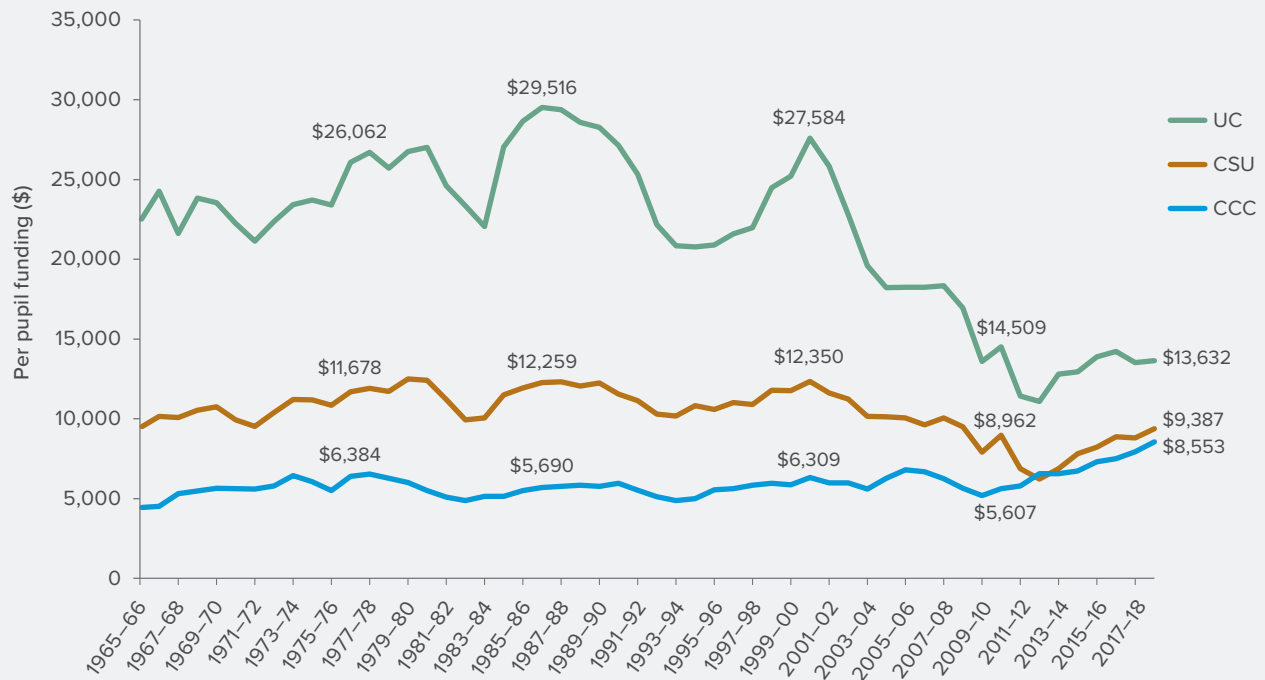


How should California fund public higher education?

State funding for higher education has increased in recent years. Per student funding for the California Community Colleges (CCC) is at an historic high and the Cal Grant program is larger than ever. But the state’s investment in its public universities remains far lower than in the past. Indeed, California invests less per student (adjusted for inflation) at its public universities than it did 30 years ago. When state contributions dropped dramatically during the Great Recession, the University of California (UC) and California State University (CSU) increased tuition to make up for lost revenue. These tuition hikes contributed to concerns about college costs. According to a 2018 PPIC Statewide Survey, most Californians (58%) believe that higher education affordability is a big problem for the state.

Some California policymakers have acknowledged that state disinvestment in higher education is partly responsible for rising student costs. At the same time, many higher education leaders are concerned that the current financial model of public higher education is inefficient and unsustainable. Clearly defined goals, greater transparency, and better data systems can help ensure that California’s investments in higher education continue to benefit the state and its residents.

STATE FUNDING FOR PUBLIC HIGHER EDUCATION IS BEGINNING TO REBOUND



SOURCES: California Postsecondary Education Commission and the California Department of Finance.

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

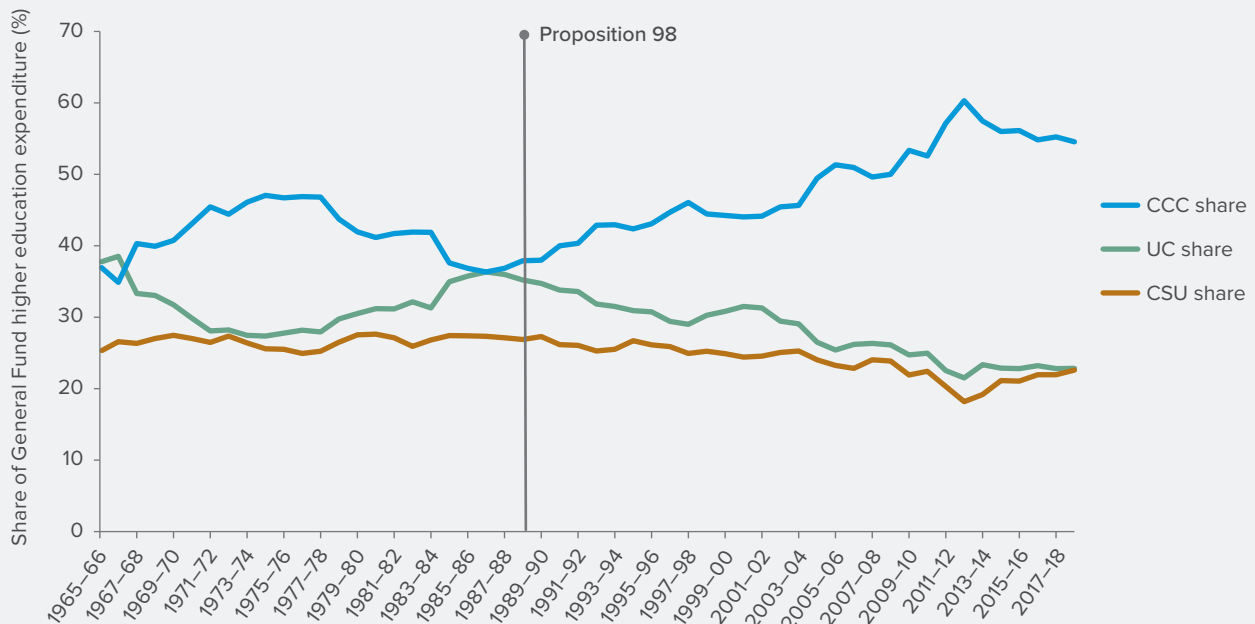
State investment in higher education has declined and shifted over time

- Higher education’s share of the state budget has grown smaller over the past four decades.

The share of state higher education spending peaked at 18 percent of the budget in 1976–77; by 2018–19, it had fallen to 11 percent. Funding per full-time-equivalent student has declined most dramatically at UC, from slightly more than \$26,000 to \$13,632. State funding per CSU student has fallen from \$11,678 per student in 1976–77 to \$9,387 in 2018–19.

- **The state General Fund and tuition revenue cover most of the public system’s instructional costs.**
General Fund appropriations combined with tuition revenue pay for the bulk of undergraduate instructional costs at UC, CSU, and the community colleges. The state also provides Cal Grants, which cover the full cost of UC and CSU tuition for state residents who are academically eligible and meet financial need criteria. Students at private colleges can also get Cal Grants, though their tuition is rarely covered in full. 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 community colleges. At the time, state higher education funding was split more evenly among the three public segments. Now, the community college segment receives 55 percent and the other two segments split the remaining 45 percent.

PROPOSITION 98 HAS REDISTRIBUTED HIGHER EDUCATION FUNDING



SOURCES: California Postsecondary Education Commission and the California Department of Finance.

NOTES: 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.

Public universities have raised tuition and put off infrastructure investments in response to reduced state support

State funding cuts left UC and CSU with two options: raising revenue from other sources and cutting expenses. UC and CSU have relied mostly on increasing tuition; they have also deferred investments in infrastructure. 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.

- **In-state tuition at UC, CSU, and the community colleges has risen significantly.**
In-state tuition at the four-year universities has tripled over the past two decades; net tuition (full tuition minus scholarship aid) per student has more than doubled. UC and CSU have used some tuition revenue to increase scholarship aid for lower-income students—covering the full cost of tuition for most of those who are eligible. Community college tuition for state residents has increased by nearly 40 percent since 2005–06—from \$1,018 per year to \$1,423 in 2016–17. 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.

- **Deferred maintenance will cost an estimated \$50 billion by 2022–23.**
California has underinvested in higher education infrastructure over the past decade. The state has not issued any new bonds to expand and improve academic facilities at the state’s four-year institutions since 2006. The 2013–14 budget shifted funding responsibility for capital investment and debt repayment to the CSU and UC segments. While UC and CSU now have increased flexibility, a decentralized approach reduces transparency and increases the difficulty of aligning capital investment with state priorities. Community college districts have the authority to issue bonds with voter approval—and various districts borrowed more than \$35 billion for capital projects from 2001 to 2016.
- **CSU faces an especially large maintenance and capacity challenge.**
CSU’s infrastructure is both extensive and old. Across its 23 campuses there are more than 2,000 facilities, with an average age of 37—well past the benchmarked standard life of 30 years. CSU’s maintenance backlog grew from \$325 million in 1996–97 to about \$2.6 billion in 2017. Maintaining capital assets and infrastructure, modernizing buildings, and ensuring adequate capacity are all essential to expanding access and improving student outcomes.

Do the segments allocate their resources efficiently?

Increases in tuition have bridged the gap created by falling state funding for both the UC and CSU segments. 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 segments.

- **UC and CSU have increased the number of degrees awarded despite reductions in state funding ...**
Over the past 30 years, California’s four-year public universities have increased enrollment and awarded a steadily rising number of degrees despite the decline in per student funding from the state. The amount of money spent to produce those degrees actually declined by 4 percent from 1987 to 2015. This decrease was driven by CSU, where spending fell from about \$69,000 to \$48,000 per degree. Spending at UC, on the other hand, increased from just under \$119,000 to \$132,000 per degree.
- **... but it is difficult to track revenues and expenditures.**
Multiple funding sources combined with a broad range of activities create a dense web of financial relationships, but the public system could provide better information about costs and spending. For example, expenditures are reported in broad categories such as “student services” or “institutional support.” Greater detail on the costs in these categories would make it easier for policymakers, taxpayers, students, and parents to identify the services they are paying for. Using an institutional cost-per-degree measure would be a useful way to frame the discussion—it is consistent and reliable over time and across institutions and geographical areas.

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 clear goals and measures. Historically, state higher education funding has been based on enrollment targets or the previous year’s expenditures. Instead, funding could be based on goals agreed upon by policymakers, college administrators, faculty, and students. These goals could include improving graduation rates at four-year institutions, increasing the share of low-income students, or expanding the number of career education certificates awarded. The state recently created the Student Centered Funding Formula for the community colleges, which would align funding with progress toward goals. This new formula—which has not yet been implemented—ties state allocations to student outcomes as well as enrollment and student demographics.

Innovation may help increase efficiency. Efficiency gains are most likely to be realized through innovations that improve student retention and completion. For example, the public higher education sectors could adopt technologies that can help identify students who are at risk of failing or dropping out, allowing time for intervention. Improvements in the quality and delivery of courses could help online learning and other technological tools become cost-efficient ways to expand access to college. Students enrolled in online courses currently have lower success rates than students in traditional courses, and there is little, if any, evidence that online course delivery saves money.

Increased transparency and improved data are key to continued progress and support. Efforts to reduce higher education costs are much more likely to succeed if they are facilitated by 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.

Encourage the public system to plan for capital projects and maintenance. Spending on capital projects can be uneven from one year to the next. State revenue has proven to be unpredictable. Currently, the segments choose between two options: allocating dollars out of their annual operating budgets or borrowing. Another option is to set aside a portion of the operating budget for anticipated and unanticipated capital spending. Transparent, multi-year financial planning and saving by the segments could reduce future uncertainty and help ensure that maintenance is not deferred during economic downturns.

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




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