

PPIC HIGHER EDUCATION CENTER

HIGHER EDUCATION IN CALIFORNIA

- CALIFORNIA'S HIGHER EDUCATION SYSTEM
- ADDRESSING CALIFORNIA'S SKILLS GAP
- EXPANDING COLLEGE ACCESS
- IMPROVING COLLEGE COMPLETION
- INCREASING EQUITY AND DIVERSITY
- INVESTING IN PUBLIC HIGHER EDUCATION
- MAKING COLLEGE AFFORDABLE



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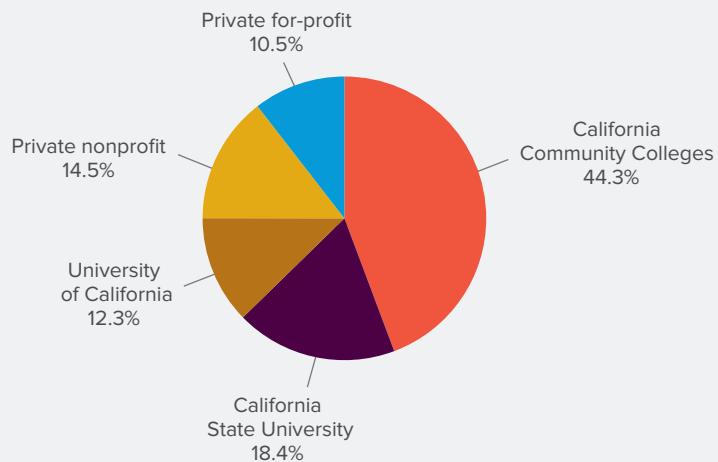
California's system is the largest—and one of the most diverse—in the nation

California's higher education system includes three public segments—the University of California (UC), the California State University (CSU), and the California Community Colleges. It also includes more than 150 private nonprofit colleges and about 200 for-profit institutions. In total, the state's colleges and universities enroll more than two million students from a wide range of backgrounds.

Most students attend public colleges, but a sizable share (25%) attend private schools. Indeed, private nonprofit colleges enroll more students than the University of California. Enrollment in private for-profit colleges has started to decline after increasing sharply for many years.

Unlike most other states, California has no coordinating body for higher education. This makes goal setting, oversight, and coordination more challenging. The Master Plan for Higher Education, adopted by the state legislature in 1960, established a structure and a set of principles for public higher education that are still largely in effect. Through the Master Plan, the state's public system was able to accommodate dramatic increases in enrollment for several decades while providing broad access and charging little or no tuition. But over the past two decades, tuition has risen sharply and enrollment has not kept up with demand—largely because of reductions in state support.

MOST CALIFORNIA STUDENTS ATTEND PUBLIC INSTITUTIONS



SOURCE: Integrated Postsecondary Education Data System (IPEDS), 2014–15 data (data downloaded February 3, 2017).

NOTE: Enrollment is for full-time-equivalent students at two-year-or-more colleges.

California's public institutions have distinct missions

- The University of California is the state's primary academic research institution.

UC has 10 major campuses, five medical centers, and three national laboratories. In 2015–16, UC received more than \$2.88 billion in awards for research and related projects from federal agencies, with two of these agencies—the National Institutes of Health (NIH) and the National Science Foundation (NSF)—providing nearly three-quarters of UC's federal support. Six of the schools—Berkeley, Davis, Irvine, Los Angeles, San Diego, and Santa Barbara—are members of the Association of American Universities (AAU), along with 56 other top research-intensive universities. The UC system, which is constitutionally independent of the state, is governed by a 26-member board of regents.

- **UC educates hundreds of thousands of students and has a significant economic impact.**

UC educates almost 265,000 undergraduate and graduate students and employs about 209,000 faculty and staff. It is the state's primary awarder of doctoral and professional degrees. In-state undergraduate tuition and fees were \$12,294 in the 2016–17 academic year, and each campus also charges an average of \$1,206 in mandatory fees. UC is highly selective: only the top eighth of California's high school graduates are eligible for admission. The system has estimated its overall impact on the state economy at \$46.3 billion.

- **The California State University is the largest university system in the nation.**

CSU provides undergraduate and graduate instruction to approximately 474,600 students on its 23 campuses and employs about 50,000 faculty and staff. The vast majority of CSU students are undergraduates—the top third of California's high school graduates are eligible for admission—and CSU awards more bachelor's degrees than any other segment of higher education in California (about 87,000 in 2014–15). But CSU also awards master's and doctoral degrees in a few professional fields—and trains a majority of the state's K–12 teachers. In-state undergraduate tuition and fees averaged \$5,472 in the 2016–17 fiscal year, and local campus fees averaged \$1,343. The CSU system is governed by a 25-member board of trustees; most are appointed by the governor and confirmed by the senate. CSU estimates that it generates more than \$17 billion in economic activity.

- **The California Community Colleges are the nation's largest higher education system.**

The state's community colleges enroll 2.1 million students (about 900,000 on a full-time-equivalent basis) at 114 colleges that are organized into 72 districts. In 2015–16, the community colleges awarded more than 130,000 associate degrees, 60,000 credit certificates, and 15,000 noncredit certificates; more than 103,000 students transferred to four-year institutions. Average annual tuition for full-time students is \$1,104, but many students qualify for full fee waivers. The system is governed by a 17-member board of governors appointed by the governor. A locally elected board of trustees appoints campus presidents and oversees the operation and budgets of the colleges in each district.

- **The community colleges have multiple missions.**

California's community colleges offer lower-division academic courses for students interested in transferring to four-year colleges; career technical education and vocational certificates; adult basic education, including English-language courses for nonnative speakers; and enrichment courses for members of the community. California's high school graduates are more likely to attend community colleges than graduates in other states—the state ranks fifth nationwide in the share of recent high school graduates who enroll in community colleges and 47th in the share who start at four-year schools. In 2015, 15 bachelor's degree pilot programs were approved, offering some community colleges students the opportunity to earn four-year degrees in applied fields such as dental hygiene, respiratory care, and mortuary science.

California's private institutions vary widely in size, selectivity, and mission

- **Private nonprofit colleges range from large research institutions to small liberal arts colleges.**

California's largest private nonprofit, the University of Southern California, enrolls about 44,000 students. In contrast, dozens of private nonprofits enroll fewer than 500 students. Graduate students make up a relatively high share of enrollment at private nonprofits. Three private nonprofits—Stanford, the University of Southern California, and the California Institute of Technology—are AAU members. Most private nonprofit colleges are governed by boards of trustees. Many belong to the Association of Independent California Colleges and Universities.

- **Private for-profits serve large numbers of students ...**

For-profit colleges award more than 60 percent of certificates in California. After years of rapid growth, enrollment at private for-profit colleges is beginning to decline. The largest for-profit educational institutions currently operating in California are Ashford University, the University of Phoenix, and the Academy of Art University; each enrolls more than 10,000 full-time-equivalent students.

- **... but there are growing concerns about cost and quality.**

Private for-profit colleges account for a disproportionate share of student debt and loan defaults. Controversies over the cost and quality of the training offered by private for-profits have led to greater oversight. In 2015, one of the largest private for-profit colleges (Heald College and its parent, Corinthian Colleges) ceased operations after investigations by the federal government and by attorneys general in several states, including California.

Higher education oversight in California is fractured

Because California does not have a higher education coordinating body, its colleges and universities are governed by a mix of government and independent entities. This makes it difficult for the state to set goals and coordinate its many systems. In other states, higher education coordinating bodies can facilitate the effective use of student-level longitudinal data to assess student progress from high school and through college.

- **The California Student Aid Commission oversees state financial aid expenditures.**

The California Student Aid Commission administers financial aid programs for California residents attending public and private universities, colleges, and vocational schools in the state. The Cal Grant program, one of the largest in the country, awards about \$2 billion annually to students who meet academic and need-based criteria. Most of the awards cover tuition for low-income students at UC and CSU. There are 15 commissioners, most of whom serve four-year terms—11 are appointed by the governor and two each are appointed by the chair of the Senate Rules Committee and the Speaker of the Assembly.

- **The United States Department of Education provides financial aid and collects data on student outcomes.**

The US Department of Education administers federal financial aid programs, including grants and subsidized student loans. Like many other states, California uses the department's Free Application for Federal Student Aid (FAFSA) to determine eligibility for its own grant and loan programs. The department collects and publishes descriptive summary-level data on thousands of higher education institutions across the country, including measures such as graduation rates and student debt. This data helps the department evaluate higher education institutions. It also helps parents and students make college choices.

- **Accreditation agencies provide independent oversight.**

Students cannot receive federal or state financial aid to attend higher education institutions that are not accredited by one of several independent agencies. California's primary accreditor is the Western Association of Schools and Colleges (WASC). The Accrediting Commission for Community and Junior Colleges—a division of WASC—handles accreditation for two-year colleges (that role is being challenged by the California Community College Chancellor's Office). In general, these agencies use a peer review process to evaluate the quality of higher education institutions.

- **The Bureau for Private Postsecondary Education oversees the state's private vocational institutions.**

California's Bureau for Private Postsecondary Education (BPPE) is a state consumer protection agency that provides oversight and limited regulation. BPPE monitors and attempts to resolve consumer complaints, reviews educational programs, and provides operating licenses.

Looking ahead

In the absence of a higher education coordinating agency, how can California coordinate and regulate its higher education system? Policymakers need to find a way to set overarching, long-term goals and devise strategies to achieve them. They also need to identify the most effective ways to hold institutions accountable to students and to the state.

The state needs to set new goals for its higher education system. California has not updated many of its goals for higher education since the Master Plan was adopted more than 50 years ago, and it has no overarching plan for higher education that is consistent with 21st-century realities. There have been signs of progress—for example, California Community Colleges and CSU have adopted ambitious new goals to improve graduation rates and the state recently required UC and CSU to outline ways to close the workforce skills gap. Setting measurable goals—including eligibility for UC and CSU, transfer from community colleges to four-year colleges, and ensuring that college is affordable for all students—is essential for gauging progress toward a shared vision of the state's future.

Funding decisions should be tied to growth in the number of college graduates. The state could encourage more students to go to four-year colleges by providing more funding for enrollment growth at UC and CSU, and by providing more Cal Grant support for students to attend private nonprofit colleges. Recent budget increases have led to enrollment gains at UC and CSU. At the California Community Colleges, the state should consider fiscal incentives to increase high-demand vocational programs and improve transfer pathways to four-year colleges.

Higher education institutions should work with each other and with the state's K–12 system. To improve student outcomes, special attention must be paid to transition points between high school and postsecondary education, and

between two-year and four-year institutions. The actions of the segments—and individual campuses within those segments—are interdependent. Policymakers and higher education authorities should look to strengthen critical mechanisms of coordination between segments, including transfer processes, as well as data collection and sharing. The California College Promise Innovation Grant Program is an important step in this direction. Signed into law by Governor Brown in 2016, the program creates partnerships among K–12 schools, community colleges, and four-year universities to offer pathways toward educational goals.

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Addressing California's Skills Gap

SEPTEMBER 2017

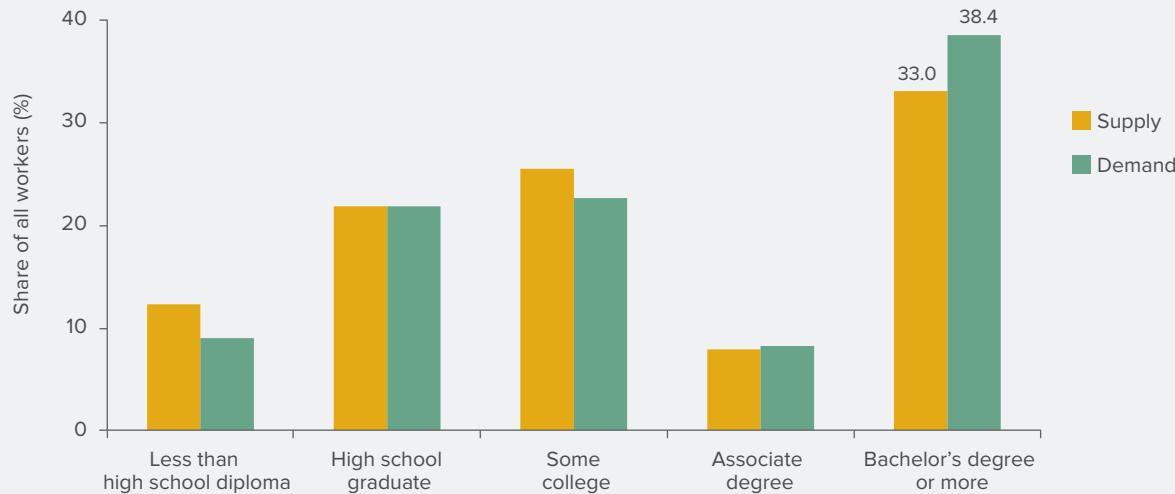
California faces a long-term shortage of college-educated workers

A skilled workforce is key to a thriving California economy. Unfortunately, California's higher education system is not keeping up with the economy's changing needs. If current trends continue, California will face a large skills gap by 2030—it will be 1.1 million workers with bachelor's degrees short of economic demand.

Failing to keep up with the demand for skilled workers could curtail economic growth, limit economic mobility, and increase inequality. It could result in a less productive economy, lower incomes and tax revenue, and greater dependence on the social safety net. Over time, if California's workforce does not have the skills and training that employers need, firms may close, relocate, or operate at lower levels of productivity.

Closing the gap will require increases in the number of degrees awarded by every higher education sector in the state, including private nonprofit and public universities. New investments will be needed to meet those goals. Measuring progress and identifying programs and policies that improve student success, especially among underrepresented groups, should be key components of those investments. The good news is that changes made today can put California on a better trajectory. But educational progress takes time, so it is important to act now.

DEMAND FOR COLLEGE-EDUCATED WORKERS WILL OUTSTRIP SUPPLY BY 2030



SOURCE: Johnson, Cuellar Mejia, and Bohn, *Will California Run Out of College Graduates?* (PPIC, 2015).

California's economy needs and rewards degree holders

Currently, one-third of jobs in California require at least a bachelor's degree. Another third require some training beyond high school. The widening wage gap between highly educated workers and those with high school diplomas indicates that demand is growing.

- College graduates make up a large and growing share of the workforce.**

The share of working-age adults (18 to 64) with bachelor's degrees has increased from 22 percent in 1990 to 25 percent in 2000 to 29 percent in 2015. However, if current trends continue, by 2030 only 33 percent of California's working-age adults will have bachelor's degrees, while an estimated 38.4 percent of jobs—across the entire spectrum of occupations—will require a bachelor's degree or more.

- The demand for skilled workers is increasing in the vast majority of occupations.**

Demand for highly educated workers is rising as the economy becomes more dependent on a skilled workforce. The share of college-educated workers is growing not only in occupations that have traditionally required high levels of education, such as computer science and health care, but also in occupations that have had smaller shares of college graduates, such as management in the hospitality industry.

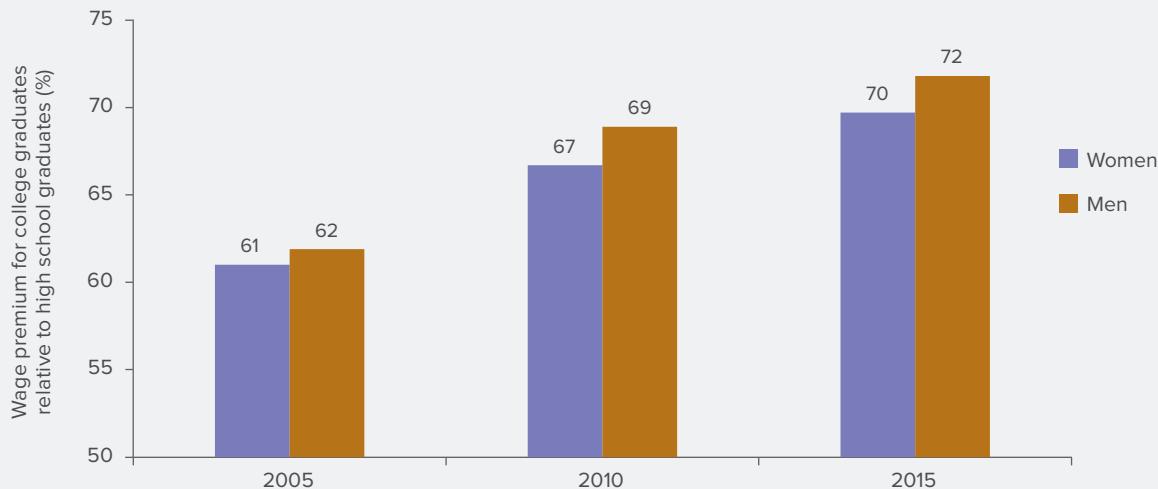
- Educated workers earn substantially more in California ...**

Workers in all industries and demographic groups earn successively more with higher levels of education. In 2015, workers with a bachelor's degree earned about 70 percent more than otherwise similar workers with only a high school diploma. The growth of this wage differential over time is evidence of a growing demand for higher levels of education, rather than a trend toward an overeducated workforce.

- ... though fields of study and employment matter.**

Wages for college graduates with bachelor's degrees vary tremendously. For example, California workers with engineering degrees earn a median annual wage of \$111,000, while the median wage for workers with degrees in education administration and teaching is \$63,000. But even this lower amount is substantially higher than the \$42,500 median annual wage for those with only a high school diploma.

HIGHER EDUCATION YIELDS HIGHER WAGES



SOURCE: Authors' calculations based on wage regressions using American Community Survey data for 2005, 2010, and 2015.

NOTES: The chart shows the difference in wages for full-time, year-round workers ages 25 to 64 with at least a bachelor's degree versus those with a high school diploma. Wage regressions control for age, gender, race/ethnicity, marital status, and citizenship.

Educational attainment is not on track to meet future workforce needs

The share of college graduates in California's workforce needs to grow to about 38 percent by 2030 to meet economic demand, if the economy is to operate optimally. This is significantly above and beyond the educational attainment of today's workforce—and the state is not on track to meet future demand.

- Retiring baby boomers are reducing the number of workers with bachelor's degrees.**

Today, adults ages 60 to 64 constitute the best-educated segment of California's labor force: more than 40 percent have at least a bachelor's degree. The retirement of these highly educated workers is a major factor in the slow growth of working adults with at least a bachelor's degree.

- Groups with lower educational levels are a growing share of the state's population.**

Educational attainment levels have historically been low among Latinos—who now make up California's largest group of young adults. For example, among adults 25 and older, only 12 percent of Latinos have at least a bachelor's degree, compared to 24 percent of African Americans, 42 percent of whites, and 51 percent of Asians. Educational attainment levels have been rising among Latinos but not fast enough to meet future demand.

- **The skills gap would be wider if it were not for migration.**

The share of college graduates moving to California from other countries has increased significantly since 1980. Asia has replaced Latin America as the leading source of new immigrants, and immigrants from Asia tend to be highly educated: about 60 percent of working-age Asian adults (ages 25–64) arrive in California with college degrees. California also gains college graduates through migration from other states. Were it not for highly educated migrants, the skills gap would be even larger.

- **The state needs more California-born college graduates.**

Future entrants to the labor market are increasingly likely to be California natives. Currently, California ranks near the bottom of all states (47th) in the share of recent high school graduates who enroll in four-year colleges or universities. The best approach to closing the skills gap will be to concentrate on improving the educational attainment of state residents.

- **To close the gap, public and private colleges need to award more bachelor's degrees.**

PPIC estimates that the University of California (UC) and California State University (CSU) together would need to produce an additional 730,000 bachelor's degrees (with two-thirds of that increase coming from CSU) and private colleges would need to produce an additional 340,000 to fully close the degree gap by 2030. To reach these targets, the state and its higher education institutions should consider broadening UC and CSU eligibility for recent high school graduates, increase transfers from community colleges, and continue efforts to improve graduation rates.

Looking ahead

To close the future skills gap, California must make deliberate choices and take action today.

Align state education goals—and funding—with workforce needs. California needs to establish a new set of goals that can help it close the skills gap. Although many have called for new strategies for educating California's future workforce, the state has not adopted broad and widely accepted targets since it released the Master Plan for Higher Education in 1960. Workforce demand has changed substantially since then and will continue to evolve. UC and CSU have recently submitted reports to the legislature that identify how they could close their share of the skills gap through increased eligibility, transfer, and completion.

Expand access to the state's four-year colleges and universities. The Master Plan's eligibility framework for UC and CSU is outdated—over the past 50 years, there have been dramatic increases in college readiness and in the importance of education for workforce success. The state and its public universities should gradually expand eligibility for admittance. The state's soon-to-be-released eligibility study will provide an opportunity to establish new goals for access to UC and CSU.

Improve completion rates at both two- and four-year institutions. A large share of California's high school graduates attend college, but too few obtain four-year degrees. Even small improvements in transfer rates to four-year institutions and in college completion could substantially reduce the skills gap and improve educational outcomes among low-income and underrepresented students. The California Community Colleges recently established ambitious new goals to increase the number of transfers, and CSU has plans to substantially improve graduation rates.

Provide students with information on the earnings potential of career pathways. Completing college training without the promise of a well-paying career does little to improve economic outcomes or reduce the skills gap. Students need information and guidance to make important choices during their school years. The California Community Colleges have taken a big step in the right direction by providing easily accessible information on the labor market outcomes (and success rates) from different colleges and programs in the system.

Focus on increasing college readiness and improving college placement among K–12 students. Improving student achievement in high school and earlier—especially among low-income and disadvantaged students—can help lay the groundwork for success in college. This is a primary goal of the recently adopted Common Core curriculum in K–12 schools. Currently, the majority of students entering community colleges are placed in remedial English and/or math courses. Many of these students should be placed in college-level courses. New placement policies—which are being implemented at many colleges—and new types of remedial courses could help improve student success.

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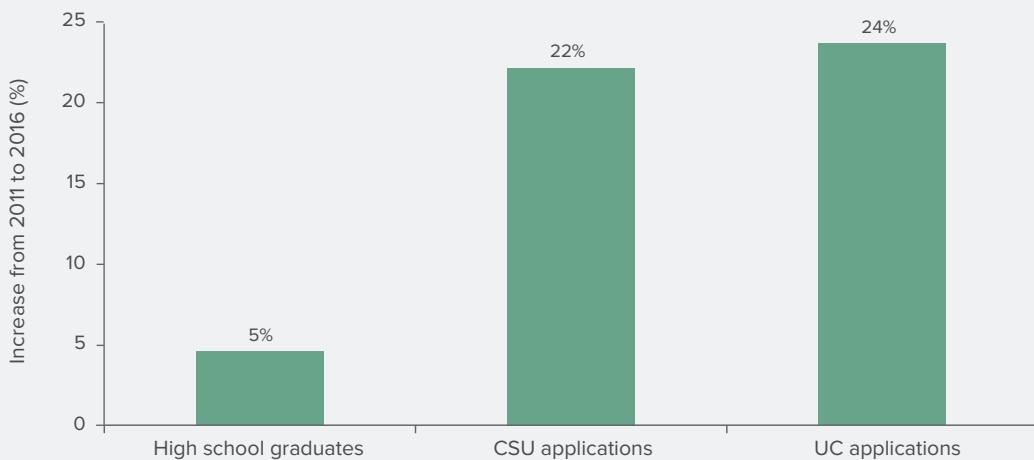
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Access to college is essential for California's success

More California high school graduates are academically ready for college than ever before. More are applying to and enrolling in college, and both the University of California (UC) and the California State University (CSU) are expanding access: for example, UC has pledged to enroll 10,000 more freshmen and transfer students between 2016 and 2018. But many qualified applicants are being turned away, and this is a source of concern. A 2016 PPIC Statewide Survey found that more than three-fourths of Californians are concerned about access to the UC system.

Expanding access to college benefits both individuals and the state as a whole. The economic returns to a postsecondary degree are at their highest level in decades, even as more Californians are attending college; and workers with postsecondary degrees will continue to play a crucial role in the state's economic growth. Expanding access can also ensure that our system of higher education offers opportunities to students who have traditionally been underrepresented in postsecondary institutions, including those from low-income families and California's Latino and African American populations.

RECENT INCREASES IN CSU AND UC APPLICATIONS INDICATE A GROWING DEMAND FOR HIGHER EDUCATION



SOURCES: University of California, California State University; California Department of Education.

NOTE: California resident applications only.

More high school graduates are competing for limited university spots

The growth in the proportion of California high school graduates completing a college preparatory curriculum has increased the competition for access to California's four-year colleges. Eligible students are being turned away from the college of their choice. Some students choose other colleges in California, but growing numbers are leaving the state to attend college.

- **California's Master Plan aimed to provide higher education opportunities for all students.**

The state's enrollment framework for public systems was set more than 50 years ago by the Master Plan for Higher Education. According to the Master Plan, UC selects from the top 12.5 percent of students, CSU selects from the top 33 percent, and the California Community Colleges (CCC) offer access to all state residents. Through these three systems, access to public higher education is available to all students. Students also choose to attend nonprofit and for-profit private colleges, as well as colleges in other states.

- **More students are taking the courses that qualify them for college ...**

To be eligible for admission to a public four-year college in California, students must successfully complete a series of college preparatory courses that includes four years of English, three years of math (including advanced algebra), two years of lab science, two years of social science, two years of a foreign language, and one year of visual or performing arts. The proportion of high school graduates who meet this requirement has been increasing rapidly: from 34 percent of public high school graduates in 2003–04 to 45 percent in 2015–16. Gains have been especially strong for Asian and Latino high school graduates: the share of Asian students completing these courses increased from 56 percent in 2003–04 to 72 percent in 2015–16, and the share of Latino students completing the coursework rose from 22 to 37 percent during that time frame.

- **... but Master Plan eligibility levels have remained the same.**

The California Master Plan for Higher Education dictates that UC admit from the top eighth of high school students and CSU admit from the top third, numbers that haven't changed for more than 50 years. California universities are accepting more students than ever, but many qualified students are still not able to attend their college of choice. In the California State University system, 17 of the 23 campuses are unable to enroll all qualified applicants in the majors to which they apply due to space constraints. During the 2015–16 academic year, CSU campuses rejected more than 17,000 qualified freshman applicants, which is an increase of 3,000 from 2013–14. Between fall 2010 and fall 2014, more than 51,000 qualified freshman UC applicants were redirected from their preferred campuses to UC Merced (fewer than 1,000 of those students enrolled).

- **The share of nonresidents at UC has grown—but it is still relatively small.**

Total nonresident enrollment (students from another state or country) in the UC system has increased from 5 percent in 2007 to 16 percent in 2016, but it is still well below the 30 percent national average for public research universities. UC indicates that nonresidents provide funding to support the enrollment of more California residents.

Nonresidents pay a supplemental tuition of \$26,682 in addition to full in-state tuition, and this money has helped make up for state funding cuts. The system has frozen nonresident enrollment at 2017–18 levels for Berkeley, Irvine, Los Angeles, and San Diego, but is allowing for up to 18 percent at all other campuses.

- **Many more California students are leaving the state to attend college.**

Over the past 10 years, the number of recent high school graduates who have been leaving California to attend college elsewhere in the United States has been rising. Between 2004 and 2014, the number leaving the state more than doubled to almost 36,500 students—roughly equal to the number of freshmen enrolling at UC or 13 percent of the total college-going population. Almost half of those who leave are going to public universities in other states—the University of Arizona, Arizona State University, Northern Arizona University, and the University of Oregon each enrolled more than 1,000 recent high school graduates from California in 2014.

Access varies across types of institutions

Greater numbers of underrepresented students enroll at CSU and California Community Colleges than at UC; increased competition and rising tuition may widen this gap.

- **Enrollment is high at community colleges but low at four-year colleges.**

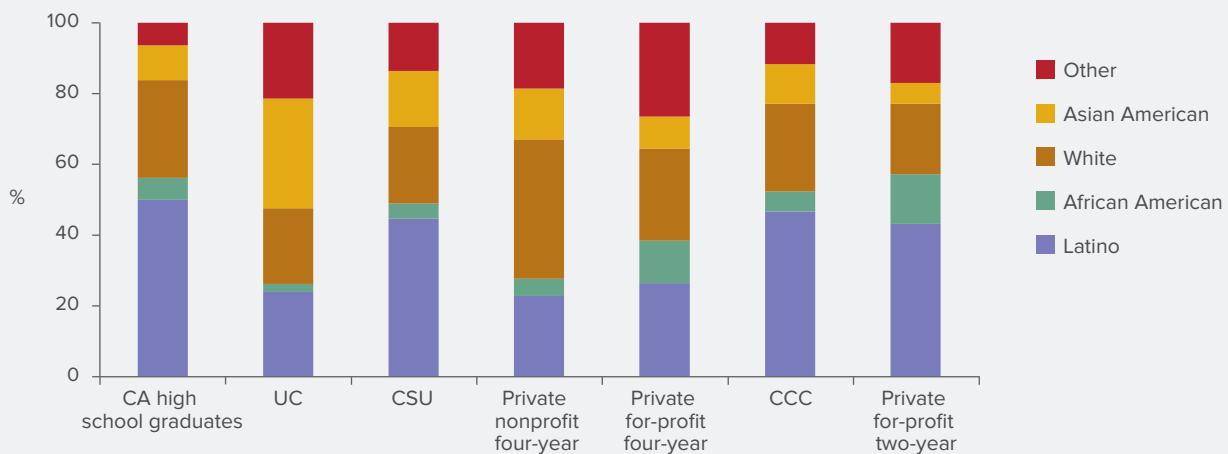
In 2014, California ranked 47th among the 50 states in the share of recent high school graduates who enroll in four-year colleges. Many recent high school graduates in California enroll in community colleges, and the state ranked fifth in the nation in the proportion of recent high school graduates who do so.

- **Some colleges are more diverse than others.**

The student populations at California's community colleges and CSU more or less match the ethnic and racial breakdown of high school graduates in the state. In the UC system, Asians are overrepresented, while African Americans and Latinos are underrepresented. The gap between the share of these underrepresented high school graduates and the share enrolled at UC has grown since Proposition 209—passed in 1996—eliminated race as a factor that can be considered in the admissions process. At private nonprofits, whites are overrepresented relative to California high school graduates, and African American students are overrepresented at private for-profits. This is a concern, given the low graduation rates and the higher likelihood of for-profit students taking on loans (70%, compared to 50% at public institutions) and because these students leave for-profit schools with more debt (\$30,500 vs. \$16,600 at public institutions).

- California's lowest-income high school graduates are more likely to start at a community college.** About a quarter of full-time first-time freshmen come from families making less than \$30,000 a year. About half of these students begin at community college, while 20 percent start at a CSU school and 10 percent at UC. Students from families with higher incomes are generally less likely to start at a community college: only 4 percent of students from families making more than \$75,000 do so, while 58 percent start at UC or CSU and 33 percent go to a private nonprofit.
- Most students who enroll in community college do not transfer to four-year institutions.** For some students, community college can be a cost-effective way to begin work on a bachelor's degree. In fact, transfers from community colleges make up about half of CSU graduates each year. However, most students who begin at a two-year institution intending to transfer do not succeed in doing so and are less likely to earn bachelor's degrees than those who start at a four-year university. Only 10 percent of entering students in 2009–10 transferred within six years. Not all students intend to transfer, of course. But only about 38 percent of students who were on track to transfer (those who completed 12 units and attempted transfer-level math or English) ever did so. The Associate Degree for Transfer seeks to lessen the challenge of taking the right kind and number of classes to transfer. Since its inception in 2010, close to 70,000 students have earned an Associate Degree for Transfer, which guarantees admission to a CSU campus.
- Cost concerns may discourage low-income students from applying to or attending four-year colleges.** According to a December 2016 PPIC Statewide Survey, 66 percent of Californians believe that the cost of college keeps students from enrolling. California high school graduates from low-income families are eligible for grants that fully cover tuition at California's public four-year universities. But books, housing, and other living expenses can cost thousands of dollars and are not fully covered by grants.

CALIFORNIA'S DIVERSE COLLEGE POPULATION IS UNEVENLY DISTRIBUTED



SOURCES: California Department of Education; Integrated Postsecondary Education Data System (IPEDS).

NOTES: Data on high school graduates refer to 2015. College enrollment numbers are from the fall 2015 provisional release of all first-time degree/certificate-seeking undergraduate students. The "other" category includes Pacific Islanders, American Indians, Alaska Natives, students who mark two or more races, students whose race is unknown, and students who are not US citizens or nationals. The response rates by institution are 100 percent for CCC, CSU, and UC; 80 percent for private for-profit four-year; 78 percent for private for-profit two-year; and 57 percent for private nonprofit four-year.

Looking ahead

Providing meaningful access to college is essential to California residents and the state economy. Projections suggest that the number of high school graduates will not change dramatically over the next 10 years, but additional resources devoted to college access could boost enrollment.

Plan for the impact of better K–12 preparation. California's recently implemented academic standards, the Common Core State Standards, are designed to better prepare students for college and careers. Since 2014, the number of college-ready high school graduates has increased and it is expected to continue to rise, boosting demand for higher education. California must be able to provide access to college for these students.

Expand access to four-year colleges. The economy requires far more highly educated workers than it did when the Master Plan admission formulas for UC and CSU were devised more than 50 years ago. The state and its public systems should increase the share of high school graduates eligible for admittance to UC and CSU; this change would also increase the number of historically underrepresented students at the state's public universities. Another important way to both expand and diversify access to four-year colleges is to improve transfer rates from community colleges.

Use CSU's regional capacity. The state has mandated that CSU create a referral pool so that it can direct eligible students who are denied admission at their first-choice campuses to alternative locations with available slots. The new policy will be more effective if it refers CSU students to campuses that are as close as possible to their homes. UC generally refers denied students to the Merced campus, which has very low take-up rates.

Connect high school and college data. Unlike many states, California has no longitudinal data system that spans K–12 and college. This limits the state's ability to identify programs and practices that could improve access for California's students. With comprehensive information on how—and how many—students make the leap from high school to college, the state could learn more about the barriers students face to successfully entering and completing college. Such knowledge could be used to better target state investments to programs and policies that work.

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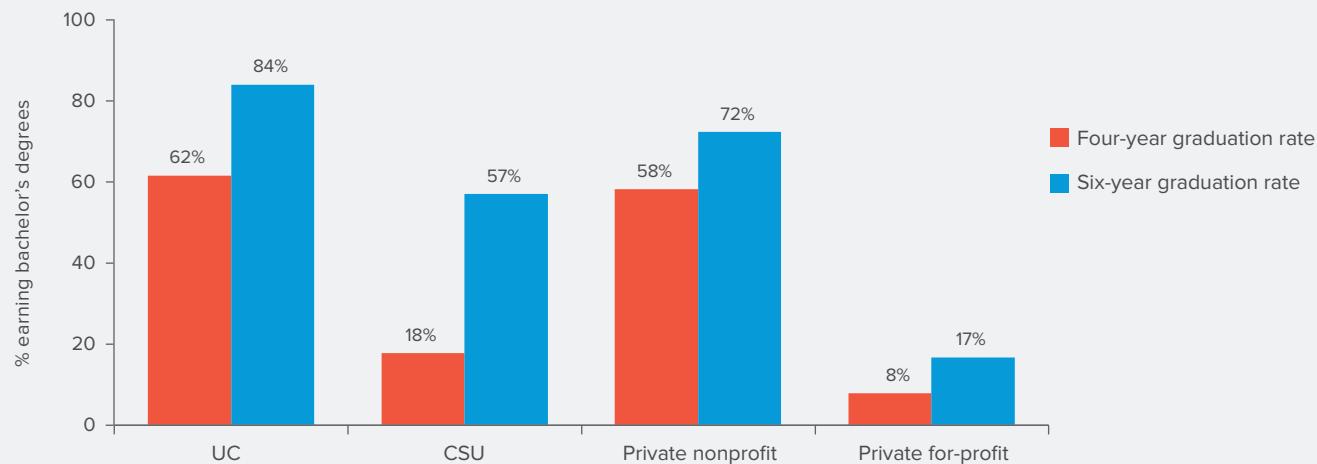
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California needs more college graduates

California is projected to fall 1.1 million bachelor's degrees short of economic demand by 2030. Expanding access to higher education could help shrink the gap, but California also needs to boost the likelihood that students who enroll will stay on track to earn degrees.

Bachelor's degree holders are much less likely to be unemployed and more likely to have higher incomes than those who do not obtain a four-year degree. Many career technical education (CTE) certificates and two-year degrees offered by community colleges also offer good employment prospects. But California can benefit from more students transferring to and graduating from four-year schools. Policies that focus on preparing students for college-level courses are key to increasing transfer and completion rates—and shortening the amount of time needed to graduate.

MANY STUDENTS TAKE LONGER THAN FOUR YEARS TO EARN BACHELOR'S DEGREES



SOURCE: Integrated Postsecondary Education Data System (IPEDS).

NOTES: 2009 IPEDS-defined adjusted entering cohort. All University of California (UC) and California State University (CSU) campuses reported graduation rates, 64 percent of private nonprofit colleges reported graduation rates, and 39 percent of private for-profit colleges reported graduation rates.

Graduation rates vary across institutions and demographic groups

California has a slightly higher share of adults with bachelor's degrees than the United States does as a whole—but the state and its higher education institutions need to do more to encourage college completion. Students often take longer than four years to graduate; this increases individual costs, delays entry into the workforce, and reduces the number of slots for new students.

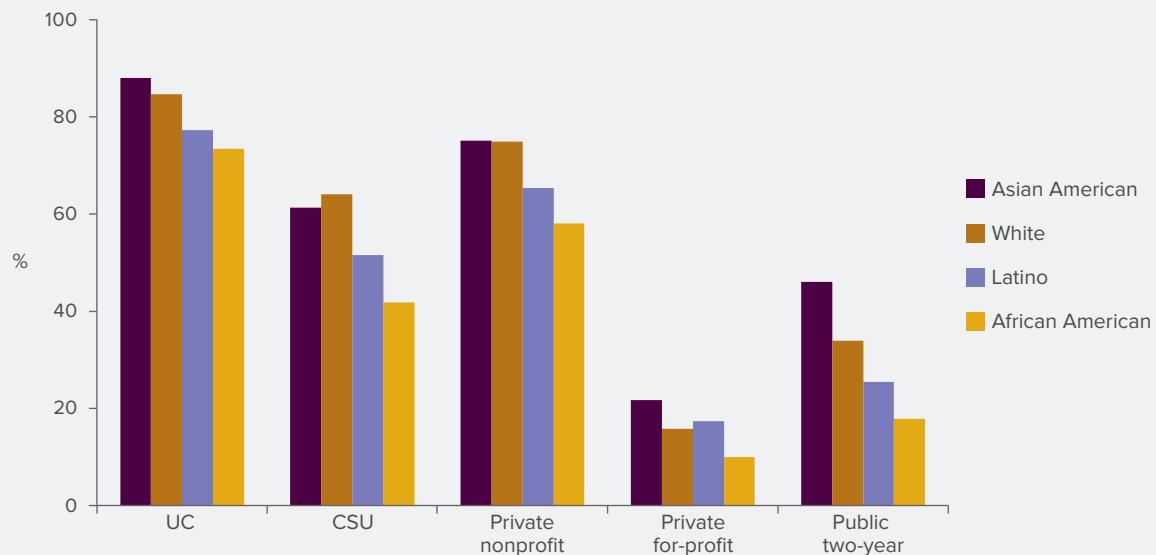
- Graduation rates are improving at California's public universities, but few graduate in four years.**

Over the past decade, both the California State University (CSU) and the University of California (UC) have increased graduation rates and shortened the amount of time it takes students to earn degrees. But there is still room for improvement. A high share (84%) of UC students who start as freshmen graduate in six years, but only 62 percent of students graduate on time (within four years). Graduation rates at private nonprofits are slightly lower. CSU's graduation rates are much lower: about 57 percent of students graduate within six years and only 18 percent graduate in four years. Private for-profit universities fare even worse. A variety of factors can lengthen the time to degree for a particular student: academic issues such as course availability and college preparedness, as well as economic issues such as working to cover expenses and insufficient financial aid.

- Graduation rates vary across demographic groups.**

Women are more likely to graduate than men, as are students from wealthier families compared to students from low-income families. White and Asian American students have higher completion rates than African American and Latino students across all types of postsecondary institutions. Recent improvements in graduation rates have been similar across all groups, so long-standing graduation gaps are still a problem. CSU launched a follow-up to its recently completed Graduation Initiative in January 2017; the new program aims to close these graduation gaps while substantially increasing both four- and six-year graduation rates by 2025.

GRADUATION RATES FOR RACIAL/ETHNIC GROUPS VARY ACROSS SYSTEMS



SOURCE: Integrated Postsecondary Education Data System (IPEDS).

NOTES: 2009 IPEDS-defined adjusted entering cohort graduation rates within three years of entering community colleges, and within six years of entering four-year colleges. Graduation rates are available for all UC and CSU campuses, but for only about 64 percent of private nonprofits and about 39 percent of private for-profits.

Many enroll in—but few complete—community college

California is more reliant on its community colleges as a point of entry to postsecondary education than almost any other state. Community colleges serve a diverse population with diverse goals. Not all students intend to obtain associate degrees or transfer to four-year programs—many are nontraditional students interested in technical training or learning new skills. But large numbers of students do enter community colleges with the hope of eventually transferring and earning a bachelor's degree.

- Completion rates are low at community colleges.**

Only 13 percent of community college freshmen receive an associate degree after two years, and 31 percent do so within three years. However, about 47 percent of community college students receive an associate degree or certificate, transfer to a four-year school, or complete at least 60 transferrable units within six years. There are completion gaps among racial/ethnic groups, with Asian American and white students more likely than their African American and Latino classmates to finish.

- The transfer process can be complicated.**

Fewer than half of students who enter a community college intending to transfer do so within six years. Transfer pathways to a four-year university can vary greatly. Varying requirements can deter students from transferring or keep them at community colleges longer. Articulation agreements between schools (which specify the courses and grades required to transfer) are often campus-specific—so credits that are accepted at one four-year school might not be accepted at another. Transfer pathways are improving: the number of degrees awarded through the Associate Degree for Transfer—a program that prepares students for transfer to any CSU campus—increased from about 11,000 in 2013–14 to nearly 31,000 in 2015–16.

- **Students who transfer are likely to earn degrees.**

Students who end up transferring from a community college to a UC campus have graduation rates that are similar to those of first-time freshmen, and transfers to CSU have better graduation rates than first-time CSU freshmen (but lower rates than CSU freshmen who make it to junior year). In 2015–16, transfers from community colleges made up 45 percent of entering students at CSU and received 52 percent of all CSU diplomas. At UC, transfers made up 27 percent of entering students and 29 percent of graduates.

Remedial education can be an obstacle to completion

Many factors influence completion rates at two-year and four-year colleges, but preparedness plays a major role. Entering students who are ready to take college-level courses can graduate more quickly.

- **College readiness has improved in recent years ...**

The share of high school seniors who have completed the coursework required for admission to UC or CSU is at a historic high, and enrollment in advanced placement courses and participation in the SAT are on the rise. Also, California now has K–12 standards and assessments that are designed to better prepare students for college and careers. State testing indicates that about 60 percent of 11th graders are at least conditionally ready for college-level courses in English at CSU and most community colleges, and almost a third are ready for college-level math courses.

- **... but many college freshmen are still placed in remedial courses.**

Most community college freshmen and more than a third of freshmen at CSU are deemed unprepared for college-level coursework in reading, writing, and/or math and are required to enroll in at least one remedial education course. Remedial courses lengthen the time to degree at a cost to both students and the university. This is especially true at the state’s community colleges, where students can be required to take up to four levels of remediation in a subject before taking a college-level course.

- **Students in remediation are less likely to graduate—and those who do graduate need more time.**

Students who start college in remedial courses are less likely to earn a degree or to transfer, and they tend to take longer if they do finish. For example, at the state’s community colleges only 24 percent of students who ever took a remedial English or math course transfer within six years, compared to 65 percent of college-ready students. Research shows that many students placed in remediation could have been successful if they had enrolled in transfer-level courses. Better remediation and placement policies can help students take college-level courses sooner, raising graduation rates and improving time to degree.

Looking ahead

The state can boost the number of college graduates by helping students who enroll in its public and private institutions make timely progress toward their degrees.

Adopt more strategies to shorten the time it takes to graduate. Both UC and CSU have made progress in expediting graduation, and many campuses are making efforts to inform students that they need to take 30 units a year to graduate on time. Complementing these efforts is the federal government’s revival of the year-round Pell Grant—allowing low-income students to use Pell awards for summer courses could help them stay on track. The state could also consider increasing aid to students attending private nonprofit colleges, given their high four-year completion rates.

Increase the number of transfers from community college. A continued focus on removing barriers can help increase the number of students who transfer and obtain bachelor’s degrees. Specifically, improving placement policies and redesigning developmental course sequences can increase the number of community college students taking college-level courses and eventually transferring.

Link funding to student outcomes. Currently, state funding is not tied to measures of student outcomes, such as dropout, transfer, and completion rates. As the state increases its investment in higher education, it has an opportunity to link funding to specific goals.

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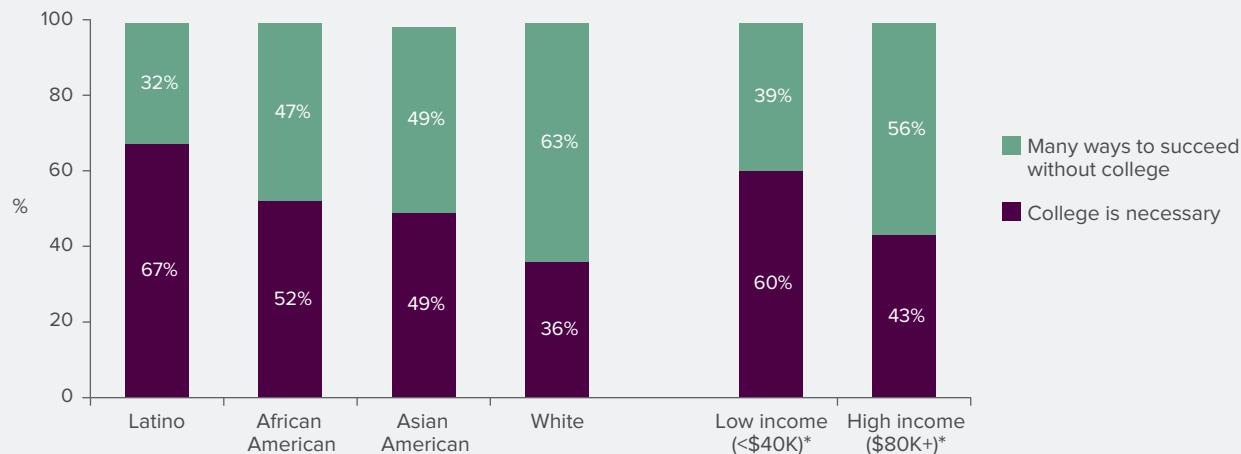
SEPTEMBER 2017

California needs more historically underrepresented students to graduate from college

A solid majority of California's future college-age population will come from groups that have been historically underrepresented in higher education—including Latinos and African Americans, and those who are low income or the first in their families to go to college. PPIC research has shown that this demographic shift could be a major contributor to the state's future workforce skills gap. To avoid or at least minimize this gap, California needs to increase the number of underrepresented students who graduate from college.

It has been well documented that expanding access to college can promote upward social and economic mobility. Many Californians are aware of this: a December 2016 PPIC Statewide Survey found that most Latino, African American, and lower-income adults believe that a college education is necessary for success, compared to fewer than half of Asian, white, and higher-income adults. In recent years, the number of bachelor's degrees awarded to underrepresented students has been increasing, but it remains relatively low—and these students continue to have lower odds of obtaining college degrees than their wealthier, well-represented peers. Policymakers and higher education institutions should work to increase these odds by creating meaningful opportunities for college access and success.

LATINO AND LOW-INCOME CALIFORNIANS ARE ESPECIALLY LIKELY TO VIEW COLLEGE AS NECESSARY FOR SUCCESS



SOURCE: PPIC Statewide Survey: *Californians and Higher Education*, December 2016.

NOTES: Percentages may not add to 100 due to rounding and omission of small shares of "don't know" answers.

* Annual household income.

Access to college remains uneven

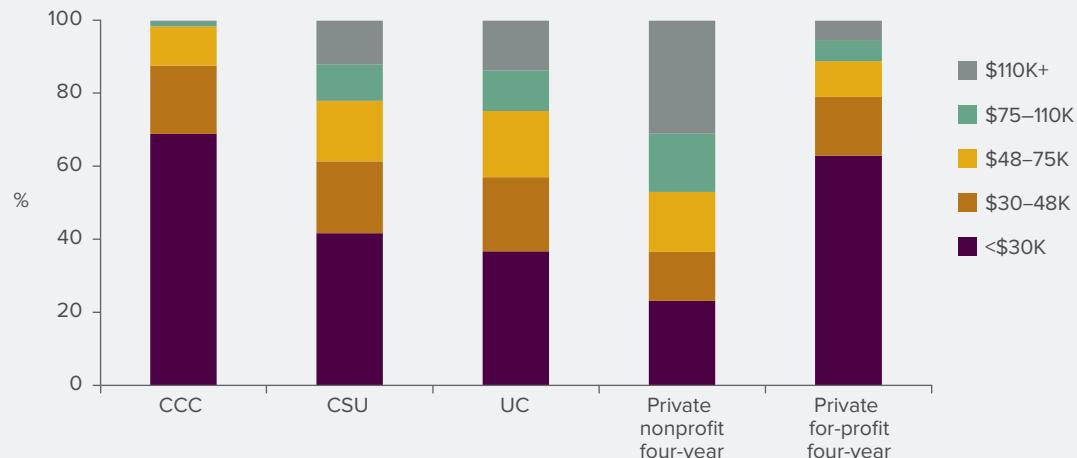
Financial aid makes college possible for many low-income students. However, there are still large differences in the enrollment of underrepresented students across institutions.

- Community colleges are an important access point for underrepresented students.**

Overall increases in enrollment have been driven primarily by two-year colleges. Latinos and African Americans comprise more than half of the student population at the California Community Colleges (CCC) and for-profit two-year schools. By contrast, these groups comprise about one in four students enrolled at the University of California (UC) and private nonprofit colleges. Compared to other four-year colleges, California State University

(CSU) serves a diverse population, with Latinos and African Americans together making up about half of all students. Low-income enrollment is similarly distributed. About two-thirds of students at California's community colleges and private for-profit two-year schools are from the lowest-income families (those with annual incomes under \$30,000). By contrast, about a third of students at UC and fewer than a quarter of students at private nonprofits come from the state's lowest-income families.

COMMUNITY COLLEGES ENROLL THE HIGHEST SHARES OF LOW-INCOME STUDENTS



SOURCE: Integrated Postsecondary Education Data System (IPEDS) 2015 data release.

- Grant aid makes college possible for many low-income Californians.**

A 2016 PPIC Statewide Survey found that 85 percent of Californians are concerned about college affordability—but lower-income families are less likely than their higher-income counterparts to see it as a big problem (50% vs. 63%). Tuition at public institutions for students from low-income—and even many middle-income—families can be covered by a combination of federal, state, and institutional grants. Community college tuition for low-income residents is fully covered by fee waivers from the state's board of governors. However, many low-income students and their families struggle to cover other expenses, such as housing, health care, and child care.

- State policy changes have facilitated college access for undocumented Californians.**

A recent PPIC report noted that more than 200,000 immigrants in California have benefited from the federal Deferred Action for Childhood Arrivals (DACA) program. DACA and the California Dream Act offer undocumented students in-state tuition, state financial aid, work permits, driver's licenses, and other supports. Amid uncertainty about federal immigration policies and enforcement, California's public higher education systems have advocated for the continuation of the DACA program.

Completion gaps persist

Increasing the number of underrepresented students with bachelor's degrees will be key to closing the 1.1 million degree gap projected by 2030. Graduation rates are slowly increasing among underrepresented students, but these rates are still relatively low. Where these students go to college is a major factor in whether they obtain a degree.

- The share of bachelor's degrees awarded to Latino and African American students is growing.**

The proportion of bachelor's degrees awarded to Latinos and African Americans by public universities has been rising since 2010—as of 2015, it had increased from 27 percent to 38 percent at CSU and from 16 percent to 25 percent at UC. The improvement in completion has coincided with increased access to and spending on student services—suggesting that additional programs and services for underrepresented students could further narrow attainment gaps. Still, there are gaps between enrollment and completion—especially at CSU, where Latinos and African Americans represented 49 percent of students but accounted for only 38 percent of degrees awarded in 2015.

- **Graduation rates for underrepresented students vary across the systems.** The lowest graduation rates for Latinos and African Americans are at community colleges and private for-profit institutions; no more than 25 percent earn a degree or certificate or transfer to a four-year school. Graduation rates for African American and Latino students are highest at UC (73% and 77%, respectively) and private nonprofits (58% and 65%, respectively). Across the systems, low-income students graduate at higher rates at UC and private nonprofits. UC schools and many private nonprofit colleges have highly selective admission processes and tend to provide relatively high levels of student support.
- **Community colleges could provide more cost-effective pathways to bachelor's degrees.** Students who complete enough units at a community college are eligible to transfer to a four-year university. In 2015–16, transfers from community colleges earned more than half of the bachelor's degrees awarded by CSU and more than a quarter of those awarded by UC. However, students who begin at two-year institutions are much less likely to earn bachelor's degrees than those who start at four-year universities. One major barrier is that not all community college credits are transferrable to a four-year university; many students spend time and money “re-earning” credits after they have transferred. The new Associate Degree for Transfer takes a step in the right direction—it guarantees that students earning 60 community college credits can transfer to any CSU campus; once they've transferred, they need to earn 60 additional credits in order to receive a bachelor's degree.

Limited college prep resources and high remediation rates are major barriers

Lower-income students often go to K–12 schools with relatively limited college preparatory curricula. These students are more likely to be declared unprepared for college-level coursework.

- **Underrepresented students need greater access to college preparatory resources.** Less than one-third of Latino and African American students graduate from high school having completed a–g coursework, which is a prerequisite for admission to a public four-year college, compared to 52 percent of white students and 70 percent of Asian students. Underrepresented students are also more likely to attend schools with weak college prep resources, such as advising, mentoring, and test preparation. Federal, state, and local initiatives can fill an important gap by informing students and their families about college preparation, enrollment, and success. Outreach efforts should begin in middle school so that these students have the opportunity to become prepared for college.
- **Remediation rates are especially high among Latino and African American students.** Overall, 80 percent of students entering community college and 38 percent of those entering CSU are deemed in need of remediation in one or more subjects. Remediation rates for Latinos and African Americans are nearly 10 percentage points higher. Emerging research suggests that the use of standardized tests for placement—which have historically been widely used for placement at CSU and the community colleges—has contributed to these gaps. At the community college level, placement policies that include academic measures such as high school transcripts alongside or in place of test scores have begun to reduce remediation rates among underrepresented students.

Looking ahead

The share of California's population with historically low educational attainment is growing, but the state's economy increasingly demands skilled workers. If current trends continue, California will face a large skills gap—and economic inequality will continue to rise. But the state can take steps to increase access to and graduation from college among traditionally underrepresented groups.

Reform remediation policies. As CSU and the community colleges seek to improve student outcomes and address equity gaps, they are rethinking remedial placement and programming. In addition to placement policies that look at prior academic achievement alongside or in place of standardized test scores, colleges are considering programmatic changes. Accelerating the remediation process and aligning it more closely with college-level requirements and allowing students to enroll in college-level courses with corequisite support have shown promise. It will be important to assess whether and how the impact of these policies can be sustained over time.

Increase transfer rates from community colleges to four-year universities. Given that African American and Latino students enter community colleges at relatively high rates, efforts to improve college access and completion among the groups need to address the challenges faced by students in this sector. The new Associate Degree for Transfer and the UC Transfer Pathways programs are steps in the right direction. Both programs provide a list of pre-major courses that community college students can take to prepare for specific majors at CSU or UC. The state should continue to focus on removing the barriers to transfer.

Address the cost of college beyond tuition and fees. California policymakers have been responding to the rising cost of tuition and fees, but students also face costs such as room and board, books, and other educational and living expenses. Federal, state, and institutional financial aid should aim to cover the full cost of attendance so that low-income students can graduate from college and gain access to fulfilling, well-paying jobs and careers. A federal expansion of the Pell Grant program to cover summer courses as well as state and institutional initiatives to address student hunger and housing insecurity could help low-income students focus more fully on academic achievement.

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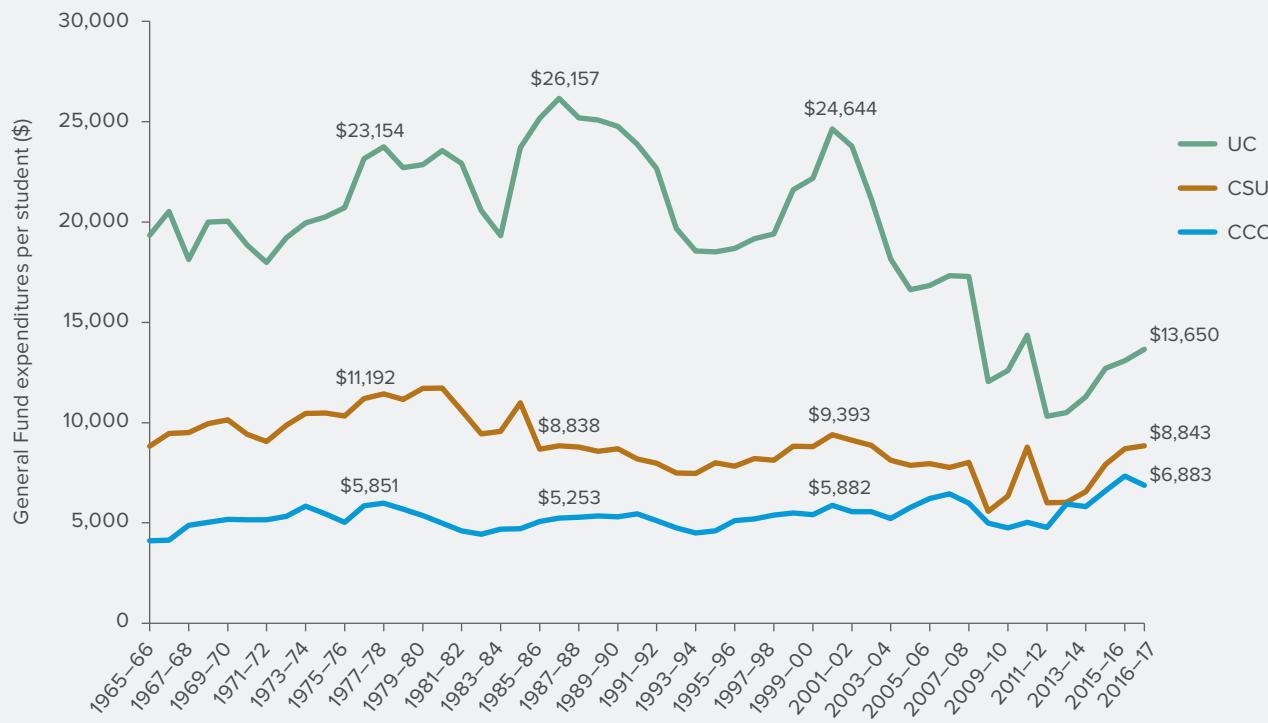
SEPTEMBER 2017

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 state funding has declined over time—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 the lost revenue. This has raised questions about the cost of providing a college education. According to a 2016 PPIC Statewide Survey, a solid majority of Californians believe that higher education affordability is a big problem for the state.

Recent state budgets have included funding increases for higher education, and some California policymakers have acknowledged that the state's disinvestment in higher education is partially 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.

AFTER DECLINING OVER TIME, STATE INVESTMENT IN PUBLIC UNIVERSITIES IS BEGINNING TO REBOUND



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

NOTES: 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. CCC is California Community Colleges.

- State higher education funding has declined as a share of the budget over the past four decades.

Higher education spending accounted for 18 percent of the state budget in 1976–77, but by 2016–17 it had fallen to 12 percent. These funding cuts have been felt most strongly at UC, where funding per full-time-equivalent student fell from slightly more than \$23,000 to \$13,650. State funding per CSU student has fallen from slightly more than \$11,000 per student in 1976–77 to slightly less than \$9,000 in 2016–17.

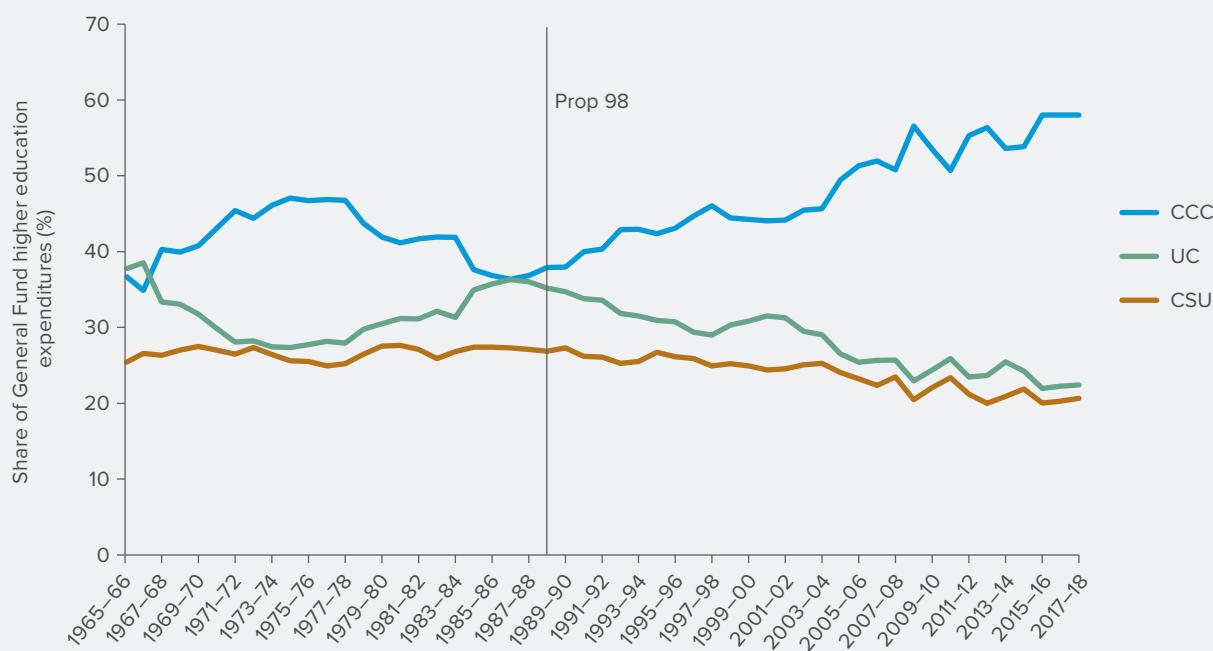
- **Most of the cost of educating students at UC, CSU, and the California Community Colleges is covered by the General Fund and student tuition.**

General Fund appropriations combined with tuition revenue pay for the bulk of undergraduate instructional costs. The state also provides funding 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, though their tuition is rarely covered in full. Noninstructional 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



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 dealt with reduced state support mainly by raising tuition

State funding cuts 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. In the past, community colleges have also restricted enrollment and increased tuition to help offset state budget cuts, but recent increases in funding have opened up enrollment and kept community college tuition the lowest in the nation.

- **In-state tuition at UC and CSU has more than tripled over the past 20 years.**

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 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.

- Since 2006, per-student 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 less on administrative costs per full-time-equivalent student in 2012 (adjusted for inflation) 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.

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

Do the systems allocate 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.

- Relative to degrees awarded, spending at UC and CSU has not risen in the past few decades ...

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. The amount of money both UC and CSU spent to produce those degrees actually declined by 17 percent from 1987 to 2013. At UC, expenditure per degree fell from \$116,000 to \$109,000; at CSU, it fell from \$67,000 to just \$45,000.

- ... 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 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 clearly defined goals and measures. Historically, state higher education funding has been based on enrollment targets or previous year expenditures. Instead, funding could be based on a set of outcomes collaboratively determined 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. Efficiency gains are most likely to be realized through innovation that improves student retention and completion. For example, there are 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 may help online learning and other technological innovations fulfill their promise as cost-efficient ways to expand access to college. To date, 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.

Increased transparency and improved data are key to continued progress and support. Future attempts to reduce higher education costs are much more likely to succeed with 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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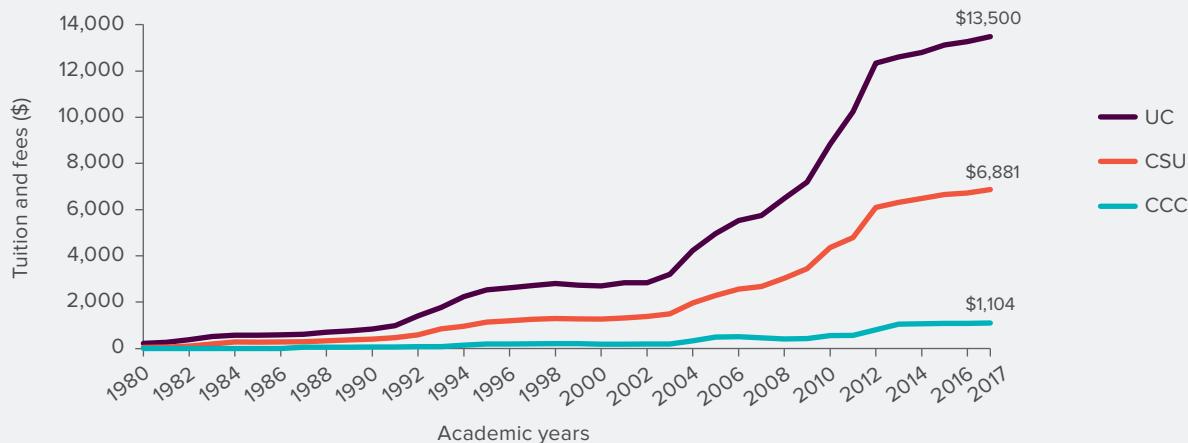
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Tuition and fees are increasing

Tuition and fees are at their highest point ever at California's public universities. During the recession, both the University of California (UC) and the California State University (CSU) raised tuition to make up for state funding cuts—state General Fund support for UC and CSU dropped by about 20 percent (about \$2.2 billion) between 2007 and 2013, even as the number of students continued to increase. Tuition remained flat from 2011 to 2017. However, mandatory campus-based fees went up about 34 percent at CSU and 21 percent at UC during the same period, and both systems have raised tuition for the 2017–18 academic year. Costs have also risen at the state's private nonprofit colleges, which are much more expensive than the state's public colleges—undergraduate tuition and fees at private nonprofit colleges averaged just over \$37,000 in 2015–16, up from \$33,200 in 2012–13.

To counter the effects of these cost increases on lower-income students, the state has increased financial aid. Still, a 2016 PPIC Statewide Survey found that 57 percent of Californians think that affordability in higher education is a big problem. When asked to name the most important issue facing the state's public colleges and universities, 46 percent mention affordability, cost, or student tuition and fees. This may be partly because many students and families rely on financial aid and loans to help pay for college—especially those who attend private institutions. Because the benefits of a college education are well documented and have major implications for economic growth, equality, and social mobility, the state and higher education officials need to expand ways to help lower-income students earn college degrees without incurring large amounts of debt.

TUITION AND FEES HAVE INCREASED DRAMATICALLY AT UC AND CSU



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. Tuition at the California Community Colleges (CCC) is for a full-time load of 12 units each semester and does not include campus fees.

Financial aid is keeping college affordable for many students

California's financial aid program is relatively generous—in combination with federal and institutional aid, it helps many low- and middle-income students attend colleges that would otherwise be out of reach. The sharp recession-era tuition and fee increases at UC and CSU were accompanied by increases in financial aid for many students.

- **Financial aid comes from a variety of sources.**

Students in California get financial aid from grants, scholarships, work-study programs, and loans from local, state, and federal institutions. More than two-thirds of grant aid in California comes from federal and state aid,

mostly in the form of Pell Grants, Cal Grants, and California Community College Board of Governors fee waivers. Different types of institutions (private vs. public, four-year vs. two-year) provide very different amounts of aid. Grant aid depends not only on a student's financial and academic standing but also on the college that student chooses. For example, private nonprofit colleges commonly offer institutional grants to offset relatively high tuition, while students at private for-profit colleges often rely on loans.

- **California has one of the country's most generous state financial aid programs.**

California is more generous than other states in supplementing federal grants with state grants. Moreover, its grant aid targets low-income students at public institutions. The state provided about \$4.63 billion in financial aid during 2015–16 (\$2 billion in the form of Cal Grants). Award amounts vary by type of college: for 2016–17, Cal Grants could be as high as \$12,240 at UC, \$5,472 at CSU, and \$9,084 at private colleges. The Middle Class Scholarship program, enacted in 2013, extends state aid even further, providing support to students from families with annual incomes up to \$156,000 equivalent to 40 percent of their tuition costs.

- **California's poorest students can attend public four-year universities without paying any tuition ...**

Students from families with the lowest incomes usually get the largest grant aid packages and therefore often pay no tuition at CSU, UC, and the community colleges (tuition is fully covered for 57% of undergraduates at UC and 61% at CSU). These students also see reduced costs at private institutions, but grants and scholarships may not cover all of their tuition.

- **... but housing and other costs remain a problem.**

For the most part, other college costs—including room and board—are either not covered or only partially covered by grants. California's high housing costs are a particular challenge. Recent surveys show that many college students face housing instability.

- **Financial aid is linked to several positive student outcomes.**

Students who receive grants and scholarships are more likely to stay in school and graduate. Making four-year institutions affordable is especially beneficial, because students who start at four-year colleges are more likely to earn bachelor's degrees than those who start at community colleges.

Many students rely on loans

Student debt has increased dramatically throughout the United States over the past decade. In California, overall debt is relatively low, but Californians at all income levels rely on loans to help cover the cost of college.

- **Tuition and fees are only part of the price of going to college.**

The total amount a student pays for college can far exceed the cost of tuition. In addition to tuition and fees, students pay for room and board, books, and other educational and living expenses. In 2016–17, the estimated average price for attending a UC school was \$34,200, of which 39 percent (\$13,500) was tuition and fees. At CSU, the estimated average price of attendance was \$24,205, of which 28 percent (\$6,819) was tuition and fees.

- **More students are taking out loans, and the size of those loans has increased.**

Between 2000 and 2012, the share of full-time freshmen who took out loans in California increased more than 7 percentage points (from 28% to 35%). During the same period, the average loan amount for the first year of college more than doubled, increasing from about \$3,000 to \$6,985. Since 2012, however, both the share of freshmen taking loans and the size of the loans has declined slightly.

- **California's college students are less likely than their peers in most other states to take out loans.**

California's colleges have the third-lowest share of freshmen with loans in the nation—only 31 percent took out loans in 2013, compared to 47 percent of freshmen in the rest of the country. This difference is especially pronounced for community college students. In California—where community college fees are the lowest in the nation—only 4 percent of community college freshmen took out loans, compared to 30 percent nationally.

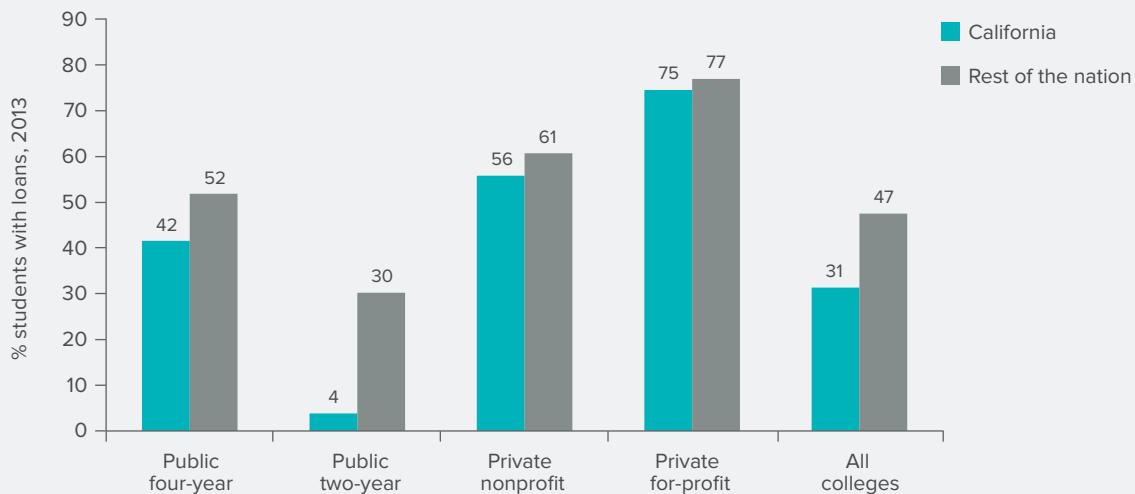
- **Students attending private institutions are more likely to get loans.**

Private colleges tend to be more expensive than public colleges. Consequently, the share of students taking out loans at private institutions is much higher. In 2013, 56 percent of full-time freshmen at private nonprofit colleges in California took out loans, compared with only 42 percent of full-time freshmen at public four-year colleges. The share of full-time freshmen taking out loans is particularly high at private for-profit colleges (75%).

- **Loan amounts vary tremendously between public and private colleges.**

In 2013, California had the fourth-lowest average loan amounts in the nation for students at public four-year institutions, which account for 42 percent of full-time freshmen. However, average loan amounts at California's private institutions were similar to those in the rest of the nation. Average loan amounts for freshmen at the state's private for-profit colleges were 61.6 percent higher than those for students at public four-year colleges (\$8,822 vs. \$5,460).

THE SHARE OF STUDENTS WITH LOANS IS HIGHEST AT PRIVATE FOR-PROFIT COLLEGES



SOURCE: PPIC calculations based on data from the Integrated Postsecondary Education Data System (IPEDS) of the National Center for Education Statistics.

NOTE: Restricted to full-time freshmen.

Debt problems vary among students and across institutions

Not surprisingly, high levels of debt are particularly troublesome for students who do not graduate and for graduates who enter low-paying professions. Loan default rates—which indicate the difficulty of paying off debt—are low among California's public college students. They are much higher among students at private for-profit colleges, which tend to attract high shares of low-income and underrepresented students.

- **Rates of loan default are low among students at public universities and private nonprofit colleges.**

Three-year default rates for borrowers who entered repayment in 2013 and defaulted on their loans by 2015 are much lower at UC (3.0%), CSU (5.4%), and private nonprofits (3.7%) than the rates at private for-profits (15.4%) and at community colleges (20.3%). The share of community college students who take out loans, however, is extremely small, and average loan amounts are low. Default rates have fallen for the last three cohorts of borrowers in both public and private institutions.

- **Loan default rates are particularly high among students at private for-profit colleges.**

Given that so many students attending private for-profit colleges take out large loans, it is perhaps unsurprising that 58 percent of students in default attended for-profit institutions, which account for only 10.5 percent of students enrolled statewide.

Looking ahead

The state and federal government can do more to make college affordable for Californians.

Motivate all students to apply for financial aid. Students must fill out the Free Application for Federal Student Aid (FAFSA) to get federal and state aid and/or federal student loans. Even though recent reforms have made the process less onerous, many eligible students do not file. State policies that induce all students to fill out the FAFSA could expand the number of students who receive federal grants and loans.

Expand grant aid to cover more costs. Some low- and middle-income families have struggled with the rising net cost of college. Expanding grant aid to help students pay costs beyond tuition, such as housing and books, can help those who might not otherwise be able to afford to enroll in and get through college. The reinstatement of the year-round Pell Grant could help students stay on track to graduate on time by taking necessary courses during the summer.

Restrict financial aid to students attending institutions that have a track record of success. California should continue to direct state grant aid only to colleges that meet minimum standards of success, as measured by graduation and loan default rates. The federal government has far fewer institutional standards, and Pell Grants often go to schools that do not serve students well. Federal student aid programs should follow California's approach, concentrating aid where it will do the most good.

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