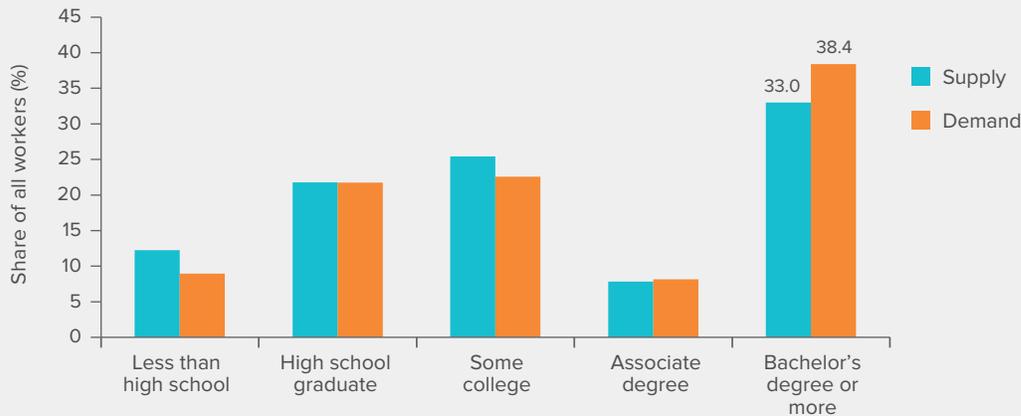


California faces a skills gap

California's higher education system is not keeping up with the changing economy. Projections suggest that the state will continue to need greater numbers of highly educated workers. In 2030, if current trends persist, 38 percent of jobs will require at least a bachelor's degree. But population and education trends suggest that only 33 percent of working-age adults in California will have bachelor's degrees by 2030—a shortfall of 1.1 million college graduates.

BY 2025, CALIFORNIA MAY FACE A SHORTAGE OF HIGHLY EDUCATED WORKERS



SOURCE: PPIC projections.

The state needs to act now to close the skills gap and meet future demand. Without a substantial improvement in educational outcomes, California's economy will be less productive, incomes and tax revenue will be lower, and more Californians will depend on the social safety net. To close the gap, the state should set new statewide goals for higher education that are consistent with the demands of the 21st century. New investments in higher education will be necessary to meet those goals. Improving access and completion rates for underrepresented groups, including Latinos, African Americans, and students from low-income groups, is essential to closing the gap. Measuring progress and identifying programs and policies that improve student success should be a key component of ensuring that new investments are effective and efficient.

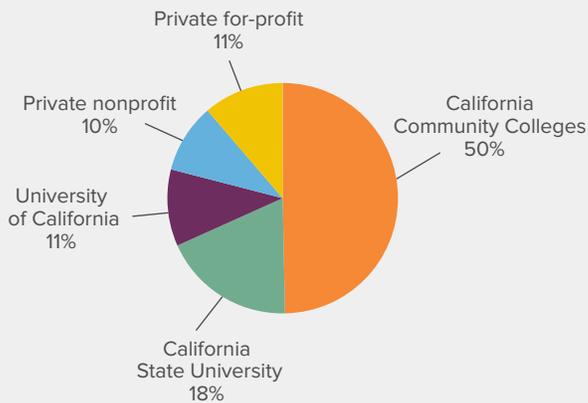
Californians are keenly aware of the importance of higher education. About nine in ten California parents hope their children will earn at least a bachelor's degree. But Californians are worried that educational inequities will make it difficult for many students to be ready for college. Almost 90 percent of Californians are concerned that high school graduates in lower-income areas are less likely than other students to be ready for college (PPIC Statewide Survey, April 2015).

California needs more college graduates

- **California's economy increasingly demands highly educated workers.**

For decades, employment growth has been strongest for workers with college degrees. This shift toward highly educated workers has occurred as a result of changes across and within industries. Relatively fast growth in the health care and information technology sectors is driving up demand for these workers, and within those and other sectors there has been a shift toward jobs requiring higher levels of education.

MOST CALIFORNIA COLLEGE STUDENTS ATTEND PUBLIC INSTITUTIONS



SOURCE: 2012–13 full-time equivalent undergraduate enrollment based on Integrated Postsecondary Education Data System for degree-granting two-year and four-year-or-more institutions.

- **The supply of college graduates will not keep up with demand.**

Two demographic trends will undercut future increases in the number of college graduates. First, the baby boomers—a large and well-educated group—are reaching retirement age, meaning that for the first time ever a large number of workers with college degrees will be leaving the workforce. Second, young adults are not graduating from college at sufficiently high rates to close the gap. College completion rates have been improving, but not fast enough. And there will not be enough highly educated newcomers to California—from abroad or from other states—to close the skills gap.

- **Higher education is largely a public endeavor in California.**

As in most states, the vast majority of California’s college students attend public colleges and universities. About four of every five undergraduate students in California are enrolled in one of the state’s three public education systems: the California Community Colleges, the California State University (CSU), and the University of California (UC). Three of every four bachelor’s degrees awarded annually in the state come from either CSU or UC.

- **Large numbers of California’s high school graduates attend community colleges ...**

Community colleges account for half of undergraduate enrollment in California. California ranks first out of the 20 most-populated states in the share of recent high school graduates who go to a two-year college (and it ranks fifth among all 50 states). Open access, wide geographic distribution, and relatively low fees make California’s community colleges especially popular.

- **... but relatively few attend four-year colleges ...**

Among the 20 most-populated states, California ranks 19th in the share of recent high school graduates who go to a four-year college—public or private, anywhere in the United States. In 2012, only a third of California high school graduates enrolled in a four-year college within a year of graduating, compared with about half of high school graduates in Massachusetts, Ohio, Florida, Georgia, Indiana, New Jersey, Wisconsin, and New York. Among the 50 states, California ranked 47th.

- **... and many never earn a degree.**

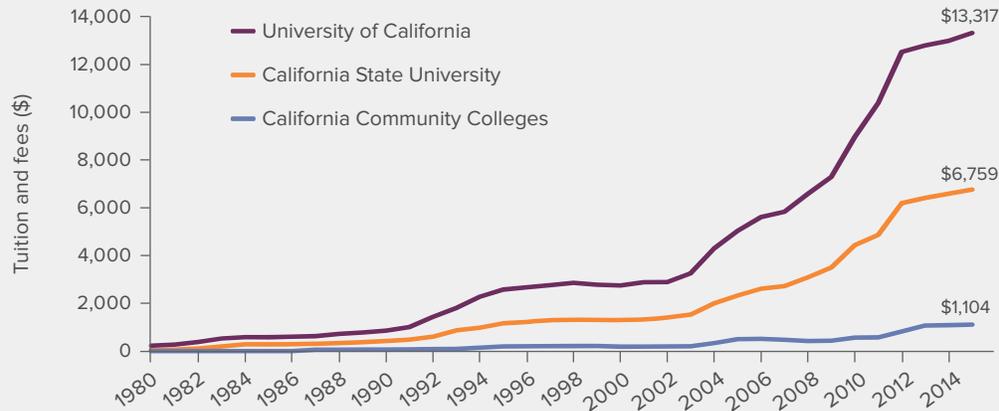
Lack of preparation for college-level work and lack of financial resources keep many students from moving ahead in the higher education system. Approximately one in ten community college students transfer to a four-year university. Even among those who earn at least 12 credit units and take transfer-eligible courses, only about 40 percent eventually succeed in transferring. Just over half of CSU students graduate within six years of entering as freshmen. Graduation rates are much higher in the UC system: four of every five students earn a degree within six years.

As the state has withdrawn college funding, student costs have risen

- **Funding for higher education has declined dramatically as a share of state General Fund expenditures.**

Over the past 15 years, per student General Fund allocations have fallen by more than 40 percent at CSU and by more than 50 percent at UC. These cuts have not been the result of a deliberative process that reprioritized the state’s goals. Rather, state policymakers have had to put out budget fires, and the General Fund’s higher education component is relatively unprotected by statutory, judicial, or federal requirements. Recent increases in General Fund allocations have not made up for the previous cuts.

ANNUAL TUITION AND FEES HAVE INCREASED DRAMATICALLY



SOURCES: University of California, Office of the President; California State University Chancellor's Office; and California Community Colleges Chancellor's Office.
NOTES: Adjusted for inflation, in 2012 dollars. Community college tuition is for a full-time student with 12 units in each semester and does not include campus fees.

- **Cost-cutting and increases in tuition and fees have not fully made up for General Fund cuts.**

California's colleges have responded to funding cuts by reducing expenses and increasing tuition and fees. The revenue generated by tuition and fee increases has not fully compensated for General Fund cuts—leading to enrollment restrictions even in the face of strong and growing demand. Those who do enroll are facing higher costs. Indeed, more students than ever are taking out loans. In 2012, almost half of California freshmen at four-year colleges took out student loans—in 2000, only a third did so. Loan amounts have risen at both public and private colleges in the state.

- **College remains a good investment.**

Despite the increase in debt, college is a good investment for the vast majority of students who attend public colleges and private nonprofit colleges. Labor market outcomes, including employment and wages, remain far better for college graduates than for less educated workers, and all but the lowest-paid college graduates earn enough to pay off their debts. Students who attend private for-profit colleges are much less likely to earn a degree, more likely to incur large debts, and more likely to default on their loans.

Looking ahead

California is facing a serious shortfall in its supply of college-educated workers. Improving the educational attainment of the state's young adults will foster greater individual success and increase economic growth throughout the state. Without concerted efforts to improve college attendance and graduation rates, California's economic future will be much less bright. The state needs to take several steps.

Update higher education goals. California has not substantively updated its Master Plan for Higher Education, which was developed more than 50 years ago. The state and its higher education institutions should increase the share of high school graduates eligible for UC and CSU, establish new goals for transfer from community colleges to four-year schools, and identify completion and time-to-degree objectives.

Decide how to provide adequate funding to achieve state goals. California's higher education institutions have borne a disproportionate share of the state's budget cuts. Shortchanging education for quick budget fixes could seriously harm California's economic future. Reinvesting in higher education will require a concerted and persistent effort in the face of competing budget priorities. Efficiency in the delivery of higher education should be a part of the state's fiscal goals: online learning is a possibility, as yet unproven, as is performance-based evaluation and funding.

Ensure access for low-income students. As the costs of attending college have increased, the importance of grant and scholarship aid has grown. California should ensure that its aid programs keep up with growing college costs and are targeted to institutions with good track records in graduating low-income students without saddling them with large amounts of debt.

Collect information to ensure that progress is being made. California currently lacks a comprehensive longitudinal student data system that could evaluate whether the state and its colleges are meeting higher education goals. Linking K–12 data with college data would allow policy experts to determine what policies and programs produce the best and most efficient outcomes for students, colleges, and the state as a whole.

Establish a new higher education coordinating process. With the demise of the California Postsecondary Education Commission, the state lacks a higher education coordinating function. The state needs to set policy priorities and coordinate efforts between its higher education and K–12 systems to improve student transitions and outcomes.

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