Counting Past Each Other

How Inconsistent Reporting Creates Confusion about Higher Education Finance

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More Graduates for a Thriving California

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This paper is a follow-up to *Securing the Public Trust*, a January 2017 report from College Futures Foundation. That report found that inconsistencies in fiscal metrics between public institutions and state policymakers contribute to a lack of common understanding about funding challenges and steps needed to address them. The report recommends the development of a small set of commonly defined key indicators on resource use and performance. These build off of but are different from the more detailed accounting data that are collected and reported by the institutions.

This brief illustrates why consistent and meaningful metrics are needed and where they are missing. It recommends a short list of metrics focused on state/system-level decision-making about revenues and expenditures, outcomes, cost drivers, and tradeoffs between spending in key areas. The brief benefits from discussions with higher education fiscal experts at the California State Department of Finance, the Legislative Analyst's Office, and the California State University as well as many others. We thank all those who participated in discussions and provided valuable feedback.

WHY METRICS MATTER

Metrics are crucial to our basic understanding of how our public institutions of higher education are funded, whether students are able to attend, and the extent to which institutions are graduating students with meaningful degrees. An agreed-upon set of common metrics forms the backbone of shared governance, enabling honest conversations between state and institutional decision-makers about current fiscal and performance realities and goals for the future. Currently, the higher education systems are required to report financial information using a fund- or revenue-based accounting system that generates year-end financial statements. This reporting, while helpful in showing fund balances, does not provide information about spending, such as what revenue sources are used to pay for different functions. It also does not illustrate who has decision-making authority over the different revenue sources, many of which are restricted in their use.

Metrics are fundamentally different from accounting data because they provide not only a number but a context in which to understand what that number means.

How Metrics Differ from Data

California does not suffer from a lack of data about higher education. To the contrary, our institutions already report voluminous sets of data to the state, to the federal government, and to their auditors. Data by themselves do not automatically translate to transparency. In fact, a plethora of numbers without context creates its own opacity.

Metrics are fundamentally different from accounting data because they provide not only a number but a context in which to understand what that number means—whether in reference to workload or performance within the institution, or in comparison to similar measures in other organizations—and to gauge whether progress is being made. For example, while total state funding of higher education is a data point, funding per full-time equivalent (FTE) student is a metric. Looking at funding alone fails to tell us whether funding levels are adequate because it doesn't provide the "in relation to what" context. Metrics, on the other hand, are derived variables that allow us to understand the significance of numbers in relation to system requirements. Making meaningful metrics available to policymakers both at the state level and within the institutions allows them to have a robust conversation about funding priorities and to weigh tradeoffs in resource allocation and use.

Why Common Metrics Are Important

Although the two university systems, the state, and the legislature collect data on higher education access, performance, and funding, the systems lack uniformity in the metrics that are reported. The presence and use of different metrics creates miscommunication about the current state of educational finance and performance. Policy discussions become hamstrung over whose number is best or "right." Without a common understanding of what is being measured, progress meeting statewide or institutional goals cannot be tracked, and national comparisons are not possible. Especially in the area of finance, the lack of consistent agreed-upon metrics makes it difficult to weigh funding options and evaluate funding adequacy.

UNDERSTANDING INCONSISTENCY

Inconsistent metrics have evolved for many reasons, and are largely artifacts of history and accounting systems rather than any deliberate effort to obscure or hide information. For example, institutions make a budget plan based on the funding level they received in the prior year plus the adjustment they would like to see for the next year. The base level funding and the planned adjustment are both for ongoing institutional costs. But institutions are also commonly allocated additional funds on a one-time basis. And because these funds do not fit into the model of "ongoing" revenues, they are often left out of the institutions' budget plans. However, the Governor's budget tracks all funding that was actually distributed to the institutions in each year, including any one-time funding. These differences in tracking funds are reasonable, but the inconsistency they create means that the state and the institutions are often talking past one another about funding levels.

In another example, tuition revenues are calculated differently by the Governor, the Legislative Analyst's Office (LAO), and the UC and CSU. These calculations vary largely as a result of the different treatment of tuition from resident students and out-of-state students, and what revenues are held at the campus rather than the system level. These inconsistencies are particularly large in the case of the UC, where there is nearly a half a billion dollar difference—equal to tuition and fees for more than 40,000 resident students—between the amount reported by the LAO and what is reported by the UC and the Governor.[1]

While a variety of metrics may continue to provide valuable intra-system information, creating a short list of measures that are used by all participants for **cross-sector** purposes would provide a shared understanding of the facts, serving as the foundation for transparent discussions about tradeoffs and fostering communication and trust between state and institutional leaders.

The state and higher education institutions have started to address this issue in terms of student outcomes, but other areas of analysis, such as access to higher education, and finance and budgeting metrics, have not been addressed.

Inconsistent or missing metrics are a problem because:

- They lead to different narratives about funding realities and opportunities between state and institutional actors (for instance, the state share of costs, the extent of state "disinvestment," higher education finance compared to K-12 or health care).
- They make it difficult to weigh funding options and evaluate the consequences of different options on revenues and expenditures (such as costing out the state financial aid implications from a 1% increase in tuition; understanding tradeoffs between salaries, benefits, and positions; looking at the funding choices between funding "enrollments" versus other options).

- They lead to inadvertent differences in treatment between the California State University (CSU) and the University of California (UC) because measures aren't comparable, particularly around funding of benefits—such as the different budgetary treatment between benefits that are budgeted in the Public Employees Retirement System (PERS) rather than in CSU.
- They can contribute to miscommunication and subsequent mistrust between institutional leaders and state officials. The recent episode with the State Auditor General's review of the University of California Office of the President is a case in point. There are no mutually understood policies on reserve levels or uses, nor on how to "count" reserves from one-time funds as contrasted to recurring reserves. Some might argue that reserves should be much higher than they are, in an environment where state general funds can fluctuate by 20% or more in a single year. But without policies and measures, reserves become a political target.

ADDRESSING MISSING OR INCONSISTENT METRICS

While some of the relevant metrics are currently collected (although in an inconsistent way), other metrics are missing entirely. The following sections provide detail about inconsistent and missing metrics for institutional revenues, expenditures, spending transparency, and other areas of resource use.

Revenue

Core Revenues: No clear definition of "Core Revenues" currently exists with respect to the UC and CSU. Of the unrestricted funds in the operating budget, the UC has three main sources: the State General Fund, student tuition and fees, and the UC General Fund.[2] The CSU divides core fund sources into the State General Fund and student tuition and fees. Core Revenues for public institutions as defined nationally by the Governmental Accounting Standards Board (GASB) include: tuition and fees; government appropriations (federal, state, and local); government grants and contracts; private gifts, grants, and contracts; investment income; other operating and non-operating sources; and other revenues and additions. The National Center for Education Statistics notes that, in general, Core Revenues exclude revenues from auxiliary enterprises (e.g., bookstores, dormitories), hospitals, and independent operations.[3]

No clear definition of "Core Revenues" currently exists with respect to the UC and CSU.

The state share of revenues is a critical component of core funding, and one metric used by numerous organizations to track state spending on higher education is the percent of student cost that is subsidized by the state. This metric, the "state subsidy share" of education, tends to fall in times of recession when state budgets are limited, causing the institutions to draw more on tuition revenue.[4]

However, there is no statewide or institutional definition of the "state subsidy" in California, and this is not a metric that is used for making budget decisions either at the state or institutional level.

Table 1 illustrates the type of tradeoff analysis that is possible when the distribution of Core Revenues is fully understood. The table demonstrates the cost of either increasing FTE enrollment by 1% or increasing total salaries and benefits by 1%. Besides showing the total amount of revenues needed, the table breaks down the share that is needed from the State General Fund, from tuition and fees, and from the UC General Fund. The table goes on to break down how the tuition share of the 1% increase would affect actual student costs.

TABLE 1:

Tradeoffs in 1% Increases in Enrollment Versus Fixed Costs

(Millions of Dollars Except Where Noted)

	FTE ENROLLMENT	SALARIES AND BENEFITS
UC		
1% increase in current spending*	$45	$60
General Fund share	$25	$25
Tuition and fees share	$20	$26
UC General Fund share		$8
Cost to the individual student from a 1% increase in tuition charges (dollars)	$79.67	$104.99
CSU		
1% increase in current spending*	$38	$40
General Fund share	$28	$22
Tuition and fees share	$10	$17
Cost to the individual student from a 1% increase (dollars)	$20.16	$36.68

Notes: 1% increase in expenditure categories includes costs for both resident and nonresident students; nonresident supplementary tuition is included with base tuition in the "cost to individual student." 1% increase in salaries and benefits are calculated based on the General Fund and tuition share of salaries and benefits using functional classifications and methodology from Delta Cost Project E&R calculations. CSU and UC cost to increase enrollment are based on calculations using institutional marginal cost. 1% increase in FTE is based on 2014-15 total FTE levels.

Sources: CSU benefit and salary data from functional classification of salaries and benefits found in the audited financial statements, http://calstate.edu/financialservices/resources/auditedstatements/systemwide/2014-2015_AudFS.pdf; UC salary and benefit data from Department of Finance expenditures by category, Salaries and Wage Supplement report, http://www.dof.ca.gov/Budget/Salaries_Wages_Supplement/; FTE: 2015-16 Governor's proposed budget (Total Undergrad, Grad/Postbacc and Health Sciences FTE projected); institutional marginal cost UC: University of California, Budget for Current Operations 2015-16, http://www.ucop.edu/operating-budget/_files/rbudget/2015-16budgetforcurrentoperations_.pdf and personal communication with UCOP staff; CSU: California State University, "Support Budget 2015-16," November 2014, http://www.calstate.edu/budget/fybudget/2015-2016/executive-summary/documents/2015-16-Support-Budget.pdf and personal communication with CSU staff.

Net Tuition and Fees: The other critical piece of Core Revenues is tuition and fees; however, inconsistent definitions of "net tuition revenue" are used by the institutions and by other organizations as noted earlier in this brief.[5] In the CSU budget, the tuition revenues reported are net of forgone revenue from institutional grants. The UC financial statements also net out scholarship allowances (including both aid and fee waivers) from tuition and fee revenue.[6] However, the UC budget does not indicate that tuition revenue is net of aid, and it is unclear if there is a true inconsistency in the accounting or simply a lack of clarification in the budget document.[7] Furthermore, although the Governor's budget includes CSU campus-based fees in net tuition and fees, the CSU budget excludes student success fees, because they are collected, retained, and expended at campuses and therefore not considered a system-wide revenue source.[8]

Student financial aid offsets the amount of tuition owed by students, therefore, state financial aid programs should be considered when calculating total state support for institutions.

A further complicating factor at the UC is the accounting of nonresident tuition and fees. While "regular" nonresident tuition and fees are counted as tuition and fees, the amount nonresidents must pay in addition to resident students—which is called nonresident supplemental tuition—is counted with the UC General Funds. While there may be reasons for the creation of the UC General Funds, keeping this part of tuition separate makes it difficult to understand the true amount of tuition revenues coming into the UC or to gauge state support versus student tuition revenues over time.[9]

Financial Aid: Student financial aid offsets the amount of tuition owed by students, therefore, state financial aid programs should be considered when calculating total state support for institutions. The main state financial aid program is the Cal Grant. Cal Grant funding at CSU in 2016 was over $500 million and at UC was nearly $850 million. The majority of Cal Grants at the UC (98%) are tuition offsets, but Cal Grants at the CSU can be used to offset tuition (78% of grants to CSU) or to help pay for room and board.[10] While the state makes a significant investment in higher education through the provision of Cal Grants, these funds are not accounted for within institutional budget documents in a consistent manner; Cal Grant data are separately published by the California Student Aid Commission (CSAC). When tuition increases are discussed at CSU and UC board meetings, institution staff often note that a large percent of students will not experience the full brunt of the tuition increase because their tuition payments are covered by Cal Grants. This point would be more easily understood if there were a published document that showed the amount of tuition revenue attributable to Cal Grants within institutional budgets.

In addition to Cal Grants, both higher education systems have their own institutional aid programs: the State University Grant (SUG) program at CSU and the Blue and Gold Opportunity Plan at UC. Currently, one-third of mandatory system-wide tuition and fee revenue at the CSU and UC are used to fund these institutional grant programs.[11] UC also sets aside a portion of new campus-based fee revenue for institutional aid.[12] In addition to SUG, some CSU campuses fund separate campus fee grants through campus-based student fees. However, as these are campus-based fees it is unclear if they are counted with the SUG in terms of tuition offsets.[13]

REVENUE METRICS NEEDED

- Core Revenues—A consistent definition of Core Revenues and its components should be used.
- State General Fund—General Fund as a percent of total operating budget and "state subsidy share," which is equal to the percent of student cost that is subsidized by the state. While data are available to calculate these metrics, they are not regularly reported and used. Reporting this on a regular basis offers a gauge of the level of state support. Calculations of state funding amounts should include total state appropriations per system through Cal Grant payments that are used to offset tuition.
- Tuition and fees—A consistent methodology for calculating student tuition and fee revenues is needed. At this point it is unclear if the fees in the institutional budgets are the same as those reported by the Department of Finance/Legislative Analyst's Office or in IPEDS.[14] The two systems and the state should have agreement about the basic terminology of "net tuition and fees," and there should be consistent representation of amounts in the budgets and financial statements. Several experts we spoke to argue for gross tuition and fees to be reported along with a line itemization of anything removed to calculate net tuition and fees. This methodology would make the calculation transparent and allow for analysts or institutions to use either the gross or net figure depending on their data. Nonresidential supplemental tuition should be included in a total tuition number in the budget. Student financial aid programs that are netted out should be listed individually.

Separating out which employees are paid through core funds illustrates how much state and student money supports the main educational mission of the institutions.

Expenditures

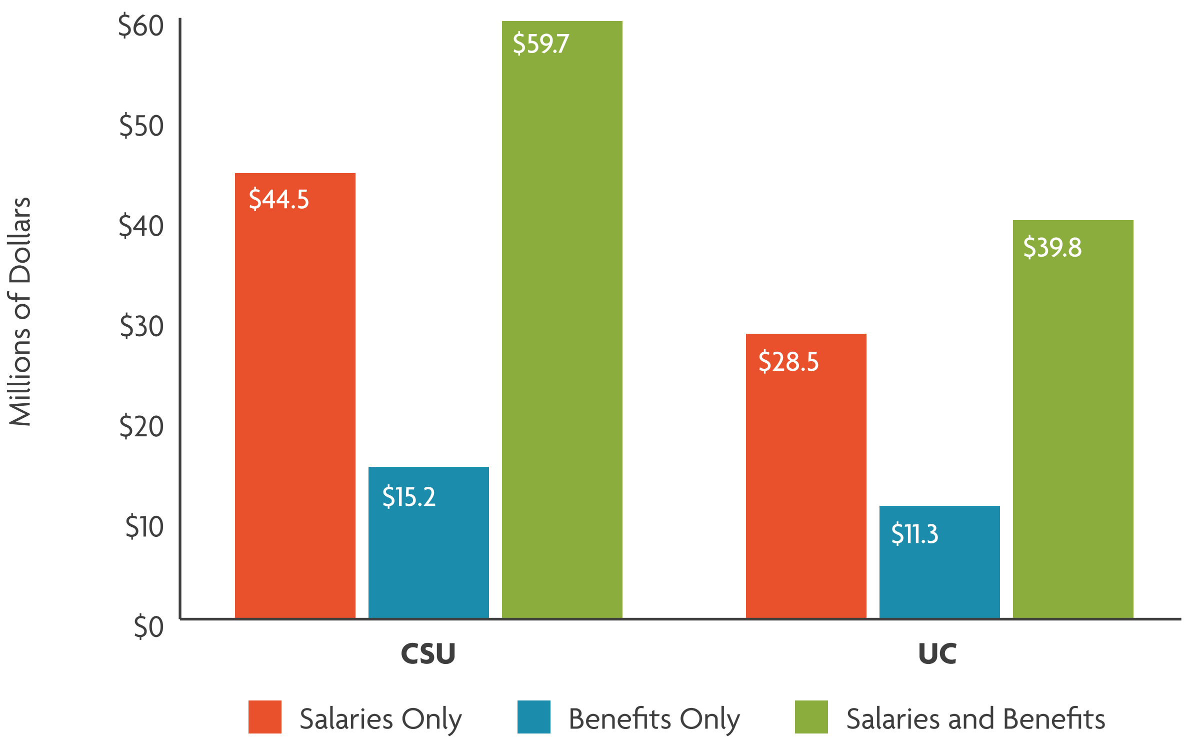
Fixed Costs: One of the biggest spending items for both UC and CSU is personnel costs, both salaries and benefits. However, data on personnel costs are not collected in a consistent manner and, unlike other higher education systems, California does not use common benchmarks such as benefits as a percentage of compensation or benefits as a percentage of salaries to gauge spending levels. Furthermore, because fixed-cost adjustments come first in the budget process, and in the case of CSU, outside the regular operating budget, there is little oversight about whether funding levels are a good tradeoff compared to other spending priorities.[15]

There is no separate reporting for salary and benefit expenditures, specifically from core funds in the budget. Separating out which employees are paid through core funds illustrates how much state and student money supports the main educational mission of the institutions (instruction, student services, etc.). The CSU does provide detail about spending by functional classification through the audited financial statements, but the UC does not provide this level of detail in either the budget or in its audited financial statements.[16] However, spending by functional classification only allows for the calculation of approximate spending on salaries and benefits from core funds. The actual amount of spending on salaries and benefits through core funds is not presented through any central location within the institutions or the Department of Finance.[17] Separating out employees that are paid through core funds is also important because, for example, at CSU, employees who work in auxiliary enterprises (such as parking and student housing) are not considered state employees and are thus not paid through state funds. Similarly, UC hospital employees are paid through an auxiliary fund source and not through state funds.

The story of fixed costs gets even more complicated when pension and retiree health care costs are considered. Although "retirement rate adjustments" are indicated in the Governor's CSU budget, no other retirement expenses are included for CSU in this budget area. Instead CSU retirement costs are included in a separate area of the budget for CalPERS.[18] Reporting this expense in a separate area creates confusion when tracking spending and misrepresents actual costs at CSU, as retirement expenses must be paid, and therefore budgeted, at the CSU. Furthermore, both the CSU budget and the LAO budget summaries include retirement costs (including pension and retiree health care) leading to a lack of uniformity between the Governor, the CSU, and the LAO budget documents.[19]

FIGURE 1:

Tradeoffs in Funding 1% Increase in Salaries or Benefits



Sources: CSU benefit and salary data from functional classification of salaries and benefits found in the audited financial statements, http://calstate.edu/financialservices/resources/auditedstatements/systemwide/2014-2015_AudFS.pdf. UC salary and benefit data from Department of Finance expenditures by category, Salaries and Wage Supplement report, http://www.dof.ca.gov/Budget/Salaries_Wages_Supplement/. Salary and benefit data are calculated based on the General Fund and tuition share of salaries and benefits using functional classifications and methodology from Delta Cost Project E&R calculations.

At the UC, pension costs are included in institutional budget documents but Proposition 2 revenues that are dedicated to offset pension costs are not included (see one-time funding section that follows). Retirement costs at the UC are not included in the Governor's budget because of a recent shift in which the state stopped funding retirement costs separately for UC, instead expecting the UC to pay for any retirement cost increases from that institution's base funding. This lack of parallel treatment in budgeting retirement costs at CSU and UC provides yet another layer of inconsistency.[20]

Understanding how salary and benefit costs are changing, both in relation to each other and in relation to other higher education institutions, aids our understanding of cost drivers and expected costs in the future. Specifically, these data inform the dialogue about the resource constraints of the institutions, and the tradeoff of spending resources on one type of expenditure versus another. Figure 1 shows the amount the UC and CSU would need to fund a 1% increase in salaries and benefits (funding is from Core Revenues).

Debt Service: Further confusion about institutional spending arises because of the inconsistent treatment of capital financing and debt servicing. In the past, the state paid for debt service on higher education bonds through the General Government area of the budget. However, in recent years funding responsibility for this debt service was shifted to the systems.[21] The details of the shift in reporting are complicated because, while debt service payments were shifted immediately, the authority to grant debt at the CSU did not happen simultaneously. However, the result was that this expenditure has been treated inconsistently—within the Governor's budget it appears as if there has been a large uptick in spending from one year to the next year when, in reality, this was not an increase in spending but an accounting shift from one area of the budget to another. The CSU has tried to net out the increase in costs due to debt service payments in its own budget documents. UC also indicates that state spending is "net of debt service." However, the LAO includes debt service in its budget reports. Although the various agencies are attempting to account for this change in reporting, they are not doing so in a manner that is consistent across agencies or in a way that allows for year-to-year comparisons. As the systems are responsible for funding this obligation, it should be represented within all budget reports in a consistent and transparent manner.

Instructional Costs: In 2014, the state legislature passed a resolution requiring the CSU and the UC to provide bi-annual reports describing the costs related to undergraduate, graduate, and professional school education.[22] The reports are meant to allow for comparison of spending on instruction and research, and the difference in educational costs among different disciplines. The systems were asked to disaggregate by student level and discipline, in addition to reporting by fund source.[23] Reporting by instruction increases budget transparency and highlights cross-subsidies between instruction levels and disciplines. While the UC and CSU have both responded to this request, the UC argues that it "does not delineate spending by level of student or by discipline, making it challenging to report expenditures by those categories." The UC provides two different methods for calculating instruction costs, but it is unclear if either method is in line with the legislature's language or with the CSU method.[24] Because it is unclear if the CSU and UC data are comparable to each other or to national practices, the data are not as useful in assessing whether instructional costs are similar to national spending levels.

EXPENDITURE METRICS NEEDED

- Fixed costs
  - Spending on salaries and benefits from core funds. Budgets should include the cost of a 1% increase in salaries for staff, by broad category (faculty, staff).
  - Salaries and benefits by fund source; the annual *UC Accountability Report* provides updates on this metric but the CSU does not provide similar reporting. Aggregate measures are needed to calculate the consequences of salary or benefit increases on core funding.
- Spending by revenue source—This metric should include the spending on debt service.
- Instructional costs by level of instruction—The segments should report on instructional costs using a consistent methodology. This should include the proportion of spending on core functions of instruction and departmental research; this is equal to the Delta Cost Project Education and Related (E&R) calculation of spending. Student cost should equal marginal cost by level of instruction (lower-division undergraduate, upper-division undergraduate, graduate academic and graduate professional student levels). Budgets should include the cost of a 1% increase in FTE undergraduate enrollment.

Budgetary Transparency

In addition to the revenues and spending metrics outlined in previous pages, there are two other missing components from current budget reports. The following issues touch both the revenue and expenditure side of the budget and inform issues of budget flexibility.

Reporting on one-time revenues would aid the discussion of appropriate resource use.

Ongoing Funding versus One-Time Funding: Some revenue and expenditure items are not of an ongoing nature but are rather for one-time purposes. Currently, funding for one-time purposes is not treated consistently across budget documents. Some one-time funds appear under "workload adjustments" in the Governor's budget, and within institutional financial statements they appear to be included in General Fund revenues with no separate tracking. In the UC budget, one-time funds are listed in state budget changes or under state budget actions, but are not separated in overall operating budget displays. An example of this is from the recent UC budgets, in which UC was given Proposition 2 money for paying down pension liabilities.[25] In both the Governor's and the UC's budget documents, the expenditure of those funds is not itemized in the budget but rather appears to be included with General Fund spending. It is not even clear whether the General Fund spending includes this because in the UC budget documents, the Prop 2 money is listed as "Other Requests Not in the Core Funds Budget Plan." Prop 2 funding appears in the Governor's budget under the workload adjustments to the General Fund but is not separated out in the spending tables.[26]

Reporting on one-time revenues would aid the discussion of appropriate resource use. As these funds are not clearly labeled now, it is unclear if they are being used as a stop gap to fill ongoing budget expenditures. Because of their one-time nature, it is not appropriate that these resources be used to fund ongoing spending, but it would be appropriate for them to be used for one-time needs, such as capital projects or deferred maintenance. Leaving these funds unlabeled and therefore invisible in budget documents clouds our ability to see if funds are being used in the most appropriate manner. A metric for the proportion of revenues and expenditures that come from one-time sources would allow for a better understanding of which projects are temporarily funded.

Reserves: Core spending often does not equal Core Revenues because of institutions' use of reserves. However, reserves do not appear in the budget documents, leading to incomplete understanding about how reserves count in the budget and how they are used. While the issue of how reserves are designed is beyond the scope of the current analysis, there should be policies governing the use of reserves. In addition, showing how reserves are used to fill budget shortfalls would aid our understanding of budgetary constraints and flexibility. The CSU policy on reserves changed with the 2015 adoption of a campus reserve policy that outlines when reserves may be established for economic uncertainties. The new policy advises campuses about whether and how much of a reserve may be used for capital projects and maintenance.[27] Hopefully, with this revised policy in place the CSU budget will soon report the use of reserves.

BUDGET TRANSPARENCY METRICS NEEDED

- One-time revenues—These metrics should be clearly accounted for and tied to expenditure reporting.
- Reserves—These metrics should be included in total operating revenues with a notation if their use is limited. Use of reserves should be included in the operating budget.

Other Resource Use

In addition to tracking revenues and spending levels of higher education systems, a handful of other indicators influence the use of resources and whether institutions are funding state goals. Although both university systems have missions that extend beyond undergraduate instruction, they both are charged with the responsibility to serve the educational needs of California residents, therefore, tracking how institutions are meeting enrollment demand reflects capacity and funding efficiency.

Admission and Enrollment: Student access, admission, and enrollment rates to higher education are tracked by both higher education systems and by various state and national organizations. The UC and CSU provide data on resident freshman and transfer applications, admissions, and enrollment. However, the CSU has a breakdown of this data only on a resident basis from 2012 onward, which makes it difficult to gauge progress for resident student admissions over time. The CSU does provide an additional piece of data on the number of applicants who were denied admission even though they were eligible, as well as the number of applications that were incomplete. The number of eligible students who were denied provides valuable insight about unmet demand for public four-year institutions.[28]

Neither the CSU nor the UC tracks the number of students who were admitted to a campus that was not of their choice—this process is called referral. There are reports that this may be changing at the CSU in the near future. The prior format of the CSU application did not allow for easy tracking of referrals but in June 2017 the CSU released a new application format that allows students to apply to multiple campuses with one application. In addition, the 2017-18 state budget requires the CSU to develop a policy to redirect rejected students to an alternate campus so that no qualified student is turned away. It remains to be seen if the development of this new policy, or the implementation of the new application format, will enable the CSU to track and report the number of students that have been referred to an alternate campus.[29]

Enrollment data for both institutions are reported only for those students considered "state supported." This means that enrollment in self-supporting programs such as extension, summer schools, and off-campus centers are not reported. While the rationale for reporting state supported students is relevant when looking at state dollars per student calculations, reporting the total number of students that utilize higher education programs and facilities would lead to a better understanding of state capacity and whether institutions are meeting student access demands.

Degree Completion: In addition to access level data, there are still some missing pieces of data regarding student completion. In the last five years, the California State Legislature has established new requirements for reporting student performance outcomes, such as graduation rates for undergraduates. However, these reporting requirements do not address progress of graduate students. Time to degree and completion rates for graduate students are not reported at the CSU, and while the UC reports doctoral completion rates after 10 years, it does not provide data on graduation rates for master's degree students or students in professional degree programs.[30] Because of the cross-subsidies between graduate programs and undergraduate programs it is important to examine whether students in graduate programs are actually making progress toward degrees or if they are taking up valuable resources by languishing in programs for several years.[31]

Institutions should track the number of students who are admitted to a campus that is not their first choice, and how many of these referred students are eventually enrolled.

OTHER RESOURCE USE METRICS NEEDED

- Eligible students admitted—A consistent methodology is needed to measure the number of eligible resident students who are being admitted to UC and CSU.
- Referral students admitted—Institutions should track the number of students who are admitted to a campus that is not their first choice, and how many of these referred students are eventually enrolled.
- Self-supporting enrollment—Enrollment data for students in self-supporting programs should be reported.
- Graduation rate by level—The graduation rate and the proportion of students who complete the Graduate 1, Graduate 2, and Professional level degrees should be reported annually along with undergraduate performance data.

USING METRICS TO CRAFT BETTER BUDGETS

The metrics outlined in the previous section would provide useful information about institutional budget needs and constraints; however, they are valuable only to the extent that they are used by those making budget decisions. An understanding of the tradeoffs in funding should spark dialogue among policymakers about which spending areas to prioritize in order to meet state goals. Below is an illustration of what metrics tell us and how this can inform budget discussions. The example below uses data on UC Core Revenues from 2015.[32] By breaking revenue sources down in this way, we can see that 74% of the UC's total operations revenues **cannot** be used for general purposes because their use is restricted.

FIGURE 2:
A Closer Look at Core Revenues at the University of California

Metric	Includes	Excludes
Core Revenues	Revenues that can be allocated to multiple purposes at the discretion of the institutional leaders	Revenues that are restricted by the donor or by policy and may not be used for general purposes
General Fund, Student Tuition and Fees, UC General Fund	Revenue from: State General Fund, student system-wide charges, nonresident supplemental charges	Revenue from: hospitals, auxiliary agencies, endowment earnings, research grants, extension programs, private gifts
Total Operations Revenues: $26,910M	Core Revenues: $7,104M (26%) • State General Fund: $2,991M (11%) • Student Tuition and Fees: $3,132M (12%) • UC General Fund: $981M (4%)	Restricted Revenues: $19,806M (74%)

Source: University of California, Budget for Current Operations 2015-16: http://www.ucop.edu/operating-budget/_files/rbudget/2015-16budgetforcurrentoperations_.pdf.

The reason this illustration is important to both policymakers and the public is that it corrects a mistake in the common narrative that the UC has a large stockpile of money that it chooses not to use for educational purposes. In reality, almost three-quarters of total UC operating revenues are either restricted by the donor or contracting agency, are legally obligated (e.g., hospital reserves), or are generated by auxiliary enterprises to support their own expenses (as in the case of self-funded auxiliary enterprises such as dormitories). Therefore, these revenues are not available for general purposes. Having a common definition of terms also allows for better year-to-year comparisons, which can correct the notion of state disinvestment in higher education. While the state investment per student adjusted for inflation has declined in the last decade this should not diminish the fact that the state provides a sizable investment in higher education institutions (nearly $3 billion to UC in 2015), a point that often gets lost in the public dialogue (total state and student investment in UC is over $7 billion). Creating consistent metrics that are reported on every year will help correct these misperceptions and help policymakers have an informed conversation about resource levels.

THE PATH FORWARD

The current approach to paying for higher education is not sustainable in the long term; persistent gaps exist between revenues and spending with no foreseeable path to closing them. We need a system that provides an adequate level of new resources to meet growing demand while ensuring quality. At the same time, we need to assure the state and the public that existing resources are being used effectively. There are no silver bullet solutions or easy fixes. Changes will require a meeting of the minds between officials at the state level and within institutions, motivated by a common desire to ensure that the benefits of a strong system of public higher education continue to be available to future generations. A first step in this direction can come from addressing the gaps in understanding of the basic facts about revenues and spending that now exist between state and institutional leaders. Illuminating cost levers and showing how each piece fits into the whole through a set of common metrics will improve public dialogue, legislative decision-making, and shared governance between the state and the institutions working to fund higher education in the future.

END NOTES

[1] This calculation uses the $492 million difference between the Governor's budget and the UC budget for 2016 and divides by system-wide tuition and fees for undergraduates in 2017 ($12,294) which equals 40,048 students.

[2] Although the UC states that tuition and fees are part of core funds and are unrestricted, the UC budget places student fees under "restricted funds," which leads to further confusion. University of California, *Budget for Current Operations 2017-18*, Appendix display 1: http://www.ucop.edu/operating-budget/_files/rbudget/2017-18budgetforcurrentoperations.pdf.

[3] National Center for Education Statistics, *IPEDS 2016-17 Data Collection System,* 2016-17 Survey Materials Glossary: https://surveys.nces.ed.gov/IPEDS/Downloads/Forms/IPEDSGlossary.pdf.

[4] Delta Cost Project, *Trends in College Spending 1998-2008: Where does the money come from? Where does it go? What does it buy?*, Donna M. Desrochers, Colleen M. Lenihan, and Jane V. Wellman: http://www.deltacostproject.org/sites/default/files/products/Trends-in-College-Spending-98-08.pdf; National Center for Education Statistics, *IPEDS Analytics: Delta Cost Project Database 1987-2010*, August 2012: https://nces.ed.gov/pubs2012/2012823.pdf.

[5] Federal data sources use a net tuition figure that includes tuition and system-wide fees minus refunds, scholarships, and fellowships, and institutionally provided tuition waivers for students. Although the UC and CSU must report data to the Federal IPEDS system it is unclear if they use the IPEDS methodology in their own budget documents.

[6] University of California, *Annual Financial Report 2015-16:* http://finreports.universityofcalifornia.edu/index.php?file=15-16/pdf/fullreport-1516.pdf.

[7] University of California, *Budget for Current Operations 2017-18,* Appendix display 2: http://www.ucop.edu/operating-budget/_files/rbudget/2017-18budgetforcurrentoperations.pdf.

[8] California State University, Office of the Chancellor, *Academic Sustainability Plan,* November 2014: https://www.calstate.edu/budget/fybudget/legislative-reports/1415-CSU-Academic-Sustainability-Plan.pdf.

[9] To motivate individual UC campuses to maximize revenues, the UC launched its "Funding Streams" initiative in 2011-12. Under this new initiative campuses were allowed to retain or have returned all campus generated fees, including nonresident supplemental tuition and fees. As a result of the Funding Streams and admissions revisions, UC campuses after 2012 were allowed to enroll more nonresidents and retain those revenues at the campus level, providing wide variation in how funds are used. University of California, *Accountability Report 2012,* Chapter 12: University Finances and Private Giving: http://accountability.universityofcalifornia.edu/2016/chapters/chapter-12.html; The Daily Bruin, "State to Audit UC nonresident enrollment, rebenching progress," March 5, 2015: https://dailybruin.com/2015/03/05/state-to-audit-uc-nonresident-enrollment-rebenching-progress/; California State Auditor, *The University of California: Its Admissions and Financial Decisions Have Disadvantaged California Resident Students, Report 2015-107,* March 2016: https://www.auditor.ca.gov/pdfs/reports/2015-107.pdf.

[10] California Student Aid Commission data provided courtesy of the Legislative Analyst's Office.

[11] California State University, *Institutional Aid Program Report,* January 2015: https://www.calstate.edu/budget/fybudget/legislative-reports/1415-Prelim-Institutional-Aid-Report_Jan-2015.pdf.

[12] According to UC Policy, 25% of campus-based fees must be set aside for aid programs. University of California Policy, PACAOS-80, *Policies Applying to Campus Activities, Organizations and Students,* March 2, 2007: http://policy.ucop.edu/doc/2710528/PACAOS-80; University of California, *Budget for Current Operations 2017-18:* http://www.ucop.edu/operating-budget/_files/rbudget/2017-18budgetforcurrentoperations.pdf.

[13] There are also other institutional scholarships and grants funded out of endowment funds or through athletic programs, as well as grant programs for graduate and doctoral work.

[14] "IPEDS" refers to the U.S. Department of Education's *Integrated Postsecondary Education Data System,* a series of mandatory surveys in which educational institutions report data to the federal government in order to qualify for federal financial aid programs.

[15] The "fringe benefit rate" is a commonly used accounting metric, which uses a ratio of benefits/salaries as a measure of the level of fringe benefits.

[16] UC spending by functional classification is available through the Governor's Office, but it is not part of the regular budget documents. Rather, it is an additional resource that can be found on the Department of Finance webpage. Because this resource is not part of the budget documents, it is largely out of the public eye. California Department of Finance, *Budget, Salaries and Wages Supplement:* http://www.dof.ca.gov/Budget/Salaries_Wages_Supplement/.

[17] The annual *UC Accountability Report* shows salaries and benefits by fund source, for example, the amount of salaries and benefits from the State General Fund, versus student tuition and fees, versus hospitals. The CSU does not appear to report on salaries and benefits by fund source, although the *Academic Sustainability Plan* shows the amount of "base Operation Expenditures" spent on PERS retirement and the employee compensation pool. Benefits are not line itemized in this report. University of California, *Accountability Report 2016,* Chapter 6: Staff: http://accountability.universityofcalifornia.edu/2016/chapters/chapter-6.html; California State University, Office of the Chancellor, *Academic Sustainability Plan,* November 2014: https://www.calstate.edu/budget/fybudget/legislative-reports/1415-CSU-Academic-Sustainability-Plan.pdf.

[18] State of California, *Governor's Budget 2017-18,* California State University: http://www.ebudget.ca.gov/2017-18/pdf/GovernorsBudget/6000/6610.pdf; State of California, *Governor's Budget 2017-18,* Public Employees' Retirement System: http://www.ebudget.ca.gov/2017-18/pdf/GovernorsBudget/7500/7900.pdf.

[19] State of California, Legislative Analyst's Office, *The 2017-18 Budget: Higher Education Analysis,* February 2017: http://www.lao.ca.gov/reports/2017/3559/Higher-Education-Analysis-021617.pdf; The California State University, *2016-17 Support Budget,* November 18, 2015: http://www.calstate.edu/budget/fybudget/2016-2017/executive-summary/documents/2016-17-support-budget.pdf.

[20] University of California, *Budget for Current Operations 2017-18:* http://www.ucop.edu/operating-budget/_files/rbudget/2017-18budgetforcurrentoperations.pdf; State of California, Legislative Analyst's Office, *The 2015-16 Budget Higher Education Analysis,* February 2015: http://www.lao.ca.gov/reports/2015/budget/higher-education/hed-budget-analysis-022715.pdf; State of California, *Governor's Budget 2017-18,* University of California: http://www.ebudget.ca.gov/2017-18/pdf/GovernorsBudget/6000/6440.pdf.

[21] 2012-13 appropriations for UC, CSU, and Hastings include general obligation bond payments of $196.8 million, $189.8 million, and $1.8 million, respectively. General obligation bond debt service was funded outside of those systems' budgets in prior years. State of California, Legislative Analyst's Office, *The 2012-13 Budget: Analysis of the Governor's Higher Education Proposal,* February 2012: http://www.lao.ca.gov/analysis/2012/highered/higher-ed-020812.aspx.

[22] California Legislative Information, Bill Information, *Ab-94 Education finance: higher education (2013-2014):* http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201320140AB94.

[23] After 2017, the systems are also required to report costs on a campus-by-campus basis as well as system-wide. California Legislative Information, Bill Information, *Ab-94 Education finance: higher education (2013-2014):* http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201320140AB94.

[24] University of California Office of the President, *Expenditures for Undergraduate and Graduate Instruction and Research Activities,* February 2015: http://www.ucop.edu/operating-budget/_files/legreports/14-15/efifinallegrpt-2-17-15.pdf; California State University, Office of the Chancellor, *California State University, Expenditures for Undergraduate and Graduate Instruction and Research Activities,* September 30, 2016: http://www.ucop.edu/institutional-research-academic-planning/_files/CSU%20Expenditures%20Report%202016.pdf.

[25] Proposition 2 requires the Governor to make payments toward certain eligible debts. In 2015, the Governor and the UC President reached an agreement that the state would contribute $436 million over three years to help pay down UC pension debt. SFGate, "UC President, governor agree to freeze tuition for 2 years," May 14, 2015: http://www.sfgate.com/education/article/Napolitano-Jerry-Brown-strike-deal-on-UC-tuition-6263588.php.

[26] University of California, *Budget for Current Operations 2017-18:* http://www.ucop.edu/operating-budget/_files/rbudget/2017-18budgetforcurrentoperations.pdf; State of California, *Governor's Budget 2017-18,* University of California: http://www.ebudget.ca.gov/2017-18/pdf/GovernorsBudget/6000/6440.pdf.

[27] California State University, *Integrated CSU Administrative Manual,* Section 2000 Budget, Campus Reserves, October 1, 2015: https://www.calstate.edu/icsuam/documents/Section2000.pdf.

[28] Since the 2017-18 state budget requires the CSU to admit all qualified applicants, the reporting of eligible denied may soon be a moot point. However, this change in the application process will not be fully phased in until fall 2019 and it remains to be seen exactly how the policy will work.

[29] Los Angeles Times, "Cal State trustees expected to discuss budget priorities, student enrollment," July 18, 2017: http://www.latimes.com/local/lanow/la-me-cal-state-board-of-trustees-preview-20170718-story.html.

[30] The CSU does report on the number of graduate degrees granted, but it does not report on the amount of time it takes graduate students to complete degrees. California State University, Analytic Studies, Statistical Reports, *CSU Undergraduate and Graduate Degrees Granted by College Year:* http://www.calstate.edu/as/stat_reports/cy_degrees.shtml; University of California, *Accountability Report 2016,* Chapter 4: Graduate Academic and Graduate Professional Students: http://accountability.universityofcalifornia.edu/2016/chapters/chapter-4.html.

[31] College Futures Foundation estimates that, at the UC, about 25% of Core Revenues at the undergraduate level are used to subsidize graduate education. College Futures Foundation, *Securing the Public Trust: Practical Steps toward Higher Education Finance Reform in California,* January 2017, page 21: https://higheredfinance.org/cf-content/uploads/Securing_Public_Trust_REPORT_Jan2017.pdf.

[32] University of California, *Budget for Current Operations 2015-16:* http://www.ucop.edu/operating-budget/_files/rbudget/2015-16budgetforcurrentoperations_.pdf.

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College Futures Foundation works with partners throughout California to increase bachelor's degree attainment among low-income students and others who are underrepresented in higher education. The Foundation operates on the belief that every qualified student in California should have the opportunity to succeed in college and it recognizes that creating a vibrant future for our state requires awarding more bachelor's degrees to broader populations of students. Established in 2005 as a private foundation, College Futures supports work in three areas: improving student transitions toward degree completion; developing and strengthening partnerships across institutions, systems, and regions to drive increases in bachelor's degree attainment; and reducing gaps between policy and practice to advance student access to and success in college.

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