Capacity of California Higher Education Systems Key Factor in Filling State Workforce Needs

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.

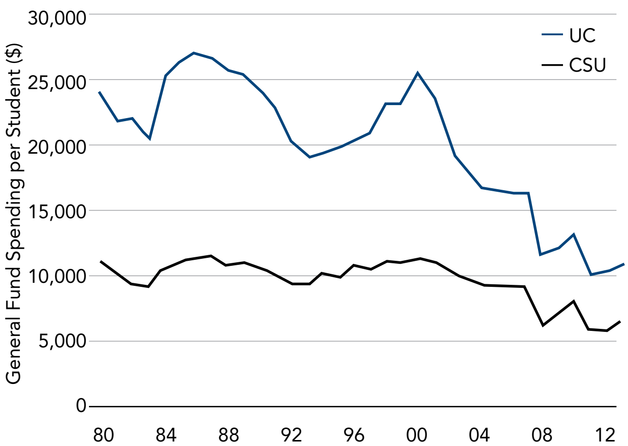
More than three-fourths of all California students attend one of the three public higher education segments, and these public colleges and universities award approximately 75% of all undergraduate degrees as well as 60% of the certificates requiring more than one year to complete.

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 though 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.

State Support for UC and CSU Has Declined



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

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 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

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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 Public Policy Institute of California (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.

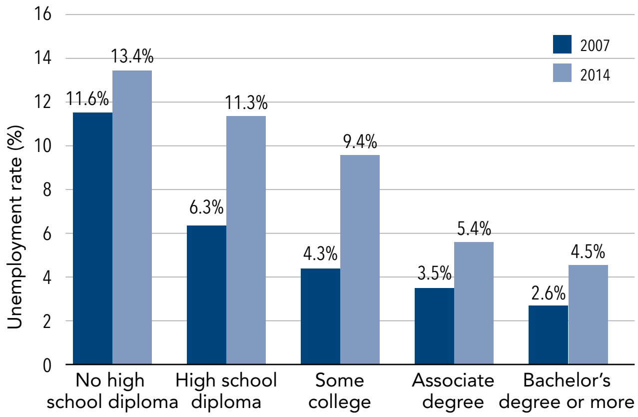
Although for-profit institutions offer attractive options for Californians who might otherwise not be able to fit college coursework into their schedules, some for-profits have drawn attention and criticism from policymakers and student advocates at both the state and federal levels. A recent report 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,

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.

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 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 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 California has a skilled and educated workforce prepared to meet the demands of a growing state economy. In keeping with that goal, the CalChamber supports:

- Budget and policy proposals that benefit postsecondary institutions which demonstrate successful efforts to educate the state's diverse population and improve graduation rates;
- Proper oversight of postsecondary institutions and meaningful corrective actions for those that produce consistently poor student outcomes or that fail to improve student outcomes over time, including outcomes for key student subgroups;
- Measures that encourage postsecondary institutions to develop innovative programs and delivery methods that better meet the needs of today's students and reduce costs;
- Improved transparency for nondegree programs to help employers evaluate job applicants who complete them;
- Efforts to improve college access and completion for low-income and underserved students, including awareness of and access to private financial aid and scholarships.

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