

**AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE**

Assemblymember Julia Brownley, Chair

**WEDNESDAY, APRIL 2, 2008
STATE CAPITOL, ROOM 126
4:00 P.M.**

OVERVIEW OF THE 2007-08 PROPOSED HIGHER EDUCATION BUDGET

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ISSUE 1: OVERVIEW OF GOVERNOR'S BUDGET

The issue for the Subcommittee to consider is the Governor's proposal to reduce funding to higher education through an across-the-board approach.

SPECIAL SESSION

Special Session Actions. The Governor called a Special Session of the Legislature to immediately address the budget and cash shortfall. The Legislature rejected the Governor's proposal to cut \$40 million to the California Community Colleges (CCC) apportionments and delay \$200 million in payments scheduled for July 2008 to CCC for the 2007-08 deferral of apportionments until September 2008. Instead the Legislature reduced Proposition 98 funding for CCC by \$31 million by reverting and capturing unspent prior and current year funds.

BACKGROUND

Governor's Budget. The Governor's 2008-09 budget proposal provides a total of \$33.4 billion from all sources for all sources for higher education support costs. This amount is \$401 million less than the Governor's revised current year proposal. The total includes funding for University of California, California State University, California Community College, Hastings College of the Law, California Student Aid Commission, and the California Postsecondary Education Commission.

Workload Budget Approach. Similar to its approach in other areas of the budget, the Governor's higher education proposal generally includes 10 percent reductions to estimated General Fund "workload" funding levels. However, more than one-half of these budget solutions take the form of unallocated reductions to the University of California (UC) and the California State University (CSU), making it unclear what effect these proposals would have on critical aspects of higher education, including college access and affordability.

MAJOR FUNDING SOURCES

General Fund. The 2008-09 Governor's budget proposal provides \$11 billion from the General Fund for higher education. This amount is \$261 million, or 2.3 percent, less than current-year funding. The budget also projects that local property taxes will contribute \$2.2 billion for California Community Colleges (CCC) in 2008-09, which reflects an increase of \$145 million, or 7 percent, more than current-year funding.

Student Fees. Student fee revenue at all the public higher education segments, including Hastings College of the Law, supports \$4.2 billion of proposed expenditures. This is \$331.5 million, or 8.6 percent, greater than fee revenue in the current year. Most of this increase comes from a proposed 7.4 percent fee increase at the UC, which will generate \$125 million, and a proposed 10 percent fee increase at the CSU, which would generate \$110 million. Under the Governor's proposal, Community Colleges' student fees remain at \$20 per unit, and fee revenue would generate \$284.4 million.

Other Funds. The budget also includes about \$16.1 billion in other funds, which reflects a decline of about \$616 million, or 3.7 percent. Almost all (\$15.2 billion) of these other funds constitute nonstate revenue – including federal funding and private contributions. The remainder is made up of various state revenues, including lottery and tobacco funds. In addition to the amounts, local community colleges are projected to receive an additional \$1.8 billion from locally budgeted resources.

The table below shows the major General Fund budget changes proposed by the Governor:

Governor's 2008-09 Higher Education Budget Proposal				
<i>(Dollars in Millions)</i>				
	2007-08 Revised	2008-09 Proposed	Change	
			Amount	Percent
UC				
General Fund	\$3,260.7	\$3,162.2	-\$98.5	-3.0%
Fees	2,151.5	2,331.3 ^a	179.8	8.4
Subtotals	(\$5,412.3)	(\$5,493.5)	(\$81.3)	(1.5%)
All other funds	\$12,656.9	\$13,210.1	\$553.2	4.4%
Totals	\$18,069.2	\$18,703.7	\$634.5	3.5%
CSU				
General Fund	\$2,970.7	\$2,873.1	-\$97.6	-3.3%
Fees	1,376.9	1,521.1 ^a	144.2	10.5
Subtotals	(\$4,347.6)	(\$4,394.2)	(\$46.6)	(1.1%)
All other funds	\$2,598.7	\$2,550.5	-\$48.2	-1.9%
Totals	\$6,946.3	\$6,944.7	-\$48.2	—
CCC				
General Fund ^b	\$4,146.7	\$4,034.9	-\$111.8	-2.7%
Local property tax	2,051.7	2,196.2	144.5	7.0
Fees	281.4	284.4	3.0	1.0
Subtotals	(\$6,479.8)	(\$6,515.4)	(\$35.6)	(0.5%)
All other funds ^c	\$269.4	\$257.5	-\$11.9	-4.4%
Totals	\$6,749.2	\$6,773.0	\$23.7	0.4%
CSAC				
General Fund	\$842.9	\$890.5	\$47.6	5.7%
All other funds	1,160.8	30.8	-1,130.1	-97.4
Totals	\$2,003.7	\$921.3	-\$1,082.5	-54.0%
Other Agencies				
General Fund	\$12.8	\$12.1	-\$0.7	-5.6%
Fees	28.7	33.2	4.5	15.6
All other funds	21.5	42.4	20.9	97.1
Totals	\$63.1	\$87.7	\$24.6	39.0%
Grand Totals				
General Fund	\$11,233.9	\$10,972.8	-\$261.1	-2.3%
Fee revenue	3,838.5	4,170.0	331.5	8.6
Local property tax	2,051.7	2,196.2	144.5	7.0
All other funds	16,707.3	16,091.3	-616.1	-3.7

^a Assumes fee increases of 7.4 percent at UC and 10 percent at CSU. However, the Governor's budget makes no specific fee proposal, deferring this decision to the segments.

^b Excludes teachers' retirement funds and bond payments.

^c Excludes other funds maintained in local budgets.

FUNDING BY SEGMENTS

California State Library (excluded from the Higher Education funding). The Governor's budget proposes \$48 million in General Fund support, which is a reduction of \$5 million from the revised current-year amount.

California Postsecondary Education Commission. The Governor's proposal provides \$2 million in General Fund, which is \$200,000, or 9.2 percent, less than the revised current year amount.

University of California. The Governor's proposed budget provides General Fund appropriations of \$3.2 billion, which is \$99 million, or 3 percent, less than the revised current-year estimate. Of this reduction, \$31 million would come from UC's administrative support budget, while the remainder would be unallocated. The Governor's proposal also includes at least \$125 million in new student fee revenue, from a fee increase of at least 7.4 percent. When all fund sources are considered, UC's budget increase by 3.5 percent.

Hastings College of the Law. The Governor's proposed budget provides \$10.1 million in General Fund support, which is a decrease of \$500,000, or 4.9 percent, from the current-year level.

California State University. The Governor's proposed budget provides \$2.9 billion in General Fund support, which is a decrease of \$98 million, or 3.3 percent, from the current-year level. Of this reduction, \$2.4 million would come from CSU's administrative support budget, while the remainder would be unallocated. The Governor's proposal also includes an augmentation of at least \$110 million in new student fee revenue, from a fee increase of at least 10 percent. When all fund sources are considered, CSU's budget remains essentially unchanged.

California Community College. The Governor's proposed budget provides \$4 billion in General Fund support, which is \$112 million, or 2.7 percent, less than the revised current-year amount. Local property tax revenue, the second largest source of CCC funding, would increase by 7 percent, to \$2.2 billion. Fee revenue would provide an additional \$284.4 million, reflecting an increase 1 percent due to budgeted enrollment growth. Combined, these three sources of district apportionments (General Fund support, property taxes, and fee revenue) would amount to \$6.5 billion, which reflects an increase of \$36 million, or 0.5 percent.

California Student Aid Commission. The Governor's proposal provides \$891 million in General Fund support, which is \$47.6 million, or 5.7 percent, more than the revised current-year amount. The major augmentation is \$107 million for increased Cal Grant costs, most of which would cover fee increases for eligible students at UC and CSU. This augmentation would cover fee increases of 30 percent at UC and 33 percent at CSU. Offsetting this augmentation is a \$57.4 million reduction by eliminating new student participation in the Cal Grant competitive program.

MAJOR BUDGET CHANGES

Enrollment Growth. For UC, the budget includes \$56.4 million (2.5 percent) increase for enrollment growth, which would fund 5,000 additional full-time equivalent students (FTES). For CSU, the budget includes \$70.1 million (2.5) increase for enrollment growth, which would fund 8,572 additional FTE students. For CCC, the budget provides \$171.9 million (3 percent) increase to fund 35,000 additional FTE students. However, the Governor's budget acknowledges that UC and CSU may decide to enroll less than the proposed level of students as a way to accommodate the proposed General Fund reductions.

Student Fees. Student fees would be increased at all segments except for CCC. For UC and CSU, the figure reflects increases of 7.4 percent and 10 percent, respectively. These amounts reflect fee increases envisioned by the segments when they developed their budget plans in the fall. However, the Governor's budget does not formally propose any specific fee level, acknowledging that the segments may increase their fees above their initially envisioned levels in order to backfill some or all of the proposed unallocated General Fund reductions.

Financial Aid. Funding for the Cal Grant entitlement programs would be augmented to accommodate projected enrollment growth and fee increases in excess of the levels noted above. However, the Governor proposes to fund no new grants in the Cal Grant *competitive* programs in the budget year and beyond, for an estimated General Fund savings of \$57 million in 2008-09. Students receiving a grant in the current year would still be eligible for renewal awards. As these students graduate over the next several years, the competitive programs would be phased out.

Capital Outlay. The Governor's proposed budget includes about \$1.6 billion in new capital outlay funding for 2008-09. In addition to this funding, the budget provides \$418 million in carryover and reappropriated funding that was originally appropriated in prior years. For CSU, the budget also includes \$50 million in bond funding for special repairs that is counted as part of CSU's support budget. All of the proposed funding would come from general obligation bonds. Under the Governor's proposal, \$457 million would come from bonds authorized by Proposition 1D and \$1.1 billion would come from a proposed bond that would be placed before voters in November 2008.

The table below shows the net General Fund reductions to all higher education segments, except for the California Student Aid Commission:

2008-09 Higher Education Budget Proposal				
<i>General Fund (Dollars in Millions)</i>				
	2007-08 Revised	2008-09 Proposed	Difference	
			Amount	Percent
University of California	\$3,260.7	\$3,162.2	-\$98.5	-3.0%
California State University	2,970.7	2,873.1	-97.6	-3.3
California Community Colleges	4,146.7	4,034.9	-111.8	-2.7
California Student Aid Commission	842.9	890.5	47.6	5.7
Hastings College of the Law	10.6	10.1	-0.5	-4.9
California Postsecondary Education Commission	2.2	2.0	-0.2	-9.2
Totals	\$11,233.9	\$10,972.8	-\$261.1	-2.3%

ISSUE 2: LAO ALTERNATIVE BUDGET PROPOSAL

In their analysis, the LAO states that they cannot estimate the full affect of the budget on higher education because the Governor's workload budget leaves many of the decisions about unallocated reductions and fee increases to the university system. The two critical issues the LAO point out are the effect on affordability and access.

The LAO offers an alternative to the Governor's 2008-09 budget proposal, which avoids making unallocated reductions in order to help minimize the adverse effects on affordability and access, and ensures greater transparency and accountability. The LAO's alternative proposal generates a General Fund savings of \$553 million relative to the Governor's workload level of \$1.1 billion. The LAO describes their proposal in three main facets:

Accommodate Enrollment Growth. There are two main factors influencing enrollment growth in higher education: *population growth* and *participation rates*. In order to ensure that the segments are able to accommodate all anticipated growth in the budget year, the LAO recommends the Legislature fund growth based on the increased projections of 1.8 percent at UC, 1.6 percent at CSU, and 1.7 percent at CCC. The LAO notes that this funding be used exclusively to enroll additional students above the current year level for UC and CSU. Both segments estimate they are exceeding their budgeted enrollment levels by about 3,200 and 10,000 FTE students, respectively.

Adjustments to Base Budget. In addition to augmentations for enrollment growth, higher education segments customarily receive annual augmentations to compensate for the increased costs of labor and other operating expenses. Given the State's fiscal circumstances, the LAO makes two recommendations to the Legislature: (1) to fund anticipated nondiscretionary cost increases, in order to ensure that the segments are able to cover these costs without redirecting funds from discretionary programs, and (2) to not fund cost of living adjustment (COLA) for the segments.

Maintain Affordability for Students. In general, education-related programs at the three higher education segments are funded with a combination of State General Fund support and student fee revenue. These funds are essentially interchangeable. The LAO makes a series of recommendations for the Legislature to consider regarding the shared responsibility of students, families, and the state for the costs of higher education.

Recommend Specific, Moderate Fee Increases. The LAO recommends that student fees be raised at UC and CSU by 10 percent, and make the segments' General Fund support contingent on the expected fee levels. In this way, any fee increase above the intended by the Legislature would result in a dollar-for-dollar reduction in General Fund support. As for CCC, the LAO recommends per unit student fee to be raised from \$20 to \$26. This would generate roughly \$80 million in new resources.

Recommend Corresponding Increases to Financial Aid. The LAO recommends that Cal Grant awards be increased to fully cover the recommended fee levels of 10 percent. As for the Competitive Cal Grant program, the LAO recommends the Legislature reject the Governor's proposal to phase out this program. The LAO advises augmenting UC's and CSU's institutional aid budgets to cover the recommended 10 percent student fee increases for financially needy students whose fees are not fully covered by Cal Grants.

The table below shows the main elements of the LAO higher education budget proposal:

Summary of LAO Alternative Budget For Higher Education^a	
<i>(General Fund, in Millions)</i>	
	Change From Governor's Workload Budget
Fund LAO estimate of enrollment growth	-\$38.4
Fund nondiscretionary cost increases, but no cost-of-living adjustments	-206.5
Reduce administrative support costs	-75.7 ^b
Increase UC and CSU student fees by 10 percent	-276.2 ^c
Increase UC and CSU institutional financial aid	61.0
Restore funding for Cal Grant competitive program that was eliminated in workload budget	58.3
Fully fund Cal Grant entitlement program assuming LAO fee levels (which are lower than assumption in Governor's budget)	-74.3
Other savings proposals	-1.1
Total Savings From LAO Alternative	-\$552.8
^a Excludes Proposition 98 funding for the California Community Colleges (CCC), which is discussed later in this chapter. ^b Includes \$200,000 reduction to the CCC Chancellor's office (non-Proposition 98). ^c Unlike the Governor's budget, our proposal treats fee increases as a source of revenue for funding workload costs. This amount is shown as a negative number because it reduces the General Fund amount required to support workload costs.	