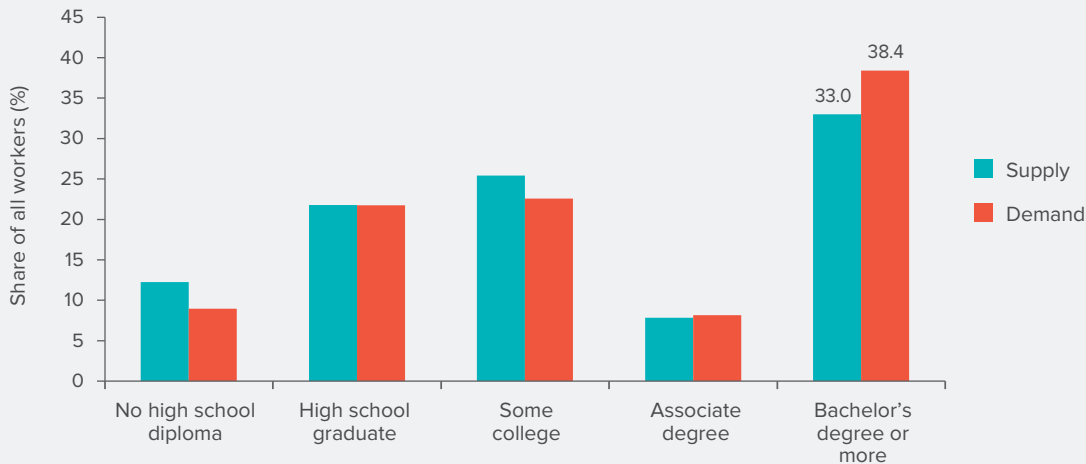


## California faces a skills gap

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 2030, CALIFORNIA MAY HAVE 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, will also be essential. 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.

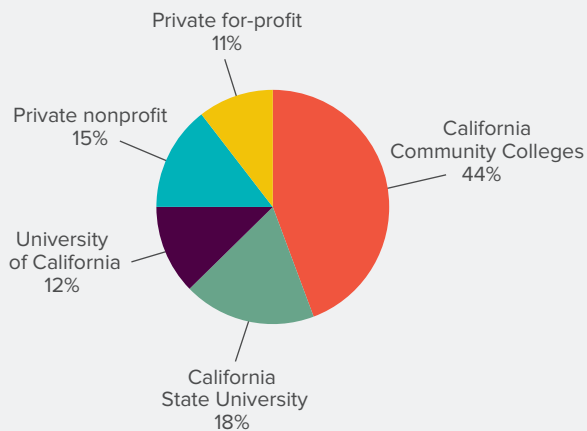
Californians are keenly aware of the importance of higher education. According to the April 2016 PPIC Statewide Survey, about eight in ten California parents hope their children will earn at least a bachelor's degree. But Californians are worried that educational inequities will make it difficult for many students to prepare for higher education. 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.

## 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: Integrated Postsecondary Education Data System (IPEDS), 2014–2015 data.

NOTES: Restricted to two-year and above colleges. Enrollment is for full-time equivalent students.

- The supply of college graduates is not on track to 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 three of every four students in California are enrolled in one of the state’s 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.

## Obtaining a four-year degree is challenging for many

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

Community colleges account for more than half of undergraduate enrollment in California—open access, wide geographic distribution, and relatively low fees make them especially popular. California ranks first out of the 20 most populous states—and fifth among all 50 states—in the share of recent high school graduates who go to a two-year college. When it comes to the share of high school graduates who attend four-year colleges, California ranks 47th out of 50 states.

- Many students never transfer to four-year schools.

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. Students who do transfer to UC and CSU have high rates of success, with the vast majority earning a bachelor’s degree.

- Students often take more than four years to graduate.

Slightly more than half of CSU students graduate within six years of entering as freshmen, and four of every five UC students earn a degree within six years. However, only 19 percent of CSU students and 61 percent of UC students graduate with a degree in four years. UC and CSU are working to improve on-time graduation, with CSU recently adopting ambitious new goals for four-year and six-year graduation rates.

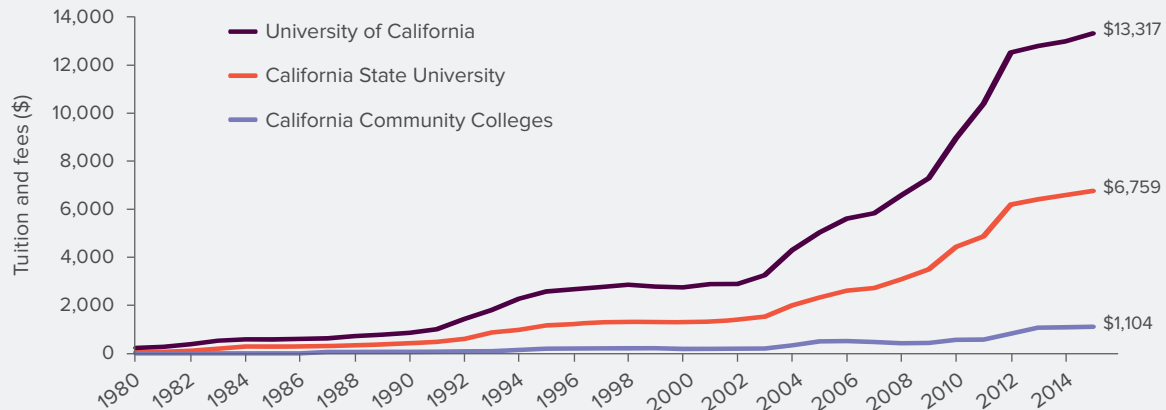
- Preparation is key for earning a degree.

A lack of academic preparation can delay or prevent students from earning an associate degree or transferring to a four-year college. Almost 80 percent of community college students and 39 percent of CSU entering freshmen require remediation before taking college-level courses. However, an increasing share of students are completing high school courses that prepare them for college, and some school districts have begun requiring students to complete those courses in order to graduate. At the community colleges, new courses designed to shorten and improve the remediation process along with new assessment and placement policies could allow many more students to enroll in college-level courses. Colleges will need to ensure that these new courses and policies are evaluated and implemented consistently across the state so that they improve outcomes for all students, especially those who have been traditionally underserved in higher education.

## Costs have risen, but college remains a good investment for most graduates

- **Tuition at public institutions increased sharply during the recession but has remained flat since 2011.** During the recession, per student General Fund allocations fell by about 20 percent at CSU and UC, causing the systems to increase tuition to make up for lost revenue. Recent increases in General Fund allocations have not restored funding to prerecession levels, but they have kept the universities from raising tuition since 2011. Tuition at California universities is historically volatile—dramatic increases often follow periods of flat tuition.

### ANNUAL TUITION AND FEES HAVE INCREASED DRAMATICALLY AT CSU AND UC



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 2016 dollars. Community college tuition is for a full-time student with 12 units in each semester and does not include campus fees. We used the average CPI for the first seven months of 2016.

- **Higher costs have increased reliance on loans, but most graduates earn enough to pay off debts.** The share of students taking out loans has declined a bit in the past few years but remains at historically high levels. In 2014, 44 percent of California freshmen at four-year colleges took out student loans—in 2007, only about a third did so. Similarly, average loan amounts have declined in recent years but remain high by historical standards. 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 remain far better for college graduates than for less educated-workers, even in economic downturns. Unemployment among workers without a postsecondary degree jumped 5 to 7 points during the recession but increased by only 2 points for those with advanced degrees. All but the lowest-paid college graduates earn enough to pay off their debts.

## Looking ahead

California is facing a serious shortfall in its supply of college-educated workers. Improving the educational attainment of 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 since it 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. Some progress is being made. For example, CSU has recently taken the lead in setting ambitious new graduation targets. Establishing a new higher education coordinating body to set priorities and coordinate efforts between K–12 and higher education systems could lead to further improvements in student transitions and outcomes.

**Decide how to provide adequate funding to achieve state goals.** California's higher education institutions tend to see disproportionate budget cuts during economic downturns. 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.

## CONTACT A PPIC EXPERT



**Hans Johnson**  
johnson@ppic.org



**Marisol Cuellar Mejia**  
cuellar@ppic.org



**Sarah Bohn**  
bohn@ppic.org



**Patrick Murphy**  
murphy@ppic.org



**Kevin Cook**  
kcook@ppic.org



**Olga Rodriguez**  
rodriguez@ppic.org



**Jacob Jackson**  
jackson@ppic.org

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Public Policy Institute of California  
500 Washington Street, Suite 600  
San Francisco, CA 94111  
T 415.291.4400 F 415.291.4401  
**PPIC.ORG**

PPIC Sacramento Center  
Senator Office Building  
1121 L Street, Suite 801  
Sacramento, CA 95814  
T 916.440.1120 F 916.440.1121



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