



Testimony to the Little Hoover Commission, Public Hearing on Higher Education, August 28th, 2012

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Thank you for the opportunity to participate in this discussion of higher education policy issues facing California. Because of its importance for the state's future, higher education policy is a central focus of the Public Policy Institute of California (PPIC). I am pleased that the Little Hoover Commission intends to complement the work you have recently completed on community colleges with this new effort. Leadership of policymakers on higher education issues is essential if California is to meet the rising demand for educated workers.

PPIC has developed a number of reports on California's higher education. Those reports are available on the higher education page of our website at <http://www.ppic.org/main/policyarea.asp?i=17>. My comments today stem from that work and will focus on four topics:

1. The workforce skills gap
2. Setting new goals for higher education
3. The effect of budget cuts on enrollment rates
4. Moving forward

1. California faces a workforce skills gap

California's higher education system is not keeping up with the changing demands of the state's economy, an economy that is increasingly dependent on highly educated workers. For decades, the demand for workers has shifted toward higher levels of education. This shift has occurred as a result of changes both within and across industries. The fastest growing industries in California include those that require high levels of education, including health care and information technology. At the same time, other industries are also upgrading skill requirements. As a sign of this demand, the difference in wages between college graduates and less educated workers has grown sharply over the past few decades. Today, workers with bachelor's degrees earn almost twice as much as those who with only high school diplomas. Throughout the recession, unemployment rates have remained far lower for college graduates than for less educated workers. Based on economic trends, PPIC projects that 41 percent of jobs in California will require a bachelor's degree in 2025, up from 37 percent today.

But unless young adults' college-going and college graduation rates increase substantially, the supply of graduates is not likely to meet the rising demand. Two demographic trends make the supply challenge especially acute. First, the baby boomers—a well-educated group—will fully reach



retirement age by 2025, marking the first time that large numbers of college graduates will leave the workforce. Second, the population is shifting toward groups with historically lower levels of educational attainment. In particular, Latinos—who now make up the largest group of young adults—have historically had low rates of college completion. Moreover, there will not be enough newcomers to California—from abroad or from other states—to close the skills gap. PPIC projects that by 2025, only 35 percent of California adults will have bachelor’s degrees. To put it another way, if current trends persist, the state will face a *shortfall of 1 million college graduates* with at least a bachelor’s degree. Others analysts have identified a shortage of an additional 1 million workers with some form of post-secondary credential short of a bachelor’s degree. To close the gaps, California will need to increase college enrollment and graduation rates.

2. Setting new goals for higher education

If we are going to close the workforce skills gap, public institutions will have to play a vital role. Higher education is largely a public endeavor in California. More than four of every five college students in California are enrolled in one of the state’s three public higher education systems: the community colleges, the California State University (CSU), or the University of California (UC). Three of every four bachelor’s degrees awarded annually in California come from either CSU or UC.

In 2010, PPIC released a report on the 50th anniversary of California’s Master Plan for Higher Education. The Master Plan defined a strategy for California’s public higher education systems to meet the state’s challenges in 1960 and set California apart among states. Many would argue that the ideals embodied in the Master Plan—ensuring access and quality of public higher education—have been abandoned. We conclude that the Master Plan is outdated, and new goals need to be established for our higher education systems. The economy of California is dramatically different today than it was in 1960. For example, the Master Plan’s eligibility targets—that the top 12.5 percent of high school graduates should be eligible for UC and the top one-third for CSU—might have seemed ambitious in 1960 when only 11 percent of working age adults in the state had a bachelor’s degree. Yet today, more than one-third of workers have a bachelor’s degree. But the Master Plan eligibility targets have not changed in 50 years. These eligibility levels are regressive in light of current and projected economic demands for college graduates.

Closing the workforce skills gap will require new approaches to higher education, as well as new investments in higher education. To meet the projected demand by 2025, the state would need to immediately increase the production of baccalaureates by almost 60,000 per year. Currently, state public institutions produce slightly over 110,000 baccalaureates each year and private institutions account for another 40,000. In other words, California would need to increase the production of baccalaureates about 40 percent above current levels to close the gap. This is a daunting challenge, and in the short run, very unlikely to be achieved. It will not only require improvements and expansions of the state’s higher education systems, but also guided investments in the state’s K-12 system to decrease the high school dropout rate and increase the share of high school graduates who are equipped for college-level work.



Just because we cannot easily erase the projected 1 million shortfall in college graduates does not mean we cannot significantly narrow the gap. The state could close most of it through relatively modest increases in three areas: rates of college-going by high school graduates, rates of transfer from community to four-year colleges, and degree-completion rates for students at the California State University system. Specifically, the state should set new goals for higher education, including:

- Raising eligibility goals for UC and CSU. These goals should increase gradually so that by 2025 the top 15 percent of the state’s high school students would be eligible for UC, up from 12.5 percent today. The top 40 percent would be eligible for CSU, up from 33 percent today.
- Setting explicit goals to increase community college transfers to CSU and UC. Today, fewer high school graduates in California than in other states enter four-year colleges, but many more enter community colleges. Ensuring that more of them successfully transfer to four-year institutions is critical to increasing the number of college graduates. A 25 percent increase in current transfer rates by 2025 would lead to tens of thousands of new baccalaureates.
- Establishing specific goals for college completion and the number of years it takes to get a degree. Improving graduation rates from CSU—where only about half of incoming freshmen graduate in six years—is one of the most cost-effective ways to increase the number of college graduates in the state. Including specific performance measures would allow the state to identify specific goals for the higher education systems and to track progress toward those goals.

The state could make significant headway in closing the skills gap, and Californians would reap the benefits of increased economic mobility if these recommendations are implemented. There are other benefits, as well. Higher eligibility and transfer rates would lead to a more diverse student body—racially, ethnically, and economically—on UC and CSU campuses. California would benefit from the social and economic mobility that accompanies higher levels of education, and the state would receive increased tax revenues. Perhaps most important, higher educational attainment among the state’s residents would foster greater economic growth. Not only do college graduates earn higher wages, they are much more likely to start businesses than less-educated adults. Failure to improve educational outcomes threatens the long-term economic prospects for Californians and for the state. Unemployment rates will be higher and wages will be lower in a future with a less-educated workforce.

3. The effect of budget cuts on student enrollment

Despite the need for more college graduates, enrollment trends are going in the opposite direction. Over the past few years, the most important policy change in higher education in California has been an unprecedented reduction in state general fund support. The state now spends more on corrections than on public universities, a threshold that was first crossed in 2003-04. At both UC and CSU, state general fund support per student fell almost 50 percent from 2000-01 to 2011-12 (adjusting for inflation). In response to the decline in state support, UC and CSU have rapidly raised tuition and fees. Tuition increases have not fully compensated for the decline in state general fund



support, as a large share of the tuition increases are used to provide grants for low- and middle-income students.

In the face of reduced state support, all three branches of the public higher education system have acted to limit enrollment. UC has reduced its enrollment targets, prompting many campuses to become more selective. UC places eligible applicants not admitted to their campuses of choice in a "referral pool" for admission to a less selective campus. The size of this pool has grown dramatically, to more than 10,000 students. In other words, an increasing number of students are being accepted at campuses for which they did not apply. Students are much less likely to attend a college that is not their first choice. CSU designates its more popular campuses as "impacted," meaning that students generally outside the local admission area are required to have higher grades and test scores to be admitted. The number of impacted campuses has grown rapidly and now includes all the large urban campuses. For students applying for fall 2012, 16 of the 23 campuses are impacted. Moreover, the number of students who met CSU minimum eligibility criteria but were not offered admission at CSU campus grew from less than 4,000 in fall 2008 to more than 12,000 in fall 2011. Community colleges do not cut admissions to reduce costs but have rationed enrollment by increasing class sizes and reducing programs and course offerings.

As a result of the budget cuts and subsequent actions taken by the state's higher education institutions, the share of California high school graduates enrolling in the state's public colleges and universities has declined significantly over the past five years. Enrollment rates at UC and CSU have fallen by one-fifth, from about 22 percent of all California high school graduates in 2007 to less than 18 percent in 2010. Among the state's most highly prepared high school graduates—those who complete courses required for admission to these colleges—enrollment has declined from about 67 percent to 55 percent. These declines coincide with actions taken by these university systems to limit enrollment, as well as with the most dramatic increases in tuition and fees in the history of these institutions.

The drop in enrollment rates is not a result of a decline in applicants' qualifications. The share of high school graduates who complete classes required for UC and CSU admission—known as A-G courses—is at historically high levels for every ethnic group in the state. Moreover, the share of high school graduates applying to UC and CSU has risen substantially over the past 10 years. Yet enrollment rates at UC and CSU are declining for each group and are sharpest among African Americans.

The decline in enrollment rates at UC and CSU is especially troubling because it is not matched by increases in enrollment at other California colleges. While overall enrollment in community colleges has declined, enrollment rates of recent high school graduates into community colleges have remained at about 35 percent. Enrollment rates of recent high school graduates in California's private universities have remained relatively unchanged and at low levels (less than 4 percent in 2010). We see some evidence that increasing numbers of qualified high school graduates are not enrolling in college at all. At UC, about 10 percent of qualified applicants did not enroll in any college (public or private). Also, the number of recent high school graduates leaving California for



four-year colleges has increased substantially. Those departures represent a significant loss for California, especially because the vast majority are unlikely to return to California after graduating from college in another state. In the final analysis, sizeable numbers of high school graduates are less likely to enroll in a California university than they were just a few years ago, precisely the wrong direction for California to meet the future demand for highly educated workers.

4. Moving forward

California policymakers need to take action to ensure that our children are prepared for the challenges and opportunities of the 21st-century economy. The long history of economic progress in California is strongly tied to improvements in educational attainment from one generation to the next. That progress is imperiled today and will not be achieved without renewed investments in our higher education systems. Undoubtedly these new investments include additional funding, but they also include renewed focus and planning. Specifically, California policymakers and higher education officials should:

- Set new long-term goals for our higher education systems.
- Identify how to fund these goals.
- Measure progress toward reaching them.

In this testimony, I have outlined some specific goals with respect to eligibility, transfer, and completion. Those goals, if realized, would largely close the workforce skills gaps by 2025.

Establishing new goals will require new agreements between the state and its institutions of higher education. The state's role is to ensure that these goals meet the needs of California's economy and people, and that the goals are achieved as efficiently as possible. The state will undoubtedly need to provide additional funding. Given the size of the budget cuts—\$1.6 billion in real terms between 2000-01 and 2010-11—it is not reasonable to expect progress without additional funding. However, rather than simply restoring previous cuts, new investments should be strongly aligned with the state's goals. Higher education funding (including Cal Grants) should be prioritized where it will create the greatest benefit, based on an evaluation of which programs and institutions have the best track record of serving their students. Moreover, it is unlikely that the state will be able provide sufficient funds to dramatically reduce tuitions and fees. To date, the state and its public universities have done a good job of providing grant aid for low-income students and for some middle-income students, but have not developed new programs for other students. Income-contingent loans and college savings plans that guarantee tuition are two possibilities.

Higher education systems will have to accept some oversight and periodic review to ensure that they are meeting state objectives. With the demise of the California Postsecondary Education Commission, there is no obvious agency to provide this kind of oversight. The California Competes Council has recommended an independent "Higher Education Investment Board" that would be responsible for prioritizing the state's funding and objectives. However, even in the absence of such oversight, positive steps toward change have already been taken by the state's higher education institutions. For example, the California Community Colleges have begun implementing some of the

suggestions designed to improve student outcomes, as identified by the Student Success Task Force, and the California State University system has established completion goals that are in agreement with those recommended by PPIC.

Finally, the state needs more information to evaluate whether institutions and practices are effective. The new state student data system is a step in the right direction, but it must be designed so that rigorous analyses of policy interventions can identify the most effective ways to improve student outcomes. Developing a linked student data system from kindergarten through college is essential. Combining that data with wage records from the Employment Development Department would go a long way toward developing a new understanding of how best to allocate limited resources.

In many ways California's higher education system is adrift: it is short of money, goals, and data. Moreover, it lacks constructive leadership from Sacramento. The Little Hoover Commission can help rectify some of these problems by calling attention to them and identifying viable solutions. Historically, the development of California's public higher education system has been important to the state's prosperity. With planning and focus, we can ensure that prosperity into the future. I am happy to continue to meet with the Commission as it moves forward on this important project.