FINANCING CALIFORNIA
HIGHER EDUCATION

The Case for Change
The Case for Whopping
Big Change

Why & How
Why California Must Change

First, Demand exceeds supply

And, California’s economy and social fabric need the State to meet demand
The Relationship Between Educational Attainment, Personal Income, and the State New Economy Index (2010)

Percent of Adults 25 to 64 with College Degrees (2009)

Personal Income per Capita (2010)

High College Attainment, Low Personal Income    High College Attainment, High Personal Income

Top Tier
Middle Tier
Bottom Tier

State New Economy Index 2010

Source: U.S. Census Bureau, 2010 American Community Survey; Bureau of Economic Analysis; Kauffman Foundation
Percent of Adults with an Associate Degree or Higher by Age Group – U.S. & Leading OECD Countries, 2010

Source: OECD, Education at a Glance 2012, U.S. Census Bureau, 2010 American Community Survey One-Year Public Use Microdata Sample File
Differences in College Attainment (Associate & Higher) Between Younger & Older Adults - U.S., 2009

Source: U.S. Census Bureau, 2009 American Community Survey (ACS)
Percentage Gap in College Attainment between Whites and Underserved Minorities – 25 to 64 Year Olds

Sources: U.S. Census Bureau, American Community Survey
Why California Must Change

First, Demand exceeds supply

And, California’s economy and social fabric need the State to meet demand

PPI Projections – 1 Million more credentialed citizens than being produced today

More of the same won’t get you there
Second, changes within higher education and changes in composition of students can’t be sustained with current funding approach.

- Funding built on a growth model isn’t sustainable
- Students are more at-risk & serving them takes resources
- More of the same won’t get you there
Third, other legitimate demands for government funds are displacing higher education as a priority.

Like it, or not, it’s a fact

And higher education does have an additional revenue source – tuition

And a reasonable case can be made for – “s/he who benefits should pay”

More of the same won’t get you there
Why California Must Change

Fourth, California isn’t wealthy enough for the generosity it once provided to the public good.

California is about average in every way

- Average in per capita income (7% above)
- Average in tax effort (4% above)
- Slightly above average in higher education support (7-14% above, depending on measure)

But California appetite for public goods was built on an era of greater wealth
Results: *Education of Californians – At risk*

- Limiting enrollment reduces access
  - Explicit Caps
  - Implicit limits
    - No classes in which to enroll
    - Too few classes in which to enroll

- Productivity needs improvement
  - Not so much *student success* in California
# National Student Clearinghouse Information on Student Completion in Six Years

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Completion rates within California (Cal) and the United States (US) over a six-year period.
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Why California Must Change

Results: *Education of Californians – At risk*

- Enrolment caps reduce access
  - Explicit Caps
  - Implicit limits
    - no classes in which to enroll
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- Productivity needs improvement
  - Not so much *student success* in California
  - More an issue of cost per unit of outcome (grads)
    - Not CSU – 2\textsuperscript{nd} best nationally, 23% above national average
    - Somewhat UC – on the national average, but 40% below top ranked state (Colorado)
    - Community Colleges the issue -2\textsuperscript{nd} to last nationally
A New Philosophy

From:

- Officially – You come, we will pay & provide
- Actually -- We meant well; sorry ‘bout that

To: A design for shared responsibility

- Similar to Oregon and Minnesota
- But tailored to California
The Partners in A New Philosophy of Shared Responsibility

The State of California
The Student
The Student’s Family (Parents/Spouse)
The Federal Government
The Institution the student is attending
Partners Share Responsibility for Meeting the Cost of Attendance

5. The **institution**, via need-based aid, makes up the remaining difference.

4. The **state** grant award makes up the remaining difference, based on frugal budget.

3. The model accounts for the **federal government**’s contribution (i.e., Pell grants, tuition tax credits).

2. The **student’s parents/spouse** contribute their share.

1. **Each student**, as the principal beneficiary, is expected to contribute toward his/her own educational costs. Sources include: earnings, savings, borrowing, or scholarships.

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Recognizing the Difference in Costs of Attendance Between Sectors

Two-Year Sector

- State
- Feds
- Family
- Student

The cost of choice linked to reasonable borrowing

Earnings Links to reasonable work commitment (minimum wage)

Four-Year Sector

- State
- Feds
- Family
- Student

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State Role With Respect to Institutions

**Revamp Approach to Appropriations**
- Move from Pretend Enrolment Based Funding
- Which is actually funding on Immediate Expediency
- To Outcome Based Performance Funding

**Start Charging Real Fees/Tuition in the Community Colleges**
- Necessary to provide adequate funding for both quality and access
Revenue Per FTE by Source, FY12
A Proxy for Instructional Costs

Sources: California Legislative Analyst's Office, The 2013-14 Budget: Analysis of the Higher Education Budget, http://www.lao.ca.gov/analysis/2013/highered/higher-education-021213.pdf; NCES IPEDS Fall Enrollment (for UC FTE calculation); California Community College Chancellor’s Office Datamart; California State University Fall Enrollment Summary
State Role With Respect to Institutions

- **Revamp Approach to Appropriations**
  - Move from Pretend Enrolment Based Funding
  - Which is actually funding on Immediate Expediency
  - To Outcome Based Performance Funding

- **Start Charging Real Fees/Tuition in the Community Colleges**
  - Necessary to provide adequate funding for both quality and access
  - Key to marginal funding for enrolment growth
  - Would garner increased federal funding to protect students from increased costs.

- **Synchronize Appropriations, Tuition & Financial Aid**
State Role in Assisting Students:

- **Revamp Cal Grant**
  - Piggy Back on Pell
  - Focus on most needy

- **Pay As You Earn**
  - Build on Federal Income-based Repayment Program
  - Provide State Financed Consumer Information Program
    - Describing Shared Responsibility
    - Providing Financial Finance Curriculum to Schools

- Guaranty Access to Loan Capital
- Subsidize desired activity *when realized, not in advance*
The Missing Partner in Shared Responsibility Up To This Point – The Institutions

The Proposal for Institutions

- State sustains current level of support
  - But disbursed differently – on desired outcomes (performance funding)
- Growth in enrollment paid for from marginal tuition revenue

Two dilemmas:

- You need goals to ID desired outcomes, and state lacks goals
- You need an entity to plan and implement this, and you don’t have one