Financing future attainment…

Using spending data to improve state policy capacity for fiscal decision making

Presentation to California Postsecondary Education Commission

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DELTA PROJECT on Postsecondary Education Costs, Productivity, and Accountability

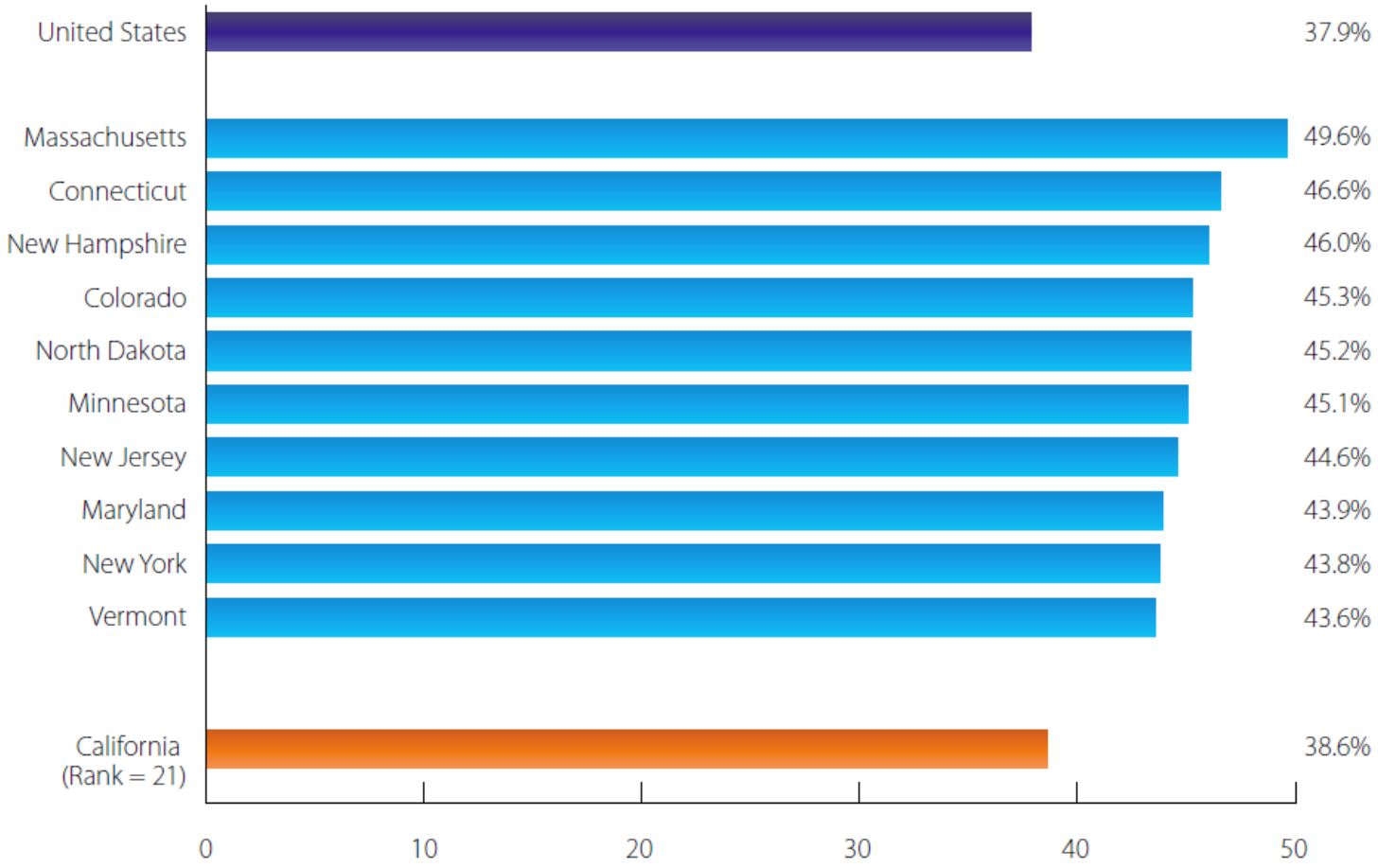
Organization of remarks

1. Collision between need for increased attainment versus reality of public funding trends
2. The “broken” cost model
3. Weak use of metrics and confused language about prices, costs, and spending
4. State policy versus institutional focus
5. Recommendations for Commission

1. Warning signs re: CA attainment

- Currently around 38% of adult population with AA or higher degree – and 36% for younger (24-35 year olds)
- CA has a 20% 'attainment gap' separating white vs. Latino and African Americans
- Against future needs of closer to 50% of the population with some degree or credential
- Translates to a need for 1.5 – 2.0 million MORE credentials and degrees than are currently projected to be produced

% of 25-64 year old population with at least an associate degree, 2009



Gaps between whites and URM in % of adults with an associate degree or better, CA versus US

State	Estimate, Gap between Whites and Minorities (%)
Alabama	12.9%
Alaska	20.2%
Arizona	22.4%
Arkansas	9.9%
California	**20.9%**
Colorado	27.7%
Connecticut	20.7%
Delaware	9.5%
Florida	9.9%
Georgia	13.1%
Hawaii	14.2%
Idaho	18.4%
Illinois	19.3%
Indiana	8.9%
Iowa	10.9%
Kansas	17.3%
Kentucky	3.6%

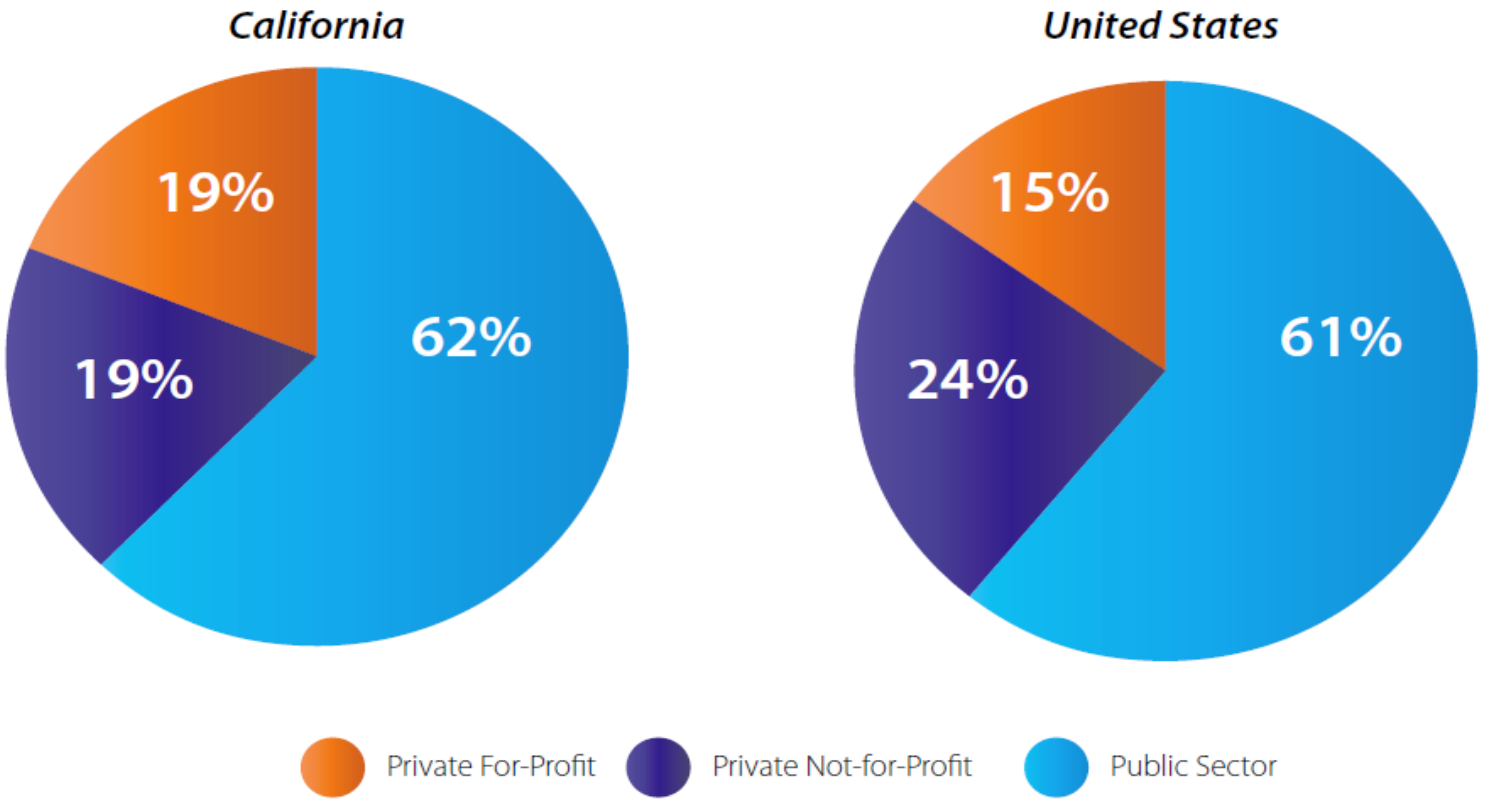
State	Estimate, Gap between Whites and Minorities (%)
Louisiana	13.2%
Maine	8.2%
Maryland	13.0%
Massachusetts	15.6%
Michigan	10.0%
Minnesota	17.5%
Mississippi	13.5%
Missouri	9.7%
Montana	10.5%
Nebraska	23.7%
Nevada	16.9%
New Hampshire	-3.7%
New Jersey	14.7%
New Mexico	23.6%
New York	19.6%
North Carolina	17.4%
North Dakota	9.0%

State	Estimate, Gap between Whites and Minorities (%)
Ohio	8.1%
Oklahoma	10.7%
Oregon	12.9%
Pennsylvania	11.6%
Rhode Island	14.6%
South Carolina	18.4%
South Dakota	24.4%
Tennessee	9.5%
Texas	21.4%
Utah	19.5%
Vermont	-5.9%
Virginia	12.8%
Washington	10.0%
West Virginia	-2.9%
Wisconsin	17.7%
Wyoming	10.7%
United States	**15.0%**

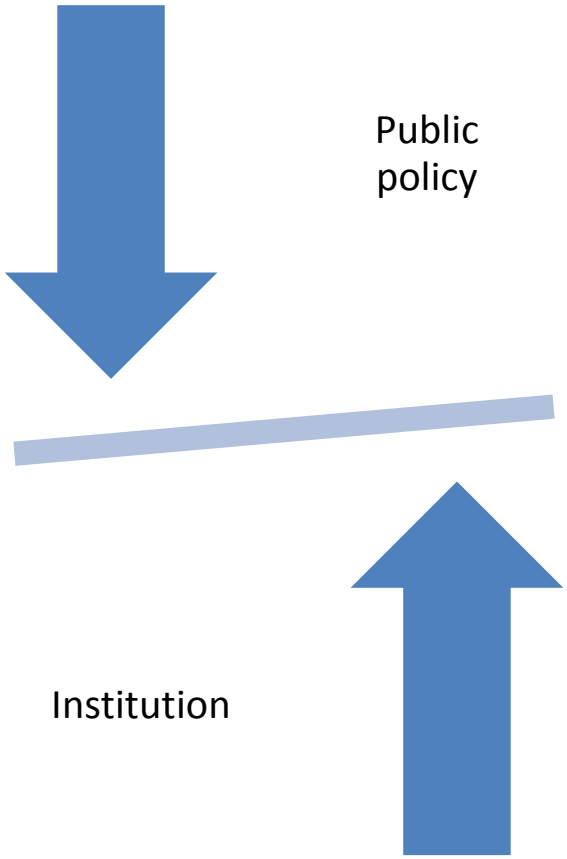
Sector share of degree/credential production, CA v. US total

	California		United States	
	Number of Awards	Percentage of Total Awards	Number of Awards	Percentage of Total Awards
Total Awards	456,816	100.0%	3,914,721	100.0%
Certificates of less than 1 year	76,848	16.8%	406,592	10.4%
Certificates of at least 1 but less than 2 years	37,190	8.1%	318,742	8.1%
Certificates of at least 2 but less than 4 years	3,963	0.9%	31,854	0.8%
Associates degrees	97,010	21.2%	768,477	19.6%
Baccalaureate degrees	158,680	34.7%	1,564,265	40.0%
Masters degrees	61,094	13.4%	629,516	16.1%
Doctorate degrees	7,450	1.6%	61,941	1.6%
First professional degrees	8,946	2.0%	92,561	2.4%
Other post-baccalaureate and graduate awards	5,635	1.2%	40,773	1.0%

Growing presence of for-profit sector in CA



2. “The broken finance model”



The “cost problem” has a public policy *and* an institutional dimension to it… solving one doesn’t solve the other

STATES WITH PROJECTED FY2012 GAPS

	FY12 Projected Shortfall	Shortfall as Percent of FY11 Budget
Arizona	$974 million	11.5%
California*	$25.4 billion	29.3%
Colorado	$988 million	13.8%
Connecticut	$3.7 billion	20.8%
District of Columbia	DK	na
Delaware	$208 million	6.3%
Florida	$3.6 billion	14.9%
Georgia	$1.7 billion	10.3%
Hawaii	$410 million	8.2%
Idaho	$300 million	12.6%
Illinois	$15.0 billion	44.9%
Indiana	$270 million	2.0%
Iowa	$294 million	5.6%
Kansas	$492 million	8.8%
Kentucky*	$780 million	9.1%
Louisiana	$1.7 billion	22.0%
Maine	$436 million	16.1%
Maryland		
Massachuset		
Michigan		
Minnesota		
Mississippi		
Missouri		
Montana		
Nebraska		
Nevada		
New Hamps		
New Jersey		
New Mexic		
New York		
North Carol		
Ohio		
Oklahoma		
Oregon*		
Pennsylvani		
Rhode Islan		
South Carol		
South Dako		
Tennessee		
Texas	$13.4 billion	31.5%
Utah	$437 million	9.2%
Vermont	$150 million	13.9%
Virginia*	$2.3 billion	14.8%
Washington	$2.9 billion	18.5%
West Virginia	$155 million	4.1%
Wisconsin	$1.8 billion	12.8%
States Total	**$125.0 billion**	**19.9%**

Note: Kentucky and Virginia have two-year budgets. They closed their FY2012 shortfalls when they enacted their budgets for the FY2011-FY2012 biennium. California's shortfall includes an $8.2 billion shortfall carried forward from FY2011. Oregon's shortfall is one half of the state's total projected shortfall for the 2011-2013 biennium.

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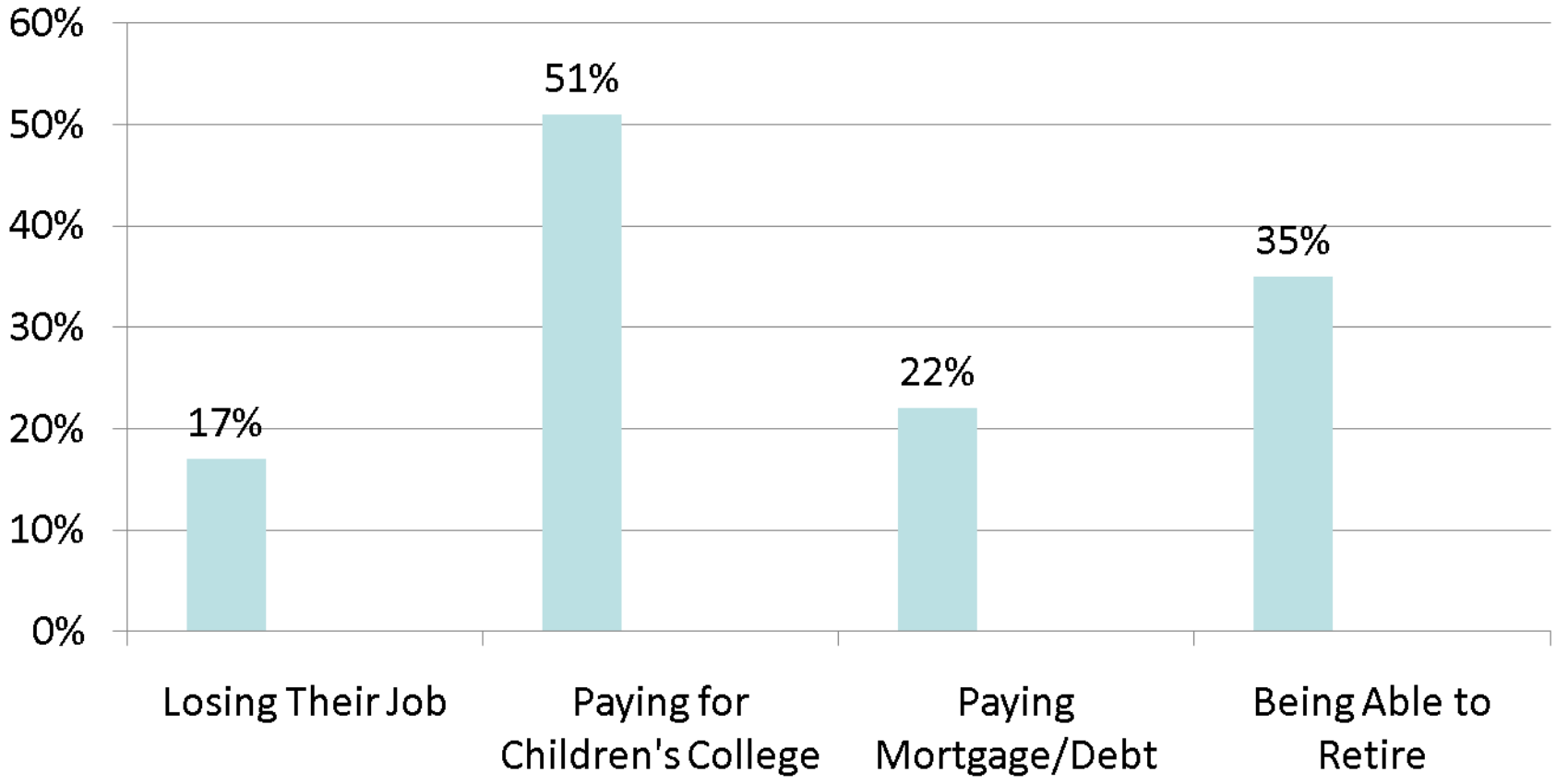
Center on Budget and Policy Priorities

What Do Americans Worry About?



PUBLIC AGENDA

3. Traditional fiscal measures don't tell you … much

- Focus on adequacy and equity and not effectiveness
- "E&G" spending per student
- Higher education funding as a percentage of state appropriations
- State and local funding as a percentage of institutional revenues
- Year to year changes in budgets – unadjusted for FTE
- Student 'sticker price'

Metrics that can help refocus

Cost/price/subsidy: educational and related expenses per student, against state and student share of costs

Shift from a focus on revenues, to where money is spent

Can be used to generate a number of "cost-per" measures to look at spending for inputs, and outputs, and where the money goes

- Cost per student
- Cost per degree produced
- Student share of costs
- State investments against access and outcomes

Cost/Price/Subsidy

What proportion of E&R costs are paid by students, and what by the institution/state?

- **Cost: Average E&R spending per student**
- **Price: Proportion of cost paid from net tuition revenues**
- **Subsidy: Proportion of cost paid from institutional revenues (Cost less price)**

State policy questions for cost focus

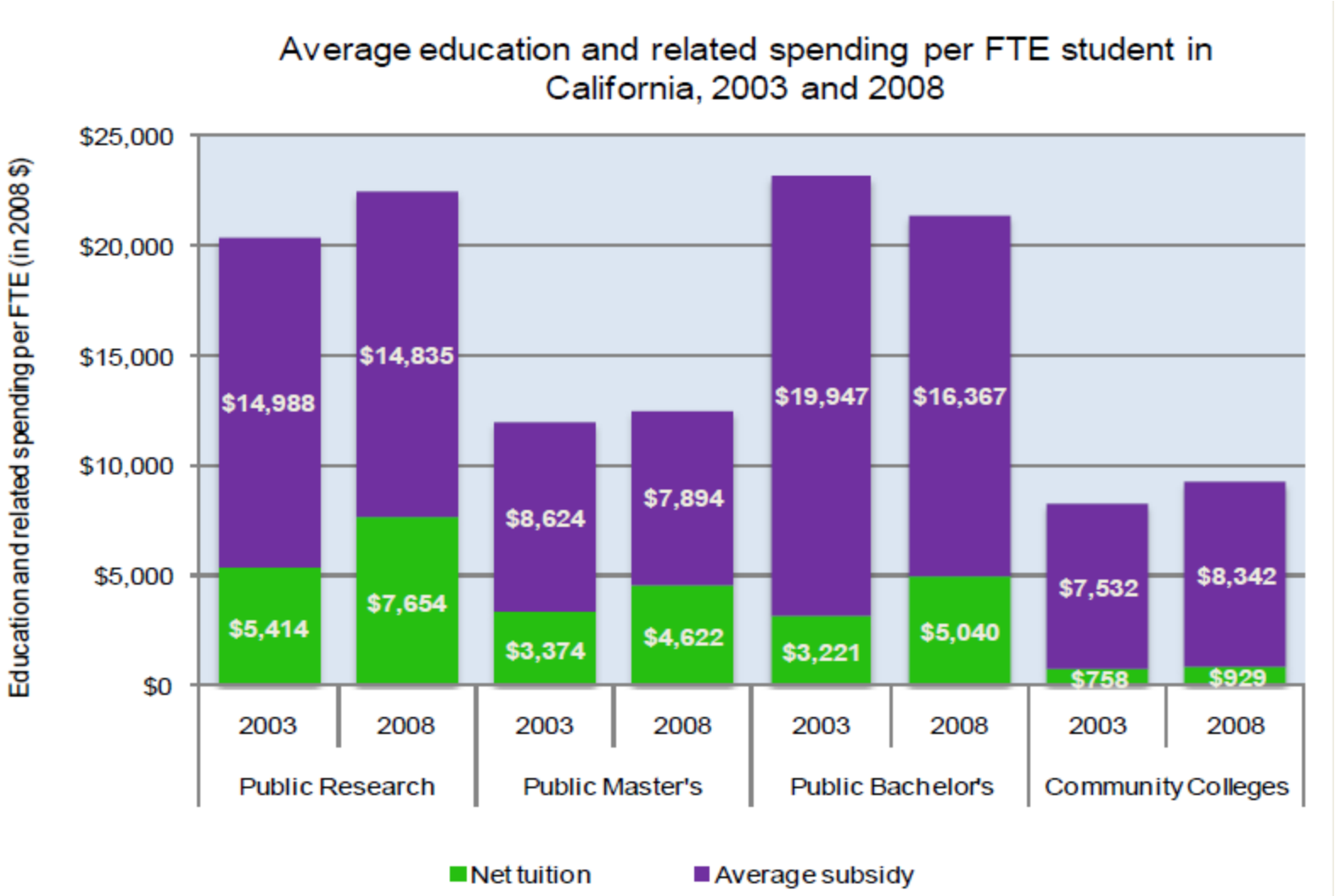
? Where are state subsidies going? Are these consistent with priorities? Can non-state revenues (including tuition) substitute for state investments, including in private institutions?

? Is spending going up in non-essential areas disproportionate to spending on academic priorities?

? What do the data say about spending and results?

? Are students paying the 'right' share of costs? Are some students being charged more than is being spent on them?

? Are tuitions going up for increased spending, or cost shifting? Is there evidence of systemic attention to cost management?


Average education and related spending per FTE student in California, 2003 and 2008
Education and related spending per FTE (in 2008 $)
$25,000
$20,000
$15,000
$10,000
$5,000
$0
$14,988
$5,414
$14,835
$7,654
$8,624
$3,374
$7,894
$4,622
$19,947
$3,221
$16,367
$5,040
$7,532
$758
$8,342
$929
2003
2008
2003
2008
2003
2008
2003
2008
Public Research
Public Master's
Public Bachelor's
Community Colleges
Net tuition
Average subsidy

Average education and related costs per FTE student, student share, instruction share, and performance

	California				United States			
	Public Research	Public Master's	Public Bachelor's	Community Colleges	Public Research	Public Master's	Public Bachelor's	Community Colleges
Education and related costs per FTE student								
2008	$22,489	$12,516	$21,407	$9,271	$15,619	$12,185	$12,925	$10,396
Change from 2003-2008	10%	4%	-8%	12%	10%	7%	9%	8%
Net tuition share of education and related costs								
2008	37%	37%	26%	10%	50%	47%	45%	31%
Percentage-point change from 2003-2008	9	8	11	1	6	7	7	3
Instruction share of education and related costs								
2008	62%	50%	42%	51%	62%	52%	48%	50%
Percentage-point change from 2003-2008	-1	0	3	0	-1	-1	-1	-1
Completions per 100 FTE students								
2008	28	25	24	17	25	24	20	26
Change from 2003-2008	2	2	4	0	1	1	1	3
Education and related spending per completion								
2008	$80,969	$50,876	$102,352	$62,448	$62,654	$54,252	$67,896	$45,949
Change from 2003-2008	0%	-3%	-28%	13%	3%	3%	4%	-4%

Delta Cost Project IPEDS State Database, 2003-2008.

4. Refocusing State fiscal policy

State responsibility	Institutional responsibility
Clearly stated measurable goals and priorities w/performance metrics	Commitment to state as well as institutional goals
Use of state subsidies to accomplish goals	Match resources with academic priorities
Policies for student share of costs and affordability	Ensure affordable access to California residents as a priority
Stabilization of revenues, including reserve practices	Transparency about resource use and performance
Regulatory policies to maximize institutional flexibility with public accountability for results	Program renewal and change, and reinvestment strategies to accomplish them
Set expectations for cost control	Manage resources to meet goals of efficiency and effectiveness

Embedding expectations for cost control and productivity within budgets

- We know how to cut budgets
- Less evidence that we know how to restructure costs (permanent reductions in spending in areas that don't contribute to performance)
- And less still to ways to increase productivity (outputs against $ spent)

Cost Effective: Cost Reductions + Productivity

Cost reductions =

Permanent structural reductions in spending

From paying $1 for X
To paying $0.75 for X

Productivity improvements =

Increase in output (learning, research, jobs), without changing admissions or spending

From paying $1 for X
To paying $1 for X + 2

*

Cost reductions: permanent changes to cost structures	Productivity: increasing learning output without changing inputs
Program mix	Increase in student retention and graduation
Restructure employee benefits	Reduce excess credits accumulated to the degree
Reduce energy costs	Increase credit-by-exam
Consolidate administrative functions	Increase proportion of graduates who meet goals for critical learning
Reduce spending on merit-based aid	Increase proportion of students who remain – and are employed– in state

5. Recommendations for Commission

- Focus on ways resources are used to meet public goals, not primarily on adequacy or equity
- Look at state subsidies against public goals, include attention to private providers
- Maintain focus on tuition and aid policies, and to protection of economic access along with degree attainment
- Focus on state funding policies and practices, and ways to reform budgets to stabilize resources for postsecondary education
- Address public and policy concerns about costs and effectiveness through constant attention to communication and translation