

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Susan Bonilla, Chair

WEDNESDAY, FEBRUARY 20, 2013
4:00 PM - STATE CAPITOL ROOM 126

OVERVIEW OF THE GOVERNOR'S 2013-14 HIGHER EDUCATION FUNDING PROPOSAL

I. OPENING REMARKS

Assembly Member Susan Bonilla, Chair

Committee Members

II. GOVERNOR'S 2013-14 BUDGET PROPOSALS

Ryan Storm, Assistant Program Budget Manager, Education Systems,
Department of Finance

Jennifer Kuhn, Deputy Legislative Analyst, Education, Legislative Analyst's Office

III. SEGMENT PERSPECTIVES

Patrick Lenz, Vice President for Budget, University of California

Robert Turnage, Assistant Vice Chancellor for Budget, California State University

Dan Troy, Vice Chancellor, Finance and Facilities Planning,
California Community Colleges Chancellor's Office

BACKGROUND

After seven years of fluctuating General Fund support, the Governor's 2013-14 Budget proposes a major increase in overall state funding for higher education: about a 13 percent increase over the 2012 Budget Act. Since 2007-08, the last year in which standard increases to support cost-of-living adjustments and enrollment growth were included in the budget, state support has wavered dramatically. In response to the changes in state support, all three segments now rely much more heavily on student tuition and fees.

Higher Education General Fund Support^a

(Dollars in Millions)

	2011–12 Actual	2012–13 Revised	2013–14 Proposed	Change From 2012–13	
				Amount	Percent
University of California	\$2,504	\$2,567	\$2,846	\$279	11%
California State University	2,228	2,492	2,809	317	13
California Community Colleges	3,612	3,802	4,503	701	18
Hastings College of the Law	8	9	10	—	3
California Student Aid Commission	1,533	1,624	1,722	98	6
Grand Totals	\$9,885	\$10,494	\$11,890	\$1,396	13%

^aFor UC, CSU, and Hastings College of the Law, amounts include general obligation bond debt service in each year. For CCC, amounts include general obligation bond debt service and funding for the CCC Chancellor's Office. For the California Student Aid Commission, amounts include federal Temporary Assistance for Needy Families and the Student Loan Operating Fund support that directly offsets General Fund costs.

The Governor's proposal allows the Assembly the chance to review its higher education priorities in a much different context than recent years, in which cutting back state support has been the dominant theme.

This hearing is intended to be a broad overview of the Governor's proposals, specifically focusing on segment-wide issues.

The following is a brief discussion of major issues in higher education, key over-arching questions the Subcommittee faces in discussing the Governor's proposals for 2013-14, a description of the proposals and staff comments and potential questions for the Department of Finance, Legislative Analyst's Office and UC, CSU and community college officials.

Tuition has increased dramatically. Community college fees more than doubled since 2007-08, and tuition at UC and CSU nearly doubled. Community college fees are now \$46 per unit, while annual tuition is now \$5,472 at CSU and \$12,192 at UC. This growth in tuition and fees has led to major costs increases in state-supported financial aid, as a large portion of aid covers tuition and fees: expenditures for the California Student Aid Commission have grown from \$866.7 million in 2007-08 to a projected \$1.8 billion in 2013-14.

Higher Education Annual Tuition,
2007-08 vs. 2013-14

	2007-08	2013-14 Proposed	Change From 2007-08
UC	\$6,636	\$12,192	84%
CSU	\$2,772	\$5,472	97%
CCC	\$600	\$1,380	130%
Hastings College of Law	\$21,303	\$43,486	104%

Despite these increases, the LAO notes that tuition at California higher education institutions remains relatively low compared to the rest of the country.

Access to higher education for Californians remains a critical issue. Students in the community college and CSU systems have found it more difficult to access colleges and specific classes. Community colleges, which had a funded enrollment of more than 1.2 million full time students (FTES) in 2008-09, have lost more than 100,000 FTES since then. Nearly 11 percent of applicants to CSU in Fall 2011 were turned away, compared to 3.6 percent in Fall 2008.

At the same time as enrollment and access have become a major problem in state higher education, the Governor is pushing to eliminate the traditional enrollment targets that the Legislature has typically included in the budget and that have been the key building block of higher education funding. The Governor vetoed enrollment targets out of the 2012 Budget Act and has proposed not including them in the 2013 Budget Act. This is a major departure from past practice, as the Legislature has traditionally made increasing access to higher education a top priority and tied funding levels to enrollment levels. The LAO recommends continuing to set enrollment targets.

The targets approved by the Legislature in the 2012 Budget Act that were vetoed by the Governor were 209,977 resident full-time equivalent students for UC and 331,716 resident full-time equivalent students for CSU.

In addition to access, student success has become a major legislative interest. Only about 27 percent of community college students who seek to transfer or graduate actually do so within 3 years. Only 47 percent of CSU students graduate within 6 years. About 80 percent of UC students graduate within 6 years.

The LAO notes these varying rates are due in part to the pools of students the segments draw from, as community colleges and CSU students are far more likely than UC students to require remedial classes before taking on college-level work. In addition, the LAO notes that only a small fraction of community college students enter as full-time freshmen and some students are not seeking degrees. The LAO also notes that California's graduation and completion rates are comparable to national averages, with UC and CSU actually showing better graduation rates than peer institutes across the country.

The Legislature has sought to improve student success in recent years through several major pieces of legislation. At the community college level, legislation created the Student Success Task Force and SB 1456 (Lowenthal) Chapter 624, Statutes of 2012, enacted several recommendations from the task force, including requiring minimum academic and progress standards for community college students receiving fee waivers and creating a new Student Success and Support Program at community colleges. This program would direct funding to the core matriculation services of orientation, assessment, counseling and advising, and development of education plans. In addition, SB 1440 in 2010 sought to improve the transfer rates from community colleges to CSU by creating two-year degrees, called associate degrees for transfer, which allows automatic transfer to the CSU system as a junior.

The Governor's Budget includes several proposals aimed at further improving student success. The Assembly will have to review these proposals in the context of how they interact with already-taken legislative actions and established legislative priorities.

Both the Governor and Legislative Analyst assert that higher education costs are too high and unsustainable. In his January budget proposal, the Governor declared that growing costs in higher education are not sustainable. The LAO concurs with the Governor's assessment that higher ed costs are too high. They note that average spending per student in the UC system is 20 percent higher than other comparable universities across the country, and that UC's spending per degree - \$166,000 – is also above that of comparable universities.

The LAO table below illustrates funding per student for the three segments and Hastings College of Law.

Programmatic Funding Per Student^d

	2011–12 Actual	2012–13 Revised	2013–14 Proposed	Change From 2012–13	
				Amount	Percent
Hastings College of the Law	\$32,483	\$39,219	\$41,048	\$1,829	5%
University of California	24,411	24,909	25,940	1,031	4
California State University	11,667	12,729	13,656	927	7
California Community Colleges	5,349	5,447	5,969 ^b	522	10

^aExcludes lottery, general obligation bond debt service, and California State Teachers' Retirement System costs. Includes other General Fund, net tuition and fees, other university core funds, federal Education Jobs Act funds, and local property taxes.

^bFor 2013–14, the Governor's budget provides CCC with additional programmatic funding without assuming any increase in the system's funded enrollment level. To the extent that CCC's enrollment target is adjusted commensurate with any base increase, programmatic per-student funding will be lower.

The Governor's proposal seeks to increase funding to all three higher education segments during the next four years, but tie it to flat tuition rates and improved outcomes. Additionally, there are numerous significant policy changes. Among the broad questions the Assembly should consider as it reviews these proposals are:

Policy or Budget? Several budget proposals, including one to move adult education programs from the K-12 system to community colleges and another to cap the number of unit's students can take, include major policy changes as well as budget impacts. The Assembly may wish to consider whether these proposals would benefit from larger policy discussions that could occur through the bill process, instead of the budget process.

Should the Assembly accept the 2012 Budget Act as a baseline? The Governor vetoed significant pieces of the 2012 Budget Act pertaining to higher education, and the proposal for 2013-14 assumes those vetoes will remain. The Governor stripped several earmarks out of the UC and CSU budgets, including requirements that some funding go to UC Merced and other programs such as the California Institutes for Science and Innovation, the Charles R. Drew Medical Program, AIDS research, and CSU nursing programs. He also vetoed out of the budget bill enrollment targets for UC and CSU, and made several reductions to Cal Grants, reducing specific awards by 5 percent. The reductions – for students attending private and independent institutions, and Cal Grant B and C award recipients – could have a major impact on students at a time when college costs are rising. The Assembly must decide if the changes made through these vetoes should stand or be re-inserted into the 2013 Budget Act. In addition, the Governor's proposal continues and increases a fund shift used in the 2012 Budget Act that transfers funding from the Temporary Assistance for Needy Families (TANF) Program to support the Cal Grant program. The Governor's Budget proposes using \$942.9 million of TANF funds to offset General Fund costs related to Cal Grants.

Should policy changes punish students or incentivize institutions? Some proposals, such as a cap on the number of units students at each of the segments can take or a requirement that all community college students applying for Board of Governors' fee waivers also fill out the federal student aid application, appear to target students as opposed to institutions. For example, unit caps may punish students who have accumulated a large number of courses because they have been unable to take courses they need. The Assembly may wish to consider whether the Governor's goals to improve timely graduation and student access to federal financial aid can be achieved through means that have less direct impacts on students and instead provide more incentives to institutions.

What is the Assembly's role in shaping higher education priorities and improving higher education outcomes? A key component of the Governor's proposal is to provide funding increases to the segments during the next four years to help achieve goals such as preventing tuition increases and helping students progress through college more quickly and efficiently. The proposal does not provide specific details on performance metrics the Administration might use to determine whether the segments merit increased funding. In addition, the Governor proposes allowing the Community College Board of Governors to determine how to spend an increase of \$196.9 million in apportionment funding.

Absent from the Budget proposal so far is the legislative role in these funding increases and outcomes assessments. The Assembly can and should play a role in determining the goals the segments should focus on and where increased funding should go, both in 2013-14 and beyond

2013-14 GOVERNOR'S PROPOSALS

Below are brief descriptions of higher education proposals, including four that would impact all three segments. Proposals to shift adult education to the community college system and to use Proposition 39 funding for energy efficiency projects in the K-12 and community college systems are omitted, as they will be the topic of a separate hearing.

MULTI-YEAR FUNDING PLAN

In a proposal somewhat similar to one made last year, the Governor's Budget proposes a plan that would provide 5 percent General Fund growth to UC and CSU in 2013-14 and 2014-15, or about \$125 million, and 4 percent growth during the following two years. The community college system would receive \$196.9 million in increased funding in 2013-14 and further, unspecified increases in future years. The funding increases would be linked to holding tuition and fees flat for this four-year period, and also achieving gains in issues such as improving graduation rates, time-to-graduation and controlling costs.

According to the Administration, the community college proposal would allow the California Community Colleges Board of Governors the discretion as to how this additional funding would be spent. The funding could support any number of needs in the system, including enrollment growth, restoring previous cuts to categorical programs, or cost-of-living adjustments.

STAFF COMMENTS/QUESTIONS

The Administration has not released details on its specific priorities or how it would evaluate whether the segments were achieving appropriate outcomes to warrant funding increases each year. It is unclear what the legislative role in this process would be. It also should be noted that state budgets are determined on a year-to-year basis, and therefore multi-year funding promises can be problematic. The LAO notes that the Governor complains that the segments are inefficient and not spending money wisely, but also is proposing to give them a large increase in funding with few strings attached. The LAO recommends that the Legislature should determine its priorities for the segments and then allocate funding accordingly.

Questions:

- What specific outcome measurements does the Administration believe should be used to evaluate the segments' performance?
- What would the legislative role be in this evaluation process?
- Does the Administration have any thoughts on how the community college funding should be spent? Should the Legislature exercise the discretion it has traditionally used in setting funding priorities? For example, should it be spent on enrollment growth, restoring categorical funding, or funding the newly-created Student Success and Support Program?

ONLINE AND TECHNOLOGY INITIATIVES

Of the \$125.1 million in new General Fund spending for UC and CSU, the Governor's Budget proposes to earmark \$10 million of that funding to require UC and CSU to expand the number of on-line courses available to undergraduate students. Proposed budget language notes the funding should go to courses that have high demand, fill quickly and are prerequisites for many different degrees, and allow students to enroll in system wide classes regardless of which campus they attend.

Similar to proposals for UC and CSU, the Governor's Budget proposes funding for technology improvements in the community college system. The proposal would direct \$16.9 million to increase the number of courses available to students. The Administration states that its intent is to have a centralized "virtual campus" that would offer needed classes for students throughout the system. The intent would be to provide classes with the highest demand and classes that are needed for many degrees.

The Administration believes expanding the use of technology throughout the higher education segments will improve time-to-degree.

STAFF COMMENTS/QUESTIONS

All three segments already offer many on-line courses. About 17 percent of California State University, East Bay's student credit hours are taken in on-line classes, for example, and about 10 percent of total instruction provided by community colleges in 2011-12 was online. The LAO states that new funding is not needed for more classes, but it does recommend funding to facilitate sharing of online curricula across systems and to allow students to access online courses offered by differing campuses.

Questions:

- Is the Administration open to using this funding to improve coordination to allow students to take online classes from differing campuses and segments?
- How does the Administration envision oversight in this area to ensure the extra funding effectively allows students better access to classes?

BOND COSTS AND DEBT RESTRUCTURING

Currently the state separately funds general obligation bond debt service for UC and CSU capital improvement projects and lists lease-revenue bond debt service in a separate budget item. Similar to last year, the Governor's Budget proposes moving these costs into the main appropriation for UC and CSU, which the Administration believes will require both systems UC to factor these costs into the system's overall fiscal outlook when it makes decisions on capital projects. The Budget calls for \$202 million in general obligation bond debt service payments in 2013-14 for UC, a \$12 million increase over the current year, and \$198.1 million in general obligation bond debt service payments in 2013-14 for CSU, a \$10 million increase over the current year.

As part of this proposal, the Administration states that it will not provide further increases for debt service for UC or CSU in future years. In addition, the proposal notes that new UC capital expenditures would be subject to approval by the Administration and there would be a cap on the amount of the budget UC could spend on capital projects.

Finally, the proposal also would allow UC and CSU to restructure its state debt. UC believes that it can restructure the state's lease-revenue bond debt for UC projects and pay less debt service in the near and intermediate term, thus freeing up cash.

STAFF COMMENTS/QUESTIONS

This proposal has several problematic issues, including that it would remove legislative oversight of UC and CSU capital projects, instead allowing only the Administration a role in approving or denying projects. In addition, the LAO notes that freezing the state's level of support for debt service payments at current levels may not be appropriate, as capital needs may diminish over time. Finally, the UC proposal to restructure its debt appears to add costs in future years. One scenario provided to the Legislature estimates that restructuring would generate \$80 million per year in additional cash during the next 10 years, but add \$383.8 million in overall cost during the 40-year period under the proposal, when compared to current debt-service payments and taking into account the effects of inflation. The strategy appears to simply extend the costs of debt service over a longer period of time than current practices, which could hamper future borrowing practices. This seems to contradict the Governor's interest in reducing debt in the near-term, instead of extending debt costs.

Questions:

- Why would it be in the Legislature's interest to remove itself from its traditional role in approving or denying capital projects through the annual budget?
- Isn't this proposal simply extending debt payments over a longer amount of time, and doesn't that stand in contrast to the Governor's desire to eliminate debt more quickly? How would out-year costs associated with debt restructuring be repaid?
- Couldn't the state enact the same restructuring as UC is proposing?
- How would the Legislature determine the appropriate amount of funding to provide to the segments to pay for ongoing debt service costs, based on the LAO's concerns that current debt service may be relatively high?

CAP ON STATE-SUPPORTED UNITS

The Governor's Budget proposes a limit on the number of units a student can take before the student's costs per class would grow dramatically. For 2013–14 and 2014–15, the Governor proposes a cap of 150 percent of the standard units needed to complete most degrees at UC and CSU. In subsequent years, the number would lower to a cap of 125 percent of the standard required units at UC and CSU—about one extra year of coursework. Students who exceeded these caps would be required to pay the full cost of instruction.

For community college students, a cap of 90 semester-units would be imposed beginning in 2013-14, or about one extra year of coursework that is required for transfer or an associate degree.

For all three segments, students would be allowed to take classes beyond the cap, but would have to pay the full cost of instruction.

STAFF COMMENTS/QUESTIONS

According to the Governor, the unit cap is intended to create an incentive for students to shorten their time-to-degree, reduce costs for students and the state, and increase access to more courses for other students.

However, the Assembly may wish to consider the reasons students may be accumulating large numbers of units before it determines whether to impose such a cap. Students with a high number of credits in recent years may be simply adapting to a dysfunctional system. Due to recent budget cuts, course offerings at community college and CSU campuses have been cut back, limiting students' abilities to take the appropriate courses needed to secure a degree. It may be unfair to penalize current students in each of these systems for being unable to complete their educational goals in a timely manner. This cap also may hamper students who are returning to community colleges or the other segments in an effort to change careers.

Questions:

- What are the reasons that students take more units than needed?
- Wouldn't this proposal punish current students who have struggled to enroll in classes that have been unavailable due to budget reductions?
- Is it fair to impose this cap without improving academic counseling services, particularly at the community colleges, where some of these services have been cut by up to 50 percent?
- How many currently enrolled students would be impacted by this change? How many students does the system estimate would be impacted in the future? What are the characteristics of these students?
- If adopted, how would students be notified of these changes?
- How would this impact students who are returning to school to change careers? Is this a lifetime cap?
- How would the system and campuses implement the waiver provisions of the proposal? How would the systems/campuses pay for these costs? How would the system ensure that legitimate waivers were not denied on the basis of funding concerns? The proposal provides discretion to the systems to determine the criteria for waivers? What would the system's propose be the criteria? The proposal also allows the systems to determine, which course units were the result of lack of access to required courses? How would the systems do that?

COMMUNITY COLLEGE DEFERRAL DEBT

The Governor's Budget proposes an increase of \$179 million Proposition 98 General Fund to further reduce deferral debt owed to community colleges. The state reduced its debt to community colleges to \$801 million in the 2012 Budget Act, and this would bring the debt down to \$622 million. The Administration notes that this funding level is proportional to the debt payment proposed for the K-12 system.

STAFF COMMENTS/QUESTIONS

Paying down debt is a key component of the Governor's overall budget proposal. This proposal would eliminate deferral debt in the community college system in four years. The Assembly will have to weigh the clear need to eliminate debt with other pressing needs for the system.

COMMUNITY COLLEGE CENSUS

The Governor's Budget proposes a major shift in per-student community college funding by changing the date in which students are counted. The Administration argues their proposal will provide incentives for colleges to ensure students complete courses.

Currently, community colleges report their student numbers based on a census taken during the 20-percent mark of the term, typically the third or fourth week of the semester. Beginning in 2013-14, the Governor proposes adding a second census at the end of each term, and over a five-year period, attaching more funding weight to the second census. By 2017-18, the first census would be eliminated. As part of this proposal, the Administration states that it intends to restore funding to any college that loses funding due to this census shift by transferring the savings to categorical programs designed to promote student success. Thus, the Administration argues, colleges that have traditionally enrolled hard-to-serve students would not be penalized.

STAFF COMMENTS/QUESTIONS

While the idea of providing incentives for community colleges to help student's complete courses warrants consideration, the Legislative Analyst's Office notes that this proposal could create potential unintended consequences, such as grade inflation or reductions in course rigor. They also note that course completion rates are about 85 percent, suggesting this is not a particularly pressing problem. In addition, it should be noted that the Community College Student Success Task Force examined the completion issue thoroughly, and provided other recommendations, such as changing system wide enrollment priorities and requiring students to address basic skills needs earlier in their community college career. They did not recommend a change in the timing of the census.

COMMUNITY COLLEGE BOARD OF GOVERNOR'S FEE WAIVER PROCESS

The Governor's Budget proposes requiring students who are seeking a Board of Governor's (BOG) Fee Waiver to fill out the Free Application for Federal Student Aid (FAFSA). The Administration argues that this will create more assurance that only financially-needy students are receiving the waiver, and also could help generate more federal financial aid for students. This is a policy change with no projected budget impact in the 2013-14 Budget Proposal. Trailer bill language would allow Dream Act students, who are not allowed to fill out the FAFSA, to instead use the Dream Act application to fulfill this requirement.

Created more than 25 years ago when community college fees were first established, the BOG Fee Waiver Program is intended to allow low-income students to attend community college without paying fees. The Governor's Budget summary notes that approximately 60 percent of all credit course fees in the system are waived annually through this program, and the Administration argues that the fee waiver is granted with "limited verification of financial need."

In contrast, the FAFSA, which is required for any student wishing to receive federal financial aid, requires a more thorough accounting of a student's finances.

STAFF COMMENTS/QUESTIONS

While this proposal warrants discussion, the Assembly should consider the following:

- Community College officials note that about 80 percent of BOG Fee Waiver students already fill out the FAFSA, so this change may not have much of an impact on the system;
- Through SB 1456 (Lowenthal), Chapter 624, Statutes of 2012, the Legislature last year approved reforms to the BOG Fee Waiver program that have yet to take effect. The legislation authorized the Board of Governors to adopt regulations requiring minimum academic and progress standards for students receiving the waiver. The Assembly may wish to wait to determine the effectiveness of those reforms before adding another.
- Financial aid offices at community colleges are severely under-staffed. It is possible that requiring this new form would increase the workload of already swamped offices.
- Some students, such as Dream Act students, who could qualify for the BOG Fee Waiver, are not allowed to fill out the FAFSA. While the Administration states that its proposal would allow Dream Act students to fill out a Dream Act application instead of a FAFSA, specific language has not been proposed and the Assembly may wish to ensure that this new requirement does not unfairly prevent students from seeking the waiver.

CSU RETIREMENT COSTS

The Governor's Budget proposes an increase of \$51.4 million to cover CSU employee retirement contribution costs for the California Public Employees Retirement System in 2012-13, bringing retirement costs to an estimated \$436.6 million. The Governor also proposes that the state continue to fund retirement contributions for CSU employees based on the number of employees in 2012-13. If CSU chooses to add employees or increase wages beyond 2012-13 levels, CSU would be responsible for the additional costs. The Administration argues this will require CSU to factor these costs into their overall fiscal outlook before making personnel decisions.

CSU EMPLOYEE HEALTH BENEFIT RATES

The Governor's Budget proposes to give CSU the statutory authority to negotiate or set employee health care benefit rates. This process would be achieved through collective bargaining with represented employees. Currently CSU pays 100 percent of health care premiums for employees and 90 percent of premiums for employees' family members, a higher rate than other state agencies that bargain these rates. CSU currently does not bargain this rate, as it is set in statute.