PPIC

Investing in Public Higher Education

PPIC HIGHER EDUCATION CENTER

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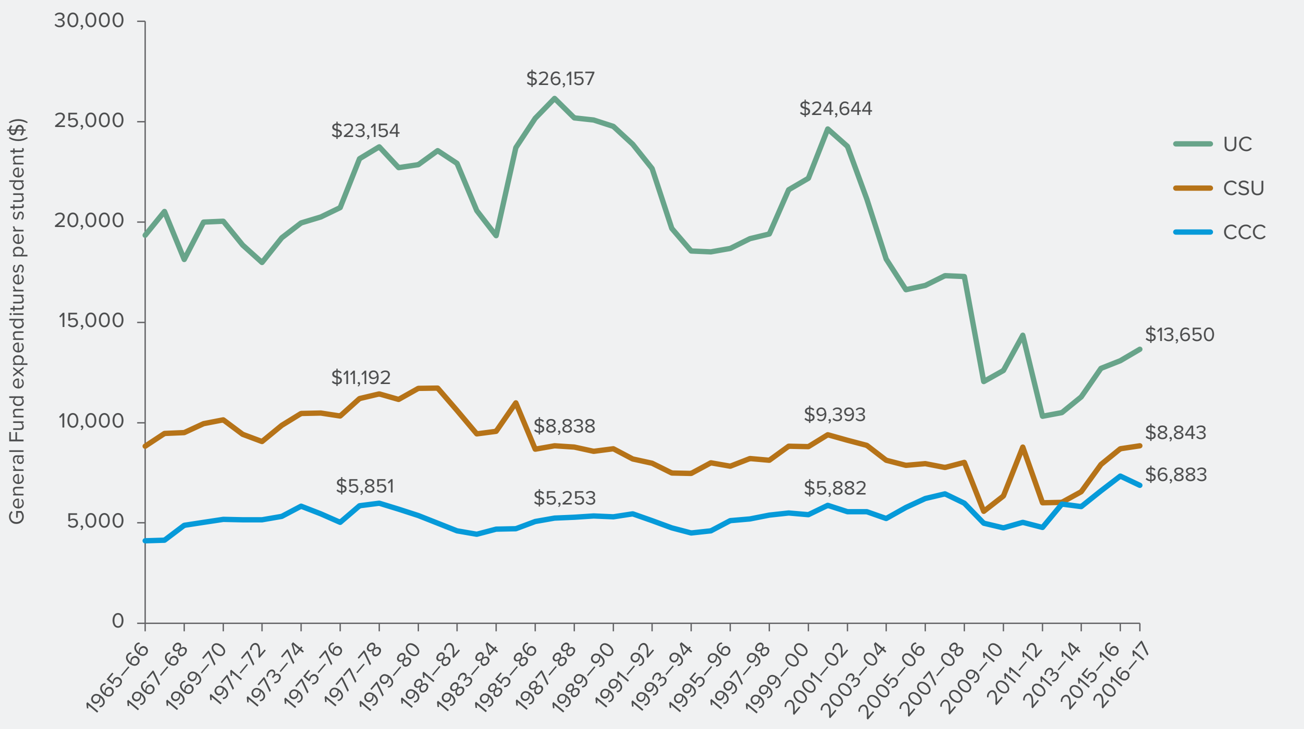
How should California fund public higher education?

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.

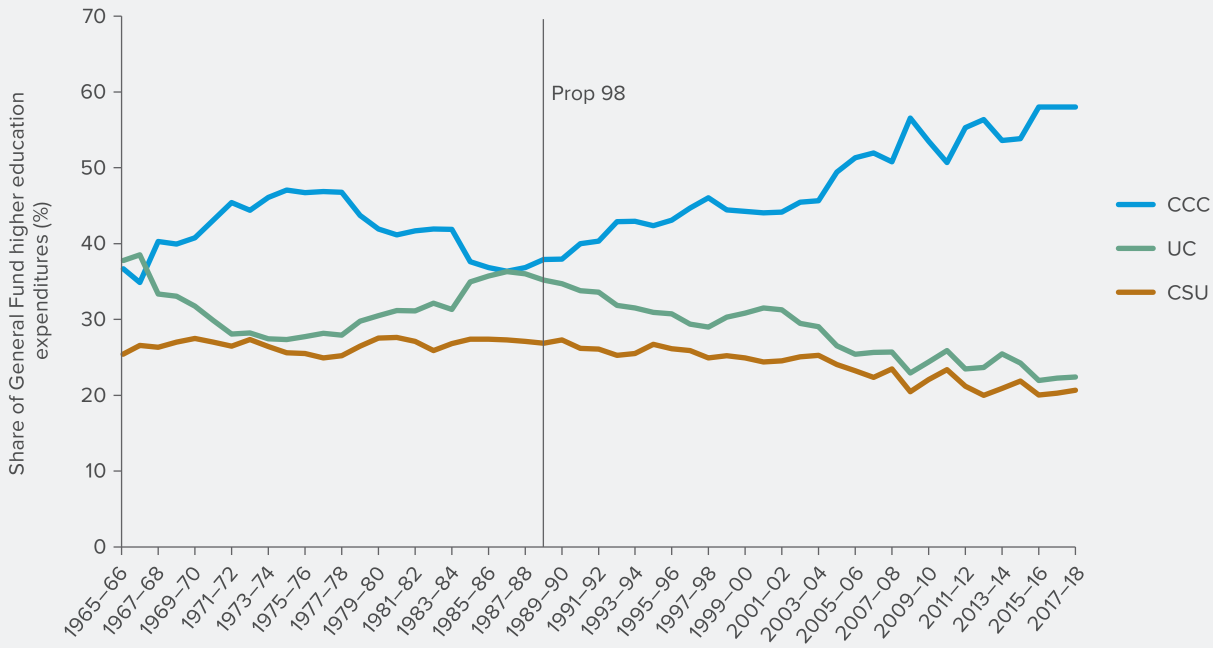
NOTES: The General Fund expenditures per full-time-equivalent student shown in this chart are adjusted for inflation and do not include federal American Recovery and Reinvestment Act funds used to replace state higher education funding from 2008 to 2011. CCC is California Community Colleges.

- **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.

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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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