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Shared Solutions: A Framework for Discussing California Higher Education Finance

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Purpose of Project

- How can costs of higher education over next ten years be addressed through:
 - (1) State appropriations
 - (2) Student fee revenue
 - (3) Efficiency gains
- Provide a framework to guide policy discussions



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California Context

- Growing enrollments and diversity
- No planning and policy leadership at state level
- Budget deficit
- Fee politics
- Non-profit group concerned about state's capacity to educate growing, diverse population
- Our previous report: "Facing Reality"
 - Documented poor performance
 - CA doing little to identify and address its problems, compared to other states
 - Recommended statewide agenda and finance plan



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Methodology and Limitations of Study

- Methodology
 - Enrollment and cost projections to 2015
 - “Outer bound” analyses of four partial solutions
- Limitations
 - No standard data definitions and structures
 - Requires many simplifying assumptions
 - Small changes in assumptions magnified over 10 years



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Undergraduate Participation Rates by Segment

(Ages 17-24, Fall 2002)

	White	Asian	Black	Latino
Men:				
UC	3.6%	10.9%	1.2%	0.9%
CSU	5.8%	9.9%	3.5%	2.2%
CCC	20.8%	29.0%	18.7%	13.5%
Women:				
UC	4.2%	13.2%	2.1%	1.4%
CSU	8.1%	11.6%	6.2%	4.2%
CCC	25.8%	27.0%	23.6%	18.7%

Source: Calculated based on enrollment data from California Postsecondary Education Commission and population data from California Department of Finance

Note: Rates do not reflect enrollment in private or out-of-state institutions

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Two Enrollment Scenarios

Scenario 1:

- Constant participation rates

Scenario 2:

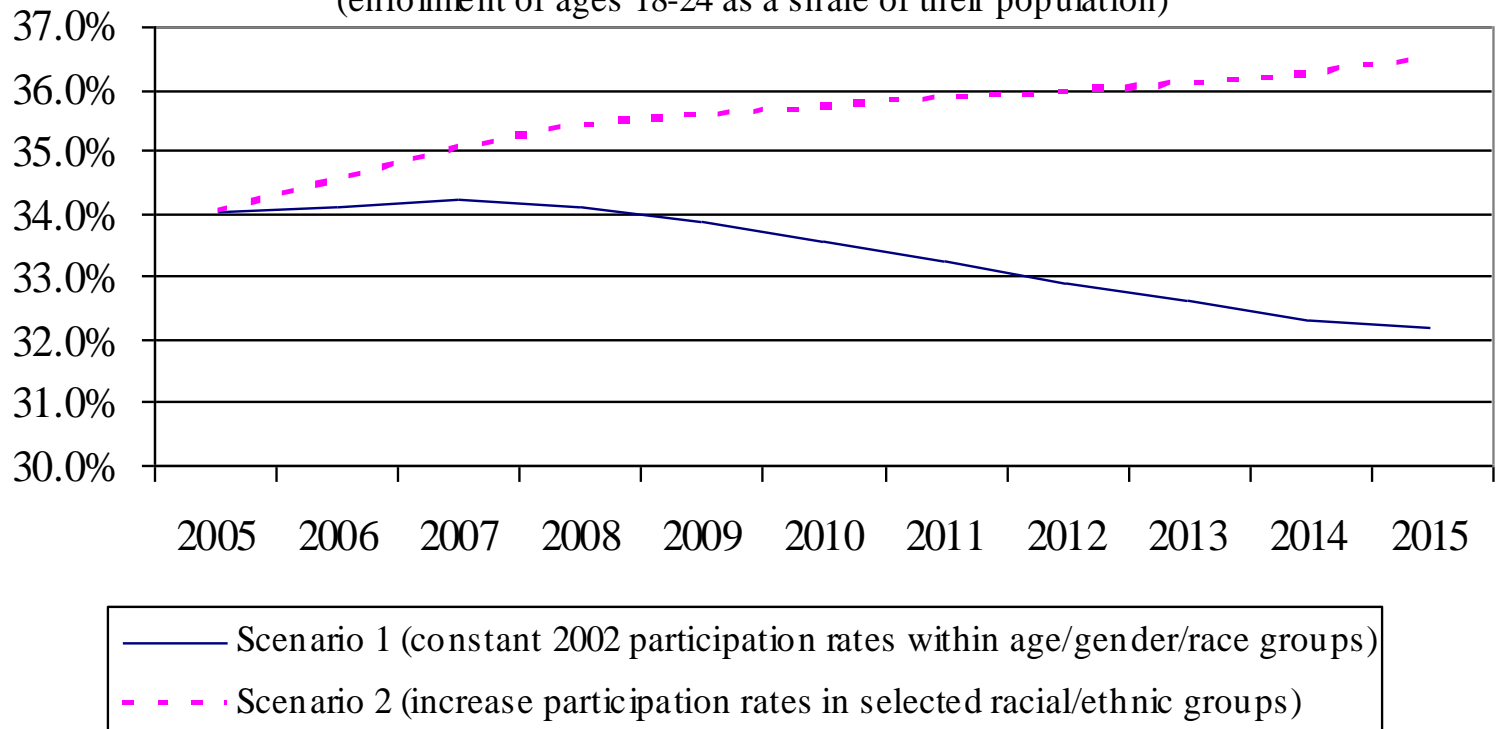
- Increased participation rates over 10-years:
 - Whites: 5%
 - Blacks: 20%
 - Latinos: 30%



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Figure 1: Alternate Projections of Undergraduate Participation Rates

(enrollment of ages 18-24 as a share of their population)





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Instructional Cost Per FTES

	<u>UC</u>	<u>CSU</u>	<u>CCC</u>
Undergraduate	\$15,897	\$10,874	\$4,695
Graduate	\$23,845	\$13,593	



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Instructional Costs of Scenario 2

- No change to community college funding:
 - 26% increase above inflation
 - \$24 billion above current investment levels over 10 years
- Increase to community college funding:
 - 62% increase above inflation
 - \$69 billion above current levels over 10 years
- Additional costs: capital outlay, research, public service, teaching hospitals, student aid



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Efficiency

- A loaded word – importance of language
 - Not about cutting budgets; working harder
 - Is about best return on any level of investment
- Institutional efficiencies
- Systemic efficiencies
 - Efficient movement of student within and across segments; more return on investment
 - Less controversial
 - More opportunity
 - Dependent on policy change



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Systemic Efficiency

- Reduce units-to-degree (FTE), e.g.
 - College credits in high school
 - College readiness to reduce remediation
 - Assessment and proper placement
 - Academic advising
 - Availability of required courses
 - Transfer
- Increase completion rates
 - Increases higher ed costs (but benefits State General Fund)



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Student Fee Revenue as Part of the Solution

- A paradigm shift for California values
- Current: fees as barrier to affordability
- Needed: fees as source of revenue to promote access and quality
- Reported fees as share of total instructional costs – before and after aid
- Legislature beginning to consider models
 - Fixed share of cost; vary by segment
 - National averages
 - Fixed incremental changes



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Analytical Framework

- Quantify what it would take for each source to cover costs – “boundary analysis”
- Set realistic expectations
- Lay foundation for analysis of specific shared solutions



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Option 1: General Fund Increase

Assumptions:

- No fee increases
- No efficiency gains

Findings:

- Additional General Fund: \$18.6 billion

How likely?

- (1) At reasonable growth rate of General Fund, would require increase in higher ed share – counter to trends – 12.8% to 11.7% decline over last five years
- (2) If declines in higher ed share continue, would require unlikely increase in General Fund revenues



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Option 2: Student Fee Increases

Assumptions:

- General Fund frozen at 2004-05 level
- No efficiency gains

Findings:

- Fee share of total revenue rises from 21.5% to 37.5%
- Fee revenue per FTES must increase by 71%
- Fees would rise by much more than 71%

How likely?

- Governor has proposed up to 10% per year for UC/CSU
- CCC – fees will remain low



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Option 3: Institutional Efficiency

Assumptions:

- General Fund frozen at 2004-05 level
- No fee increases

Findings:

- Cost per FTES has to decline by 17%
- By 30% if community colleges exempted

How likely?

- UC's entire institutional support/plant budget: 19%
- Large cuts in instruction unlikely
- Reductions in state costs per FTE already substantial



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Option 4: Systemic Efficiency

Assumptions:

- General Fund frozen at 2004-05 level
- No fee increases
- No reduction in cost per student

Findings:

- Units-to-degree must drop by 21.7%

How likely?

- Policy reforms in high school preparation, transfer, academic advising, unit requirements of majors, etc. could reduce units by 4.6% (rough estimate)



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Findings and Contributions

- Data problems limit development of plan
- State needs to plan for huge cost increases
- Costs can be reduced by efficiencies – systemic efficiencies are most hopeful
- Fee policy is needed – can help with access
- Shared solutions appear well within reach
- Key contributions:
 - Education v budget problem (graph)
 - Fees provide a share of revenue => policy?
 - “Efficiency” on the table