

California Competes
Higher Education for a Strong Economy



The Road Ahead

Higher education, California's promise,
and our future economy.

California Competes

Higher Education for a Strong Economy

In the second half of the twentieth century, California emerged as an economic powerhouse, the envy not just of other states but of nations. The future of every Californian

is dependent on maintaining that leadership by developing the talent and productivity of Californians through higher education, the keystone of California's diverse economy.

Our colleges, universities and professional training programs have provided the intellectual and technical know-how to make California a hub of innovation and job creation. To remain competitive, we must create better pipelines from the opportunity of college and professional training to advancement in good-paying jobs. We can secure a stronger economy by building a talent pool whose creativity, innovation, entrepreneurship and industriousness match the needs of the 21st century.

THE COUNCIL

California Competes convened a council of independent business and civic leaders to review the postsecondary education and training needs required for a vibrant future state economy and to identify financially pragmatic avenues for addressing those needs. This report summarizes the group's findings.

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The Road Ahead

California is renowned for the richness and diversity of its robust regional economies focused on agriculture, natural resources, shipping and logistics, and the entertainment and computer industries. Combined with other components of a service-based economy and newly emerging industries, the state's gross domestic product (GDP) totals \$1.9 trillion, representing 13 percent of the nation's GDP and placing California 8th in the world if it were ranked as a separate country.

How did California come to occupy such an important place in the world's economy? In the 1960s and 1970s, California proved with the implementation of its Master Plan for Higher Education that expanding access to higher education and focusing its colleges on distinct roles could contribute to unprecedented economic strength and vibrant communities. It was not simply that California had an educated population; a critical mass of well-educated people was a magnet for investment and created a culture of innovation and entrepreneurship.

Following California's lead, other states and major competitor nations have also expanded higher education, contributing to dramatic increases in the levels of education of their adult populations. These investments have made it possible for their citizens to engage in a world economy requiring increasingly higher levels of knowledge and skill for the most cutting-edge industries and jobs.

Today, California has slipped as an economic leader because our colleges, universities and trade schools are not producing enough highly skilled graduates. Among the states, California ranks 23rd in terms of the proportion of adults ages 25 to 64 with an associate's degree or above.

The good news is that it is not too late to reverse this disturbing trend. The most secure route to a strong economy and a prosperous future is to provide the state with a rich and diverse pool of talented, well-educated citizens who will bring creativity, innovation, entrepreneurship, industriousness and high levels of productivity to our businesses and communities. California is fortunate to have an infrastructure of

research universities, comprehensive universities, private institutions and community colleges that are poised to serve the needs of the state's regional economies, but the number of Californians emerging with credentials is falling short of what California needs. In this report we describe what it would take for California to reverse the current trend. By 2025 California can return to being a state that swells with the ingenuity and economic vitality stemming from a well-educated and diverse populace. California can once again be a top producer of high-quality college graduates with credentials matching the general and specific demands of vibrant communities and a rapidly changing economy.

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How does our higher education system need to improve?

We offer the following blueprint to the leaders in the state—the Governor and Legislature—responsible for setting the state’s agenda, articulating its priorities, allocating resources and establishing the framework under which public and private colleges operate.

The Governor and the State Legislature must accept or assign responsibility for stewarding a comprehensive approach to the state’s higher education policy to support tomorrow’s workforce and vibrant communities. Failing to lead will cause California higher education to drift and likely decline in prominence and international reputation.

To restore California to national and international prominence as a producer of high-quality college graduates, the state needs to:

1. Increase college degree and certificate production by 2.3 million more than currently projected by 2025. This challenging but achievable objective would require just over a four-percent increase in targeted credentials each year, or 2.3 million *more* degrees and certificates than the 3.2 million we are on target to produce over the next 13 years. Developing more specific goals regarding

the number and type of degrees needed, by region and sector, to sustain a robust and thriving economy, would assist policymakers in aligning resources and reforms to state needs.

2. Ensure that the degrees and certificates conferred are meaningful. Not all degrees and certificates are alike. We need to pursue these additional credentials with attention to their type, quality and other characteristics in order to improve the state’s economic competitiveness.

3. Invest in improvements that could yield the largest returns for degree and certificate production. The greatest needs are: to increase the rate of high school students graduating and going to college, to close achievement gaps in college, and to improve student access and progress at community colleges.

For California to remain competitive and be among the top-ten states by 2025, it will need to produce an additional 2.3 million postsecondary credentials.

Increase degree and certificate production to meet state needs

To maintain California's strong economic position, the state needs the innovation and high productivity that comes from a well-educated workforce. For California to remain competitive and be a leading degree-producing state by 2025, it will need to produce an additional 2.3 million postsecondary credentials on top of the 3.2 million that are already projected to be produced under current policies. Reaching that goal would require an estimated increase in degrees of more than four percent each year.

In projections of degree attainment for all 50 states, researchers estimate that in 2025, the top-ten U.S. states will reach an average of 55 percent adult degree attainment (associate's degrees and above) assuming no change in performance above current levels. In 2010, only 38.8 percent of adult Californians (ages 25–64) had at least an associate's degree, placing California 23rd among the states. And for young adults, the attainment level is even lower, only 35.9 percent, making us 30th among the states.

Projections based on the demands of employers are consistent with the need for significant growth in postsecondary credentials. The California Workforce Investment Board has found that nine of the top-ten skilled job openings in the coming decade require significant postsecondary training. Focusing on bachelor's degrees, the Public Policy Institute of California's analysis of workforce needs led to its call for increased production (beyond current projections) of one million degrees by 2025. These and other state and national estimates are relatively consistent with our estimates of an additional 2.3 million credentials as a goal for 2025.

Future growth in degrees and certificates will depend on public policy decisions at the state and federal levels as well as on market factors. Nearly three-fourths of all bachelor's degrees are awarded by public institutions in California, with more than a quarter of University of California graduates and more than half of California State University graduates having taken at least one class at a community college. Career and technical credentials (associate's degrees and certificates from programs of at least a year in length) are currently conferred by community colleges and for-profit colleges in roughly equal numbers.

Ensure that the degrees conferred are meaningful

The value of a college credential is symbolic, backed by employers' expectations that the recipient has particular skills and expertise. As California aims to produce more college credentials, the state must not lose sight of quality. Doubling class size to serve more students might seem more efficient, but if it means that students are no longer getting feedback on written assignments and engaging in class discussions, graduates will finish with poorer analytical and critical thinking skills, severely undermining the value of the degree. It is also critical to pay attention to the programs that colleges offer. It is much cheaper to produce a graduate in hotel management than in engineering, but the state would not be well served by replacing all of our engineering degree programs with business programs in the interest of producing more graduates.

Reform efforts without attention to the type and quality of those degrees are likely to have negative unintended consequences. At the same time, the faculty is often too quick to reject reforms by asserting that the changes necessarily will undermine quality. Administrators and faculty members at both public and private institutions need to be clearer about their standards for degrees and their methods of determining whether students actually meet those standards, so that the potentially promising innovations can be assessed. Public and private institutions also need to be open to studies of the employment and earnings of graduates of different programs to inform their own planning as well as to send feedback to policymakers.

Students can't major in subjects their colleges don't offer or that are closed due to high demand. Therefore, colleges' decisions about what programs to grow or shrink have a significant impact on the types of degrees that are produced; it is not simply a matter of student demand. In California, independent and private-sector colleges are producing more bachelor's degrees in business, computer fields and art (including animation, fashion design, interior design), while the public institutions are producing more degrees in engineering, sciences, and the social sciences (economics, anthropology, political science). Public policies influence the programs that are offered: flat per-student funding tends to prompt colleges to expand programs that are the lowest cost to deliver, not necessarily those that bring the greatest benefits to students or California's economy, or are most responsive to student demand. The state should identify majors that are a priority, monitor progress, and adjust policies as needed.

Career and technical certificates and degrees also need more attention from policymakers, so that credentials that are in short supply, such as registered nurses, are prioritized over those with less labor market demand (such as medical assistants). Policies that focus only on enrollment or completion without regard to the type, quality and industry demand are not likely to serve the needs of the state.

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Invest in improvements that could yield the largest returns

Three entry points offer significant potential to accelerate our ability to close the 2.3 million-degree gap: increasing high school completions and improving the transition to college, closing our racial and ethnic achievement gap in college, and improving student success in California's community college system. We recognize the complexity and challenge that each one involves, but believe that focused, determined attention during the next decade in each area can yield significant payoffs.

Improving the transition from high school to college

It is well known that California has a significant high school dropout rate, ranking 36th among the states in terms of high school graduation. Even among those who do manage to complete high school the college-going rate is low, with the state ranking 40th. This is surprising given the large, low-tuition community college system in California.

If more students were to make progress in graduating from high school and transitioning to college, roughly a third of the college degree attainment gap could be closed. Of course, for this approach to be successful, we would also need to ensure that students complete high school ready to undertake college-level work.

Closing the degree attainment gap among student populations

Among all the states, California has the largest achievement gap separating White and Asian students from underrepresented minority students, ranking 50th in the nation in terms of degree attainment. Just over half of California's Whites have an associate's degree or higher compared to only 18 percent of Latinos, African Americans and American Indians, a gap of 33 percentage points. The degree attainment gap is 20 percentage points in the nation as a whole. In addition, enrollment and achievement gaps exist at all types of colleges, and reflect losses that occur across the pre-K to college pipeline.

If the gaps in enrollment and achievement were to be entirely closed, an additional 790,000 four-year degrees would be produced in California, bringing us more than a third of the way toward the 2025 attainment goal.

Improving outcomes at community colleges

Community colleges give everyone a chance to get ahead, and so it is essential that they work well. In terms of completion rates, our community colleges have a steep climb ahead of them. When we look at other college segments, and adjust for differences in part-time versus full-time students and the proportion of undergraduates who earn a credential each year, California's three major four-year college sectors (the University of California, the California State University system, and independent colleges and universities) rank highly compared to their counterparts in other states. The California Community Colleges, however, rank 49th compared with other states in terms of completion. California's community college system would rank higher if more

transfer students received associate's degrees before transferring (as is common in some other states), but the rate would still be low relative to the rest of the nation. While some community college insiders argue that the available data fail to capture the job they do educating students with very low levels of preparation, there is little argument that outcomes could be improved, and must improve, to meet the state's needs.

The effects of the low rate of student success at community colleges are amplified by the fact that California sends more of its high school graduates to community colleges than any other state. Improving attainment rates for transfer, degrees and certificates at community colleges could address a third to half of the 2.3 million graduate gap that we have identified.

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Streamline community college management to better support students

The time is right to make significant changes to improve results in the community colleges. The Little Hoover Commission released a long-awaited report on the community colleges which called for increased clarity around mission, the need for governance reform, the imperative of fiscal reform, and an overhaul of how the colleges deliver basic skills education.

Equally significant, the statewide leadership of the California Community Colleges has recently endorsed a plan for improving student outcomes. The plan of the Student Success Task Force takes the important steps of clarifying the mission of the colleges, calling for a stronger advising system, and aiming existing resources toward completion and transfer.

We support both the Little Hoover Commission report and the Task Force's recommendations. Both offer important and meaningful recommendations for improvements but, in our judgment, do not go far

enough in addressing the lack of accountability in the system caused by dysfunctional governance.

We do not attempt to address in this report the issue of financing of the community colleges. There is no question that this is a critical issue and deserves further analysis and review. While some assert that reforms should await more financial resources, we believe the opposite is the case. Resource challenges underscore the need to improve management so that every penny in the system now is used well.

RECOMMENDATION

Give leaders the responsibility and the tools to manage the system effectively.

Even though the community college system is essentially funded at the state level, the local college districts operate as 72 separate entities with the ability to spend taxpayer dollars but little accountability for results. This has resulted in the system not working well for students, preventing them from getting the classes that they need and resulting in costly delays in completing their degrees. To compensate for the resulting quagmire, the Legislature has instituted a bevy of rules and regulations to bring some rationality to the system. Yet this legislative micromanagement has restricted the ability of the colleges to improve over time and limited the ability of college presidents to spur innovation on their campuses. The governance and management structure of the community colleges must be reconfigured to provide colleges with the structure and flexibility they need to be responsive to current conditions. The role of the statewide Chancellor's office—including the Board of Governors, the Chancellor and the Chancellor's key staff—must be elevated to assume greater leadership responsibility and accountability for the community college system's share of statewide goals for higher education.

As recommended by the Little Hoover Commission, the system office should be independent of the Governor's administration to empower it to establish policy directives and hold colleges accountable for meeting goals, similar to the California State University

system. The members of the Board of Governors, and the Chancellor they hire, should be responsible and held accountable for distributing funding in a way that achieves the state's goals: equitable access in all regions of the state with the support students need to make progress toward job readiness or transfer. This will require elimination of much of the micromanaging requirements in the California Education Code.

The newly configured system office, guided by the Board of Governors, would be responsible for:

- Articulating statewide objectives for the system and developing the data systems for monitoring progress and needs;
- Formulating a comprehensive finance policy for the system, including submitting a single budget to the Legislature;
- Instituting unified policies on articulation and transfer, class content and standardized placement tests;
- Allocating resources to each district based on criteria established by the Board of Governors;
- Developing system-wide human resources policies and parameters for collective bargaining; and
- Establishing performance agreements with each district.

RECOMMENDATION

Ensure that local leaders are clearly accountable.

In any high-functioning community college, the board of trustees and administrators involve students, staff, and especially faculty in helping to identify and solve problems. By seeking input the leaders of the institution gain critical insights about the severity of an issue, the opportunities and challenges ahead, and the potential policy changes that could address the situation. The process leads to more fully considered actions, and builds confidence across the institution that all perspectives were considered.

In 1988, as part of a broader effort to update laws that affect community colleges (popularly known as AB 1725), a provision was adopted requiring community college districts to engage in this type of consultation.

The mandate was fairly simple, calling for local districts “to ensure faculty, staff, and students the right to participate effectively in district and college governance, and the opportunity to express their opinions at the campus level and to ensure that these opinions are given every reasonable consideration.”

The idea was to create an expectation for effective management practices that engages faculty, staff and students in positive and productive ways, while maintaining the leadership role of the duly elected local boards of trustees and the administrators they appoint. In implementing the new requirements, however, the statewide Board of Governors wrote regulations that turned a consultation requirement into a requirement for mutual agreement between governing boards and academic senates. This vested academic senates with

the formal power to prevent and stall progress on many district and college policies. The regulations have, in effect, bestowed decision-making authority upon academic senates without creating the commensurate processes for holding them accountable to the public for the decisions that are made (and not made).

This extreme presumption in favor of the status quo, and in favor of 50%-plus-one of voting faculty members, stands even if the policies are inimical to the interests of current students, potential students, the community and taxpayers. In one district, the lack of clarity about roles and responsibilities created constant disagreements about how to reach decisions: instead of taking a few months to develop a strategic plan the process took two and a half years. Meanwhile, students were not being adequately served. It leaves college leaders to wonder, “What would the public say if they knew how much it was costing? Would we lose the public trust if they knew?”

California law relies on locally elected boards of trustees to ensure that the community colleges “advance California’s economic growth and global competitiveness through education, training and services that contribute to continuous work force improvement.” A strong faculty is critical to that goal, but institutional control by unelected, unaccountable faculty councils is inconsistent with good management. The statewide Board of Governors should amend its regulations to restore clear accountability to local boards of trustees and to the administrators who report to them.



Develop a vision for higher education in California

Today, California has no mechanism in place with the ongoing responsibility for examining what our state needs and holding us all accountable—the public, higher education institutions, the business community and elected leaders—for these outcomes. California needs an entity in place that blends leadership and accountability as the state guides our higher education system back to a place of preeminence.

Charting possible futures for postsecondary education requires a detailed understanding of the needs of the economy, the challenges faced by communities in different regions of the state, and the activities and capacity of all higher education providers, public and private. This type of detailed, expert analysis is

essential for informing decisions by the Governor, the State Legislature, and the leaders of public and private postsecondary institutions. It is also the information that prospective students need as they consider where to enroll and what to study.

RECOMMENDATION

Promote coordination, information and efficiency through a Higher Education Investment Board.

To help students and the state steer higher education investments toward the state's goals for economic competitiveness and vibrant communities, an independent Higher Education Investment Board is necessary. The Higher Education Investment Board would be responsible for recruiting the leadership and staff who can carry out these types of analyses with the Board's guidance. The Investment Board's planning responsibilities would include:

- **Projecting Needs:** Assessing the state's current and future degree needs in postsecondary education training and education.
- **Identifying Gaps:** Identifying incongruences between programs currently available and those that are demanded by the economy and by students, including adult students.
- **Developing Cost-Effective Strategies:** Developing proposals for improving postsecondary outcomes that consider taxpayer costs, student costs, and quality.
- **Enhancing Accountability:** Proposing accountability plans for publicly funded institutions, for consideration by the Governor and Legislature; and overseeing the administration of Cal Grant scholarships to colleges in all sectors.

Policymakers, students and educators need independent information, analysis and accountability to fill this pressing gap in degree outcomes. No entity in California currently carries out these responsibilities, allowing higher education to drift and decay, and leaving students with inadequate information for planning their own futures.

The new entity should be created as a public benefit corporation—a legislatively created nonprofit corporation with some governmental responsibility. In addition to its planning and coordination responsibilities, the Board would absorb the functions currently carried out by the California Student Aid Commission (CSAC). Delivery of most state scholarship funds would be decentralized, freeing substantial staff resources for a critically important CSAC function: facilitating outreach to disadvantaged students about their postsecondary opportunities and their options for covering costs.

The Higher Education Investment Board would be funded by charging each higher education institution operating in California—public and private—a small fee.

Conclusion

The past few years in California have made residents more skeptical than ever about our collective ability to address our challenges, and thus a climate of austerity has set in. Often the temptation in times such as these is to be less ambitious and to wait for things to get better before taking on any kind of significant reforms.

But to wait is to invite a further decline in California higher education. Instead, we must build a future thriving economy and vibrant communities by recommitting to the creativity of our people. A strong, effective and well-coordinated higher education system is an imperative. An effective higher education system is the cornerstone of the American value to guarantee access to economic opportunity; and it provides the seeds of innovation enabling our most creative and productive industries, and the state's economy, to thrive.

The responsibility for considering and implementing reforms to fix our higher education systems falls on the Governor and State Legislature, the Board of Governors, as well as on college and faculty leaders. Despite the challenge of these times, we urge them to listen and take action.

An effective higher education system is the cornerstone of the American value to guarantee access to economic opportunity.

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Opportunity, creativity, enterprise, efficiency and growth are the hallmarks of economic development and the lens through which California Competes develops non-partisan and financially pragmatic recommendations to improve postsecondary education.

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