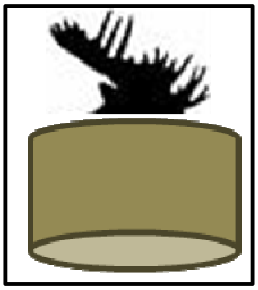
OF MOOSE AND MEN: WHERE WE ARE AND HOW WE GOT THERE

ATLAS SHIRKED

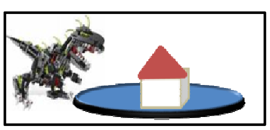


If the California dream was a nuclear family (husband and meek wife, please) in every Mchouse, two SUVs in every garage, and flash-frozen free-range moose in every microwave, then we have gone bust. I blame the vegans.

Vegans chased out the moose-eating free marketeers. These marketeers imagined America as the land where the raw forces of investing, buying, and selling created wealth and built industries, then destroyed the same. The genius of innovation created different opportunities that, in their turn, were destroyed. That invisible hand, was it Shiva's?

Cyclical destruction, if viewed from afar, was part of the upward spiral of better goods and better lives because of better productivity. Viewed from within, where theory yielded to real life, the experience was a like a tornado on the plains, fracturing things and lifting jobs into its tunnel, to be spun out, wasted and shorn, in distant lands.

Vegan progressives, though, could not stomach the currency kings and monopolists in the Gilded Age, over one hundred years ago. In the 1930s, vegan New Dealers, a gutless lot, insured people and institutions against market meltdown, lest faith in the market dissipate.



In the '70s, vegan men (who otherwise pictured themselves as champions of open competition) insulated homeowners against property taxes that rose as the market rose. A man's home was his castle, his feudal possession. Taxes should not undue that, thought the vegan men of Proposition 13. In the '90s, vegan realtors plumped up with tears, like rehydrated tofu, when they learned that the market lifted housing price so quickly that SUV nation was priced out. What was to be done?

MARKET AS AMUSEMENT PARK

The answer was clear. Reengineer the housing and capital gains market completely, so that the rickety roller coaster had safety railings and magnetic tracks. The ride was named "Deathscalator." The name was an illusion. Once you boarded, you never catapulted off.

You see, most people never loved the naked market, "red in tooth and claw." We loved its safe Disney simulation that kept owners in their seats and discounted the ticket for the newbies---the mortgage. Vegan bankers knew it was their duty to SUV nation to spread the risk that some buyers might not be able to keep to a schedule of payments for their tickets after they boarded the ride. Vegan Wall Street created investment packages that fashioned bargains out of risks. Button-downed financiers watched reality TV and learned what to do. They bundled risks with more solid investments, much as the pony-tailed grifter mixed oregano with pot.

One day, the economy slowed. Home buyers defaulted in record numbers. The ticket exploded. Vegan bankers, who laced their own product, suddenly smelled oregano everywhere. Who could be trusted?

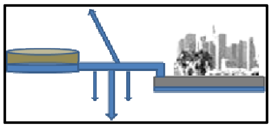
JUST THE FACTS

California generated such private wealth from the ‘60s through the ‘00s, that the state could fill its general fund by relying increasingly on personal income tax. Personal income tax built to 47% of the revenue, from 16%. And the category grew because capitals gains rode the housing and stock markets, even as real income grew. Corporate taxes and estate taxes decreased as proportions of the revenue for the state budget, the general fund. However, this singular focus on private income exposed the general fund to gyrations in employment, salary, property sales, and dividends. Some argued that diversification of fund sources was wiser. We even could pipe excess revenue into reservoirs against drought. But the people—or lobbyists for some of the people—argued that the people’ representatives could not be trusted to use the reservoir well.

In the late ‘70s, Proposition 13 limited the rate by which property assessments could grow. Deprived of bountiful revenue from property taxes, counties begged the state. By the ‘80s, however, the state was dealing with the cost of social programs that the feds offloaded and funded inadequately in block grants. Industry had not retooled completely after the military throttled back conventional forces and closed bases. (We were between Vietnam and Star Wars.) Deprived of revenue and burdened by off-loaded costs, the California legislature was stymied. No, it was paralyzed because Proposition 13 required an extraordinary high level—66%--of qualified voters or elected representatives to support revenue (not spending) bills.

In reaction, K14 engineered Proposition 98. It mandated by formula more state spending at those times when both state and counties suffered from downturns in real estate. Proposition 98 signaled the era of special interests getting around spending limits that resulted from revenue reductions. Propositions tapped directly into the general fund upstream. Prison funding did well this way; the state locked away evil doers at 7x the world average.

WATERSHED



Imagine our funding as the Colorado River watershed. Lake Personal Income is by far the largest source, but climate change threatens to decrease rainfall into it. Downstream, the metro of Calimournia, has increasing needs; however, the regional aquifer—Propertoia Sequoia—is tapped out. Meanwhile, upstream special interests have struck deals with the water tsars. The deals reduce flow into the city. To survive, Calimournia amasses debt to "borrow" water elsewhere. County and state engineers create exotic instruments to leverage the most water with the least investment of resources up front. But least is not least enough as other demands mount. Schemes fail, counties and agencies go bankrupt, state bailout is necessary, bonds are raised, and interest and management fees drain the Colorado even more.

MORE JUST THE FACTS

Volatility in Lake Personal Income affects the watershed profoundly, as do siphons up stream. Since 1980, the state contribution to the CSU per FTES has increased by less than the compounded rate of inflation. Fees, however, have increased 15x more than the fee in 1980. Total revenue growth per FTES exceeded inflation because of these fees hikes. But follow the money. In 1980, the SFR was 18/1. Today it is 22/1. In 1980, 85% of FTEF was tenure track. Today we hover around 60%. Salaries lag peers, as well as per capita income growth in the state.

The revenue beyond inflation has gone where? Benefits are up 150%, energy cost is up, insurance cost is up, compliance cost is up, legal cost is up, technology cost is up, etc. The CSU workforce is the opposite of those who rule to ruin the state. We teach more, graduate more, get more grants, publish more, and serve more than we did in 1980. Do not look for just rewards; there is not a lot in this world.

COMPACT TRASH-COMPACTED

There are glimpses of promise, though they fade because of the design flaws in the watershed. In 2005, the Compact agreed to by the Governor, CSU, and UC promised a 26% increase in the CSU base budget through 2010-11, as well as 60% increase in fees and 15% in FTES growth, totaling over $2,000,000,000.

The faculty contract soon bested that. Between '06 and '10, the state general fund would increase by 18% in the CSU, according to the Compact. Over the same years, the faculty contract would deliver 25%, plus an added $30,000,000 in '07-08 to make up for more salary lag. Campuses were to fund their shares of the lag, plus their shares of the 8% gap between Compact and contract.

The contract seemed to require fees to increase to bridge that 8%. The faculty union claimed not so. And we bickered, until in ’07-08, everyone realized that the watershed was in trouble. The faculty contract says that if the state did not fund to the level of the Compact, the contract could be reopened.

		CSU	GOV	MAY R
A	BASE	117	116	116
B	FEE B-0	73.2		
C	10% FEE		109	109
D	2.5% GR	68.8	80	80
E	FEE/GR	34.5	34.5	34.5
F	1.6% GR			
G	FEE/GR			
H	AC TECH	29.2	30	30
I	SUB 1	322.7	369.5	369.5
J	CUT		347	347
K	SUB 2	322.7	22.5	22.5
L	GOV ADD			97
M	TPA			
N	TOTAL	322.7	22.5	119.5

The original CSU budget for ’08-09 called for a $322,000,000 increase, about 50% of which was an increase to the base budget (excluding fees and funds for growth). In his January, ‘08 budget proposal for 2008-09, the Governor effectively zeroed out this request with a reduction of $347,000,000. In May he added back $97,000,000, still well short of the CSU’s original number, but perhaps enough to shock the contract back to life.

By fall, ’09, the watershed ran dry, the cars flew off the Deathscalator, and a category 10 tornado touched down. Personal and corporate earnings crashed. A massive prison settlement loomed. Proposition 98 kicked in to siphon general funds as counties tanked. Banks tumbled, won tax exemptions, and tightened credit. The state budgets for ’07-08 and ’08-09 crumbled. The numbers for the deficit were gruesome; they neared $30,000,000,000 over two years, slightly less than 33% of an annual state budget. For scale, consider that the CSU budget is $4,000,000,000.

CSUN

At CSUN we saw some of this coming, as early as spring, ’07. The divisions diligently set aside funds, one time and permanent, to weather our share of a $100,000,000 cut to the CSU. Indeed, that is the cut so far. (I confess. I ran numbers for a bookie in a pizza parlor, as a kid.) It returns us to the Governor’s January, ’08 budget for 2008-09. It does not fund the Compact; it means that the contract can be reopened.

We are ok, so far, for this year since we can fill in cuts with one-time funds. But as we expend the one-time money, we must use the permanent savings in subsequent years to fund our share of these cuts and further ones. So, SFRs and everything will be pressured. Normal help through Extended Education might be tamped down as corporations and counties pull back contracts.

CSU will debate capping enrollment (impaction) because the state is not funding growth. Heck, what can it fund? We see only the student fees due to growth. Contrary to mythology, taking fewer students at CSUN would not mean that we would take more qualified students. Already, we admit only the top-third from high schools. Impaction merely would limit us to the top third within our urban service region. If impacted, we must impose geographical criteria before we impose supplementary academic criteria. So, no, we could not exclude students who need remediation if they meet CSU's threshold for admission. We ought not to use the budget crisis as a cudgel against students whom K16 and families poorly serve.

Still, we will need to shape enrollment to match available funding with committed students. However, fewer students mean less fee money, less temporary faculty. And we must guard against barring unintentionally non-resident students whose fees are 3x that of an in-state student.

Shortly after Thanksgiving, we will present more details on what we must do as California citizens and as CSU employees to Wiley Coyote our way out of this.