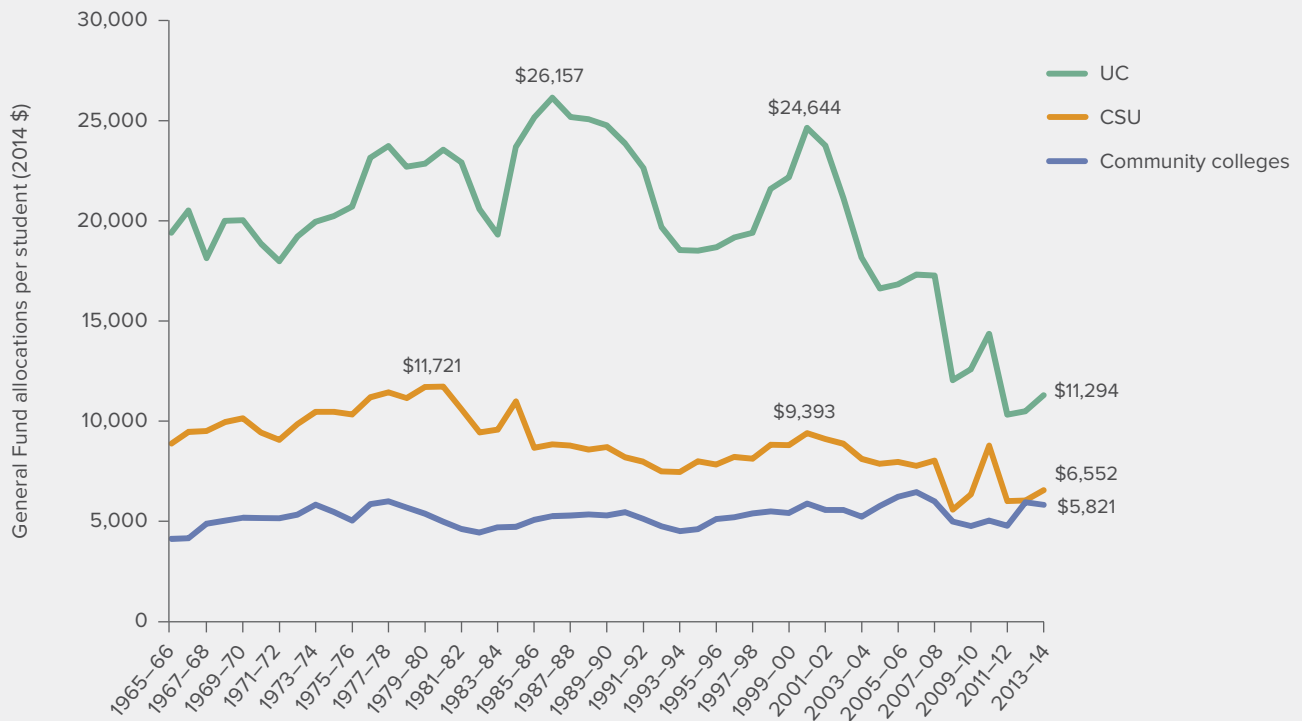


## How should California fund public higher education?

California’s investments in public higher education have contributed to the state’s economic development for many decades. But the state invests less per student at its public universities than it did 30 years ago. As state funding has declined, the University of California (UC) and California State University (CSU) have increased tuition to make up for the lost revenue. This has raised questions about the cost of providing a college education. According to a 2014 PPIC Statewide Survey, a solid majority of Californians believe that higher education affordability is a big problem for the state. Some state policymakers have acknowledged that the state’s disinvestment in higher education is partially responsible for rising student costs, and many higher education officials and policymakers have expressed concern that the current financial model of public higher education is inefficient and unsustainable.

Individuals who obtain a bachelor’s degree earn more money, are more likely to be employed, use fewer social services, and are more likely to participate in the political process. With clearly defined goals, greater transparency, and better data systems, California’s investments in higher education will continue to benefit the state and its residents.

### STATE INVESTMENT IN PUBLIC UNIVERSITIES HAS DECLINED SIGNIFICANTLY



SOURCE: California Postsecondary Education Commission and the State Department of Finance.

NOTE: General Fund expenditures per full-time equivalent student shown in this chart do not include federal American Recovery and Reinvestment Act funds used to replace state higher education funding from 2008 to 2011.

## State budget turmoil and Proposition 98 have reshaped higher education funding

Forty years ago, higher education spending accounted for a quarter of the state General Fund; since then, it has dropped to 10 percent. This decline is a result of policy decisions made by legislators as well as decreased budget flexibility related to funding guarantees and voter initiatives.

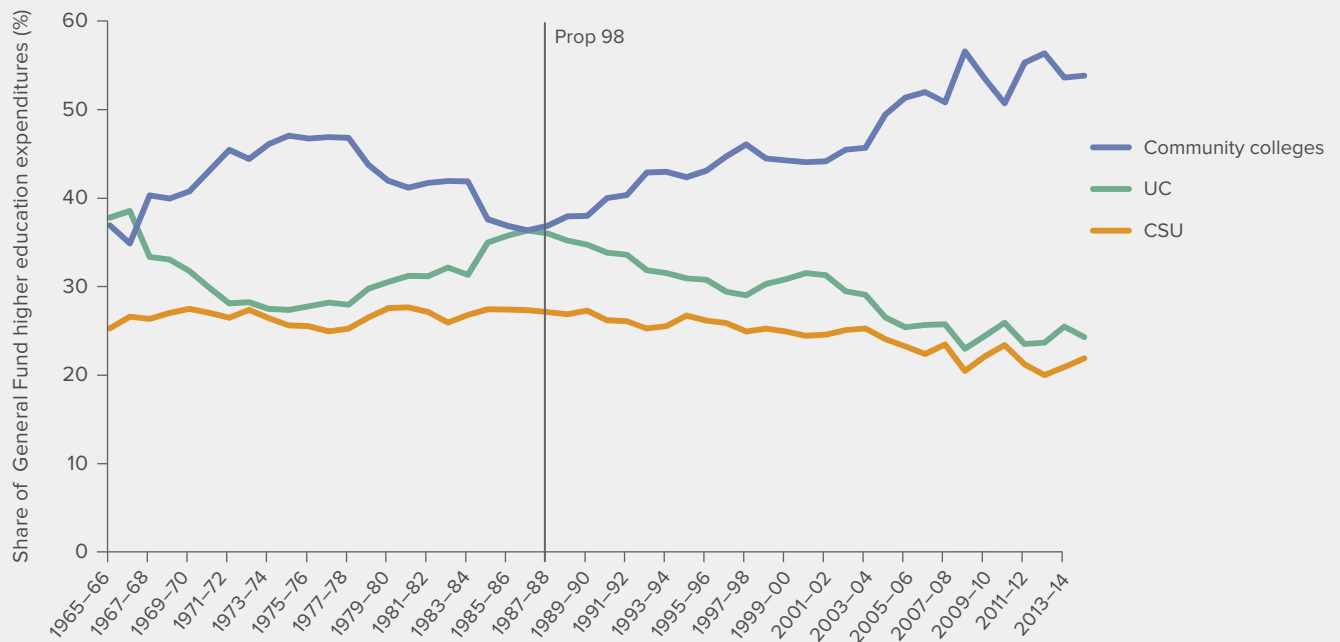
- **The General Fund and student tuition cover most of the cost of educating students at UC, CSU, and the California Community Colleges.**

General Fund appropriations combined with tuition revenue pay for the bulk of undergraduate instructional costs. The state also provides funding support to lower-income students in the form of Cal Grants, which cover the full cost of UC and CSU tuition for state residents who are academically and financially eligible. Students at private colleges also receive Cal Grants—which rarely cover full tuition at those institutions. Non-instructional expenditures—for dormitories, food service, medical centers, and research activities, among other things—are funded primarily through user fees and federal grants.

- **Proposition 98 has altered the distribution of higher education funding.**

Approved by voters in 1988, Proposition 98 requires that 40 percent of the General Fund be spent on K–12 schools and the California Community Colleges. UC and CSU were not included in this funding guarantee. At the time, state higher education funding was split relatively evenly among the three public systems. Now, the community college system receives nearly 60 percent and the other two systems split the remaining 40 percent.

### PROPOSITION 98 HAS REDISTRIBUTED HIGHER EDUCATION FUNDING



SOURCE: California Postsecondary Education Commission and the State Department of Finance.

NOTE: General Fund expenditures in this chart do not include federal American Recovery and Reinvestment Act funds used to replace state higher education funding from 2008 to 2011. General Fund expenditures for other higher education purposes, including Cal Grants, are excluded.

- **State allocations to UC and CSU per student have declined dramatically; community college funding has been relatively stable.**

Over the long run, state appropriations to UC and CSU have not kept up with enrollment increases. Between 2007–08 and 2012–13, state appropriations to UC and CSU fell from \$6.3 billion to \$4.3 billion (in constant dollars), or more than 30 percent, even as enrollment increased. On a per student (full-time equivalent) basis, General Fund support at UC and CSU is near record lows. In contrast, per student funding at the community colleges is at historically high levels. Recent state funding increases at UC and CSU have been relatively small in comparison with previous cuts; community college increases have been sizable due to Proposition 98.

### Public universities have dealt with reduced state support mainly by raising tuition

State funding cuts have left UC and CSU with two options: obtaining funds from other sources and cutting expenses. In recent years, some expenses have been reduced through enrollment restrictions and other measures, and salaries and

benefits—the bulk of instructional costs—have been relatively flat. But UC and CSU have relied mostly on increasing tuition. Community colleges have also restricted enrollment and increased tuition to help offset past cuts, though community college tuition in California remains the lowest in the nation.

- **Tuition at UC and CSU for California residents has more than tripled over the past 20 years.**

The decline in state support has mostly—but not completely—been offset by increases in revenue from tuition. UC and CSU used some tuition revenue to increase scholarship aid for lower-income students, but even so the net tuition (full tuition minus scholarship aid) per student more than doubled. Community college tuition for in-state students has increased by nearly 40 percent since 2005—from \$1,018 per year to \$1,423 in 2014–15. Although this increase has been significant, California’s community college tuition is still about \$2,000 below the national average and many students receive fee waivers.

- **Since 2006, spending on faculty and administrative support at CSU and UC has held steady or declined.**

Between 2006 and 2012, a period of rapid tuition increases, both faculty compensation and administrative support expenditures by the UC and CSU systems were flat or declining. In fact, UC spent nearly \$200 dollars less on administrative costs (per full-time equivalent student) in 2012 than it did in 2006, shortly before the recession. UC and CSU are increasingly relying on untenured, non-tenure track, and part-time faculty.

- **All three public systems have increased spending on student services.**

Student services include student organizations, financial aid, advising, remedial education, and counseling. Between 2006 and 2012, real spending on student services increased by 24 percent at UC, 40 percent at CSU, and 26 percent at the community colleges. At the national level and in other states, increases in services such as advising, tutoring, and financial aid counseling have been linked to improved student outcomes—and graduation rates at both the UC and CSU systems did improve significantly over this period.

## Do the systems spend their resources efficiently?

Increases in tuition have bridged the gap created by falling state funding for both the UC and CSU systems. But these increases have led some policymakers, parents, and students to believe that institutional spending is out of control. At the very least, they have raised concerns about the overall efficiency of all three systems.

- **Recent tuition increases are not caused by out-of-control expenditures at public universities . . .**

Over the past 30 years, California’s public higher education systems have increased enrollment and awarded a steadily rising number of degrees and certificates despite the decline in funding from the state. From 2006 to 2012, when UC and CSU tuition grew the most, the overall distribution of expenditures did not change dramatically. Faculty salaries did not increase over that time frame, and the dollars per student spent on administration were relatively constant.

- **. . . but it is difficult to track revenues and expenditures.**

Multiple funding sources combined with a broad range of activities make for a dense web of financial relationships—but the public systems could provide better information about costs and spending. For example, expenditures are reported in broad categories such as “student services” or “institutional support.” Providing greater detail on the costs in these categories would make it easier for policymakers, taxpayers, students, and parents to understand the services they are paying for. Ideally, it should be possible to connect the dollars invested with outcomes such as degrees awarded, completion rates, and the time it takes students to complete programs. This could allow for comparisons over time, with other states, and across campuses—and these comparisons could reveal effective strategies.

## Looking ahead

California and its public colleges and universities can take steps to make the most of state investments in higher education.

**The state should consider linking higher education funding to clearly defined goals and measures.** Historically, state higher education funding has been based on enrollment targets. Instead, funding could be based on a set of outcomes determined through collaboration by policymakers, college administrators, faculty, and students. For example, the state could focus on increasing the number of bachelor’s degrees awarded to meet future workforce demands, improving

graduation rates at its four-year institutions, increasing the share of low-income students enrolled, or expanding the number of career technical education certificates awarded.

**Innovation may help increase efficiency.** Online learning and other technological innovations hold the promise of improving student outcomes. To date, however, students enrolled in online courses have lower success rates than students in traditional courses. Moreover, there is little, if any, evidence that colleges save money by delivering courses online. Improvements in course quality and delivery are essential to progress in this area.

**Increased transparency and improved data are key to continued progress and support.** Future attempts to reduce higher education costs are not likely to succeed without better data systems, transparent reporting, and a deeper analysis of the wide array of costs involved. A more accessible accounting system would help policymakers and institutions develop a mutual understanding of the revenues needed to provide quality higher education.

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