

III. California's Higher Education Investment

California makes investments in higher education primarily through state and local tax fund appropriations for higher education, and through the tuition and fees paid by students and their families. Additionally, the state of California has made key investments in need-based student financial aid. Each of these components of state investment is described below.

California has substantially reduced its annual investment effort in higher education and some public sector institutional tuition and fees have increased to offset this loss in state support. The costs of California higher education are being shifted from taxpayers to students and their families—a growing share of which are low income and cannot afford to pay these higher charges. Despite the state's fairly large financial aid system to help students pay these higher costs there remains billions of dollars of unmet financial need for the state's growing low and lower-middle income populations.

A. State Tax Fund Investment Effort

For FY2008 California appropriated about \$11.1 billion for the operations of higher education in California. On a state personal income tax base of \$1.4 trillion, this produces a state tax fund investment effort of \$7.71 per \$1000 of state personal income. California ranked 21st among the states in state tax investment effort in higher education. As recently as FY1980 California ranked 11th among the states on this measure, and in FY1994 the state ranked 40th on this same measure.

The FY2008 state investment in higher education is 40.0% below the peak of \$12.86 per \$1000 of state personal income reached in FY1980. If California had maintained its FY1980 investment effort in FY2008 then instead of appropriating \$11.1 billion it would have appropriated \$14.2 billion for the operations of higher education, or about \$3.2 billion more than it did.³

In addition to state tax fund appropriations, California provides an additional \$3.9 billion per year in support of community colleges.¹³

B. Tuition and Fee Rates

California's undergraduate tuition and fee rates vary widely, absolutely and relatively compared to rates charged undergraduate students enrolled in public institutions in other states.

At the state's flagship university campus—UC Berkeley—the tuition and fee charge was \$8,385 for FY2008. By comparison the national average undergraduate tuition and fee charge for undergraduates at flagship universities was

\$7,029. California ranked 10th among the state flagship universities. Between FY2004 and FY2008 this rate increased by 59.7%—third highest increase among all flagship universities during this period.

At California's state universities the average tuition and fee charge for undergraduates was \$3,604 for FY2008. By comparison the national average was \$5,526. California's state universities ranked 43rd among state universities. This rate increased 36.1% between FY2004 and FY2008. The increase ranks 17th highest among the states during this period.

At California's community colleges average annual tuition and fees were \$600, compared to the national average of \$2,737. California has the lowest tuition and fee rates for community colleges of any state by far.¹⁴

C. Need-Based Student Financial Aid

California's investment in need-based student financial aid looks good compared to other states, but it also looks bad compared to the federal Pell Grant program.

The federal Pell Grant program provided \$1,488,876,000 to financially needy California resident undergraduate students in FY2006. By comparison California provided \$758,181,000 in need based grant dollars to its own needy undergraduate students. The California contribution was 50.9% of the federal contribution, and this ranked California 10th among the states. Taxpayers from across the country provided about twice as much need-based grant dollars to California undergraduate students compared to what the state of California provided.

The federal Pell Grant program provided grants to 584,559 needy California undergraduate students in FY2006. The State of California provided need-based grants to 200,586 students, or 34.3% of those assisted by the federal Pell Grant program. California ranked 22nd among the states on this measure. Again taxpayers from across the country provided need-based grants to nearly three times as many needy California undergraduates as did the state of California.³

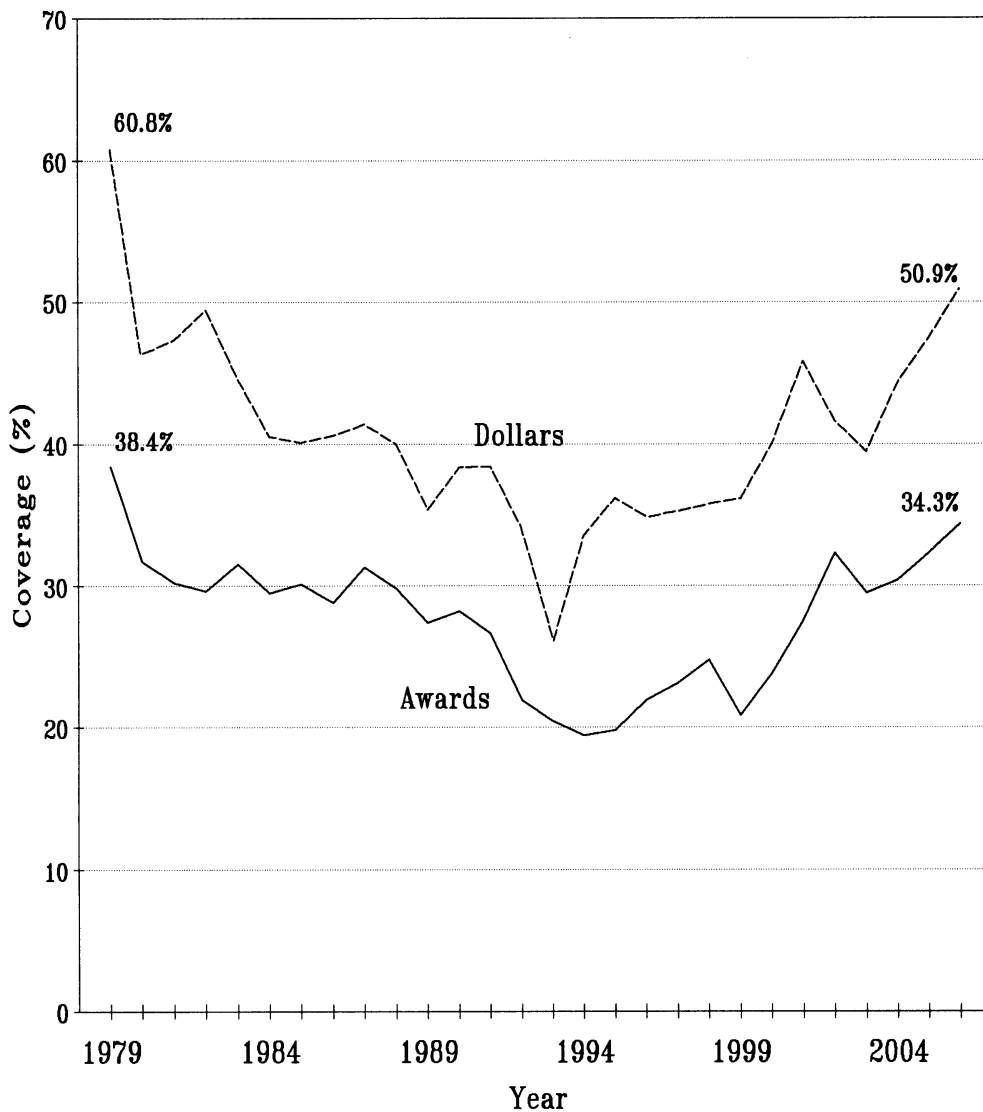
D. Unmet Financial Need of Students

The 2004 National Postsecondary Student Aid Study (NPSAS2004) gathered sufficient data on California undergraduate students such that fair estimates of the adequacy of financial aid to meet the needs of California undergraduate students could be made. Three resource adequacy measures were developed with the available data: (a) unmet financial need, (b) student work-loan burden, and (c) net price to family.

Unmet financial need. Unmet financial need is the difference between costs of attendance and the family and financial aid resources available to students to pay those college attendance costs. In FY2004 2,693,430 California undergraduate students faced a total unmet financial need of \$4,640,170,598—or an average of \$1,723 each. Of this total \$1.9 billion was faced by dependent students and \$2.7 billion by independent students. Among dependent students about 85% of the unmet need was faced by students from families with incomes below \$40,000. Among independent students about 71% of unmet need was faced by students with incomes below \$15,000 per year.¹⁵

Student work/loan burden. Student work/loan burden is the sum of unmet financial need, educational loans and earnings from employment while enrolled in college. In FY2004 2,693,430 California undergraduates faced \$7,575,305,725 of student work/loan burden or an average of \$2813. Of this total about \$3.1 billion was faced by dependent undergraduates and \$4.5 billion was faced by independent undergraduate students. About 74% of the student work/loan burden faced by dependent students was faced by those from families with incomes below \$40,000. About 93% of the student work/loan burden faced by independent undergraduates was faced by those with incomes below \$30,000.¹⁵

California Need-Based Grant Coverage of Federal Pell Grant Recipients and Dollars 1979 to 2006



Source: NASSGAP and US Dept of Education

Net price to family. The net price to the family of higher education is cost of attendance less all grants, scholarships, waivers and any other non-repayable student financial aid. For California undergraduates this totaled \$20,734,351,595 in FY2004, or an average of \$7,698 per student. Dependent students shared \$10.8 billion of the total, and independent undergraduates shared \$10.0 billion of the total.¹⁵

In California as elsewhere the students from the lowest income families face the largest financial barriers to college enrollment. These students are now a majority of the California K-12 student population headed for higher education and eventually the California workforce.

IV. Key Conclusions

California's future is inextricably tied into the Human Capital Economy. The state's economic prosperity, social harmony and political vitality are all dependent on how well educated its adult workforce is now and will be in the future. Exactly the same can be said of every state in the U.S. and also every nation with which the U.S. and California compete in the global Human Capital Economy. States and nations are engaged in a Human Capital arms race whether they know it and are doing something about it or not.

Building prosperous, harmonious and vital state and national futures requires: (a) higher educating native populations and retaining them when they graduate, (b) attracting college graduates educated elsewhere, and (c) supporting the development and success of industries that are growing with college-educated workforces. This is a simple but powerful formula and one used successfully by states and nations everywhere.

California still has some modest advantages over other states and countries in the Human Capital Economy, although these advantages have deteriorated over time. California certainly has formidable challenges that will hold it back from a future several notches short of its potential. To prepare California for the Human Capital Economy the following is suggested for consideration.

Get Real

There is a simply staggering and growing gulf between demographic reality and higher education policy in California.

- On the demographic side the share of California's K-12 students approved for subsidized school lunches has increased from 35.2% in 1989 to 51.5% by 2007, and this share will increase much further and probably rapidly and indefinitely in future years. These students will have zero resources to pay for higher education when they reach college age. But they also represent a growing share of California's future workforce that must be higher educated for the most valuable work to be done in the Human Capital Economy.