

# High-Quality System Sensitive to Workforce Needs Critical to Keep State Competitive in Global Economy

In order to compete in the global economy, California must stay competitive by ensuring that the state has an educated and skilled workforce. However, this alone is not enough. Although California has great educational institutions and opportunities for individuals to obtain educational degrees and certificates, there seems to be a disconnect between the education offered and received by potential workers and the needs and demands of the business community. The skills and degrees being obtained are not necessarily the ones that will be needed in the future, and completion rates for California community colleges and universities are not keeping up with the growing demand for degrees and skills of future jobs.

## Skills Gap

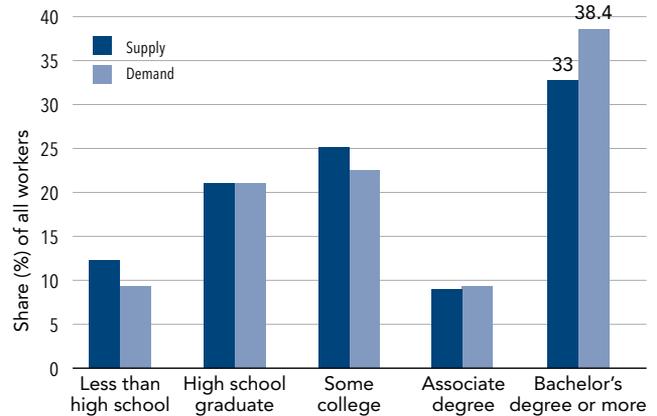
According to the California Employment Development Department, California is expected to add about 2.5 million new jobs, reaching a total of about 18.7 million jobs by 2022. A report by the Public Policy Institute of California (PPIC) from April 2016 concluded that California's higher education system is not keeping up with the economy's changing needs. The skills and education attained by students continues to not fully meet the skills needs and demands of the California business community. If this trend continues, California will face a large skills gap. Specifically, California will be short 1.1 million workers with bachelor's degrees and 2.3 million community college certificates and degrees to fill the economic demand.

When jobs go unfilled because employers cannot find enough qualified workers, businesses are less productive and the state loses out on corporate tax revenue that could be used to support critical government programs and services, including education. At the same time, individuals who cannot find jobs that match their skills, content knowledge or level of educational attainment pay less to the state in taxes. If those individuals end up unemployed or incarcerated, they increase what the state must spend on its social programs and correctional justice system.

Given these realities, improving educational attainment rates is arguably one of the most important things policymakers can do to ensure the long-term health of the economy, and to improve the lives of future generations of Californians. Although the percentage of Californians who have attended at least some college has grown in recent years, student attainment rates are increasing far too slowly to keep pace with the growing needs of California's economy.

This potential mismatch between the preparation of California's workforce and the level of training needed by employers has serious long-term implications for the state's budget, employers, and families. The recent effort to reinvest in California schools and postsecondary institutions is a good start,

## Demand for Highly Educated Workers Will Exceed Supply in 2030



Source: Public Policy Institute of California, "Will California Run Out of College Graduates?" (October 2015).

but closing this gap will require more than simply sending more money to the schools.

The challenges that contribute to California's college attainment rates are complex, and success will require changes in many areas. It is critical that the educated and skilled workforce which California strives to maintain and grow has the areas of expertise and degrees needed for the jobs being created and needing to be filled. Otherwise, California could end up with an educated-yet-unemployed workforce and a business community without skilled employees.

## The Achievement Gap

One pervasive problem that must be addressed in order to meet California's future workforce needs is the achievement gap between white and Asian/Pacific Islander (API) students and those of other racial and ethnic backgrounds. African Americans and Latinos, in particular, are significantly underrepresented in college classrooms and are less likely to finish college when they do enroll. These two groups together account for approximately 45% of the state's total population, which means that policies designed to help more African Americans and Latinos go to college and complete their degree and certificate programs will make a sizable dent in the state's overall shortage of qualified workers.

According to a 2012 report by California Competes setting forth a framework for how policymakers can improve the state's higher education system: "If the gaps in enrollment and achievement were to be entirely closed [for African Americans, Latinos and Native Americans], an additional 790,000 four-year

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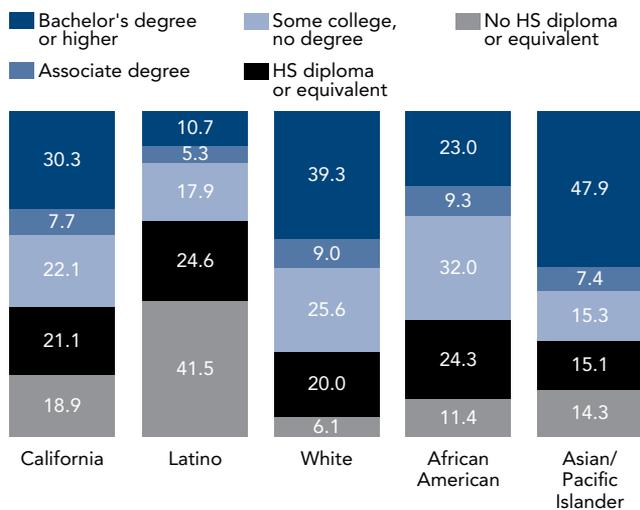
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### Educational Attainment of California Adults 25 Years and Older, 2011



Source: U.S. Census Bureau, 2011 American Community Survey 1-Year Estimates, Public Use Microdata Sample, in The Campaign for College Opportunity, *The State of Latinos in Higher Education* (November 2013).

degrees would be produced in California, bringing us more than two-thirds of the of the way to the 2030 attainment goal.”

According to two reports by the Campaign for College Opportunity, there are 2.1 million African Americans living in California, representing 5.7% of the state’s population, while Latinos represent 38% of all Californians, with an estimated population of 14.5 million. At the same time, only 23% of African Americans age 25 or older have a bachelor’s degree, as opposed to 39.3% of white adults, and 47.9% of API adults. For Latinos, the number is even lower, with only 10.7% of adults over age 25 having a bachelor’s degree. When foreign-born Latinos are excluded from the total, only 16.2% of native-born Latinos have a bachelor’s degree.

The achievement gap is even wider when attainment rates for different ethnic and racial groups are compared by looking at those with a high school diploma or less versus those with at least some college. In 2011, for example, 35.7% of African Americans and 66.1% of Latinos age 25 or older had earned a high school diploma or less, compared to 26.1% of white adults and 29.4% of API adults. When foreign-born Latino adults are excluded from the calculation, only 47.2% of native-born Latino adults have a high school diploma or less, but Latinos still have, far and away, the lowest college attainment rate of any ethnic group. Furthermore, while the percentage of individuals with a bachelor’s degree has risen for all ethnic and racial groups since 2000, as of 2011, the achievement gap had decreased by only 1 percentage point for African Americans and 1.8 percentage points for Latinos compared to their white peers.

One factor contributing to this gap in college attainment

is that only 68% of African Americans graduate from high school—the lowest percentage of any of the ethnic/racial populations measured, meaning that fewer are eligible to pursue college degrees to begin with. In addition, among both African American and Latino high school graduates, only 3 in 10 complete the A–G curriculum, a prerequisite for admission by the California State University (CSU) and University of California (UC), compared to 50% of white students and two-thirds of API students.

African American and Latino students who do graduate from high school and are accepted to one of California’s three public higher educational institutions also tend to be less prepared for college-level work when they start, and as a result they are more likely to be assigned to pre-college level or remedial courses. This is troubling because, according to a recent report by the California Budget Project, only 20% of students enrolled in remedial courses at the community college level earn a certificate, an associate of arts (AA) degree, or transfer to a four-year degree program within six years of their enrollment. The Campaign for College Opportunity reports reveal that African Americans and Latinos also struggle disproportionately at the CSU level. Only 8% of African Americans entering the system in 2008 graduated within four years, and only 35% graduated within six years. Similarly, only 10% of Latinos entering the system in 2008 graduated within four years, and less than 50% did so within six years.

These achievement and attainment gaps do not start in high school, though. They are visible at all levels of the education system and have remained relatively stable over the last 15 years despite overall increases in high school graduation rates and college attainment rates.

### Ongoing Changes in K–12 Education

Early childhood education has a huge impact on long-term educational attainment. Students who fall behind in the first few years of school often never catch up to their peers, and are more likely to drop out of school. According to a 2010 report by the Annie E. Casey Foundation (AECF Report), “the process of dropping out begins long before the child gets to high school. It stems from loss of interest and motivation in middle school, often triggered by retention in grade and the struggle to keep up academically.”

The AECF Report cites the inability to read proficiently by the end of third grade as one of the main contributors to this cycle, in large part because starting in fourth grade, the curriculum switches focus from teaching students to read, to having students read to learn. As a result, students who are not proficient at this point are likely to fall behind in every area of the curriculum. At the same time, their teachers will have much less time during the school day to help them catch up.

The AECF Report examined scores in reading proficiency for 4th graders on the 2009 National Assessment of Educational Progress (NAEP) and found that low-income children are much

less likely to achieve reading proficiency by 4th grade than their higher-income peers. Eighty-three percent of low-income fourth graders scored “below proficient,” while only 55% of moderate-income and high-income students scored at the low level. The data also revealed that the achievement gap for African American, Latino and Native American children was already present by the fourth grade, and these ethnic and racial subpopulations scored substantially lower on reading proficiency than their white and API peers, regardless of their income level. Based on the scores on the 2015 NAEP exam, it appears that little changed in the intervening five years.

The results of AECF Report suggest that making sure every student can read proficiently by the 4th grade could, by itself, lead to significantly improved high school graduation rates and better college readiness among graduates. Improving educational attainment in preparation for the state’s 2030 workforce needs also will require policy changes that support early childhood development and improve individual skill development and academic performance at all ages and grade levels. Two key policy changes at the K–12 level are already in the early stages of implementation and have the potential to improve education outcomes for California students dramatically over time.

#### ***Local Control Funding Formula***

In 2013, California overhauled its school funding system and implemented the Local Control Funding Formula (LCFF). The old school funding system was based on per-student funding with supplements from more than 55 categorical funds, and greatly limited the ability of school districts to allocate resources based on the unique needs of their student populations. The new law eliminated three-fourths of these categorical funds and established a flat, base level of per-student funding for each of four grade spans.

The base rate for each grade span varies based on the needs of students at different grade levels. For example, the base rate for students in grades K–3 includes extra funding to support class-size reduction, while the base rate for high school age students includes funds to support career technical education (CTE) courses. School districts also receive supplemental funds for each of their English-language learners and low-income (EL/LI) students. In addition, the law will gradually increase the annual level of funding flowing to K–12 schools by \$18 billion above 2013–14 funding levels. As of the 2016–17 Budget Act, school districts and charter schools are receiving on average 96% of their LCFF targets.

The LCFF also established a new system of transparency and accountability to ensure that this additional funding and spending flexibility leads to higher student achievement and the closing of achievement gaps for key subpopulations of students. It directs school districts to adopt and periodically update Local Control and Accountability Plans (LCAPs) that lay out how they will allocate their resources to provide high-quality education programs to all their students.

Districts must set annual goals in eight specified areas,

including student achievement, student engagement, school climate, basic services, implementation of Common Core state standards, course access, parent involvement, and other student outcomes. The LCAPs also must include district-wide goals, and goals for each numerically significant student subpopulation in the district, and each LCAP must specify what actions the district plans to take to achieve these goals. Updated LCAPs must review the district’s progress toward meeting the goals it has set for itself, assess the effectiveness of the actions it has taken, and describe any changes it plans to make as a result of the review. Finally, districts must submit their LCAPs to their local county offices of education for approval.

The LCFF also envisions a system of interventions for schools and districts that are struggling to meet the objectives they established in their LCAPs. For example, if a district fails to improve outcomes in at least two priority areas for at least one subgroup, it will receive support from the county office of education, and if a school district is deemed to persistently underperform, the new law authorizes the state Superintendent of Public Instruction to intervene and change the district’s LCAP, impose conforming budget revisions, and stay or rescind actions by the district governing board to improve student outcomes.

#### ***New Multiple-Measure Accountability System***

On September 8, 2016, the California State Board of Education approved key elements of the new accountability system that evaluates school and district performance in 10 areas, including graduation rates, readiness for college and careers, test scores and progress of English learners. This new evaluation rubric will allow members of the public, including parents, to see how their local schools are performing. It replaces the prior Academic Performance Index (API), which relied mostly on test scores to measure progress. The API was a one-number rating for every school; the evaluation rubric will be a multicolored report with multiple measures for each school. It is critical that the rubric provide meaningful, easily understandable information to the public so that schools can be held accountable for ensuring all students succeed. Although most are in favor of a multiple measures approach, there is much criticism from parents and education leaders that the new system is confusing and makes it very difficult to compare schools.

One of the leading criticisms of the evaluation rubric is that academic achievement should be the priority and may get lost in this new system, which has many indicators. Another concern with the evaluation rubric is that it might violate federal law by failing to identify the lower-performing schools.

In December 2015, the federal government adopted the Every Student Succeeds Act (ESSA—discussed in further detail below), which replaced the No Child Left Behind Act. The California State Board of Education and California Department of Education were entrusted under the law to create the state accountability plan that includes the evaluation rubric. ESSA requires California and all other states to meaningfully differentiate school performance based on multiple measures and

also identify, for support and intervention by the 2017–2018 school year, the lowest-performing 5% of the Title I schools and all high schools graduating fewer than two-third of students.

The criticism with the new evaluation rubric is that it does not provide a mechanism to identify the lower-performing 5% of schools and does not communicate overall how a school is performing. Because the state accountability plan does not have to be submitted to the U.S. Department of Education until early 2017, it was unclear as this *Guide* went to print whether the final plan would comply with ESSA and whether the plan would be modified in a way to address the criticisms that have plagued the rubric since its recent approval.

**Common Core**

Another policy change affecting K–12 education was the adoption of the Common Core State Standards in 2010. The standards provide a framework for what all students should know and be able to do at the end of each grade level in English and mathematics. Forty-two states and Washington D.C. are working to implement the standards. The Common Core was developed at the request of state school chiefs and governors from across the country, and designed by teachers, school chiefs, administrators and other experts. The overarching goals of the Common Core are to increase uniformity among districts, regions, and states, so that all graduates are equally prepared, and to emphasize important skills like analytical thinking over memorization of dates and facts.

In general, the standards require less content to be covered each year than California’s previous standards did, but students are expected to develop a deeper understanding of what they study. The standards also emphasize reading from expository materials and a more conceptual approach so that students learn to apply general concepts to real-world problems, similar to the types of problems they will face once they leave school and enter the workforce.

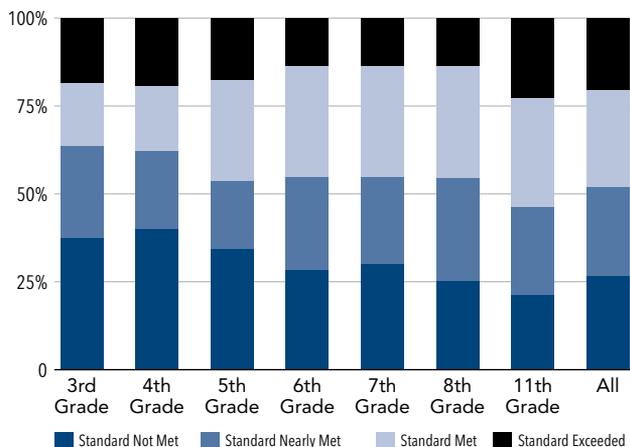
California belongs to the Smarter Balanced Assessment Consortium, one of two groups of states that developed new student assessments tied to the Common Core standards. The new Smarter Balance assessments are administered electronically and are adaptive, meaning the test questions change based on whether students correctly answer earlier questions. In this way, the program slowly builds a picture of what each student does and does not know. Unlike prior statewide tests, Smarter Balance assessments provide diagnostic information about each student’s skills and will serve as a useful tool for educators by helping them focus remediation efforts on each student’s specific needs.

The first official administration of the Smarter Balance assessments took place in spring 2015, and they were given to all public school students in grades 3–8 and 11. Although students’ scores on this first round of testing cannot be compared to scores from prior tests, it was widely expected that, on average, scores for the Smarter Balance assessments would be lower because students, teachers and parents are still adjusting to the new standards and testing format.

**First Round Test Results:  
Smarter Balanced Assessment Consortium**

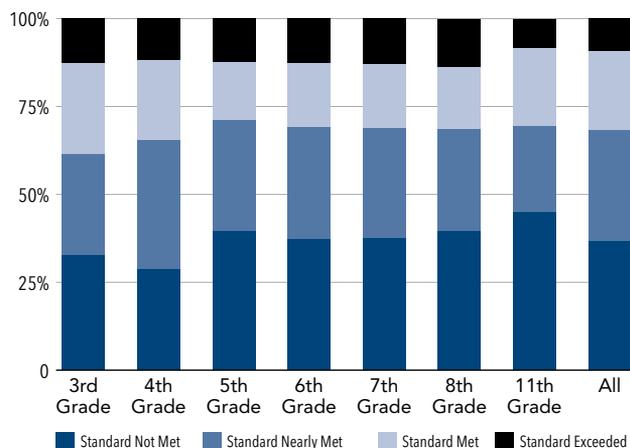
**English Language Arts/Literacy**

Achievement Level Distribution



**Mathematics**

Achievement Level Distribution



Source: California Department of Education

In fact, on this baseline round of testing, only 44% of students statewide met or exceeded the standard for English/ language arts and literacy, and only 33% of students met or exceeded the standard for mathematics. Students in 11th grade and nearing graduation scored slightly better on the English/ language arts and literacy portion, with 54% of them meeting or exceeding the standards, but only 29% of them met or exceeded the standards in mathematics. These initial results would appear to confirm what employers and postsecondary educators have been saying about the lack of college and career readiness among California’s high school graduates. The good news, though, is that the shift to the LCFF and Common Core should start to increase the students’ level of preparedness in the years to come if these policies are implemented and overseen properly.

### Every Student Succeeds Act (ESSA)

On December 10, 2015, the President signed into law the Every Student Succeeds Act (ESSA), the newest iteration of the Elementary and Secondary Education Act (ESEA), replacing the 2002 version, which usually is referred to as the No Child Left Behind (NCLB) law. The new law overhauls the federal government's role in K–12 education and will likely influence California's own education reform efforts. ESSA, similar to the LCFF at the state level, seeks to shrink the federal government's role in the day-to-day decision-making about how states should educate students but maintain a strong framework of federal accountability.

ESSA collapses nearly 50 federal categorical funds into a single block grant program, and places new limits on the power of the U.S. Secretary of Education. The law still requires states to administer statewide assessments in grades 3–8 and once during high school, but it allows states to consider multiple measures of student achievement when holding schools accountable, unlike NCLB, which looked solely at standardized test scores. Going forward, states also will be free to stop implementing the Common Core without fear of losing federal funding or their waiver from NCLB requirements and penalties, and states will no longer be required to use measures of student achievement in their teacher evaluations.

The law also substantially redefines the federal government's role in holding states accountable for student performance. ESSA requires that states set ambitious goals for student achievement and ensure that key student subgroups make meaningful progress toward college- and career-readiness. States also will have to develop tailored interventions and support strategies to help schools that are failing to meet these goals, and use evidence-based approaches to turn around the lowest-performing 5% of schools. If school districts are unable to turn struggling schools around, the law requires states to step in to help. Finally, the law also seeks to increase the types of opportunities students have throughout the country by encouraging states to:

- Establish or expand access to high-quality, state-funded preschool for low-income children.
- Develop innovative and effective reforms to close achievement gaps in key student subgroups.
- Expand incentives to recruit, develop and retain effective teachers and principals.
- Leverage resources to help students living in high-poverty communities and support a full continuum of services from early childhood through college.
- Expand support for high-performing public charter schools.

Many of the law's changes are consistent with changes California embraced when it adopted the LCFF, but also require that an entirely new system of federal accountability be developed just as California is working to develop its own new system of state accountability. This means that, for the time being at least, there will be limited oversight of how schools in

California are using the additional funding they receive under the LCFF, and the progress that their students are making.

### Health of California's Public Higher Education System

While improving the way the state educates young Californians and reducing achievement gaps will have a big impact on high school graduation rates and college readiness, these actions will do little to address California's looming skills gap if the state's colleges and universities do not have the capacity to take on more qualified high school graduates, or if qualifying students cannot afford to attend college. As such, it is equally important that policymakers look for ways to increase the state's college and university capacity and affordability.

More than three-fourths of all California students attend one of the three public higher education segments, and these public colleges and universities award approximately 75% of all undergraduate degrees as well as 60% of the certificates requiring more than one year to complete.

The **California Community Colleges** currently serve approximately 2.1 million students. Under the terms of the state's Master Plan for Higher Education (Master Plan), community colleges must admit all students who would benefit from instruction, and are responsible for offering coursework leading to an AA degree or transfer to a four-year institution, providing vocational and career technical education, supporting students who need remediation before undertaking college-level courses, and offering self-enrichment courses to local communities.

The recession that began in 2007 had a dramatic impact on the state's General Fund revenues, which led to major cuts to state funding for important programs and institutions, including K–12 schools and all three branches of the state's higher education system. Even though Proposition 98 protects funding for the community colleges to some extent, their budget still was reduced by \$1.5 billion between 2007–08 and 2011–12. Passage of Proposition 30 in 2012 temporarily increased the state sales tax and income tax rates for the state's highest earners, allowing for \$210 million of that funding to be restored.

This additional funding was set to be phased out starting in 2018. The passage of Proposition 55, however, has extended the income tax portion of Proposition 30 through 2030. Proposition 55 allocates the tax revenues 89% to K–12 schools and 11% to the California Community Colleges, as well as allocates up to \$2 billion per year in certain years for health care programs. Additionally, Proposition 55 bars the use of education revenues for administrative costs, but provides local school boards discretion to decide how revenues are to be spent. It is estimated that approximately half of the \$4 billion to \$9 billion tax revenue raised by Proposition 55 would go to schools and community colleges.

The community college system is not allowed to increase student fees without legislative authority, and has few sources of revenue other than the state's General Fund, making it hard to offset major budget reductions. In addition, the Master Plan

## State Support for UC and CSU Has Declined



Source: California Budget Project, From State to Student (May 6, 2014)

does not allow community colleges to limit student enrollment to control costs. As a result, the community colleges have had to reduce their spending by reducing the number of full-time faculty they employ, freezing benefit and salary increases for faculty, reducing course offerings and cutting sections (thereby driving up class sizes), and limiting support services for students. All these changes have made it harder for students to attain their educational goals, and have indirectly reduced enrollment at the community colleges by nearly 1 million students.

The **California State University** is devoted primarily to undergraduate education and master's degree programs, although several changes to the Master Plan have allowed CSU to conduct faculty research, particularly in applied fields, and to award doctorates in educational leadership, nursing and physical therapy.

The **University of California** and CSU together serve 25% of the state's college students. The UC serves as the state's primary academic research institution and is charged with providing undergraduate, graduate and professional education. It is the only one of the three public higher education institutions that may award doctoral degrees (with three exceptions) and instruction in law, medicine, dentistry and veterinary medicine.

General Fund support for both the UC and CSU also has been curbed sharply in recent years. Between 2007–08 and 2013–14, the General Fund contribution to both institutions' budgets fell approximately 20%, from \$6.3 billion to \$5 billion. It is worth noting that state financial support for the UC and CSU has actually been on the decline since 2002, although it did drop more precipitously during the recession. According to a PPIC report on the institutional costs of the state's public postsecondary institutions, the UC and CSU have both worked to hold their costs steady and minimize tuition increases even as the state has reduced its contribution. The only area where spending has risen significantly is in student services, including remedial education, counseling, and financial aid administration.

In May 2012, the PPIC issued a report analyzing how reductions in state support for higher education have affected enrollment at these institutions. The report found that the UC has reduced its overall enrollment targets by 7%, which equates to 2,600 fewer students per year. More notably, reductions in enrollment targets have not been distributed equally across all UC campuses. Instead, the more prestigious campuses have made the biggest cuts to their enrollment targets, pushing more students into the referral pool for less selective campuses, and many students refuse to attend a school that is not their first choice. The CSU has since restored its enrollment targets to near pre-recession levels, but a significant portion of this enrollment growth is considered unfunded as it has not been matched by state dollars. Even with this enrollment restoration, the CSU is unable to keep up with rising demand and is turning away thousands of qualified applicants each year.

As public universities have been adjusting their practices due to limited state funding, the overall number of students graduating from high school has been increasing, and more qualified students have been applying to the UC and CSU. According to PPIC, if enrollment targets at the institutions had stayed at 2007 levels, 20,000 more students would have attended each year, and approximately 12,000 more would have earned a bachelor's degree each year. In addition, although many students who were not accepted into their UC or CSU of choice did decide to attend college somewhere else, there is evidence that as many as 10% never ended up enrolling in any college or university.

## The Role of Private Colleges and Universities

Although the vast majority of postsecondary students in California attend one of the state's public colleges or universities, approximately 20% of students attend a private college or university instead. This sector typically is viewed as having two distinct types of institutions: nonprofit colleges and universities that often are founded by charitable or religious organizations, offer a wide range of academic programs and award a variety of degrees; and for-profit colleges and universities, which often focus on a narrower range of academic programs that lead to a certificate of some kind, although there are a number of larger for-profit schools that offer a range of degree programs, from associate to master's degrees.

### *Private Nonprofit Colleges and Universities*

The Association of Independent California Colleges and Universities (AICCU) represents more than 70 of California's 200 private, nonprofit colleges and universities, and its members all are accredited by the Western Association of Schools and Colleges (WASC). Collectively, these institutions serve close to 185,000 undergraduate students each year and award more than 20% of all undergraduate degrees in the state. According to AICCU's Factsheet, 40% of students who attend a CSU-equivalent nonprofit university graduate within four years, while only 16% of CSU students do. Similarly, nearly 70% of AICCU students

graduate from UC-equivalent universities within four years, while only 56% of UC students can say the same.

These private, nonprofit colleges and universities sometimes are criticized as less attractive options for students because they are more expensive than California's public postsecondary institutions. In 2012, the average cost of attending an AICCU institution, including tuition and fees, was \$32,000, compared to \$14,800 for the UC and \$5,472 for the CSU, but a comparison of the percentage of students who graduate from each type of institution with federal loan debt suggests that the differences in the net tuition they actually pay may not be quite so disparate. In 2012, for example, 59% of graduates from AICCU institutions owed an average of \$20,753 in federal loans, compared to 46% of graduates from the UC or CSU, who owed an average of \$16,603. According to AICCU, 79% of its students receive institutional grants averaging \$13,604 per student, 35% receive Pell Grants from the federal government, and 18% receive Cal Grants from the state.

The extent to which these private, nonprofit institutions actually are more expensive than public ones, to some extent also reflects how much support the state offers students who choose to attend a public university versus a private one. In addition to offering larger Cal Grant awards to students attending one of the state's public colleges or universities, the state also provides other types of financial aid for students at public universities that are not available to students who attend a private nonprofit university. According to AICCU, the amount of state aid available for a Cal Grant-eligible student to attend an AICCU campus for four years is only \$36,892, compared to \$51,940 to attend a CSU and \$97,036 to attend a UC. One way policymakers might increase the state's overall higher education capacity is to offer more support to students who choose to attend a private nonprofit college or university.

#### ***Private For-Profit Colleges and Universities***

Approximately 11% of students in California choose to attend one of California's private, for-profit colleges and universities. Due to their flexible scheduling, online options and convenient locations, these institutions are designed to appeal to working adults, part-time students, and students with children.

While for-profit institutions offer attractive options for Californians who might otherwise not be able to fit college coursework into their schedules, some for-profits have drawn attention and criticism from policymakers and student advocates at both the state and federal levels. A recent report by the California Legislative Analyst's Office (LAO) noted that private, for-profit colleges account for 10%–13% of student enrollment nationally, but their students receive 25% of federal financial aid dollars and account for as much as 50% of federal student loan defaults. In general, critics have argued that these institutions have been inconsistently regulated, are more likely to take advantage of students to turn a profit for their owners, and some have very low graduation/completion rates.

Although the intention has been to protect students by

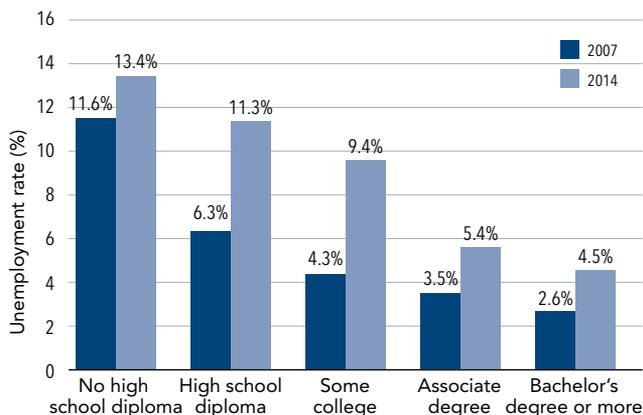
discouraging them from enrolling in programs that are not apt to lead to improved job prospects, the criticisms and reform efforts have been based on federal completion-rate data, which look only at first-time full-time students, who often make up a small percentage of a school's actual enrollment. Critics also have not, by and large, taken into account that adult students with full-time jobs and families, who tend to make up a large percentage of the student population at for-profit colleges and universities, have a harder time balancing the demands of school with other responsibilities, and are more likely to lack financial assistance from parents and family than their public and private nonprofit counterparts. These factors, which also have an impact on community colleges and UCs, are as likely to affect completion rates and loan default rates as school quality, and good oversight and regulation should take this into account.

Private for-profit colleges and universities are regulated by a variety of independent entities. First, the U.S. Department of Education (USED) imposes standards on all private for-profit institutions and nonprofit certificate programs that accept federal financial aid, seeking to ensure their financial stability, limiting how much of their income can come from federal student aid, and establishing a maximum student loan default rate. The USED also requires that each institution be accredited by a federally recognized regional or national accrediting body that promotes best practices and establishes additional standards for continued accreditation and eligibility for federal student aid dollars. Finally, states now are required to explicitly approve the operation of all private for-profit institutions that operate within their boundaries and have a procedure in place to process and resolve student complaints in order for those institutions to be eligible for federal student aid dollars.

California's track record for overseeing for-profit colleges and universities, however, has been quite inconsistent. In 2007, unable to develop a compromise to improve oversight without stifling the development of quality programs, the Legislature allowed existing law authorizing state oversight of these institutions to expire, leaving no oversight authority for more than a year. In 2009, the California Private Postsecondary Education Act was enacted, creating the Bureau for Private Postsecondary Education (BPPE) within the Department of Consumer Affairs, and charging it with oversight of for-profit colleges and universities. This entity went unfunded until the following July, and a state hiring freeze further prevented the BPPE from filling a reduced number of positions until mid-2012, by which time there was a significant backlog of license applications.

California's inconsistent regulation of this sector has allowed some unscrupulous for-profit colleges to operate in the shadows and take advantage of students and financial aid dollars without producing meaningful student outcomes, hurting the reputation of the entire sector. Inconsistency also has driven lawmakers to enact less-reasoned policies than might have been developed by a properly empowered regulatory body. For example, the Legislature has limited the availability of Cal Grants to

## Unemployment Rates Lower for More Highly Educated Workers



Source: Public Policy Institute of California, "Will California Run Out of College Graduates?" (October 2015). Authors' calculations based on March 2007 and 2014 Current Population Survey data.

Note: These numbers include all members of the labor force ages 16 and older.

students who attend private for-profit colleges by reducing the maximum dollar amount of applicable Cal Grant awards, and by prohibiting schools that exceed specified default rates or fail to meet minimum completion rates from being able to receive Cal Grant funds through their students.

Unfortunately, though, the parameters California law uses to limit access to financial aid for students at these institutions rely on the same limited federal data on completion rates mentioned above, and similarly ignore the demographics of for-profit student populations, unfairly denying financial support to some students and schools as a result.

In 2014, the Legislature temporarily reauthorized the California Private Postsecondary Education Act through 2016, strengthened its mandate to meet new federal requirements and better protect consumers, and provided funding for additional staff to help with licensing, oversight and handling of student complaints. As one policy committee analysis of the legislation noted: "The challenge for the Legislature is to ensure the continuance of an oversight structure that supports innovative programs while also preventing predatory practices."

Even now, there are concerns that the BPPE's mandate is too broad to be carried out effectively despite its new resources, and some private institutions worry about unreasonable burdens caused by overlapping regulation by the BPPE and regional and national accrediting bodies. On the other hand, some consumer advocates argue that the law did not go far enough to allow the BPPE to weed out bad actors in the sector. Clearly, proper oversight of private colleges and universities is not easy, but it is critical that the state preserve, and where possible, expand access to high-quality for-profit certificate and degree programs for those students who need an alternative to more traditional colleges and universities.

## Meeting the Demands of 2025

Knowing all of this, what should California's priorities be when seeking to increase educational attainment to meet the growing needs of the workforce and ensure that Californians are better off in 2030 than they are today? In the short term, one of the biggest obstacles to increased educational attainment for soon-to-be high school graduates is limited access to the state's three public higher education segments. The state is, in essence, throwing degrees away because it does not have the financial capacity to provide them to existing qualified high school graduates. As a result, those individuals will earn less and be more likely to experience poverty and unemployment over their lifetimes.

Policymakers have approved several annual budget increases for all three public higher education sectors in recent years. As a result, these sectors have been able to hold tuition and fees steady and make room for more students. Still, funding for these institutions has not been adjusted enough to ensure that every qualified high-school graduate can find a spot at his/her campus of choice, and the Governor has made it clear that, even though the state has started to reinvest in the public higher education institutions, it cannot afford to fund the business-as-usual model.

All three public postsecondary segments have committed to finding new operational and educational innovations that can better serve students without further straining the state budget. The community colleges have begun to change how they approach remediation for students who enter the system unprepared for college-level coursework. For example, it is now possible for many students to complete a short module covering a math skill they lack rather than having to spend the time and money to complete a full semester review course. For those instances where a full course is necessary, the faculty has begun developing courses that integrate review material and allow students to earn some credit toward graduation while they catch up.

The community colleges continue to play a critical role in Career Technical Education and vocational degrees. Less than an AA will be required for 23% of new jobs in California between 2010 and 2020. Many of the fastest-growing occupational fields, such as health care, construction and information technology, require a vocational education certificate rather than a bachelor of arts (BA) or bachelor of science (BS). The 2016–2017 budget provides \$300 million in Proposition 98 funding for competitive matching grants to continue the Career Technical Education Incentive Grant Program. This is in addition to the \$400 million provided in the 2015 Budget Act. An additional \$200 million will be provided in 2017–2018. However, there is no additional funding for career technical education in 2018 or beyond, which is problematic as the need for vocational training and certification is critical for future new jobs, almost a quarter of which will require a technical certificate rather than a two- or four-year degree.

The CSU system also is in the second phase of implementing its Graduation Initiative, aimed at significantly

improving bachelor's completion rates by 2025, and has embraced "high-impact learning practices," such as undergraduate research, service-learning projects, student learning communities, online learning tools and enhanced student advising. In addition, a draft report released by the Task Force on a Sustainable Financial Model for the CSU included recommendations designed to make the university less dependent on state revenue as it continues to expand enrollment in the coming years. Notably, these recommendations included annual tuition increases and a change to year-round schools.

The UC also has committed to increasing its online course offerings, hiring more academic advisers, and where possible, reducing the requirements for each major to help students graduate more quickly. To help rein in its growing pension liability, the university has agreed to give new employees hired after July 2016 a choice between a defined benefit pension plan capped at \$117,000 a year and a defined contribution plan. It also has agreed to work toward the goal of making transfer students from the community colleges one-third of all its new enrollees.

All these efforts will help reduce the shortage of credentialed and skilled workers for the 2.5 million new jobs that California is expected to produce in the coming years. According to the PPIC, more than half of these new jobs will be in four industries that already constitute a third of all current state jobs: health care and social assistance; accommodation and food service; professional, scientific and technical services; and retail trade. Between 2010 and 2020, 32% of these new jobs will require a BA or BS degree, 23 % will require some college courses but not an AA degree, and 9% will require an AA degree. The share of college graduates in California's workforce needs to grow to about 38% by 2030 to meet economic demand, but if current trends continue, only 33% of California's workforce will have a BS or BA degree.

### Conclusion

In many ways, California's economy has improved significantly over the last few years. The state's operating deficit has been eliminated, its long-term obligations are being paid off, and the statewide unemployment rate was down to 5.3% as of November 2016. Just below the surface, though, there are signs of trouble. Not all industry sectors and regions of the state have rebounded equally. One-third of all Californians are enrolled in Medi-Cal, meaning they are living at or below 138% of the federal poverty line, even though many of them are employed full time.

We know that poverty and unemployment are closely tied to educational attainment, and that the jobs that pay the most and offer the most security require some college-level training, a certificate or a degree. We also know that the children in low-income households are less likely to make it to college and earn a certificate or degree. Millions of adult Californians do not have the education they need to find good jobs, and as a result their children will likely have a harder time getting to college. At the same time, state aid for those families is using up valuable

resources, making it harder for the state to invest adequately in the education system today to protect future generations from a similar fate.

It is of the utmost importance that policymakers work diligently to increase educational attainment rates in the state. This will undoubtedly require policy changes and sacrifices in other areas of the budget, but if California reinvests in postsecondary education now and finds more effective ways to move students from kindergarten through high school and eventually into the workforce, the return on that investment will be substantial—individuals and their families will be better off, employers will be more competitive, and the state will have the resources it needs to invest in infrastructure and new programs that improve the quality of life for everyone. Additionally, policymakers need to focus on creating better pathways between educational institutions and business and employers to ensure that California produces the educated and skilled workers this state needs to compete in a global economy.

### CalChamber Position

The California Chamber of Commerce seeks to ensure that all students graduate from high school adequately prepared to enter the workforce or continue their education without the need for remediation. All students should be exposed to high-quality courses related to science, technology, engineering, and mathematics throughout their education, and be taught to develop critical thinking and analytical skills. More high school graduates should be prepared to continue their education by earning a certificate, associate or bachelor's degree, and postsecondary education should be affordable and attainable within a reasonable period of time.



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