

## FROM STATE TO STUDENT: HOW STATE DISINVESTMENT HAS SHIFTED HIGHER EDUCATION COSTS TO STUDENTS AND FAMILIES

**C**alifornia's public higher education system has provided pathways to opportunity and economic mobility for millions of students. However, cuts in state General Fund support have led to significantly increased tuition and fees in recent decades at California's public four-year higher education institutions, threatening the promise – enshrined in the state's Master Plan for Higher Education – of affordable, quality higher education that is accessible to all eligible Californians. These trends have fundamentally altered how higher education costs are shared between the state, on the one hand, and students and their families, on the other. Whereas the state once paid most of the cost of public higher education in California, years of budget cuts and tuition hikes have shifted more of the costs to students and families, especially at the state's four-year institutions: the California State University (CSU) and the University of California (UC). This cost-shift undermines California's commitment to higher education and potentially puts the state's economic future at risk. It also means that more students are graduating with increasing amounts of student loan debt, while others are forgoing higher education altogether. A well-educated workforce is critical to California's future prosperity. Yet, at current rates, California will not produce enough college graduates to meet the demands of the state's economy in the years ahead.

### A Snapshot of California's Public Four-Year Higher Education System

Public four-year higher education in California is composed of two separate, yet interconnected, institutions: the California State University and the University of California. Their respective functions were outlined in the 1960 Master Plan for Higher Education in California (see text box). CSU provides undergraduate and graduate education to more than 365,000 students on 23 campuses across California. UC provides undergraduate, graduate, and professional education to more than 240,000 students on 10 campuses.<sup>1</sup> The state's public two-year postsecondary institution – the California Community Colleges (CCC) – is also a key component of California's higher education

system. However, because CCCs receive Proposition 98 funding guaranteed by the state Constitution for K-14 education, they are treated differently than CSU and UC in the state budget process.<sup>2</sup> Therefore, this report focuses on CSU and UC.

### State Support for CSU and UC Has Declined During the Past Generation

Over the past three decades, California has seen a significant increase in the demand for higher education.<sup>3</sup> Yet, state General Fund support for public four-year higher education institutions has not kept up either with this demand or with growth in the state's economy. In fact, state General Fund spending per student at both CSU and UC has declined notably since the early 2000s.

## The Master Plan Provides a Framework for Higher Education in California

The Master Plan for Higher Education in California has provided the framework for the state's postsecondary institutions for more than 50 years.<sup>4</sup> The Master Plan laid out a comprehensive, coordinated approach for providing higher education in California and guided the system's expansion as demand for postsecondary education was rapidly increasing. The Master Plan outlined the respective functions of the state's three public postsecondary institutions and recommended admissions criteria for each.<sup>5</sup>

- The **University of California (UC)** functions as the state's primary public academic research institution and provides undergraduate, graduate, and professional education.<sup>6</sup>
- The **California State University (CSU)** provides undergraduate education as well as graduate education through the master's degree, including teacher training.<sup>7</sup>
- The **California Community Colleges (CCC)** primarily provide vocational and lower-division academic instruction. Additionally, the community colleges grant certificates and associate degrees, provide remedial instruction, and offer a variety of other services, such as English as a second language (ESL) courses, parenting education, community education courses offered to the general public, and workforce training programs.<sup>8</sup>

The Master Plan emphasized the importance of admitting qualified CCC transfer students to CSU and UC and recommended policies governing transfer student admissions at both four-year institutions. A 1987 state review of the Master Plan reiterated the importance of an effective transfer system for community college students in recommending that it be considered a central priority of all public higher education institutions. The ability of CCC students to transfer to CSU or UC remains an essential component of the Master Plan's commitment to universal accessibility and affordability, especially given increases in tuition and fees at CSU and UC in recent decades. A student who cannot afford a full four years at CSU or UC can opt for two initial years at a community college and then, if accepted, complete her degree at one of the state's public universities.

The Master Plan reaffirmed that California's public higher education institutions should offer tuition-free education to all California residents.<sup>9</sup> However, the Master Plan also established the principle that students should pay fees for certain non-instruction-related services, such as housing and parking.<sup>10</sup> In the 1980s and 1990s, reductions in General Fund support for both CSU and UC coincided with significant increases in fees. To offset the state funding cuts, CSU and UC used revenue from student fees to support instruction, in effect ending the principle that students not be charged for costs directly related to their instruction. However, it was not until very recently that CSU and UC began using the term "tuition" to refer to instructional costs paid by students.<sup>11</sup>

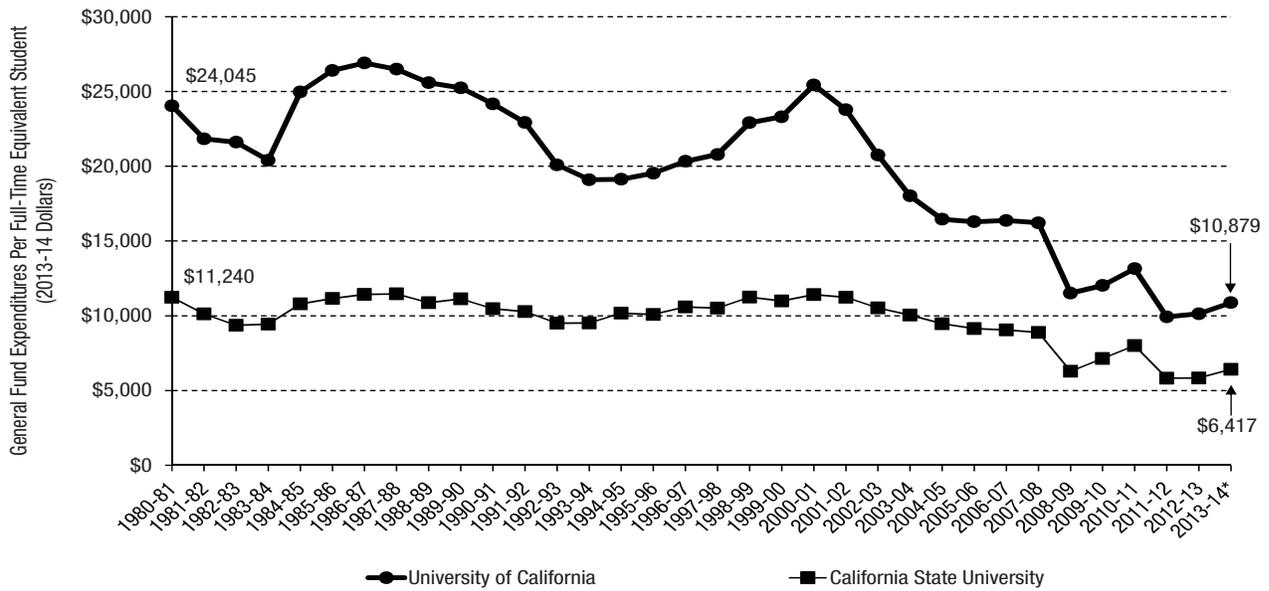
### State Spending Per Student Still Near Historic Low

In recent decades, California's financial commitment to CSU and UC has deteriorated. State General Fund spending per student at both CSU (\$6,417) and UC (\$10,879) in 2013-14 remains near the lowest point in more than 30 years, after adjusting for inflation (Figure 1). Severe state budget shortfalls in recent years, resulting from the Great Recession, led to steep cuts to state General Fund spending for higher education. However, these cuts only accelerated the downward trend in state General Fund spending per student for CSU and UC that was already underway after the burst of the "dot-com" bubble in 2000-01, which led to large state budget gaps. In fact, in 2006-07, the last full academic year prior to the start of the Great Recession, General Fund expenditures per student at CSU (\$9,048) and UC (\$16,374) were already at or near their lowest levels in decades, after adjusting for inflation.

### State Support Has Not Kept Pace With Increased Demand for Higher Education

Since 1980-81, state General Fund spending for CSU and UC has also not kept pace with the increased demand for higher education as California's population has continued to grow. Contrasted against the enrollment growth at CSU and UC over the past generation, the steep decline in state investment in public four-year higher education becomes even more apparent. Since 1980-81, the number of students has *increased* by more than 50 percent at CSU and by more than 90 percent at UC, yet state General Fund spending has *decreased* by nearly 13 percent at each institution, after adjusting for inflation (Table 1). In other words, compared to the early 1980s, CSU and UC today educate significantly *more* students with *less* funding from the state.

Figure 1: For Both CSU and UC, General Fund Spending Per Student Remains Near the Lowest Point in More Than 30 Years, After Adjusting for Inflation



\* Estimated.  
 Note: CSU and UC use "full-time equivalent (FTE) enrollment" to account for the number of credits taken by each student relative to a full-time course load in order to help determine funding levels per student.  
 Source: California State University, Department of Finance, and University of California

Table 1: As Full-Time Equivalent Enrollment Has Increased, State General Fund Support Has Declined

	Full-Time Equivalent Students*			General Fund Spending (2013-14 Dollars in Thousands)		
	1980-81	2013-14**	Percent Change	1980-81	2013-14**	Percent Change
California State University	239,035	365,568	52.9%	\$2,686,775	\$2,345,892	-12.7%
University of California	126,119	242,942	92.6%	\$3,032,570	\$2,642,971	-12.8%

\* Full-time equivalent (FTE) student figures do not represent the actual number of students enrolled at each institution. CSU and UC use FTE enrollment to account for the number of credits taken by each student relative to a full-time course load in order to help determine funding levels per student. For example, if four students each take one-quarter of a full-time course load, combined they would represent one FTE student.

\*\* Estimated.

Source: California State University, Department of Finance, and University of California

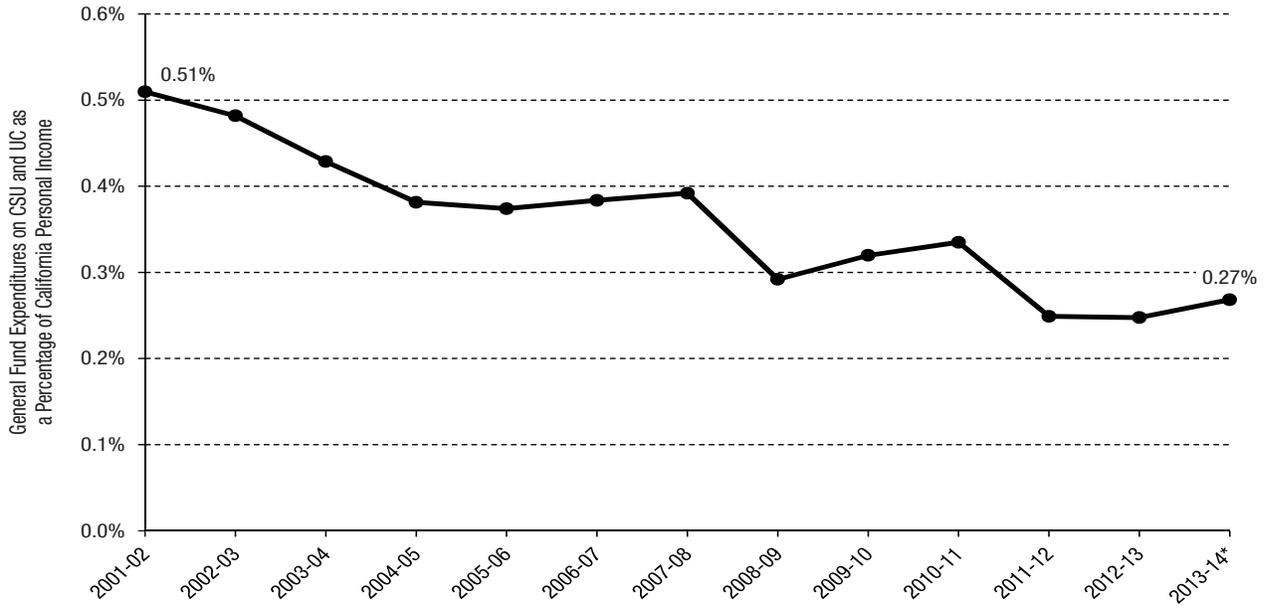
## California's Investment in Higher Education Has Not Kept Pace With Economic Growth

California's financial support for public four-year higher education also lags its capacity. As a share of California's total personal income – a common measure of the state's economy – state General Fund spending on CSU and UC combined has declined by nearly half since 2001-02 (Figure 2). During that same period, total personal income in California has increased by 19.0 percent, after adjusting for inflation. As the economy has grown, a generally declining share of that growth has been reinvested in CSU and UC, despite the fact that these institutions are key drivers of economic prosperity for millions of Californians and the state overall.

## As Spending on CSU and UC Has Declined, Corrections Spending Has Soared

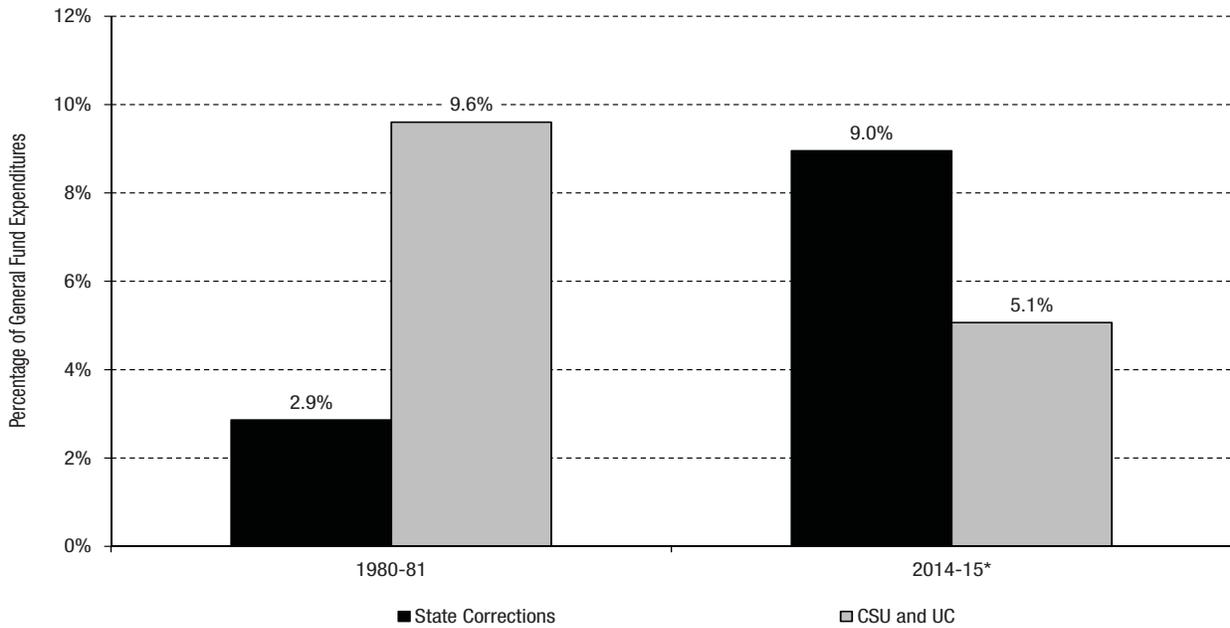
The decline in state General Fund spending on CSU and UC partly reflects the impact of the two most recent recessions and resulting decreases in General Fund revenues. However, this decline also reflects longer-term changes in the state's fiscal priorities. Perhaps most notably, state support for public higher education has diminished at the same time that the state's investment in corrections – that is, the state prison system – has increased markedly. As a share of the General Fund, the state in 1980-81 spent more than three times as much on CSU and UC as it did on state corrections (Figure 3). However, since then a disinvestment in higher education and soaring state corrections

Figure 2: As a Share of the State's Economy, State Support for CSU and UC Has Declined by Nearly Half Since 2001-02



\* Estimated.  
 Note: Figures prior to 2001-02 cannot be displayed due to data limitations.  
 Source: Department of Finance and US Bureau of Economic Analysis

Figure 3: In a Major Reversal From the Early 1980s, Spending on CSU and UC Now Accounts for a Far Smaller Share of the State Budget Than Corrections



\* Proposed.  
 Source: California State University, Department of Finance, and University of California

expenditures have resulted in a major reversal.<sup>12</sup> Under the Governor’s proposed 2014-15 spending plan, General Fund spending on state corrections (\$9.6 billion) would be *80.4 percent higher* than the level of state General Fund spending on CSU and UC combined (\$5.3 billion).

## CSU and UC Have Raised Tuition and Fees in Response to Budget Cuts

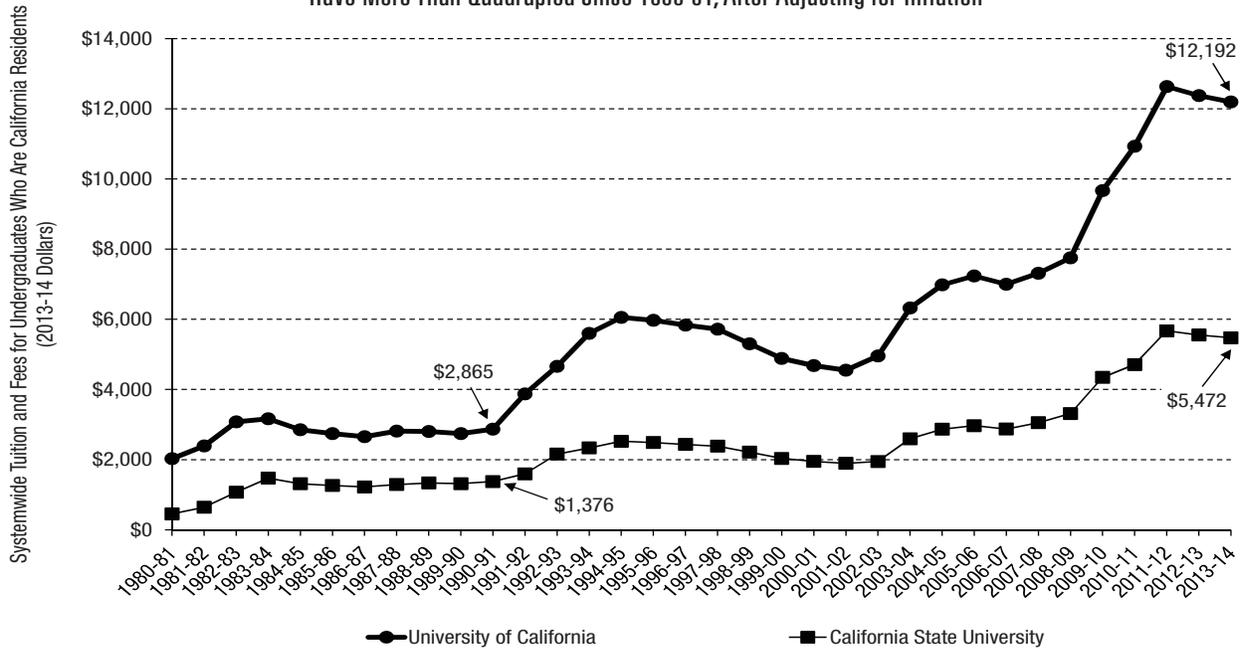
In response to cuts in state funding for higher education during the past three-plus decades, CSU and UC have increased their tuition and fee levels in order to balance their budgets and carry out their missions. Since 1990-91, tuition and fees for California residents have more than tripled at CSU and more than quadrupled at UC, after adjusting for inflation (Figure 4).<sup>13</sup> While a large share of these increases occurred during the recent period of state budget shortfalls brought on by the Great Recession, inflation-adjusted tuition and fee levels were already near historic highs in 2006-07, the last full academic year prior to the downturn.<sup>14</sup>

## Students and Families Are Paying an Increasing Share of Higher Education Costs

Typically, the state General Fund has been the primary source of “core funding” for CSU and UC – dollars that support activities related to the core education functions of these four-year institutions.<sup>15</sup> Fifteen years ago, the state directly contributed nearly 80 percent of core funding for CSU and slightly more than 75 percent of core funding for UC (Figure 5). With these higher levels of state support, less of the cost burden fell on students and their families than it currently does. In 1998-99, “net tuition and fees” – which includes state Cal Grant tuition and fee payments for low- and middle-income students – accounted for less than one-fifth of core funding at both CSU (19.2 percent) and UC (18.9 percent).<sup>16</sup> Since then, however, tuition and fee increases have shifted a larger share of core higher education costs from the state to students and families.

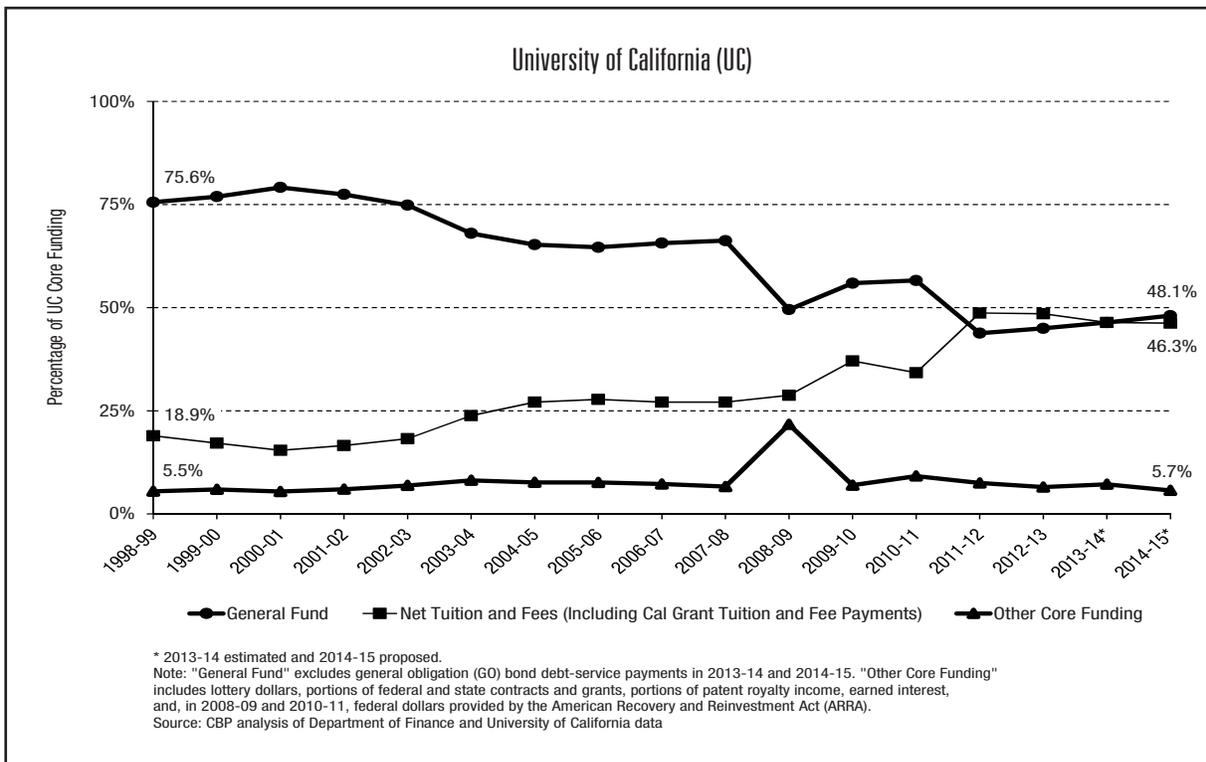
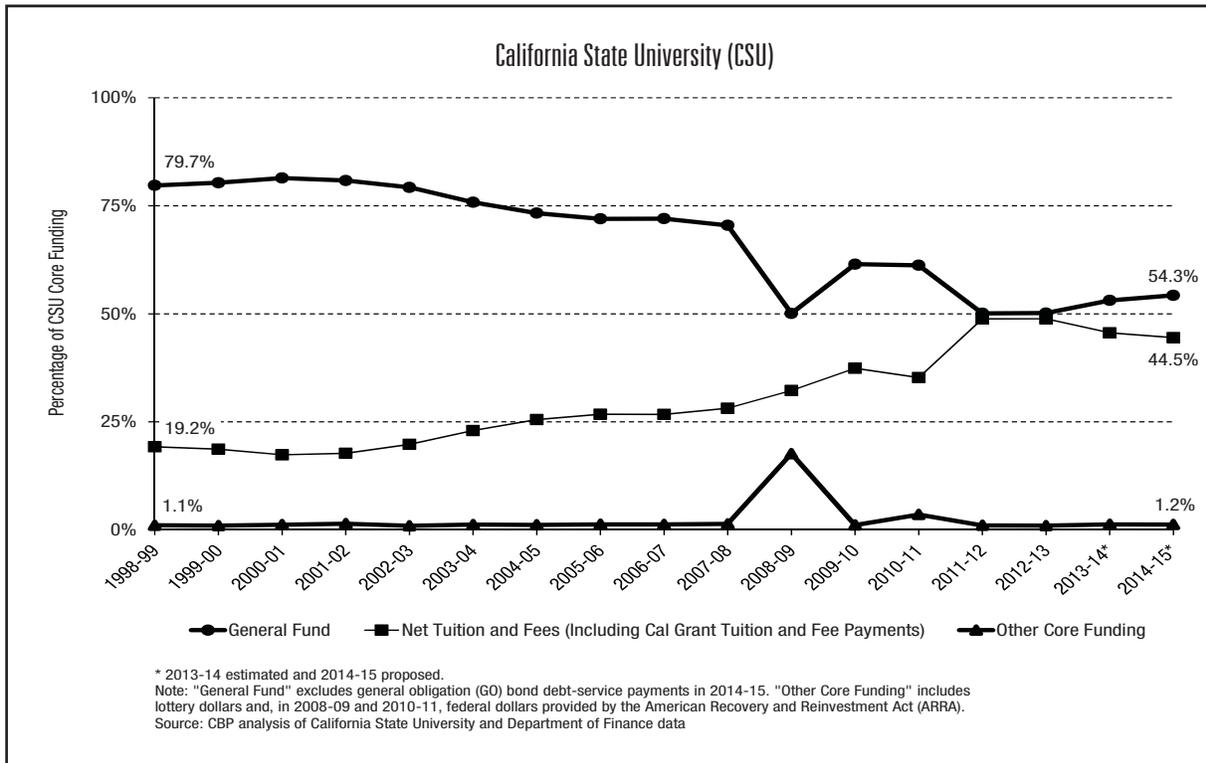
- At CSU, net tuition and fees will provide 44.5 percent of core funding in 2014-15 under the Governor’s proposed budget.

Figure 4: CSU Tuition and Fees Have More Than Tripled and UC Tuition and Fees Have More Than Quadrupled Since 1990-91, After Adjusting for Inflation



Note: Without adjusting for inflation, systemwide tuition and fees at CSU and UC have been frozen since 2011-12.  
Source: California State University and University of California

Figure 5: Since the Late 1990s, Direct State Funding Has Declined Significantly as a Share of Core CSU and UC Funding, With Net Tuition Providing an Increased Share



This represents a more than 25 percentage-point increase since 1998-99. During the same period, direct state General Fund support as a share of CSU's core funding has declined from nearly 80 percent to a proposed 54.3 percent in 2014-15 – a more than 25 percentage-point drop.

- At UC, net tuition and fees will account for 45.6 percent of core funding in 2014-15 under the Governor's proposed budget. This is an increase of more than 26 percentage points since 1998-99. During the same period, direct state General Fund support as a share of UC's core funding has declined from more than 75 percent to a proposed 48.7 percent in 2014-15 – a drop of nearly 27 percentage points.

As noted above, some low- and middle-income students at CSU and UC receive state financial aid through the Cal Grant program, which helps offset tuition and fees. While Cal Grants are an important source of support for students, they do not fully address the broader issue of college affordability. At both CSU and UC, tuition and fees make up less than half of a typical student's *total* cost of attendance after accounting for other expenses, such as housing and books.<sup>17</sup>

## Cost-Shift to Students and Families Threatens California's Future Prosperity

Students and families are confronting difficult choices as they bear a larger share of the cost of a public four-year higher education in California. Some students are borrowing additional money for college and are therefore graduating with more student loan debt. Others may be enrolling in higher education institutions out of state or even putting off postsecondary education altogether. These developments are troubling for the future of low- and middle-income Californians and for the state as a whole.

### A Growing Share of Students Are Graduating With Increasing Amounts of Student Loan Debt

The ongoing shift of higher education costs from the state to students has contributed to rising student loan debt levels as a

growing number of students rely on loans to help pay for college. In 2010, about four in 10 first-year full-time undergraduate students attending CSU or UC took out student loans, the largest share in a decade.<sup>18</sup> At UC, undergraduates who took out loans graduated with an average of about \$19,750 of student loan debt in 2011-12 – nearly \$3,000 higher than in 2006-07, after adjusting for inflation.<sup>19</sup> At CSU, undergraduate students who took out loans graduated with an average of about \$17,150 of student loan debt in 2010-11, an increase of more than \$1,500 from 2006-07, after adjusting for inflation.<sup>20</sup> Rising student loan debt for CSU and UC graduates indicates that public four-year higher education is becoming less affordable and accessible for many high school graduates in California, at a time when demand for bachelor's degree holders is projected to increase in the years ahead.

### CSU and UC Enrollment Rates Declined in Recent Years, Yet Demand for College Graduates Is Projected to Rise

In recent years, the enrollment rates for CSU and UC among high school graduates declined. From 2007 to 2010, the share of recent high school graduates enrolling at either CSU or UC dropped by nearly one-fifth (18.7 percent).<sup>21</sup> Some students not enrolling in CSU or UC likely pursued other higher education opportunities in California. However, others may have left the state to attend college or may not have enrolled in college at all, according to the Public Policy Institute of California (PPIC).<sup>22</sup> These are worrying trends for the ability of Californians to fully participate in the economy and for the state's future prosperity. Research suggests that by 2025, two in every five jobs in the state will require a bachelor's degree.<sup>23</sup> Yet, California is projected to be 1 million four-year degree holders short of meeting the expected demand by then, according to PPIC projections.<sup>24</sup>

### Higher Education Is a Pathway to Opportunity for Millions of Low- and Middle-Income Californians

The long-term decline in state General Fund support per student at CSU and UC has come during a period when the link between a well-educated workforce and a high-wage state

## CSU and UC Campuses Have a Significant Economic Impact on Local Communities

State support for CSU and UC has a large economic impact across California, especially in communities where campuses are located. With a total of 33 campuses statewide, CSU and UC directly employed more than 235,000 Californians in 2012. In addition, state investment in CSU and UC generates significant activity in California's overall economy. One study suggests that CSU, through a combination of direct CSU employment and education-related spending by the institution and its students, supports nearly 150,000 jobs statewide and generates more than \$5 for California's economy per \$1 of state investment.<sup>25</sup> Another study finds that spending by UC and its employees, retirees, and students supports 258,000 jobs across the state and generates \$21 billion of economic output in California.<sup>26</sup>

economy has grown stronger.<sup>27</sup> Over the past generation only Californians with bachelor's degrees, on average, made strong wage gains, providing clear evidence that a four-year college degree is closely tied to economic mobility.<sup>28</sup> In 2011, working Californians with bachelor's degrees earned over 55 percent more than those with only a high school diploma. Furthermore, less educated Californians have greater difficulty finding work and face significantly higher unemployment rates than those with four-year degrees. Yet, in nearly 60 percent of California's more than 1.3 million low-income working families, no parent has any education beyond high school, the largest share of any state.<sup>29</sup> Shifting a larger share of costs to students and families narrows the pathway to opportunity that a higher education offers to many low- and middle-income Californians.

## Conclusion

California's public higher education system has provided pathways to economic prosperity and mobility for millions of

Californians over the years. However, cuts in state support for, and rising tuition and fees at, CSU and UC have coincided with recent enrollment rate declines, and more students are graduating with increasing amounts of student loan debt. In addition, the share of low-income working families in which no parent has any education beyond high school is larger in California than in any other state.

With California projected to face a sizeable shortfall of college graduates in the coming years, simply maintaining the status quo – including the level of direct General Fund support for CSU and UC – puts the state's economic future at risk. To help strengthen pathways to economic opportunity for low- and middle-income Californians, and create a strong foundation for future economic growth, policymakers should rebuild state support for CSU and UC and recommit to providing an affordable, quality higher education that is accessible to all eligible Californians.

*Phaelen Parker prepared this Budget Brief. The CBP was established in 1995 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, subscriptions, and individual contributions. Please visit the CBP's website at [www.cbp.org](http://www.cbp.org).*

## ENDNOTES

- <sup>1</sup> Data for both CSU and UC reflect full-time equivalent (FTE) student enrollment. Enrollment and per-student spending figures reported throughout this *Budget Brief* reflect FTE enrollment, which does not represent the actual number of students enrolled at each institution. CSU and UC use FTE enrollment to account for the number of credits taken by each student relative to a full-time course load in order to help determine funding levels per student. For example, if four students each take one-quarter of a full-time course load, combined they would represent one FTE student. Both CSU and UC calculate annual FTE enrollment by averaging FTE enrollment across academic terms, with CSU specifically referring to its calculation as “college year” enrollment.
- <sup>2</sup> CSU and UC, whose state funding levels are determined by the Legislature, do not receive Proposition 98 dollars and are not guaranteed annual funding. For a description of Proposition 98, see California Budget Project, *School Finance in California and the Proposition 98 Guarantee* (April 2006).
- <sup>3</sup> Unless otherwise noted, all references to “higher education” in the remainder of this *Budget Brief* refer to CSU and UC.
- <sup>4</sup> Unless otherwise noted, the use of the term “Master Plan” in this *Budget Brief* refers to two documents: “A Master Plan for Higher Education in California, 1960-1975” and the Donahoe Higher Education Act. In 1959, state legislators asked the State Board of Education and The Regents of the University of California to create a coordinated plan for higher education in California. The Regents of the UC and the State Board of Education presented “A Master Plan for Higher Education in California, 1960-1975” to the governor and the Legislature in 1960. The same year, the Donahoe Higher Education Act codified several of the Master Plan recommendations, including defining the distinct missions of the three public segments. The original 1960 Master Plan and subsequent periodic state reviews of the Master Plan are not codified in state law. Parts of the Donahoe Act have been changed or expanded by legislation, though not always as a result of a formal review of the Master Plan.
- <sup>5</sup> The Master Plan recommended that the top one-eighth (12.5 percent) of all California public high school graduates be eligible for admission to UC, and that the top one-third (33.3 percent) of all California public high school graduates be eligible for admission to CSU. According to the Master Plan, CSU and UC would define how these groups are determined.
- <sup>6</sup> The Master Plan gave UC exclusive jurisdiction over training for certain professions, including dentistry, law, medicine, veterinary medicine, and graduate architecture.
- <sup>7</sup> The Master Plan stated that CSU was to provide instruction in “professions and applied fields which require more than two years of collegiate education and teacher education, both for undergraduate students and graduate students through the master's degree.”
- <sup>8</sup> See California Budget Project, *Basic Skills Education in California* (April 2010).
- <sup>9</sup> The Master Plan defined “tuition” as “student charges for teaching expense.”
- <sup>10</sup> The Master Plan defined “fees” as “charges to the students for services not directly related to instruction, such as health, counseling other than that directly related to the students' educational program, placement services, housing, recreation, and the like.”
- <sup>11</sup> CSU adopted the word “tuition” to describe some mandatory instruction-related student fees on January 14, 2011. The UC Board of Regents changed the name of the Educational Fee to “Tuition” in November 2010.

- <sup>12</sup> Without adjusting for inflation, General Fund spending on state corrections rose from \$604.2 million in 1980-81 to a proposed \$9.6 billion in 2014-15.
- <sup>13</sup> “Tuition and fees” include all systemwide charges for all undergraduate students attending either CSU or UC. Students attending CSU or UC also pay campus-based fees, which are excluded from this analysis because they vary across campuses and by student level (undergraduate versus graduate, for example). Tuition and fee levels have remained at the same historic highs at both CSU (\$5,472) and UC (\$12,192) since 2011-12; however, when adjusted for inflation, tuition and fees have declined slightly in each of the past two years at both institutions.
- <sup>14</sup> Without adjusting for inflation, tuition and fee levels for CSU and UC were at historic highs in 2006-07.
- <sup>15</sup> The “core funding” data reported in this *Budget Brief* reflect CBP calculations that are based on a methodology developed by the Legislative Analyst’s Office. Core funding is composed of a number of funding streams, including state General Fund dollars, student tuition and fee revenue, and federal dollars. Core funds support instruction, research, academic support, teaching hospitals, student services, and operation and maintenance.
- <sup>16</sup> CSU and UC use a portion of tuition and fee revenues to fund their institutional financial aid programs; “net tuition and fees” reflects the amount of tuition and fee revenues that remain after that shift has occurred. These remaining revenues are used to support the core education functions of CSU and UC. Cal Grant tuition and fee payments – through which the state provides *indirect* funding for CSU and UC – are estimated to make up less than one-third of total net tuition and fees at both CSU and UC in 2013-14. Cal Grants are administered by the California Student Aid Commission (CSAC) and are provided to California students who meet academic, financial, and eligibility requirements. Eligible students attending CSU or UC may receive either a Cal Grant A or Cal Grant B award. Cal Grant A awards cover systemwide tuition and fees at CSU or UC, up to \$5,472 and \$12,192, respectively. Cal Grant B awards provide low-income students with a modest stipend (up to \$1,473) to cover other education-related expenses, such as books. After the first year, a Cal Grant B award covers systemwide tuition and fees in the same amounts as a Cal Grant A.
- <sup>17</sup> In 2013-14, tuition and fees made up about 33 percent and 45 percent of the average cost of attendance at CSU and UC, respectively. See Legislative Analyst’s Office, *Financial Aid Overview* (March 5, 2014).
- <sup>18</sup> Hans Johnson, et al., *Student Debt and the Value of a College Degree* (Public Policy Institute of California: June 2013), p. 5.
- <sup>19</sup> Student loan debt data were provided by UC adjusted to 2011 dollars.
- <sup>20</sup> Figure is in 2011 dollars. CBP inflation adjusted CSU data to 2011 dollars to match UC data.
- <sup>21</sup> Hans Johnson, *Defunding Higher Education: What Are the Effects on College Enrollment* (Public Policy Institute of California: May 2012), p. 3.
- <sup>22</sup> Hans Johnson, *Defunding Higher Education: What Are the Effects on College Enrollment* (Public Policy Institute of California: May 2012), pp. 12-13.
- <sup>23</sup> This is based on a projection of past trends in worker education within and across industries and occupations. From 1990 to 2006, the share of workers in California with a bachelor’s degree increased from 28 percent to 34 percent. If this trend continues, the demand for college-educated workers in 2025 would be equivalent to 41 percent of California workers. See Deborah Reed, *California’s Future Workforce: Will There Be Enough College Graduates?* (Public Policy Institute of California: December 2008), p. 1.
- <sup>24</sup> Hans Johnson, *Defunding Higher Education: What Are the Effects on College Enrollment?* (Public Policy Institute of California: May 2012), p. 3.
- <sup>25</sup> ICF International, *Working for California: The Impact of the California State University System* (May 2010), p. viii-ix.
- <sup>26</sup> Economic & Planning Systems, Inc., *The University of California’s Economic Contribution to the State of California* (September 12, 2011), pp. 24-25. Economic output “reflects UC spending on employee compensation and the total production value of all the goods and services obtained from California producers, including equipment, supplies, insurance, rents, utilities, communication services, printing, and other goods and services.”
- <sup>27</sup> Noah Berger and Peter Fisher, *A Well-Educated Workforce Is Key to State Prosperity* (Economic Analysis and Research Network: August 22, 2013), pp. 7-8.
- <sup>28</sup> California Budget Project, *A Fair Chance: Why California Should Invest in Economic Opportunity for Women and Their Families* (March 2013), p. 31.
- <sup>29</sup> “Low-income” is defined as below 200 percent of the federal poverty line. The Campaign for College Opportunity and the Women’s Foundation of California, *Working Hard, Left Behind: Education as a Pathway From Poverty to Prosperity for Working Californians* (May 2013), pp. 8 and 10.