
  - There has been no discussion about the potentially very negative effect this expansion could have on students.

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### VULNERABLE STUDENTS, CAPTIVE CONSUMERS

- Fees for Extended Ed can range from \$230 to over \$600 *per unit*.
- Average undergraduate annual tuition for Extended Ed was 51% higher than the average annual CSU fees.
- There are restrictions to financial aid available for Extended Ed programs; the CSU even prohibits its own State University Grants from being used for Extended Ed.
- CSU identifies potential “customers” for expanded Extended Education offerings: students needing remedial courses; students who “stop out” for a term or more before they finish their degrees; students who must take high-demand courses; student who have not finished a degree in five or more years.

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### OBSTACLES TO EXPANSION

- CSU officials believe barriers to expansion include: state laws, employee contracts, and current CSU policies and say they will try to make changes to facilitate expansion of their Extended Education operations.
- **These laws protect the public mission of the CSU and have kept Extended Ed in an appropriate ancillary and supportive role. The public deserves to weigh in on proposed changes and their implications for the CSU mission and future CSU students.**



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## WHY LAUNCH A CAL STATE ONLINE VENTURE?

- Cal State Online is a new fast-tracked initiative to greatly expand online education in the CSU, leveraging the CSU name, reputation, and resources to expand into a wide array of new markets.
- Documents show a desire by CSU officials to capture part of the “market” now dominated by For-Profit edu-businesses.

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## WHAT WILL IT COST?

- Experience and research shows quality online education is not cheaper than traditional classroom instruction.
- Chancellor Reed has required each campus to contribute \$50,000 for a total of over \$1 million in state funds so far; CSU documents call for another \$20 million in state dollars to fund the initiative.
- Planning documents suggest Cal State Online courses will be offered through Extended Education where there are no caps on tuition or public votes about student costs.
- Average price for an online degree charged by the “competitors” identified by CSU consultant clusters around \$40,000-\$60,000.

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## WHAT ARE THE RISKS IN PARTNERING WITH FOR-PROFIT COMPANIES TO PROVIDE EDUCATION?

- CSU consultants contemplate outsourcing a wide range of services to For-Profit companies, from course design to recruitment to marketing.
- Andrew Rosen, CEO of Kaplan: “An investor who wants to make a quick hit can...buy an institution, rev up the recruitment engine, reduce investment in educational outcomes [and deliver] a dramatic return on investment.”
- Partnerships always involve some loss of institutional control and there should be discussion about the risks involved in partnering with edu-businesses.

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## ACCESS TO WHAT? ACCESS FOR WHOM?

- For-Profits cut costs by reducing – or even eliminating – interaction between students and instructors, often leading to canned courses that resemble self-paced correspondence courses rather than student-centered online courses that are currently offered by the CSU.
- Online education is not for everyone: characteristics like self-motivation, learning style, level of study skills, technological preparedness, and access to reliable high-speed internet are all factors that affect a student’s ability to be successful in online courses.
- Low-income, first-generation, or under-prepared students who are at the core of CSU’s mission are often less likely to be successful in online programs.
- **To avoid the failures and scandals that characterize many For-Profit, online initiatives in the Cal State Online, complex factors related to access, cost, and quality must be carefully considered.**



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## CONCLUSION

- CSU’s executive leadership is chasing a For-Profit edu-business model:
  - Richly rewarding top executives
  - Skyrocketing tuition
  - Expanding Extended Education operations that unfairly charge students even more for the courses they need to graduate
  - Fast-tracking a new Online University
- This is a misguided attempt to remake a great public institution in the image of a scandal-ridden, failed model of higher education and it is occurring quietly, with little transparency or public dialogue.
- CFA calls for a different direction, one that reaffirms the mission of the CSU and keeps the People’s University a public university.

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## PUTTING THE PUBLIC BACK IN THE CSU

- A public model of CSU University Leadership
  - The California State University is a public institution and all who work in it – from the Chancellor on down – are public servants. California cannot afford a private enterprise model of executive pay.
- Public Governance of the CSU
  - The CSU Board of Trustees should welcome to the table the designees of *ex officio* members of the Board: the Governor, Lieutenant Governor, Superintendent of Public Instruction, and Speaker of the Assembly.
- Democratization of the CSU Board of Trustees
  - After years of missteps, it is time to include more voices on the board of people who have direct experience in providing and receiving quality education in good and bad times.
- Affordability
  - More and more, students face difficult choices: pay extra to take courses they need in Extended Education or resign themselves to taking even longer to graduate. California residents who are matriculated students in the CSU should not be forced to pay a bounty to take courses they need to graduate.
- Quality
  - CSU needs to provide all students with rich educational experiences that develop critical thinking skills needed for future economic success and for an engaged citizenry. California cannot tolerate a two-tiered model of higher education – real opportunities for quality interaction with real instructors for some and passive rote learning through canned courses for everyone else.