

EXAMINING THE FISCAL, ECONOMIC, AND SOCIAL IMPACTS OF THE CALIFORNIA STATE UNIVERSITY: KEY FINDINGS

A report by T. Gage, M. Newman, T. McMahon – Blue Sky Consulting Group – April 2008

Key Conclusions

- Investments in public higher education pay for themselves.
- The impact of universities on regional economic development is large.
- Tax revenues increase with more college-educated people.
- More college-educated workers means fewer people on public assistance

Public higher education is important to Californians. Nine in ten college-going Californians choose colleges in the state and 85 percent choose public colleges and universities. The Public Policy Institute of California found that 76% of Californians think the public university systems are “very important” to the state’s economic vitality.

An educated workforce is vital to the state’s continued economic prosperity. A number of recent studies all reach the same conclusion: there is an increasing need for highly skilled and educated workers in California but if current trends continue, the state will face a significant shortage of workers in the near future. The California State University will play a major role in meeting this need.

CSU plays a vital role in educating and graduating the workers needed in critical economic sectors. Every year, 90,000 new CSU graduates enter the workforce. The CSU campuses educate the majority of the state’s bachelor degree recipients in several critical economic fields, including business, agricultural business and engineering, communications, and general engineering. The CSU system also grants over 80 percent of the degrees awarded in key critical public service fields, including education, criminal justice, social work, and public administration.

CSU plays a key role in making sure the benefits of higher education are available to all Californians. Since 2003-04, the CSU has had almost yearly double-digit increases in first-time freshman enrollments of African-American and Latino students. As the state’s demographics change, college enrollment levels will need to increase significantly among communities of color with traditionally low college

participation and graduation rates. Budget cuts to CSU will impede the university’s ability to serve these historically underrepresented populations.

Higher education is a good economic investment for the state of California. Reductions in state support for higher education will result in declines in both the quality and quantity of college graduates and California will feel the repercussions of lower funding levels for many years into the future.

The CSU generates significant economic benefits for the state of California. The CSU’s direct and indirect economic impact, its “multiplier effect,” is impressive because of the sheer size of the CSU system. A study found for every dollar of state spending on the CSU system, the state sees a return of \$4.41. The CSU cycles \$13.6 billion through the state’s economy and supports over 207,000 jobs annually.

The CSU spurs economic growth through innovation. Universities produce skilled graduates and advancements in knowledge that produce additional economic benefits to a region over and above the wage benefits enjoyed by college graduates. CSU faculty are engaged in applied research and the CSU supports technology institutes, provides education and technical services to entrepreneurs, and brings industry close to campus through their support of research and technology parks.

California receives important fiscal benefits that can be attributed to the CSU. The state receives more in taxes and pays less for government programs for citizens with higher education levels. In a national study, researchers found a

bachelor's degree yielded \$47,602 more in state income taxes and increased state and local sales taxes by more than \$11,033. A college grad in California is 78 percent less likely to use welfare and 87 percent less likely to be incarcerated relative to a high school graduate.

Bottom line:

"demographic and economic trends clearly argue for increasing, rather than decreasing, the available supply of college educated workers ... the state faces a looming shortage of skilled, college-educated workers. If the state is to meet this challenge, it will need to maintain its historic investment in publicly supported higher education, not curtail it for short-term gain." (page 22).

Investment in the CSU pays for itself.

Cuts to higher education funding, when they reduce the number of college graduates, cost states more over the long run than they "save" the general fund in the short term. The state of California stands to lose \$2 for every \$1 it saves when it under-funds its universities.

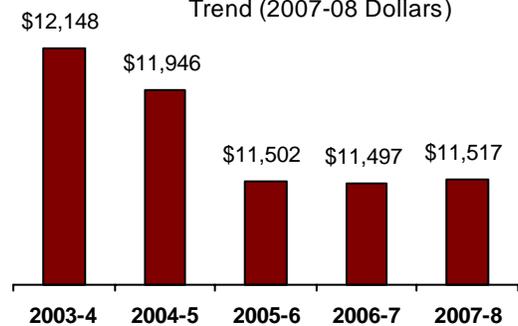
The CSU provides numerous intangible social benefits to the state of California.

Recent studies suggest higher education increases voting behavior and has a positive impact on civic participation. Children of college-educated parents are more likely to achieve higher education, have higher levels of cognitive development, and have higher future earnings. Better health and lower teenage pregnancy rates are also related to higher educational attainment.

The budget cuts to the CSU come on top of prior cuts from which the university has not yet recovered. The CSU experienced sharp budget cuts in the early 2000s resulting in a cumulative funding shortfall of \$522 million which has not yet been restored. Even after sharp student fee hikes and modest increases to the CSU's General Fund allocation, funding has barely kept up with inflation.

Per student funding at the CSU has dropped by more than 5 percent in 5 years. After accounting for inflation, funding per full-time CSU student has fallen by 5.2 percent since 2003-04.

Five Year Real Per Student Funding Trend (2007-08 Dollars)



Budget cuts will leave the CSU without funding for 18,000 students next year. The CSU is currently serving 10,000 students for whom it receives no state funding. Next year, the CSU will be without funding for over 18,000 students if the budget cuts are made. This translates to a funding shortfall of over \$150 million.

Reduced funding will force the CSU to turn away qualified students from historically underrepresented communities and will likely reverse the recent gains in enrollment from these communities.

Budget cuts will compromise the quality of a CSU education. Admitted students will have fewer courses to choose from and will share crowded classrooms with more and more students. Students will have fewer services - like counseling and advising - available to help them succeed and graduate.

Cuts to public higher education deny the state the economic, fiscal, and social benefits of higher education. Research shows that investments in public higher education pay dividends in terms of increased economic activity, reduced government service costs, and increased tax payments from more highly educated workers

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