Elements of Higher Education Finance Reform:
A WAY FORWARD
About College Futures Foundation

College Futures Foundation is focused on ensuring that low-income students and students of color have equitable access to bachelor’s degrees and a better life.

The Foundation works in partnership with organizations and leaders around the state so that this shared vision becomes a reality and California’s education pathways seamlessly align for college attainment, providing equity of opportunity and outcome for our diverse students.
Our Work on Higher Education Finance

Learn more at HigherEdFinance.org
Volatility: A Growing Concern

ANNUAL PERCENT CHANGE IN STATE APPROPRIATIONS TO UC AND CSU

Per student and UC and CSU resident tuition, 1966-2015

UC and CSU FTE  State appropriations to UC and CSU per student  CSU tuition  UC tuition  Recession
A Comprehensive Approach
The Four Elements of California’s Higher Education Finance Problem

- Restructuring internal academic costs
- Stabilizing revenues
- Improving decision making, accountability, and transparency
- Addressing fixed costs
Stabilizing revenues
Volatile revenue patterns at the state level, including stretches of declining state general fund revenues linked with growing dependence on tuition by universities
Elements of Finance Reform

Addressing fixed costs
Budgeting practices associated with the fixed costs of employee benefits
Elements of Finance Reform

Improving decision making, accountability, and transparency
State and institutional decision making too often functions at cross purposes, without common goals, shared language, and mutual accountability
Higher Education Finance: Potential Solutions
Potential Solutions

A well-designed buffering strategy could accomplish the following:

1. **Provide protection from budget cuts**, especially during revenue shortfalls
2. **Provide certainty about tuition and costs** to student cohorts and families
3. **Ensure revenues to sustain access to resident students** and/or meet Master Plan access goals
4. **Incentivize good fiscal behavior** for state budget makers, systems/institutions, students
5. **Link to long-term budget planning**
6. **Provide funds for growing fixed costs** while providing incentives, tools to reduce them
Several Main Principles Can Guide Reform Efforts

- **Common understanding of public universities operating as a public trust** is shared by all parties—state, system, and institutional leaders—although revenue sources are diverse.

- **Complementary roles** in fiscal decision making and oversight are exercised by the state and institutional boards.

- **Annual budget process aligns with long-term plans** at state and system levels.

- **Common definitions and benchmarks** are shared by decision makers as a basis for mutual accountability, interest-balancing, fiscal sustainability, and public trust.

- **Thoughtful assessment** of alternatives, costs, and consequences accompanies decisions about spending priorities.
Recommendations: A Recommitment to Public Goals and Funds

- **Develop long-term plans** to accommodate students and close attainment gaps, with the Governor and legislature as *partners in goal-setting, indicators* to support decision-making and accountability, and *increased transparency and accountability* for the systems and the state.

- **Address revenue smoothing** for higher education via the state and higher education systems (i.e., predictable increases in state general fund support and tuition and the creation of contingency reserves).

- **Revise budget practices associated with fixed costs** to increase transparency and illuminate tradeoffs between spending on benefits and other options (e.g., salaries, new faculty positions, consequences for general funds and student tuitions).

- **Develop and use shared language and fiscal benchmarks** for the state and the institutions to evaluate spending and performance, and to improve public accountability and transparency.
Capital Finance and Higher Education
• Fund allocations for capital outlay are inconsistent, uneven, and unclear.
• The historic separation of operating and capital budgets may be contributing to the funding problem.
• The needs for capital funding in higher education are enormous and growing.
• Deferred maintenance needs are growing as ongoing maintenance is being cut.
• Undergraduate enrollments will grow, with no plan as to how they will be accommodated or whether new capacity space should be an option.
Next Steps Toward a Comprehensive Approach
A Comprehensive Approach Includes:

- Revenue buffering
- Tuition stabilization and predictability
- Cost management
- Productivity improvements