
FOR-PROFIT HIGHER EDUCATION AND THE CALIFORNIA STATE UNIVERSITY: A CAUTIONARY TALE

CALIFORNIA FACULTY ASSOCIATION
MARCH 2012

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California Faculty Association
980 9th Street, Suite 2250, Sacramento, CA 95814
www.calfac.org • 916-448-4848

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EXECUTIVE SUMMARY

The CSU's historic mission to guarantee an affordable, high-quality broad education to all those who qualify is being abandoned by the university's leaders. In the name of "access," changes underway threaten meaningful access to the kind of broad, quality CSU education that has been the ticket into the middle class for millions of Californians.

It is not an accident that the new model for the CSU parallels in striking ways that of private, for-profit universities.

Given the scandals that have rocked that sector and the huge costs imposed on students and taxpayers in the process, the question whether this is the right direction for the CSU to be headed is a crucial one for the future of the People's University and for the state of California.

Unfortunately, that issue is not being debated – in fact, the question is not even being asked – because what might be described as a process of "for-profitization" of the CSU is taking place quietly, with virtually no accountability for system leaders, with limited faculty and staff participation, and with no involvement of the public or elected officials.

The rationale offered by the Chancellor for moving in this direction echoes that used by all for-profit higher education enterprises: for-profit principles, he argues, will maintain or even expand access to a college education in tough economic times. But given the failure of this higher education model, some fundamental questions need to be asked when a public institution is considering adopting it. At what cost – and for whom – is this profound transformation of the CSU's mission taking place?

This report examines these key issues:

THE EMERGING "FOR-PROFIT" MODEL OF HIGHER EDUCATION IN THE CSU

- Executive Compensation
- Soaring Tuition
- Expansion of Extended Education Operations
- Cal State Online

In discussing these areas, our goal is to initiate a broader discussion than is now taking place about the CSU, its mission, and its future—to ensure that the CSU fulfills for future generations its promise of affordable, truly accessible, and high quality education.

CAUTIONARY TALE CALLS FOR ACTION NOW

To ensure that the “for-profitization” of the CSU does not become yet another betrayal of the middle class with students paying exorbitant fees and incurring crushing student loan debt for “degrees” that fail to open doors to real opportunity, we need action on a number of fronts now:

Reform Public Governance at the Public University: Reform the Board of Trustees to provide wider participation on the Board and more public access to its meetings

Reaffirm the Public Servant Model of University Leadership by Controlling Executive Salaries: Control Executive salaries in the CSU and make public stewardship-- not private business CEO management-- the standard

Recommit to the CSU Mission – Affordability, Access, AND Quality: Increase **meaningful** access through increased funding and lower student fees, not by degrading quality.

While none of these goals is easily achievable, a commitment to begin work in these areas can, we believe, be a strong first step toward ensuring that the CSU serves California as well in the next 50 years as it has in the last.

I. INTRODUCTION

In late 2009, an Op-Ed for the Sacramento Bee asked, “Will CSU’s motto someday be: ‘I am a Phoenix?’” (University of Southern California Professor William Tierney, 10/4/09). At the time, it may have seemed that Tierney was describing a far-fetched scenario where a future Governor – faced with chronic budget shortfalls – announces the sale of the California State University to the Apollo Group (which owns the University of Phoenix). Fast-forward two and a half years, and his musings may instead seem prescient. Instead of the governor announcing the sale of the country’s largest, four-year public university, the California State University’s Chancellor is himself pursuing “bold” new measures that are modeled after the characteristics of the lucrative (if scandal-ridden) higher education for-profit sector, with the hope that CSU will become a serious competitor for the University of Phoenix and other for-profit colleges.

Since its founding in 1961, California State University has been seen as the People’s University. Charged in the state’s master plan for higher education with providing all Californians, regardless of income, with access to a high quality university education, visionary leaders always intended the CSU to be a great public institution.

For decades, our state and millions of students have been well served by the CSU. Today, there is a tremendous tension in the CSU as state funding allocations shrink and enrollment pressures mount.

These stressors are driven simultaneously by California's changing demographics, demands of the global economy for larger numbers of highly educated workers, and the great recession. All of these make the CSU's mission of providing access to higher education more important and more challenging than ever. Indeed, over the past several years news about the CSU has been alternately peppered with announcements about record numbers of applications and plans to cut enrollment.¹

During this challenging time, the system's chancellor, Charles Reed, has chosen to lead the CSU through a stealth process of what might be described as 'for-profitization,' taking the CSU down a path that threatens the public essence of the university and its mission. Leveraging the public's hunger for 'access' and the opportunistic moment of crisis, the CSU's executive leadership is quietly pursuing a vision of the university that will have permanent consequences and irrevocably harm the CSU's quality and reputation. This version of the CSU contrasts starkly with that of the visionaries who founded the system fifty years ago.

If this seems far-fetched, please read on. This report examines how, with virtually no public input, those entrusted with leading the CSU have parlayed the public's desire for greater access to higher education in a time of economic crisis into a stealth program that threatens to alter the very essence of the CSU as a great public university.

II. THE PRIVATE FOR-PROFIT MODEL OF HIGHER EDUCATION

“For-profit colleges provide high cost degree programs that have little chance of leading to high-paying careers, and saddle the most vulnerable students with heavy debt. Instead of providing a solid pathway to the middle class, they pave a path into the subbasement of the American economy.”²

- *The Education Trust, Nov 2010*

THE PROMISE

Just a few years ago, promoters of what might be called “edu-businesses” touted a for-profit model as “the wave of the future” in higher education – a boon for students and cash-strapped state governments and even a model for non-profit universities to emulate. For-profit education, they claimed, was more “innovative,” efficient and “consumer-friendly” than regular, not-for-profit, public and private universities. The for-profit sector was touted as the solution to our higher education capacity problems and a way to bring higher education to millions without adding to state education budgets. In an ironic social policy twist, for-profit colleges managed to position themselves as the champions of increased access to higher education. They opened their “doors” to all, from busy professionals seeking career advancement to low-income students and students of color.

In fact, their enrollments did increase by leaps and bounds: Between 1998 and 2009 enrollment in for-profit programs increased by 236 percent (including a large number of minority,* female, and older

* Today 1 out of every 4 college students of color is enrolled in a for-profit institution, according to Jose Cruz of the Education Trust.

students) while enrollment at public and private non-profit universities grew by only 20 percent. Today, 12 percent of all college students are enrolled at for-profits* compared to just 1 percent of all students in 1990.³ This explosive growth in enrollments resulted in record profits for these corporations. From 2008-2010 stocks of publicly held for-profit higher education companies outperformed the S&P 500 by 40 percent.⁴

As praise rolled in from conservatives convinced of the superiority of the private sector’s profit motive and liberals focused on widening educational opportunity, it appeared that the for-profit model might be worth emulating.

But, as is often the case, a closer look reveals a different reality.[†]

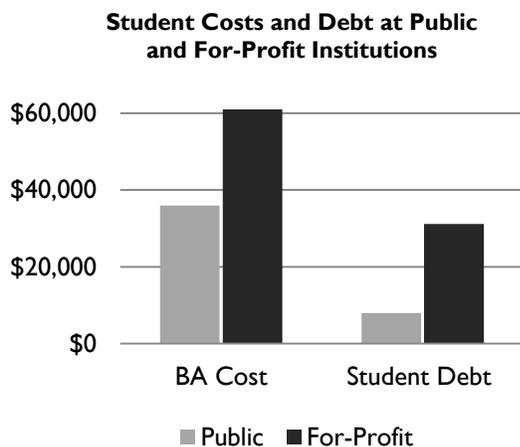
THE REALITY

A more careful look at the reality of the for-profit model reveals a more complicated picture.

For instance, the internal structure of these organizations displays many more commonalities with a private finance firm than with a university. Almost without exception, these corporations combine extremely high salaries for top executives with extremely low wages for a temporary faculty workforce. The CEOs of these corporations regularly receive millions of dollars a year in salaries and stock options.⁵ Congressional investigators found that the majority of the CEO’s of the top thirteen for-profit colleges received more than \$3 million annually and that the CEO’s of Devry, ITT, and Apollo/Phoenix each were paid over \$6 million a year.⁶ On the other hand, faculty teaching in for-profit programs are by and large part-time employees hired on a short-term, temporary basis.

One obvious source of these extreme salaries and high profit ratios is the very high tuition that for-profits charge students. The National Bureau of Economic Research found tuition at for-profit

programs to be almost double the cost at public universities. A BA at a public university costs \$36,000 while a BA at a for-profit costs \$61,000.⁷



Figures like these lead to the question of how students – many of them from working class and lower income families – can afford to attend for-profit programs. Recent investigations by the federal Government Accountability Office and others paint a shocking picture: most students in for-profit programs can afford to enroll only because they take on significant student loan debt. While student debt is a serious problem in all sectors, it is an especially grievous

* In 2010, the for-profit University of Phoenix became the second-largest higher education institution in the US, passing the CSU. It enrolls 455,600 students.

† Since 2010 – perhaps due to recent critical investigations, negative publicity, new federal regulations, and limited but real job growth – both enrollments and profits at for-profit programs have slowed and even begun to decline.

burden for students in for-profit programs* For instance, 96 percent of all for-profit graduates have student loan debt (compared to 62 percent of graduates of public colleges) and their median indebtedness is far higher – \$31,190 (compared to \$7,960).⁸

It is now common knowledge that most students in for-profit programs fail to complete their program of study. The largest of the programs experience withdrawal rates ranging from 67 to 84 percent. For example, the for-profit Kaplan posts a six-year graduation rate of 27 percent (Argosy's rate is 36 percent, Phoenix is at 44 percent) while CSULA graduates at 55 percent and Berkeley's rate is 80 percent. The national average for BA students at a public university is 55 percent while the graduation rate in for-profits is 22 percent.⁹

High tuition and high student withdrawals mean that for-profits account for 50 percent of all student loan defaults (while enrolling only 12 percent of students).¹⁰ Research by The Education Trust found that "If there is one thing that the for-profits can virtually guarantee students, it's years and years of student debt."¹¹

Since their profits depend on high enrollments, for-profit higher education corporations have often adopted unethical outreach and recruitment practices. Investigations by the GAO and various journalists uncovered for-profits companies were paying recruiters by commission and allowing recruiters to misinform prospective students about the true cost of a program and its accreditation status. Recruiters have also been found to falsify information on student academic records and financial aid applications. Still others were found to register students into courses without the student's consent and to manipulate enrollments so that students appear to be enrolled in courses long enough to pass the deadline for returning federal financial aid (this has even included counseling deployed soldiers not to drop courses).¹²

Once enrolled in a for-profit program, students often receive pre-designed or "canned" coursework¹³ of very questionable quality presented by a largely temporary and poorly paid academic workforce under enormous pressure to pass students and keep them enrolled in the program. This pressure has led to accepting incomplete or plagiarized work and coaching students on exams. As a result of shoddy educational practices like these, graduates of for-profit programs generally do worse on licensing exams and have higher unemployment rates than the graduates of traditional colleges and universities.¹⁴

Saving by cheapening instruction leaves for-profit higher education corporations with more money for advertising: Indeed, recent figures indicate that they spend around 30 percent of their revenue on advertising and marketing while instructional spending amounts to less than a third of what is spent on learning at a public university.¹⁵

These findings and others reveal that the reality of for-profit higher education does not meet the promise that many saw in it several years ago. Indeed, it appears that the for-profit model too often

* Students also fund attendance at for-profit schools with government subsidies. While enrolling only 10% of students, for-profits receive about 25% of the total of federal aid or around \$30 million annually. The University of Phoenix is, in fact, the single largest recipient of federal student aid and gets a whopping 86% of its revenue from federal aid.

achieves profits and exaggerated executive salaries at the expense of education. Organized by the profit principle and relying on mostly taxpayer-supported student loans and federal financial aid payments, these programs adopted questionable student recruitment as well as enrollment and instructional practices that should embarrass any university.

HOW DID THIS HAPPEN?

In hindsight, there is a fairly straightforward economic explanation for what happened.

Demand for higher education was through the roof (and not being met by public institutions), so entrepreneurs and their investors produced a profitable product in the worst tradition of Corporate America: low quality, high prices, and public subsidies. Supply shot up, but that “success” was based on a model designed to benefit executives and investors, not students or the community.

As many have pointed out, what happened in the for-profit higher education sector was very similar to what happened in the subprime mortgage debacle: an almost “perfect storm” of capital seeking investment, a large population of eager, potential “consumers” combined with savvy marketing, compelling sound bites, and powerful politics.

These higher education corporations grew almost overnight (both in participants and profits) and became powerful (both politically and culturally) without the benefit of public scrutiny and democratic oversight.

The cost in debt to millions of students and their families and to taxpayers in wasted subsidies is the price we are now paying for that failure to look beneath the hype and to ask hard questions. It is now clear that the for-profit model of higher education is a costly failure that should be reformed rather than replicated.

III. THE “FOR-PROFIT” MODEL IN THE CSU: EXECUTIVE COMPENSATION

A resolute commitment to high executive pay is one clear element of the for-profit model adopted by Chancellor Reed.

Even as the California State University has struggled under the weight of persistent budget cuts and ever-rising student fees, the Chancellor and his Administration have made maintaining robust executive salaries one of the cornerstones of their approach to university governance.

CSU EXECUTIVES ARE HIGHLY COMPENSATED

The CSU system currently employs 29 ‘executives’ who are appointed by the system’s Board of Trustees (with Trustees appointed by the governor and confirmed by the legislature). In addition to the CSU

Public Service Executive Position	Salary
CSU Chancellor	\$451,500
President of United States	\$400,000
CSU Presidents Hired since 2010, Average	\$377,733
CEO, CalSTRS	\$301,660
CEO, CalPERS	\$273,769
Chief Justice of Supreme Court of California	\$228,856
Chief Justice of United States	\$223,500
Governor of California	\$173,987

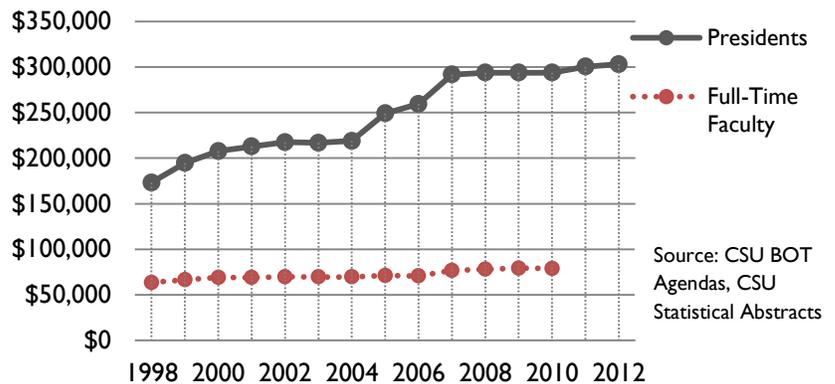
Chancellor, executive appointments are given to campus presidents and a handful of high-level managers such as the Chief Financial Officer and the university's General Counsel.¹⁶ With these executive appointments come generous salaries and benefits packages that are unavailable to almost all other public employees.

Last year, CSU executives were paid between \$240,000 and \$451,000 in salary alone. On top of that, each executive is allotted \$12,000 per year as an auto allowance. Campus Presidents and the Chancellor each receive either state-owned homes or housing allowances of \$50,000 or \$60,000 per year. Other perks available to executives include special retirement packages such as lifetime employment as a tenured professor and other deals that were widely criticized as excessive 'golden parachutes' when they were exposed by the *San Francisco Chronicle* in 2006.¹⁷

A 2007 audit by the Bureau of State Audits (at the request of the Legislature) on the executive compensation practices at the CSU revealed that CSU had no system to adequately monitor adherence to its own compensation policies or measure their impact on the university's finances. The auditor also reported a 25 percent increase in average executive compensation between 2002 and 2007.

Since then, however, the most significant changes in compensation for CSU executives have been controversial pay increases for campus presidents as the Chancellor continues to search for ways to increase executive salaries. Reed has also repeatedly lamented publicly that the executives' compensation is unfairly restricted by laws that cap pension benefits at \$245,000 per year.¹⁸

Average Salary for CSU Presidents and Faculty



Elected Officials Criticize CSU Executive Pay

“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 Brown²⁰

“Top-level CSU employees ought not to be given raises on the backs of higher student fees. That's unconscionable.” – Sen. Elaine Alquist (D-Santa Clara)²¹

“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 (D-Torrance) ²²

“In these tough economic times, top administrators should be willing to tighten their belts like everyone else.” – Sen. Leland Yee (D-San Francisco)²³

“It's outrageous, [a]t a time then they are raising student fees, it's not acceptable. For those of us who fight for every nickel to help our kids, they make it very difficult.” –Asm. Anthony Portantino (D-La Cañada Flintridge)²⁴

In 2008, San Jose State President Whitmore was appointed with a salary of \$353,200, making him the highest-paid president – thanks to a \$25,000 per year supplement from a university foundation that bumped his salary above the salary maximum for presidents. When Cal Poly SLO President Armstrong was hired in 2010, he too received a foundation pay supplement to raise his base salary by \$30,000 for a total of \$380,000. This made him the new highest-paid president and required action from the Board of Trustees to increase the maximum salary rate on the presidential salary schedule. Drawing the most attention, the current winner of this race-to-the-top is the San Diego State president hired last year. President Hirshman was offered \$400,000 (with \$50,000 from a university fundraising foundation), a salary rate that is a full \$100,000 higher than his predecessor earned.

As lawmakers and other observers noted last year, this level of compensation is extreme – both in absolute terms (a \$100,000 raise to a campus president) – and in the context of other high-level public service positions. Governor Brown himself criticized this pattern of “ever-escalating pay packages” which assume a good university leader must be paid more than double the salary of the chief justice of the United States.¹⁹

RELENTLESS PURSUIT OF HIGHER PAY FOR EXECUTIVES AND TOP MANAGERS

Even within a context of seemingly perpetual state budget shortfalls and the ensuing CSU budget cuts, executive compensation has remained a central priority for the Chancellor. Indeed, even when being pushed by lawmakers and the media to defend raises for executives while the university budget was suffering from unprecedented cuts and tuition was soaring, Reed has been unapologetic: “Nothing that I have done in the 14 years that I have been here have I spent more time on than this one issue [executive compensation] since July.”²⁵

This dedication has delivered results.

Over the past decade, under his leadership, the salary for campus presidents has increased by 71 percent and Reed’s own salary rose by 66 percent.²⁶ High-level managers also benefit from his philosophy. Between 2008 and 2009 when CSU employees took pay cuts in the form of furloughs and thousands of faculty and staff lost their jobs, discretionary raises were awarded to hundreds of managers at a cost of almost \$7 million.*

Editorial Boards Question Policies

“However unintended, the two votes send the message loud and clear that trustees care less about students’ finances and more about a top administrator’s. ... While CSU says there are no provisions for trustees to rescind the pay package, they can fix the pay policies going forward – for instance by putting far less stock in self-dealing executive compensation studies that have caused CEO salaries in corporate boardrooms and ivory towers to spiral out of control.”
– *Sacramento Bee Editorial*³⁰

“Added to an earlier increase this year, this fall’s CSU tuition will cost \$5,472 - 23 percent more than it cost last fall. Given those painful increases, students and parents would like to believe that trustees are making the most of every education dollar. But how can they after trustees approved a \$400,000 salary for incoming San Diego State President Elliot Hirshman - \$100,000 more than his predecessor was paid?”
– *San Francisco Chronicle Editorial*³¹

“CSU’s trustees are about to approve a compensation policy for top managers that, overall, makes no sense for CSU’s mission and today’s economic realities.”
– *Los Angeles Times Editorial*³²

* Over 550 raises (reassignments and equity increases) were approved for managers across the CSU system in FY2009 and FY2010, costing approximately \$6 million on an annualized basis; data provided to CFA by CSU management.

At the Chancellor's behest the CSU spent well over a million dollars on an outside firm – the San Francisco-based Mercer Human Resources Group – tasked with justifying the system's executive pay viewpoint.* To no one's surprise, Mercer consistently concludes that even when benefits such as health care and retirement pensions are considered, CSU executives are seriously underpaid.²⁷

Governor Jerry Brown had this to say about the Mercer report findings on CSU executive compensation: "I think they're rigged... You've got to deconstruct them. They create a false paradigm that ensures that college presidents are always 'underpaid.'" ²⁸

Ultimately, the Chancellor's new policy for executive pay was based on the salaries paid to executives at a list of comparison institutions that Reed asked current CSU presidents to develop themselves.

The Trustees continue to study new ways to raise funds to pay higher salaries and consider schemes such as increased parking fees for students, staff and faculty as well as dedicated fundraising campaigns for executive salaries.²⁹

PROFITING AT THE EXPENSE OF STUDENTS AND INSTRUCTION

Advocates of public higher education may not have questioned the Chancellor's prioritization of compensation for top executives so much had he demonstrated a concomitant commitment to instruction and the students for whom the CSU exists to serve. Instead, the relentless push to find ways to pay higher salaries to top management and to justify generous perks and raises has come during a period when students are being turned away, graduations must be delayed because so many courses are being cut, and budgets for instruction and services to students are being slashed.

Over just the past few years (FY2008 to FY2011), the percentage of total CSU expenses going to Instruction decreased from by 4 percent, or \$88 million according to a financial audit of the system.³³ During Reed's tenure as head of the CSU system, there has been no growth in the number of permanent faculty positions even though student enrollment grew by 18 percent and a new campus (CSU Channel Islands) was added to the system during this time.

The insensitivity by CSU top management to the economic reality of the students came to the forefront during summer 2011 when Trustees simultaneously approved—at the same meeting—a 12 percent fee hike and the large salary increase for the newly hired San Diego State president.†

WRONG PAY MODEL FOR PUBLIC INSTITUTION

In July 2011, a CSU Chancellor's Office spokesman compared current executive compensation packages (totaling well over \$300,000) with "bargain basement salaries."³⁴ The statement revealed how out of touch that office is with the expectations of a cherished public institution in a state struggling to emerge from the recession; it also revealed to whom they compare themselves: CEOs of for-profit corporations.

* Between 2005 and 2008 alone, CSU contracts with Mercer totaled \$1,060,575. See <http://www.calstate.edu/transparency/Chancellors-Office.shtml>

† The outrage from diverse constituents from around the state ultimately resulted in the formation of a Special Committee to review and develop a new policy for selecting and paying top executives.

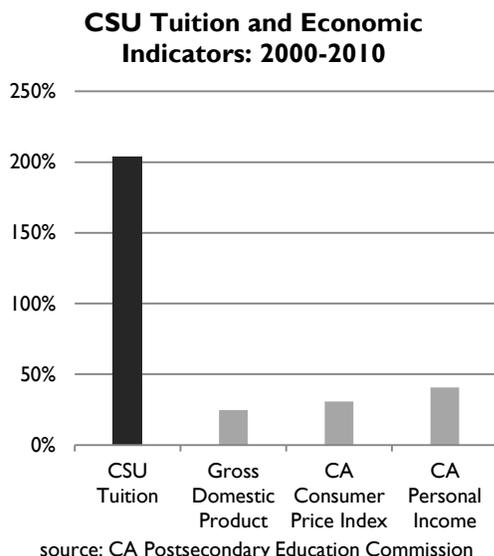
But CSU executives are not, and should not be profit-driven corporate CEOs; they are public servants. And when CSU leadership votes to charge more to students, and at the same time to line their own pockets, they violate the mission of the CSU and the public trust.

In a summer 2011 letter to the CSU Board of Trustees, Governor Brown articulated the problem with a for-profit model in a public institution most clearly. Expressing his concern about “the ever-escalating pay packages awarded to...[CSU] top administrators,” Brown criticized Reed and the Board’s approach to executive pay as “setting a pattern for public service that we cannot afford.”

IV. THE “FOR-PROFIT” MODEL IN THE CSU: SOARING TUITION

In an era of devastating budget cuts, a reasonable onlooker might expect the CSU leadership to embark on a crusade to protect funding for public higher education and stop further reductions in services. But the *opposite* has been true. Time and again, CSU management has willingly accepted cuts and opposed increased funding for its own institution.

- In 2009 CSU Chancellor Reed told the Chairs of the Conference Committee on Budget, “I will not waste your time calling on you to refrain from the reductions to the CSU... These [proposed] reductions will require tough decisions, but given adequate lead time and flexibility, we can manage them.”³⁵
- Dismissing criticism that he does not lobby harder for public funding, Chancellor Reed told a higher education leadership conference audience, “Well, you know, there isn’t any money in Sacramento” and suggested they just accept it as the new normal.³⁶
- In still another instructive moment a year ago, Reed and the heads of the other California public higher education systems called a press conference where they admitted they would not fight the budget cuts proposed that year. At the time, the proposal was to cut the CSU budget by \$500 million (a cut which eventually grew to \$650 million in 2011-12).³⁷



- Incredibly, the Chancellor also refused to endorse an extension of temporary taxes³⁸ even though further CSU cuts were promised if a statewide vote on the increase failed.

The question is: Why *not* fight for funding? The question is puzzling in a public university context, but the answer is simple in a for-profit mindset: the most predictable source of revenue lies in students’ wallets, not state coffers.

Over the past decade, the amount of the CSU operating budget funded by CSU students and their

families has increased at an alarming rate. Chancellor Reed’s administration has overseen a steady increase in the growth of fee revenue, both in absolute terms and as a percent of the state general funds allocated to the CSU. In FY 2011, \$1.75 billion of the CSU system’s total revenues came from tuition and fees. This is up 4 percent, or \$69 million, from the previous year.³⁹ In fact, Chancellor’s Office documents show that last year seven CSU campuses received more funding from student fees and tuition than from the state of California.⁴⁰

PERPETUAL TUITION INCREASES PRICE MIDDLE CLASS OUT OF COLLEGE

For students, this means perpetual news of fee hikes. Over the past decade, CSU Trustees have voted to approve Chancellor Reed’s proposals to raise student fees and tuition 14 different times.⁴¹ A student who entered the CSU in 2008-09 will be charged next fall almost *double* the amount they were charged when they started – in state university fees alone. On top of these fees, they will also pay mandatory campus-based fees which average around \$1,000 per year. With most students graduating in six years, this puts the cost of a CSU degree at more than \$40,000, excluding books and many other mandatory expenses. A decade ago, the cost would have been less than \$10,000. This increase puts enormous pressure on middle-income families in particular, since they are less likely to qualify for need-based aid even if they cannot afford to pay the escalating cost of attending college. With CSU tuition quadrupling in the last decade and the median income for California families increasing by only 25 percent, the affordability of the CSU for middle class families is a growing concern.

A *CNN Money* report from October last year showed CSU San Marcos had the single highest percentage increase in cost for any public university in the country, with 31 percent.⁴² Cal State campuses also topped lists of universities with the highest increases in net price for students. These data, released by the US Department of Education last year, include CSU East Bay, Channel Islands, Fullerton, and Bakersfield among the 32 public universities with highest net price increases since 2007.⁴³

According to the Chancellor’s office, most students do not even notice the rising fees because of financial aid and tax credits.⁴⁴ But students do feel the pain of the tuition increases each time the fees go up and for years after they graduate, in the form of student loan debt.

According to Reed’s own testimony, almost half of the undergraduate students graduate with student loan debt, with averages around \$14,000 per student back in 2009.⁴⁵ While this figure is lower than the national average (of all students graduating from private and public schools), the average loan amount for CSU students has been growing steadily and shows no signs of letting up. Chancellor’s Office data show an increase in average *annual* debt burden of 44 percent

	Annual Undergraduate State University Fees	Percent increase	Cumulative Increase
Fall 2002	\$1,428	-	-
Spring 2003	\$1,572	10%	10%
2003/04	\$2,046	30%	43%
2004/05	\$2,334	14%	63%
2005/06	\$2,520	8%	76%
2006/07	\$2,520	0%	76%
2007/08	\$2,772	10%	94%
2008/09	\$3,048	10%	113%
2009/10	\$4,026	32%	182%
Fall 2010	\$4,230	5%	196%
Spring 2011	\$4,440	5%	211%
2011/12	\$4,884	10%	242%
2011/12 Revised	\$5,472	12%	283%
2012/13 (Approved)	\$5,970	9%	318%

between 2002-03 and 2009-10. In the last year that data are reported (2009-10), CSU students paid \$1.3 billion of borrowed money.⁴⁶

The impact of the higher tuition rates on debt burdens for current students will be fully realized only years from now.

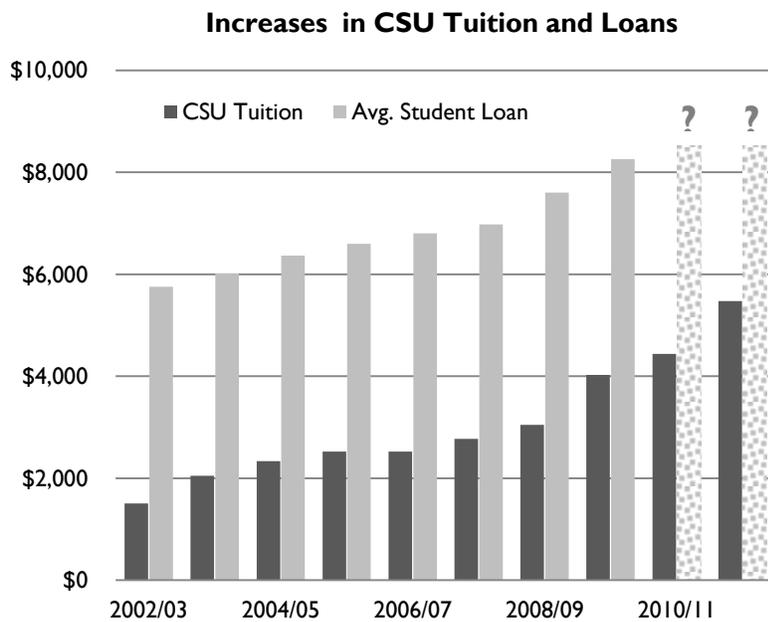
GETTING LESS FOR MORE

If the higher costs for students meant more courses, better access to student services and advising, and a higher quality experience, this model might be better received. On the contrary, however, students are forced to pay more each year but the high tuition model actually results in their getting less and less.

Five years ago, the CSU spent \$2.1 billion on expenditures its accountants classified as “Instruction,” comprising 38.3 percent of total expenditures that year. In 2009-10, that amount had dropped by \$236 million to \$1.9 billion. Last year, only 34.8 percent of the CSU’s total expenditures classified as Instruction. Over the same time period, the Institutional Support (which includes the executive compensation budget) expenditures actually *increased* by \$1.5 million.⁴⁷

The data show a sharp drop in the number of courses offered to students. During the 2008-09 academic year, almost 136,000 course sections were offered across the CSU. Two years later, less than 128,000 sections were available, a decrease of over 8,000 courses, or 6 percent.⁴⁸

Even after these deep cuts to instruction, Chancellor Reed has argued against legislative restrictions that



source: CSU Statistical Abstracts

would protect instruction from further cuts. Addressing the Assembly budget committee last year, Reed declared there were further cuts that could be made to instruction and argued that he needed “broad discretion” (and warned against “micromanage[ment]” from Sacramento) to manage the university’s budget in light of proposed cuts.*

A recent headline in the *San Jose Mercury News* sums up the implications of how the CSU has managed student tuition over the past several years: “Believe it: Harvard cheaper than Cal State.”⁴⁹

* Reed’s remarks stated, “The CSU is...one of the leanest universities in the nation in terms of efficient use of resources, but there is still more than can be done to reduce costs of instruction and administration,” Remarks for Chancellor for Assembly Budget Committee No. 2, Feb. 7, 2011.

The high tuition model endorsed by Chancellor Reed and supported by the CSU Trustees is a second way in which his management style increasingly mimics the approach of the private, for-profit higher education sector which depends on tuition (and the financial aid that students get to pay it) to guarantee healthy shareholder returns. And with every fee increase, the CSU strays further from its mission of providing middle class Californians an affordable, quality education.

V. THE “FOR-PROFIT” MODEL IN THE CSU: EXPANSION OF EXTENDED EDUCATION OPERATIONS

Increasing executive pay and quadrupling student tuition have moved the CSU a long way down the path toward a for-profit edu-business model. Another troubling transformation in this direction is the plan to expand Extended Education in the CSU and to offer more courses and programs there at even higher cost to students.

In Extended Education students do not pay the regular tuition that is voted on in public by the Board of Trustees, reported to the California legislature, and scrutinized in the public media. When courses are offered through Extended Education, students can be charged all the market will bear because, while California law requires public notice and comment whenever the CSU Board of Trustees votes to raise regular CSU tuition, this law does not apply to fees for courses offered through higher-priced CSU Extended Education programs.

The potential for expansion of this arm of CSU operations to undermine affordability—a value at the heart of CSU’s public mission—needs closer examination and broader, more open debate.

THE GROWTH OF EXTENDED EDUCATION

Extended Education (also known on some CSU campuses as Continuing Education or University Extension) has always co-existed alongside the regular public California State University. Initially classes were for mid-career adults who were considered “non-traditional” students. They often did not want to become regular students, but they did want to take college courses (and not necessarily for a degree or even for credit). Fees were charged based on the premise that “adults could afford to pay a modest amount for their education.”⁵⁰

Over time, the Extended Education arms of the 23 CSU campuses grew to serve increasing numbers of adult professionals, providing courses similar to those offered in regular sessions and even offering some degree programs.

By the 1980s, the CSU simultaneously offered regular state-supported sessions and Extended Education sessions all year round. Along with growth in offerings came substantial revenue growth—from \$37 million in 1984-85⁵¹ to projected revenue of \$263 million in 2011-2012.⁵²

Student enrollment in Extended Education has also grown over the years – to 189,000 in 2009-10 registered in for-credit courses alone.⁵³ For reference, this enrollment number corresponds to about 40 percent of the total headcount in the entire (state-supported) CSU system during the same year. That number is also about the same as the total enrollment in the six CSU largest campuses.⁵⁴

In June 2010, CSU Trustee Margaret Fortune formally requested a study to explore opportunities to substantially expand CSU Extended Education operations. In a report to the Board that September, system administrators expressed enthusiastic support for further growth of Extended Education but concern that barriers to expansion be addressed quickly “if the CSU is to be competitive in this environment of for-profit and private institutions”⁵⁵

Not discussed in the report or elsewhere, however, is the potentially very negative effect this expansion can have on students. In the coming years, if the administration and Trustees succeed in overcoming these barriers, more and more matriculated students may find themselves paying both higher tuition to attend the public university and a bounty to Extended Education in order to get the classes they need to graduate.

VULNERABLE STUDENTS, CAPTIVE CUSTOMERS

While it is rarely discussed in public, the extra cost to students enrolled in courses through Extended Education can be steep.

Chancellor’s Office data shows fees per unit can range from \$230 to more than \$600 per unit.⁵⁶ In 2010, the average undergraduate annual tuition for Extended Education was 51 percent higher (\$2,463) than the average annual fees for the CSU.⁵⁷

In some cases though, the cost is even greater. A CSU Sacramento criminal justice online degree, for example, costs a student about double per unit what the student would pay in the regular public university—even with the big tuition increases over the past several years.⁵⁸

Making matters worse for students, there are restrictions to what kinds of financial aid can be used to help pay for Extended Education courses. Aid is almost entirely limited to loans and federal grants. California Cal Grants cannot be used to pay for Extended Ed and the CSU even prohibits its own State University Grants from being used for Extended Ed courses.⁵⁹

While the stated goal for expanding Extended Education may be “increasing access,” the reality for many students is not nearly so positive. In addition to students desperate to get the courses they need to graduate, CSU executives have identified several other groups of potential “customers” for its expanded Extended Education offerings:⁶⁰

- Students needing to take remedial courses
- Students who “stop out” for a term or more before they complete their degrees
- Students who need to take high-demand courses (what they term “bottleneck” courses), and
- “Super Seniors,” those who have not gotten to a degree in five or more years.

The potential negative effect of targeting these particular groups of students needs closer examination.

Charging students who are required to take remedial courses even more raises questions about basic fairness and educational equity in the CSU.

Students who “stop out” for a semester or quarter and then return to continue their studies typically do so because they cannot afford to enroll continuously. It is difficult to see how charging these students more to finish their degrees in Extended Education programs is helpful.

It also seems unfair to charge more to students who choose popular majors or who find themselves unable to grab spots in other required courses—the effect of shifting “bottleneck” courses to Extended Education.

Finally, students who earn the label “super seniors” frequently are forced to stay in school longer than they planned because they cannot enroll in the courses they need to finish. Forcing them to pay more to finish also seems, on the face of it, inequitable.

FY 2011-12 Extended Education Revenue Budget Projection	
Campus	Projected Revenue
Bakersfield	\$3,200,000
Channel Islands	\$4,009,675
Chico	\$4,917,000
Dominguez Hills	\$14,139,850
East Bay	\$10,300,000
Fresno	\$4,603,547
Fullerton	\$20,000,000
Humboldt	\$2,977,000
Long Beach	\$28,000,000
Los Angeles	\$5,256,344
Maritime Academy	\$950,000
Monterey Bay	\$3,073,000
Northridge	\$30,300,000
Pomona	\$6,344,000
Sacramento	\$25,337,073
San Bernardino	\$10,316,855
San Diego	\$12,148,973
San Francisco	\$20,452,947
San Jose	\$29,350,147
San Luis Obispo	\$6,300,000
San Marcos	\$10,556,142
Sonoma	\$5,657,356
Stanislaus	\$4,776,332
Total	\$262,966,241

source: http://www.calstate.edu/budget/reporting-instructions/budget-submission-process/documents/11-12_EE_budget_projections.pdf

Moving in these directions might make the CSU look even more like a for-profit endeavor, charging what the market will bear, but the basic question of whether students should be forced to pay more than regular tuition to take courses required for degrees in CSU or to graduate on time needs to be answered.

OBSTACLES TO EXPANSION

As alluded to earlier, the Trustees and CSU executives understand that there are barriers to massive expansion of Extended Education at this time. And they seem ready to remove them.

These barriers include state laws, employee contracts, and current CSU policies.⁶¹ In particular, the California Education Code prohibits self-support programs from supplanting regular state-support courses, thereby protecting public university students from having to pay private-sector costs for public services. The law also places restrictions on how the revenue generated by Extension can be spent, presumably to dissuade entrepreneurial thinkers from augmenting their budgets on the backs of students.⁶²

These laws protected the public mission of the CSU for many years and kept Extended Education in a truly ancillary and supportive role. What is being planned looks very different. The public deserves to weigh in on these proposed changes, their effects on the CSU mission, and on future students.

VI. THE “FOR-PROFIT” MODEL IN THE CSU: CAL STATE ONLINE

Online education itself is nothing new in the CSU. Campuses in the system have been offering online courses and entire online programs taught by CSU faculty for years; in fact, CSU documents list some 63 programs that are already entirely online.

With a new, fast-tracked initiative called Cal State Online, however, the plan is to greatly expand online education through a centralized initiative that will, according to CSU administrators, leverage the CSU name, reputation, and resources to move CSU online education into a wide array of new markets.

Unfortunately, right now there are far more questions than answers – and the answers we do have are a great cause for concern.

While online education **can** offer improved access for many students to rich educational experiences, it does not automatically do so, as many have shown in critiquing for-profit online edu-businesses. To ensure a different—and better—for Cal State Online, a number of issues need to be addressed now in the early stages of development.

WHY LAUNCH A CAL STATE ONLINE VENTURE?

Even such a basic question as, “Why do it?” has few clear answers.* The documents chronicling early discussions about expanding online opportunities for the CSU highlight the need to “captur[e]” some of the market now dominated by for-profit edu-businesses.⁶³

Given that the CSU has been turning California students away at an alarming rate, the urgency to compete in this new student “market” is puzzling. A report to the CSU Board of Trustees sounded the alarm; major policy and other institutional changes—even to state laws—needed to be made “without delay if the CSU is to be competitive in this environment of for-profit and private institutions....”⁶⁴

The CSU leadership’s haste to compete in the edu-business arena implies that deliberation is risky. The people of California, however, deserve a public discussion about whether, at a time when we are failing to serve tens of thousands of California students, we should be hunting for new “markets” of students outside of the state. Moreover, given the sordid history of edu-businesses in the United States there needs to be discussion about whether that model is the best way for the CSU to serve the interests of the people of this state.

WHAT WILL IT COST?

While the common, but mistaken, assumption that online education can help institutions and states save money might make this initiative seem particularly appropriate in this time of budget shortfalls, experience and research show that quality online education is NOT cheaper than more traditional

* The title of an early report by Richard Katz, the consultant hired to help explore possibilities for the CSU in launching a new online initiative, is tellingly titled “Options for the CSU in the Online Higher Education Market,” and documents emphasize the importance of moving quickly if the CSU is not to lose out. In speaking to the CSU Statewide Academic Senate, Chancellor Reed also expressed concern about “being left holding an empty bag” if the CSU did not move quickly to expand online operations.

modes of instruction. In fact, experts believe that the desire to save money is “one of the worst reasons” to go into online education.⁶⁵

The internal papers from the various groups developing Cal State Online acknowledge that the initiative will not be “an inexpensive venture” and will actually “take a financial investment.”⁶⁶ According to CSU documents, the money to fund the initiative will come from various sources, including campuses and from the State General Fund. The Chancellor has already required each campus to contribute \$50,000 for a total of over \$1 million in state funds to Cal State Online, and implementation documents refer to the need to find another \$20 million in State General Fund monies.⁶⁷

If the initiative is not going to **save** money during these times of scarcity and if new monies are not forthcoming from the state, one obvious question arises: where will the money for this program come from? As is the case in the for-profit sector, the unfortunate answer seems to be the students and their families.

In addition to the economic cost to the system of starting such a venture, there are questions about organizational structure that have yet to be answered. Although details are still vague, documents indicate that at least initially CSU Leaders plan to offer Cal State Online courses outside the state-supported university through Extended Education whose higher pricing structure and reduced opportunities for financial aid were discussed in the earlier section on that initiative.⁶⁸

No specific fees for courses in Cal State Online have yet been announced, but estimates in the planning documents state that the average price charged by CSU’s potential competitors for an online undergraduate degree clusters around \$40,000-\$60,000,⁶⁹ If Cal State Online envisions these figures as a ceiling, they would be setting a whole new standard for “affordability” in the CSU, one that will profoundly affect who gets access to it.

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

Consistent in documents about CSU Online from the beginning has been the consideration of “partnering” with entities already engaged in providing online educational services. In laying out options, the consultant raised the possibility of outsourcing services to companies offering everything from course design to recruitment to marketing.⁷⁰ In early March of 2012, draft documents to solicit proposals from companies offering a wide range of educational services were released by CSU officials as well as a fast-track time-table for reviewing proposals and awarding contracts.⁷¹

The prospect of a huge new market in public universities certainly explains why for-profit edu-

services would be interested in expanding into the CSU. Unfortunately, the potential risks of such partnerships have yet to be discussed or even acknowledged in any of the public documents associated with the Cal State Online. However, as Derek Bok, former President of Harvard University, warned in

*On universities partnering with for-profits:
“You’re creating a whole set of temptations
to make the choices that will increase
profits rather than improve education.”
- Derek Bok, former President,
Harvard University*

describing such partnerships, “You’re creating a whole set of temptations to make the choices that will increase profits rather than improve education.”⁷²

“An investor who wants to make a quick hit can, at least theoretically, buy an institution, rev up the recruitment engine, reduce investment in educational outcomes [and deliver] a dramatic return on investment.”
- Andrew Rosen, CEO of Kaplan, quoted by Robert Shireman, former US deputy undersecretary of education⁷³

Bad press and public criticism of for-profit colleges were among the reasons, for instance, the California community college system pulled out of its proposed partnership with Kaplan University in 2011.⁷⁴ Richard Ekman, President of the Council of Independent Colleges, has said he doesn’t think private non-profit colleges will be partnering – or even working closely – with for-profits either: “I don’t see much to be gained by nonprofit independent colleges trying to cooperate with a group that is so dominated by bad actors,” he bluntly put it.⁷⁵

There should at least be discussion about whether these partnerships, which always involve some loss of institutional control, are appropriate even if they ultimately only involve support services for courses. According to documents released on March 12, 2012, for instance, proposals are being requested at this time for functions like recruitment and “student relationships,” areas that can profoundly affect the experience of students and the reputation of the CSU. Significantly, these very areas were at the heart of the predatory practices recently revealed in the for-profit sector.⁷⁶

ACCESS TO WHAT? ISSUES OF QUALITY

The “Open Letter to the Campus Community” from Cal State Online’s new Executive Director states a goal of having Cal State Online programs meet or exceed the quality of those offered in traditional formats, but the nitty-gritty details necessary to produce quality have yet to be discussed.

While assurances are provided in the “Open Letter” that courses will be approved through the same processes used in regular courses, those approval processes do not control key aspects of quality – for instance, class size and level of instructor/student interaction.

Once again, the recent for-profit higher ed experience provides a cautionary tale about one threat to quality, and that is the tendency of for-profits to cut costs by reducing – or even eliminating – real interaction with instructors. This “efficiency” has often led toward canned courses that are more likely to resemble a self-paced correspondence course than the student-centered online courses currently offered by the CSU. As one online expert has noted, such “efficiency”-centered automated courses result in an “impoverished” education model.⁷⁷

The cost of that model for students is high. In fact, research suggests that a large factor in the lower success rates in for-profit online schools is attributable to the absence of meaningful interaction with instructors that characterizes many online programs in the for-profit sector.⁷⁸

Early reports even contemplated that Cal State Online might partner with the Western Governor’s University, an inexpensive non-profit online endeavor that has no instructors at all. WGU’s “mentors” do not help students understand content but rather direct them to additional online material. Like many

for-profit online entities that take this approach to “efficiencies,” WGU also has a very low student graduation rate (22 percent).⁷⁹

While the latest reports suggest that this particular partnership will not be going forward *at this time*, many important questions about quality remain to be answered. The CSU Statewide Academic Senate has produced a full report on this and other issues that need attention in the Cal State Online initiative.⁸⁰

ACCESS FOR WHOM?

According to research on success in online programs, there are a number of factors affecting whether students are good candidates for online education that would be important in shaping the outreach/recruitment of students and in choosing which courses to put online in the first place.

Student characteristics such as self-motivation, learning style, and level of study skills are important factors that influence success in the more independent learning environment of online education.⁸¹ Technological preparedness is also important and more complex than it might appear. Students obviously need good equipment in a learning-conducive environment and reliable, high-speed internet access to participate successfully in these programs (neither of which is always available to low-income students). Beyond such environmental factors, researchers have also pointed out that they also need technological skills beyond the ability to use Facebook and a smartphone.⁸²

In short, online education is not for everyone. In fact, it may be a poor choice for many low-income, first-generation, or under-prepared students who are at the heart of CSU’s mission and who look to the CSU as their only real option for a Bachelor’s degree. It is for these reasons that concerns have been raised about the stated goal of using Cal State Online to offer remedial and other foundational courses crucial for a student’s future success.

The case of one online experience in the CSU shows how important it is to weigh many factors to ensure **real** access to success in online education. As was reported in both local and national media, the administration’s decision to use a highly-automated online, remedial math module at Cal State Bakersfield in the 2009-2010 academic year superficially seemed like the perfect scenario for everyone-- lower costs for the university and improved access and “convenience” for the student.⁸³

The outcome was far from perfect, as an article in *Forbes* magazine detailed:

Sometimes technology does not work. Faced with a drastic decline in state funding, administrators at the California State University’s Bakersfield campus decided to cut costs by replacing all the sections of the remedial mathematics course in the fall of 2009 with an online computer program overseen by a single instructor. Unfortunately substituting the Internet for personal contact with a classroom teacher proved disastrous, especially for the 700-plus ill-prepared undergraduates who needed intensive work to bring their math skills to a college level. When these students took their final exams only about 40 percent passed, compared with a 75 percent success rate the prior year.

This sad story shows how much more is involved in meaningful access to higher education than simply the chance to enroll in a course. To avoid repeating that story—or the millions more played out in for-

profit online schools – in Cal State Online, there must be careful consideration of many complex factors related to access, cost, and quality. As the Campaign for the Future of Higher Education points out in its Principles for Quality Higher Education for the 21st Century:

In short, the role of online formats and other technological innovations in higher education is vastly more complex than the current public discussion would suggest. Issues of access (will some students be shortchanged simply because they don't own a good computer or have access to high-speed internet), student success (will online formats work for under-prepared students who also deserve a chance for success?), equity, and quality need a deeper analysis if we are to have the kind of higher education we will need in the 21st century.⁸⁴

These issues also need careful attention in Cal State Online if the CSU is to remain true to its mission of providing an affordable, quality higher education to the qualified Californians who need and want it.

VII. CONCLUSION

Millions of Californians, including many of the state's professionals and elected leaders, owe their success to the **real** access to quality degrees they were provided – often for free – in the California State University system. No one disputes the important contributions the system has made for more than 50 years to both the state's economy and its social fabric.

Californians need the Cal State system – especially as the gap between rich and poor grows daily wider – to continue to provide the social mobility and expanded horizons that provide the foundation of a vigorous democracy.

That mission and the People's University are slipping away today.

In too many ways the CSU's leadership has been chasing a for-profit edu-business model—with richly rewarded executives, skyrocketing regular tuition and even higher fees in Extended Education and Cal State Online.

This misguided attempt to remake a great public institution in the image of a scandal-ridden, failed model of higher education is not happening because of a public mandate, nor is it happening through open discussion within the system's democratic processes. Instead, the transformation is being executed through a stealth process of for-profitization, led by a handful of richly rewarded executives and a few powerful individuals on the Board of Trustees. And it is taking place without sufficient transparency and accountability.

We call for a different direction, one that reaffirms the mission of the CSU and keeps the “public” in the People's University.

As beginning steps we call for broad and open the discussion about the following proposals to put the “public” back in the CSU:

- **A Public Model of CSU University Leadership.** Salary decisions by the Chancellor and Board of Trustees in recent years indicate that the time has come to help them rethink the model of leadership they embraced. The California State University is, after all, a public institution and all who work in it—from the Chancellor on down—are public servants. The state and this great system of higher education would be better served if the chancellor and the executives understood that they are educators, not CEOs. Especially in this time of crisis, we cannot afford a private enterprise model of executive pay.
- **Public Governance of the CSU:** We must increase the ability of the legislature and the executive of our state to participate in policy and decision-making discussions at the Board of Trustees. Too often the combination of a few highly-paid administrators and a handful of very powerful Trustees lead to decisions that are tone-deaf and out of touch with the needs of California. It seems sensible for the Board of Trustees to welcome to the table designees of the *ex officio* voting members of the Board, the Governor, Lt. Governor, Superintendent of Public Instruction and Speaker of the Assembly. These designees could keep both branches of government fully informed of the issues that come before the body and could, likewise, express the support or concerns of our elected leaders.
- **Democratization of the CSU Board of Trustees.** It is clear from the many questions raised in this white paper that the CSU Board of Trustees too often makes decisions in a vacuum. Too often Trustees cannot help the Administration identify or question, in meaningful terms, the risks and consequences associated with many of their decisions. It seems prudent and sensible, given years of missteps, to include more voices on the board of people who have direct experience in providing and receiving quality education in good times and bad.
- **Affordability.** A key component of **real** access is affordability. As we have seen, fees and tuition have been skyrocketing; sadly, however, students are paying more but receiving less. Acceptance into the university is becoming a “hunting license” as students discover regular courses that will move them toward graduation increasingly hard to find. More and more, students face difficult choices: pay extra to take the course they need in Extended Education or resign themselves to taking even longer to graduate. California residents who are matriculated students in the California State University should not be forced to pay a bounty to take courses they need to graduate.
- **Quality.** As the CSU leadership moves aggressively into new higher education venues and modes, we must make sure that the system aspires to models that encourage greater success, not less. We must not model ourselves after edu-businesses that have ruthlessly exploited the hopes and dreams of men and women seeking higher education. The California State University needs to provide rich educational experiences for all our students, 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. The people of California deserve, and our state’s future needs, better.

*For additional copies of this report, please see <http://www.calfac.org>
or contact CFA at 916.441.4848*

NOTES

¹ For example, “Record numbers apply to CSU for third straight year,” *Silicon Valley/San Jose Business Journal*, Dec. 6, 2011; “CSU to enroll fewer students amid budget cuts,” *Bloomberg BusinessWeek*, Mar. 22, 2011.

² Mamie Lynch, Jennifer Engle, and Jose Cruz, “Subprime Opportunity: The Unfulfilled Promise of For-Profit Colleges and Universities,” The Education Trust, November, 2010.

³ For these and further statistics demonstrating the rapid growth of the For-profits, see: Lynch, Engle, and Cruz, “Subprime Opportunity;” Robin Wilson, “For-Profit Colleges Change Higher Education Landscape,” *Chronicle of Higher Education*, 2/7/10; Danny Weil, “Good for Wall Street – Bad for Students,” *Truthout*, November 11, 2012.

⁴ For these and other figures representing the profits of For-profits, see: Senator Tom Harkin, “Empty Promises,” *The Hill*, Dec. 9, 2010; Senator Tom Harkin, “For-profit Colleges and the Threat of a New Bubble,” *Los Angeles Times*, July 13, 2010; Jeff Bryant, “Get Ready for the Edu-Debt Crisis,” *California Progress Report*, March 5, 2012; Chris Kirkham, “For-profit Colleges Spend Much Less Educating Students than Public Universities,” *Huffington Post*, May 25, 2011; and, the web page of Senator Tom Harkin (<http://harkin.senate.gov/help/forprofitcolleges.cfm>).

⁵ Bloomberg reports that the CEO of Strayer Education (not one of the really big for-profit outfits) received \$41.9 million in 2009 and that in 2003 the two top executives at Apollo Group (the corporate home of the University of Phoenix) together received \$837.4 million.

⁶ For information on CEO salaries at for-profits, see: Chris Kirkham, “For-profit Executives Make Much More Than Higher Education Counterparts,” *Huffington Post*, Jan. 30, 2012; “Congressman Investigates ‘Lavish’ Executive Pay at For-profit Colleges,” *Huffington Post*, Dec. 13, 2011; Melissa Korn, “House Democrat Probes Executive Pay at For-profit Colleges,” *Wall Street Journal*, December 12, 2011.

⁷ For information about tuition rates at for-profits, see: GAO report 10-948T, “Undercover Testing Finds College’s Encouraged Fraud and Engaged in Deceptive and Questionable Marketing Practices,” Aug. 4, 2010; and Lynch, Engle, and Cruz, “Subprime Opportunity.”

⁸ For information about student loans and student debt at for-profit programs, see: Lynch, Engle, and Cruz, “Subprime Opportunity;” Weil, “Good for

Wall Street – Bad For Students;” Debbie Cochrane (The Institute for College Access and Success), “Testimony Before Assembly Higher Education Committee,” Feb. 14, 2012; David Deming, Claudia Goldin, Lawrence Katz, “The For-profit Postsecondary School Sector,” *National Bureau of Economic Research Working Paper #17710*, December, 2011; Kirkham, “For-profit College Students Face Higher Debt, More Unemployment,” *Huffington Post*.

⁹ The figure for the University of Phoenix’s online programs is 9%. For information about graduation rates at for-profits, see: Lynch, Engle, and Cruz, “Subprime Opportunity;” GAO Report 12-143, “Student Outcomes Vary at For-profit, Nonprofit, and Public Schools,” December, 2011; and Erica Perez’s blog at *California Watch*.

¹⁰ Student loan debt is a particularly onerous burden. It is not dischargeable in bankruptcy and can result in garnishing of wages and other payments. See, Danny Weil, “Good For Wall Street – Bad For Students.”

¹¹ Lynch, Engle, and Cruz, “Subprime Opportunity.”

¹² In a particularly heinous set of practices, for-profits have targeted active and retired military personnel whose GI Bill benefits do not count against the legal ceiling for proportion of students receiving federal aid. There has been extensive reporting on recruiting practices at for-profits; for examples, see: GAO, “Undercover Testing . . . ;” the essays of Danny Weil and *Truthout*, Chris Kirkham at *The Huffington Post*, and Paul Fain at *Inside Higher Education*.

¹³ In recent years, online course work has become a growth market for the for-profits; see, Deming, Goldin, and Katz, “The For-profit Postsecondary School Sector.”

¹⁴ These practices are detailed in the GAO reports of its undercover investigations and by journalists Weil, Kirkham, and Fain.

¹⁵ See Chris Kirkham, “For-profit Colleges Spend Much Less on Educating Students than Public Universities,” *Huffington Post*, May 25, 2011.

¹⁶ See list of executive appointments, policies, and a summary of pay and benefits at

http://www.calstate.edu/exec_comp/

¹⁷ See reports by SF Chronicle reporter Jim Doyle at <http://www.sfgate.com/cgi-bin/article.cgi?file=/c/a/2006/07/17/MNGRBK0EK01.DTL>

¹⁸ For instance, at the Board of Trustees meeting, July 2011.

¹⁹ Gov. Brown letter to CSU Board of Trustees, July 12, 2011, <http://gov.ca.gov/news.php?id=17116>

²⁰ Gov. Brown Letter to CSU Board of Trustees Chair Carter, Jul. 12, 2011

²¹ In “Lawmakers move to cap CSU executive salaries,” *Sacramento Bee*, Jul. 16, 2011.

²² In “Lawmakers move to cap CSU executive salaries,” *Sacramento Bee*, Jul. 16, 2011.

²³ In “Salary plan for San Diego State president stirs furor,” *Los Angeles Times*, Jul. 9, 2011.

²⁴ In “Salary plan for San Diego State president stirs furor,” *Los Angeles Times*, Jul. 9, 2011.

²⁵ “CSU unveils new list for presidential salary comparisons,” Oct. 14, 2011, <http://californiawatch.org/dailyreport/csu-unveils-new-list-presidential-salary-comparisons-13083>

²⁶ It is not just executive compensation that has grown; at a time when permanent faculty growth has been 0%, the number of managers in the CSU has increased by 22%. See <http://www.calfac.org/managementexecutives>

²⁷ The latest report is “California State University 2010 Presidents’ Compensation Study,” Mar. 22, 2011. http://www.calstate.edu/exec_comp/documents/MergerReport.pdf

²⁸ Quoted in the *San Diego Union-Tribune*, “Momentum Builds to Limit CSU Salaries,” Aug. 1, 2011.

²⁹ CSU Board of Trustees Special Committee on Presidential Search and Compensation Policy Agenda, Attachment F, Jan. 12, 2012.

³⁰ “With pay hike, has CSU gone full tone-deaf?” *Sacramento Bee*, Jul. 14, 2011.

³¹ “Gov. Jerry Brown targets CSU officials’ pay,” *San Francisco Chronicle*, Jul. 30, 2011.

³² “CSU pay plan doesn’t add up,” *Los Angeles Times*, Jan. 25, 2012.

³³ CSU Audited Financial Statement, year ending June 30, 2011. Performed by KPMG.

³⁴ *Los Angeles Times*, “Salary plan for San Diego State president stirs furor,” Jul. 9, 2011.

³⁵ Letter to Hon. Noreen Evans and Hon. Denise Ducheny from Chancellor Charles Reed, May 27, 2009.

³⁶ Speaking at forum sponsored by TIAA-CREF Institute, “Smart Leadership in Difficult Times.” Quoted in “College Leaders Offer Blunt Advice for Campuses Hit by Hard Times,” *Chronicle of Higher Education*, Nov. 5, 2009.

³⁷ “Higher education leaders not fighting budget cuts,” *Sacramento Bee*, Feb. 7, 2011.

³⁸ According to the *Sacramento Bee* article, only Community College Chancellor Jack Scott endorsed

the temporary taxes while UC President Yudof and CSU Chancellor Reed did not.

³⁹ CSU Audited Financial Statements for FY 2011

⁴⁰ The campuses are CSU East Bay, Fullerton, Long Beach, San Diego State, San Francisco State, San Jose State, and Cal Poly SLO. See

<http://www.calstate.edu/bot/agendas/Aug11/CSUReviewsbyCampus.pdf>

⁴¹ See CSU Board of Trustees Agendas and Resolutions at <http://www.calstate.edu/bot>. One of the increases never ended up being implemented when the Governor proposed and the Legislature agreed to a fee hike “buyout” in 2006.

⁴² “5 Biggest state tuition hikes,” CNN Money, at http://money.cnn.com/galleries/2011/pf/college/1110/gallery.tuition_increase/index.html

⁴³ US Department of Education, College Affordability and Transparency Center,

<http://collegecost.ed.gov/catc/Default.aspx#>

⁴⁴ See for example, CSU News Release from Nov. 10, 2010.

⁴⁵ Reed testimony before House Committee on Labor and Education, May 21, 2009.

⁴⁶ CSU Statistical Abstracts, multiple years.

⁴⁷ CSU Audited Financial Statements, multiple years.

⁴⁸ Data provided by CSU Chancellor’s Office to the California Faculty Association.

⁴⁹ “Believe it: Harvard cheaper than Cal State,” *San Jose Mercury News* (online edition), Mar. 4, 2012.

⁵⁰ CSU Board of Trustees Agenda, Committee on Educational Policy, Item 5. *Opportunities to Expand the Role of Extended Education*, “Attachment B: History of CSU Extended Education Programs,” p.1. September 21-22, 2010.

⁵¹ *Opportunities to Expand the Role of Extended Education*, “Attachment B: History of CSU Extended Education Programs.”; CSU Statistical Abstract 2009-10, Table 125.

⁵² See http://www.calstate.edu/budget/reporting-instructions/budget-submission-process/documents/11-12_EE_budget_projections.pdf and <http://www.calstate.edu/budget/fybudget/presentations-communications/documents/0102-spreadsheet-extended-ed-revenue.pdf>

⁵³ In addition, 69,000 students enrolled in over 6,200 non-credit extension courses that year; CSU Statistical Abstracts 2009-10, Table 126.

⁵⁴ CSU Statistical Abstracts; CSU Support Budget

⁵⁵ *Opportunities to Expand*, “Attachment A” pp.13-14.

⁵⁶ Data received from CSU management at bargaining, March 11, 2011.

⁵⁷ *Opportunities to Expand*, “Executive Summary” p.3.

⁵⁸ See <http://www.cce.csus.edu>; Undergraduate Programs > Online Programs > BS in Criminal Justice.

⁵⁹ *Opportunities to Expand*, "Attachment A" p.6.

⁶⁰ *Opportunities to Expand*, "Attachment A" p.10.

⁶¹ For an expanded discussion of these "barriers" see *California Faculty* magazine, Spring 2012 issue.

⁶² *Opportunities to Expand*, "Attachment A" pp.7-10.

⁶³ For publicly available documents related to Cal State Online, see <http://www.calstateonline.net/>.

Unless otherwise noted, all CSU documents on Cal State Online referred to in this report can be found on that website.

⁶⁴ Report to the CSU Board of Trustees, Committee on Educational Policy, September 2010, p. 14.

⁶⁵ Parry, Marc. "Think You'll Make Big Bucks in Online Ed? Not So Fast, Experts Say," *Chronicle of Higher Education*, Mar. 30, 2011.

⁶⁶ Report to the CSU Board of Trustees, Committee on Educational Policy, September 2010, p. 13.

⁶⁷ "TSC CSU Online/E-Learning Initiative, Draft Implementation Plan," August 19, 2011, pp. 13-14.

⁶⁸ Students taking courses in Extended Education do not have access to Cal Grants or to State University Grants.

⁶⁹ "Options for the CSU in the Online Higher Education Market," Richard N. Katz & Assoc., Jul. 11, 2011, p. 27.

⁷⁰ "Options for the CSU in the Online Higher Education Market," Richard N. Katz & Assoc., Jul. 11, 2011, p. 27.

⁷¹ See

<http://calstateonline.net/news/2012/2012calstateonline-timeline.pdf>.

⁷² See <http://chronicle.com/article/Outsourced-Ed-Colleges-Hire/66309>.

⁷³ Shireman, R.M., "'Change.edu' and the Problem with For-Profits," *Chronicle of Higher Education*, Jan.31,2012.

⁷⁴ "California community colleges cancel online deal with Kaplan University," *Los Angeles Times – LA Now*, Aug. 25, 2010.

⁷⁵ See

<http://www.insidehighered.com/news/2012/03/02/profit-groups-new-leader-calls-self-regulation-and-collaboration>.

⁷⁶ Cal State Online Request for Proposals for Online Course and Program Delivery Services, p. 6.

⁷⁷ Parry, Marc. "Think You'll Make Big Bucks in Online Ed? Not So Fast, Experts Say," *Chronicle of Higher Education*, Mar. 30, 2011.

⁷⁸ Capra, T. "Online Education: Promise and Problems," *Journal of Online Learning and Teaching* 7(2): 299-293, 2011; Young, S. and M.A. Bruce,

"Classroom Community and Student Engagement in Online Courses," *Journal of Online Learning and Teaching* 7(2): 219-230, 2011.

⁷⁹ Online Education Database.

<http://oedb.org/rankings/graduation-rate>.

⁸⁰ CSU Academic Senate, "Online Education White Paper," Jan. 2012.

⁸¹ See, for instance, Capra, T. "Online Education" Promise and Problems" and Lee, Y. and J. Choi, "A review of online course dropout research: Implications for Practice and Future Research," *Education Tech Research Dev.* 59: 593-618, 2011; Eom, S.B., "The Determinants of Students' Perceived Learning Outcomes and Satisfaction in University Online Education: An Empirical Investigation," *Decision Sciences Journal of Innovative Education*, 4(2): 215-235, 2006.

⁸² Ratliff, V., "Are College Students Prepared for a Technology-Rich Learning Environment?" *Journal of Online Learning and Teaching* 5(4), 2009

⁸³ See reports at

http://www.turnto23.com/southwest_county/24586807/detail.html and.

<http://www.forbes.com/2010/08/01/professor-disappearing-faculty-education-opinions-best-colleges-10-schrecker.html>

⁸⁴ See <http://futureofhighered.org>