

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Susan Bonilla, Chair

WEDNESDAY, JANUARY 26, 2011
STATE CAPITOL, ROOM 444
10:00 AM

OVERVIEW OF THE 2011-12 PROPOSED HIGHER EDUCATION BUDGET

HIGHER EDUCATION FUNDING OVERVIEW

- Department of Finance
- Legislative Analyst's Office

HIGHER EDUCATION SEGMENT PERSPECTIVES

- Patrick Lenz, Vice President for Budget, University of California
- Robert Turnage, Asst. Vice Chancellor for Budget, California State University
- Erik Skinner, Executive Vice Chancellor, California Community Colleges
- David Seward, Chief Financial Officer, UC Hastings College of the Law
- Diana Fuentes-Michel, Executive Director, California Student Aid Commission
- Karen Humphrey, Executive Director, California Post-Secondary Education Commission

Public Comment

Items to Be Heard

	Background on Higher Education Segments (Informational Only)	3
Issue 1	2011-12 Governor's Budget Proposals	5
	○ Major Funding Proposals	
	○ General Fund Reductions to the Universities	
	○ Proposition 98 Reductions for Community Colleges	
	○ Enrollment Issues	
	○ Student Fees	
	○ Student Support Programs	
	○ Financial Aid Programs	
Issue 2	2011-12 Governor's Policy Change Proposals for the California Community Colleges	
	History of Higher Education Funding Since 2007-08 (Informational Only)	11
	○ Prior to Major Funding Reductions	
	○ Tuition and Fees	
	○ Student Financial Aid	
	Examples of How the Higher Education Segments Have Responded to Funding Reductions (Informational Only)	17

BACKGROUND ON THE HIGHER EDUCATION SEGMENTS (INFORMATION ONLY)**6420 – California Postsecondary Education Commission**

The California Postsecondary Education Commission provides policy analyses, advice and recommendations to the Legislature and the Governor on statewide policy and funding priorities for colleges, universities, and other postsecondary education institutions.

6440 – University of California

Drawing from the top 12.5 percent of the state's high school graduates, the University of California (UC) educates approximately 234,000 undergraduates and graduate students at its ten campuses and is the primary segment authorized to independently award doctoral degrees and professional degrees in law, medicine, dentistry, and veterinary medicine.

6600 – Hastings College of the Law

Affiliated with the University of California, the Hastings College of the Law is the oldest and one of the largest public law schools in the West, providing instruction to approximately 1,300 students annually.

6610 – California State University

Drawing students from the top one-third of the state's high school graduates, as well as transfer students who have successfully completed specified college work, the California State University (CSU) provides undergraduate and graduate instruction through the master's degree and independently awards doctoral degrees in education or jointly with UC or private institutions in other fields of study. With its 23 campuses and approximately 440,000 students, the CSU is the largest, most diverse, and one of the most affordable university systems in the country. The CSU plays a critical role in preparing the workforce of California; it grants more than half of the state's bachelor's degrees and one-third of the state's new master's degrees.

6870 – California Community Colleges

The California Community Colleges (CCC) are publicly supported local education agencies that provide educational, vocational, and transfer programs to approximately 2.8 million students. Constituting the largest system of higher education in the world, the California Community College system is comprised of 72 districts, 112 campuses, and 68 educational centers. The CCC advances California's economic growth and global competitiveness through education, training, and services that contribute to continuous workforce improvement. The CCC also provides remedial instruction for hundreds of thousands of adults across the state through basic skills courses and adult non-credit instruction.

7980 – California Student Aid Commission

The California Student Aid Commission (CSAC) administers state financial aid to students attending all segments of public and private postsecondary education through a variety of programs including the Cal Grant High School and Community College Transfer Entitlement programs, the Competitive Cal Grant program, the Assumption Program of Loans for Education

(APLE), and others. Over 82,000 students received new Cal Grant awards in 2009-10 while 136,000 students receive renewal awards.

Higher Education Core Funding

		2007-08	2008-09	2009-10	2010-11	2011-12	Change from 2010-11	
		Actual	Actual	Actual	Estimated	Proposed	Amount	Percent
UC	GF	\$3,257.4	\$2,418.3	\$2,591.2	\$2,911.6	\$2,524.1	-\$387.6	-13%
	Tuition ^a	\$1,116.8	\$1,166.7	\$1,449.8	\$1,793.6	\$1,909.5	\$116.0	6%
	ARRA		\$716.5		\$106.6		-\$106.6	-100%
	Lottery	\$25.5	\$24.9	\$26.1	\$30.0	\$30.0	\$0.0	0%
	Totals	\$4,399.7	\$4,326.4	\$4,067.0	\$4,841.9	\$4,463.6	-\$378.2	-8%
CSU	GF	\$2,970.6	\$2,155.3	\$2,345.7	\$2,682.7	\$2,291.3	-\$391.4	-15%
	Tuition ^a	\$916.3	\$1,104.5	\$1,210.8	\$1,254.9	\$1,400.7	\$145.7	12%
	ARRA		\$716.5		\$106.6		-\$106.6	-100%
	Lottery	\$58.1	\$42.1	\$42.4	\$45.8	\$45.8	\$0.0	0%
	Totals	\$3,945.0	\$4,018.4	\$3,599.0	\$4,090.1	\$3,737.8	-\$352.3	-9%
CCC	GF	\$4,272.2	\$3,975.7	\$3,735.3	\$3,994.7	\$3,599.8	-\$394.9	-10%
	Fees	\$291.3	\$302.8	\$353.6	\$350.1	\$456.6	\$106.5	30%
	LPT	\$1,970.8	\$2,028.8	\$1,999.8	\$1,892.1	\$1,873.5	-\$18.6	-1%
	ARRA			\$35.0	\$4.0			
	Lottery	\$168.7	\$148.7	\$163.0	\$168.5	\$168.5	\$0.0	0%
Totals	\$6,702.9	\$6,456.0	\$6,286.7	\$6,409.4	\$6,098.3	-\$311.0	-5%	
Hastings	GF	\$10.6	\$10.1	\$8.3	\$8.4	\$6.9	-\$1.4	-17%
	Fees ^a	\$21.6	\$26.6	\$30.7	\$34.2	\$35.3	\$1.1	3%
	Lottery	\$0.1	\$0.1	\$0.1	\$0.2	\$0.2	\$0.0	0%
	Totals	\$32.3	\$36.8	\$39.1	\$42.7	\$42.4	-\$0.3	-1%
CPEC	GF	\$2.1	\$2.0	\$1.8	\$1.9	\$1.9	\$0.1	4%
CSAC	GF	\$866.7	\$888.3	\$1,043.5	\$1,224.3	\$577.6	-\$646.8	-53%
	Other ^b		\$24.0	\$32.0	\$100.0	\$976.8	\$876.8	877%
	Totals	\$866.7	\$912.3	\$1,075.5	\$1,324.3	\$1,554.4	\$230.0	17%
GRAND TOTALS		\$15,948.7	\$15,751.9	\$15,069.2	\$16,710.2	\$15,898.5	-\$811.7	-5%
	GF	\$11,379.6	\$9,449.7	\$9,725.8	\$10,823.5	\$9,001.5	-\$1,822.0	-17%
	Fees/Tuition	\$2,346.0	\$2,600.6	\$3,044.9	\$3,432.8	\$3,802.1	\$369.3	11%
	ARRA	\$0.0	\$1,433.0	\$35.0	\$217.2	\$0.0	-\$217.2	-100%
	LPT	\$1,970.8	\$2,028.8	\$1,999.8	\$1,892.1	\$1,873.5	-\$18.6	-1%
	Lottery	\$252.4	\$215.8	\$231.7	\$244.6	\$244.6	\$0.0	0%
	Other	\$0.0	\$24.0	\$32.0	\$100.0	\$976.8	\$876.8	877%

^aFigures for tuition revenue and fee revenue at UC, CSU, and Hastings College of the Law exclude amounts diverted to financial aid.

^bOther funds for CSAC include reimbursements from Student Loan Operating Fund and federal Temporary Assistance for Needy Families funding.

ARRA = American Recovery and Reinvestment Act

Source: LAO

ISSUE 1: 2011-12 GOVERNOR'S BUDGET PROPOSALS

This agenda item provides background information as to the funding levels appropriated to the higher education segments for the 2011-12 fiscal year.

MAJOR FUNDING PROPOSALS

The Governor's budget proposal provides \$15.9 billion for higher education, including \$9 billion from the General Fund, \$1.9 billion in local property tax revenues, and \$3.8 billion from student fees. The proposal reduces General Fund support for higher education by \$1.8 billion or about 17 percent from the 2010-11 level.

These reductions are overstated, however, due to a proposal in the budget to shift \$947 million in funding for the Student Aid Commission from the General Fund to federal funds. After adjusting for this shift, the year over year reduction in higher education spending is \$875 million, or 8 percent.

Components of Net \$1.8 Billion General Fund Reduction for Higher Education

Decreases

- \$500 million unallocated reduction for UC
- \$500 million unallocated reduction for CSU
- \$400 million unallocated reduction for CCC
- \$129 million "deferral" of some CCC apportionment funding from 2011-12 to 2012-13.
- \$947 million reduction in General Fund support for the California Student Aid Commission (CSAC), replaced with the same amount of federal funding.
- \$1.5 million unallocated reduction for UC Hastings College of the Law

Increases

- \$371 million augmentation to cover increased Cal Grant costs.
- \$212 million augmentation to backfill one-time federal funding in the universities' 2010-11 budget.
- \$70 million augmentation backfill one-time Student Loan Operating Fund support in CSAC's 2010-11 budget.

Source: LAO

GENERAL FUND REDUCTIONS TO THE UNIVERSITIES

The Governor's budget adjusts the universities' budget in two steps:

- Augments the universities' General Fund appropriations by \$106 million each, replacing one-time federal stimulus funding that had supplement the universities state support in the current-year budget. This has no programmatic effect; it is simply a fund swap.
- Imposes unallocated \$500 million reductions to each university's General Fund support. However, after both segments receive a backfill of General Fund to replace one-time ARRA funds, and funds to account for retirement costs and adjustments, the total

General Fund reduction proposed to the **UC System is \$387.5 million and \$391.4 million to CSU.**

- Imposes unallocated \$1.5 million reduction to UC Hastings College of the Law's General Fund support.

The Administration says it intends to minimize fee and enrollment impacts on students by targeting actions that lower the costs of instruction and administration. Although there is no specifics on how it expects to achieve this goal, the Administration will work with the UC Office of the President and the Regents, CSU Office of the Chancellor and Trustees, Hastings's Chancellor's Office, and the California Community Colleges' Chancellor's Office as well as stakeholders, to determine the specific mix of measures to accomplish these objectives.

PROPOSITION 98 REDUCTIONS FOR COMMUNITY COLLEGES

The Governor proposes a \$400 million unallocated reduction to the California Community Colleges (CCC) apportionment, as well as a new deferral of \$129 million. The deferral has no programmatic effect; it simply delays into the next fiscal year a state payment of \$129 million to cover CCC costs incurred in 2011-12. This new deferral would bring CCC's ongoing deferrals up to \$961 million – or about 17 percent of its annual Proposition 98 apportionment.

While the Governor offers no specific proposals for allocating the \$400 million apportionment reduction, he suggests that changes to allocation formulas (including a change in how and when the number of students to be funded at each campus is counted) could better align campus incentives with state objectives. In addition, revenue from a proposed fee increase would in effect compensate for \$110 million of CCC's unallocated reduction, leaving a **net reduction of \$290 million**. This policy proposal will be further discussed in the agenda under *Policy Change Proposals*.

In 2009-10, General Fund support was reduced for the California Community Colleges' categorical programs by a total of \$263 million, or 37 percent, compared to 2008-09 levels. Ten of the CCC's 21 programs received base cuts of 50 percent, with 8 other programs cut between 30 and 40 percent. 11 of CCC's categoricals were moved a "flex item" to improve college districts' ability to contend with the cuts. These programs range from financial aid and counseling services to the Nursing and Career Technical Education programs, and remain at the current year funding levels (Chart on page 10).

The Administration Convenes' Stakeholders' Meetings

The first session of meetings with all higher education segments, stakeholders, executive and legislative staffers convened on Friday, January 21, 2011. The objective of these sessions was to gather a wide range of alternative saving solutions with the intent to minimize impact to student fee increases and enrollment reductions. As this was the initial meeting and a first step, below are a few examples of ideas for generating savings:

- Provide flexibility from state mandates to enable campuses to redirect funds to student success programs and courses.
- Increase accountability of administrative and executive expenditures for all segments of higher education.
- Move to a two-year funding model to provide increased direction and guidance to facilitate campuses' academic and budgeting cycles.
- Allowing for long term solutions to take place with legislative and executive direction as to what the state considers high priority programs and objectives.

ENROLLMENT ISSUES

The current budget directs the UC to serve 209,977 full-time equivalent (FTE) students and the CSU to serve 339,873 FTE students. The Governor proposes no new enrollment funding for the universities in 2011-12. In recent years, the state budget has included language specifying the number of FTE students the segments are expected to enroll.

The Governor does not suggest a specific enrollment target for 2011-12, and instead proposes budget language directing the universities to set their own targets "in consultation with the Administration and the Legislature."

For the California Community Colleges, the Administration proposes a \$110 million augmentation to increase funded enrollment by 1.9 percent (or about 23,000 FTE students). The community colleges are already enrolling more students than they are funded to serve, approximately 90,000 FTE students, making it unlikely to expect an increase in system-wide community college enrollment under the Governor's budget.

Staff Comment: It is unclear if the segments can reduce their budgets without limiting enrollment. In order to assure that the UC and CSU do not drastically reduce student enrollment, the Legislature may wish to consider including budget bill language that specifies the enrollment level for both UC and CSU.

Higher Education Enrollment

Resident Full-Time Equivalent Students

	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Budgeted	2011-12 Proposed	Change From 2010-11	
						Amount	Percent
University of California							
Undergraduate	166,206	172,142	174,681	170,005	170,005	—	—
Graduate	24,556	24,967	28,218	27,366	27,366	—	—
Health Sciences	13,144	13,449	13,675	12,606	12,606	—	—
Subtotals	(203,906)	(210,558)	(216,574)	(209,977)	(209,977)	(—)	(—)
California State University							
Undergraduate	304,729	307,872	294,736	294,363	294,363	—	—
Graduate/post-baccalaureate	49,185	49,351	45,553	45,496	45,496	—	—
Subtotals	(353,914)	(357,223)	(340,289)	(339,859)	(339,859)	(—)	(—)
California Community Colleges	1,182,627	1,260,498	1,254,487	1,187,807	1,210,507	22,700	1.9%
Hastings College of the Law	1,262	1,291	1,250	1,250	1,250	—	—
Totals	1,741,709	1,829,570	1,812,600	1,738,893	1,761,593	21,575	1.2%

Source: LAO

STUDENT FEES

The University of California and California State University have already approved tuition increases of 8 percent and 10 percent, respectively, for the 2011-12 academic year. Total tuition revenue for the universities is estimated to increase by \$116 million for UC and \$145.7 million for CSU, after diverting the financial aid set-aside, to support core programs and campus-based financial aid. When the projected student fee revenue from these increases is taken into account as well as the augmentations to backfill the ARRA funds, **the total proposed budget reductions are \$378.2 million to UC and \$352.3 million to CSU.**

The Governor proposes to increase community college fees from \$26 per unit to \$36 per unit, generating about \$110 million in additional revenue that would in effect fund enrollment growth of almost 23,000 full-time equivalent students (FTES). About 30 percent of community college students receive the Board of Governor's fee waiver, thus not being impacted by this fee increase.

The Governor's Budget does not assume new student fee increases for UC and CSU. The Governor has stated the intention that the budget reductions be "intended to minimize fee and enrollment impacts." However, the UC's constitutional autonomy provides the UC Regents with the right to increase student fees, even if the Governor and Legislature do not approve of fee increases. Thus far, neither the UC nor the CSU have indicated that they intend to raise student fees further.

Higher Education Annual Tuition/Fees

Full-Time Resident Students

	2007-08	2008-09	2009-10	2010-11	2011-12 Proposed	Change From 2010-11	
						Amount	Percent
University of California							
Undergraduate	\$6,636	\$7,126	\$8,373 ^a	\$10,302	\$11,124	\$822	8%
Graduate	7,440	7,986	8,847	10,302	11,124	822	8
California State University							
Undergraduate	2,772	3,048	4,026	4,440 ^a	4,884	444	10
Teacher credential	3,216	3,540	4,674	5,154 ^a	5,670	516	10
Graduate	3,414	3,756	4,962	5,472 ^a	6,018	546	10
Doctoral	7,380	7,926	8,676	9,546	9,546	—	—
California Community Colleges	600	600	780	780	1,080	300	38
Hastings College of the Law	21,303	26,003	29,383	36,000	37,080	1,080	3
^a Amount reflects full effect of midyear increase.							
Source: LAO							

STUDENT SUPPORT PROGRAMS

Student Services. Among the services provided by the campuses for students are counseling services, financial aid administration, libraries, tutoring, computer labs, and academic preparation and outreach programs. These services are critical support structures for students to complete their academic studies. For example, reduced library hours or computer labs with outdated machines will make it more difficult for students to complete research and other academic work.

Academic Preparation Programs. Academic preparation programs are programs geared at non-traditional students who may need extra help in navigating campus administration, enhanced educational resources, or paying for college. These programs include a wide array of services such as disabled student services; Enhanced Opportunity Program (EOP); and Math, Engineering, and Science Achievement (MESA). Both the UC and the CSU offer a wide array of academic preparation programs geared at helping disadvantaged students through college.

Outreach Programs. Outreach programs are programs to encourage high-school, community college, and middle-school students to prepare for and transition into the UC and CSU systems. Arguably, as enrollment is decreased there is less need for outreach programs. However, these programs draw in more students of color, and without these programs there could be decreased diversity in the UC and CSU systems.

Staff Comment. In order to ensure that certain academic preparation and outreach programs are protected, the Legislature may wish to consider including budget bill language that stipulates reductions in these areas cannot proportionately exceed the reductions to the segments' overall budgets.

FINANCIAL AID PROGRAMS

Unlike his predecessor, the Governor proposes no reductions in existing financial aid programs. The budget proposal includes augmentations to fully cover fee increases in the Cal Grant Programs, and assumes full fee waivers at the community colleges covering more than one-half of all credit FTE students.

The Governor's proposal would shift \$947 million in Cal Grant costs from the General Fund to federal Temporary Assistance for Needy Families (TANF) funds. Although this does not have an impact on the total funding for Cal Grants, it does have an effect on the CalWORKs programs, which the Governor is proposing to significantly reduce.

Staff Comment: The Legislature will have to return to the issue of funding the Cal Grant program if a decision is made to reduce the level of reductions expected to be made to the CalWORKs programs or if it is determined that the state cannot shift the full \$947 million in TANF funds due to the eligibility requirements imposed by the Federal government.

ISSUE 2: TWO POLICY CHANGE PROPOSALS FOR THE COMMUNITY COLLEGES

1. Census Date Change: As part of the Governor's budget reduction proposal of \$400 million for the California Community Colleges, the Administration proposes to change the allocation formulas for fiscal year 2011-12, including a change in how and when the number of students to be funded at each campus is accounted. Currently, community college attendance accounting allows colleges to receive credit apportionment funding for student attendance after only 20 percent of a course is completed. However, 16 percent of students on average do not finish credit courses they have enrolled in.

The Administration is still working out the specifics of their proposal, however, it is apparent that this policy change requires a full vetting process. Changing the census date actually generates \$800 million in savings, but the Administration has indicated that they would redirect half of the funds to reinvest in districts with high attrition rates that serve low-income communities, while rewarding colleges for providing "high priority transfer courses." This new figure of savings with intent to redirect is new information, which requires more time to analyze and assess. The initial reaction is that the impact to districts will be a significant decline in their budgets, putting some at risk of financial stability, if there is no phase-in process. And the redirection of the \$400 million has to be on an equitable formula, not yet created, in order to avoid litigation problems and unintentional consequences.

SB 1143 (Senator Carol Liu), requires the CCC Board of Governors to adopt a best practices plan for promoting and improving student success after convening a taskforce to examine funding options and effective models. The first workgroup meeting convened on Wednesday, January 19th. The CCC Board of Governors, prior to implementation of this plan, has to report to the Senate Education Committee and Assembly Higher Education Committee at a joint hearing no later than March 1, 2012.

Staff Comment: Since legislative staff as yet to review the Administration's proposal, and given that SB 1143 was fully vetted through the legislative process to generate solutions, such as this one, it would be imperative to provide a fully vetting of this proposal, once it is finalized, in order to allow the California Community Colleges the opportunity to weigh in as to how they would implement such a change in funding, as well as stakeholders who will be impacted.

2. Extend Sunset Dates for Flexibility Proposal: The Administration also proposes to extend the sunset date for the categorical programs funding flexibility until 2014-15, in order for districts to better accommodate reductions, permitting the transfer of funds from categorical programs in the flex item to any other categorical spending support.

Programs Included in Flex Item	Programs Excluded From Flex Item
Academic Senate Apprenticeship Campus Child Care Support Economic and Workforce Development Equal Employment Opportunity Matriculation Part-Time Faculty Compensation Part-Time Faculty Health Insurance Part-Time Faculty Office Hours Physical Plant and Instructional Support Transfer Education and Articulation Source: LAO	Basic Skills Initiative CalWORKs Student Services Disabled Students Program Extended Opportunity Programs and Services Financial Aid Administration Foster Care Education Program Fund for Student Success Nursing Grants Telecommunications and Technology Services Career Technical Education Initiative

HISTORY OF HIGHER EDUCATION FUNDING SINCE 2007-08 (INFORMATION ONLY)

This agenda item provides background information as to the funding levels appropriated to the higher education segments over the last four years, since 2007-08. That year is considered by most to be the last fairly "normal" year for higher education funding – enrollment growth and cost-of-living increases were funded at all three segments, no large unallocated reductions were imposed, and no payments for new costs were deferred to future years.

PRIOR TO MAJOR FUNDING REDUCTIONS

The 2007-08 Budget Act funded the higher education *Compact*, including enrollment growth and cost-of-living increases for all three segments. The 2008-09 and 2009-10 budgets were complicated with retroactive reductions, backfills with federal stimulus revenue, and future deferrals, unallocated reductions, mid-year funding cuts, and other budget solutions that make it difficult to determine meaningful, programmatic funding levels for those years.

General Fund support has declined.

General Fund support for higher education has declined by 5 percent between 2007-08 and 2010-11. This includes reductions of 10 to 11 percent for the universities and 6 percent for the California Community Colleges, and growth of more than 40 percent in state financial aid programs. The figures in the LAO's chart show only budget changes through the current year, not the Governor's proposal for 2011-12.

Higher Education General Fund Appropriations

(Dollars in Millions)

	2007–08	2008–09	2009–10	2010–11	Change From 2007–08	
					Amount	Percent
UC	\$3,257.4	\$2,418.3	\$2,591.2	\$2,911.6	–\$345.8	–11%
CSU	2,970.6	2,155.3	2,345.7	2,682.7	–287.9	–10
CCC	4,272.2	3,975.7	3,735.3	3,994.7	–277.5	–6
Hastings	10.6	10.1	8.3	8.4	–2.2	–21
CPEC	2.1	2.0	1.8	1.9	–0.2	–12
CSAC	866.7	888.3	1,043.5	1,224.3	357.6	41
Totals	\$11,379.6	\$9,449.7	\$9,725.8	\$10,823.5	–\$556.0	–5%

Hastings = Hasting College of the Law; CPEC = California Postsecondary Education Commission; and CSAC = California Student Aid Commission.

Source: LAO

New revenue has largely backfilled cuts.

Other sources of funding (i.e. tuition and fee increases, local property taxes, and federal stimulus funding) work in combination with General Fund revenue to support core higher education programs. In addition, some budget solutions, such as funding deferrals, create General Fund savings without having a direct impact on programs. Moreover, increases or

decreases in enrollment affect the level of resources available to serve each student and thus should be factored into an analysis of programmatic funding.

The chart below combines all core sources of funding and adjusts for deferrals and enrollment changes to show programmatic support per student from 2007-08 through 2010-11. Over that period, funding per student increased 3.6 percent and 4.6 percent at UC and CSU, respectively, and declined 3.9 percent at CCC. Note that this figure does not adjust funding levels for inflation. This is for two reasons: (1) inflation rates have generally been low, and (2) state law adopted in 2009 expressly prohibits automatic annual price increases for higher education and most other areas of state government. At the same time, it is acknowledged that any price increases experienced by the segments have the effect of eroding their programmatic funding.

Programmatic Funding Per Student for Higher Education ^a

	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Estimated	Change From 2007-08	
					Amount	Percent
University of California	\$20,345	\$18,948	\$17,484	\$21,087	\$741.8	3.6%
California State University	11,038	10,791	10,143	11,542	503.8	4.6
California Community Colleges ^b	5,731	5,636	5,551	5,506	-224.8	-3.9

^a Includes General Fund, tuition and fees, local property tax revenues, federal stimulus funds, and Lottery proceeds.

^b Counts deferral monies in the fiscal year in which they were programmed (as opposed to received) by districts. Reflects funding per budgeted full-time equivalent student.

Source: LAO

TUITION AND FEES

In 2010, the University of California and California State University ended the longtime practice of avoiding the term tuition. Some student charges previously called *mandatory systemwide fees* (including the Education Fee at UC and State University Fee at CSU) are now called tuition.

Tuition represents a growing share of average educational costs at all three segments. In 2007-08, the full tuition charge represented about one-third of average costs at UC, one-quarter at CSU, and 11 percent at CCC. This year the tuition shares of cost are 45 percent, 35 percent, and 15 percent, respectively.

University of California. Since 2007-08, the UC has increased tuition 68 percent to \$10,302. Even with those tuition increases, UC's tuition is comparable to public research universities in the United States.

California State University. The four year increase in the CSU tuition is even greater, at 76 percent. Undergraduate tuition is now \$4,440 annually. Despite these recent increases, CSU remains at the very bottom of its group of 15 comparison public institutions and far below regional and national average for state universities.

California Community Colleges. California has long had the lowest community college fees in the nation. Fees were increased from \$20 per unit (\$600 per year for a student taking a full course load) to \$26 per unit (\$780 per year) in 2009-10. At this level, CCC fees are less than one-fourth of the national average for community college fees, and are more than \$400 below those of New Mexico, the state with the second-lowest fees.

Higher Education Annual Tuition/Fees

Full-Time Resident Students

	2007-08	2008-09	2009-10	2010-11	2011-12 Proposed	Change From 2010-11	
						Amount	Percent
University of California							
Undergraduate	\$6,636	\$7,126	\$8,373 ^a	\$10,302	\$11,124	\$822	8%
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California State University							
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Teacher credential	3,216	3,540	4,674	5,154 ^a	5,670	516	10
Graduate	3,414	3,756	4,962	5,472 ^a	6,018	546	10
Doctoral	7,380	7,926	8,676	9,546	9,546	—	—
California Community Colleges	600	600	780	780	1,080	300	38
Hastings College of the Law	21,303	26,003	29,383	36,000	37,080	1,080	3

^a Amount reflects full effect of midyear increase.

Source: LAO

STUDENT FINANCIAL AID PROGRAMS

California students with financial need (as defined by federal aid guidelines) may qualify for a range of financial assistance including grant aid from the federal government, state, universities, and private sources; full or partial fee waivers; and student loans.

About half of students receive need-based financial aid specifically to cover full tuition costs. The state's primary student financial aid program is the Cal Grant program. About 240,000 students at public and private postsecondary institutions will receive an estimated \$1.3 billion in Cal Grant awards this year. Income ceilings for eligibility are relatively high. For example, a student from a four-person family making up to \$78,000 per year could qualify. Most Cal Grant awards include full tuition coverage at the universities, and Cal Grant recipients at the CCC receive fee waivers.

The Cal Grant Programs. The Cal Grant award amount for UC and CSU students is set by statute at the mandatory systemwide tuition and fee level for each segment. Some Cal Grant recipients are not eligible for a tuition payment in their first year, but most of these students receive additional support from the institutions to cover this cost. When the segments increase tuition, CSAC increases award amounts accordingly. As a result, all university students whose tuition is paid by Cal Grants are protected from tuition increases.

Campus-Based Financial Aid Programs. For many years, the universities have set aside a portion of revenues from tuition increases, currently about one-third, to augment their own financial aid programs. In the current year, the UC and CSU campuses are providing about \$1.5 billion in student financial aid, primarily from tuition revenues. Between Cal Grants and institutional funds, tuition is fully covered for about 45 percent of CSU students and 47 percent of UC students. In addition, UC campuses offer partial tuition coverage, equal to half the amount of any tuition increases, to eligible students with family incomes up to \$120,000 who are not otherwise eligible for grant assistance. UC plans to expand this program to cover 100 percent of the 2011-12 tuition increase for these students.

Beyond tuition coverage, campus-based aid at the universities also covers some non-tuition expenses (such as books and living expenses). In fact, UC uses its campus-based aid to cover the remaining financial need not covered by other sources (such as federal aid and family and student contributions) for all of its students. Similar programs at CSU ensure all need is met for some, but not all, students.

The CCC's primary campus-based aid is provided through the Board of Governors (BOG) fee waiver program. All financially needy students qualify to have their enrollment fees waived, and thus are not affected by fee increases. The CCC estimates that more than half of all enrollment fees are waived under this program.

Federal Aid Programs

Federal financial aid programs have helped to offset some cost increases in recent years.

- The maximum federal Pell Grant has increased by \$1,240 since 2007-08, to \$5,550 in the current year. About one-third of UC and CSU students qualify for these grants.
- Many military veterans returning from active duty are benefiting from the post-9/11 GI Bill, which became effective in August 2009. Benefits include full tuition and fee coverage at the public segments, a monthly housing allowance, and an annual stipend for books and supplies.
- The American Opportunity Tax Credit (AOTC), effective from 2009 through 2012, reimburses students or their parents with a family income up to \$160,000 for up to \$2,500 of qualified educational costs. Even families who do not owe taxes can qualify for partial refunds of educational costs under the AOTC. This is an enhancement of the Hope credit, which provided up to \$1,800 in reimbursements, had lower income ceilings, and was not reimbursable.

EXAMPLES OF HOW THE UNIVERSITIES HAVE RESPONDED IN THE PAST TO FUNDING REDUCTIONS (INFORMATION ONLY)

The Legislature directed the University of California and California State University to provide a report to the Legislature and the Governor on or before January 10, 2010 describing the implementation of the unallocated reductions to state support in the 2008-09 and 2009-10 fiscal years. The budget act language specifies that the report include information about changes in enrollment, changes in personnel costs, receipt of funds related to the federal American Recovery and Reinvestment Act (ARRA), new fee revenues, and other general purpose funding sources.

Examples of Budget Reduction Management: All segments implemented various actions to mitigate their General Fund reductions.

➤ *University of California:*

- Established a two-year plan to reduce enrollment of freshman by 3,800 students and increase community college transfers by 1,000 students.
- Implemented a one-year furlough plan, which ended August 31, 2010, and generated nearly \$136.5 million in General Fund savings.
- Restructured \$75 million in the debt service payments on capital outlay over two years.
- The Office of the President reduced their budget by a total of 16 percent, by transferring programs to campuses and administrative efficiencies that reduced staff by 29 percent.
- Enrolled in an efficient travel program that leverages volume to reduce costs.

➤ *California State University:*

- Established a two-year plan to realign enrollment levels with available resources. Furloughed most employees including all management and executives-- equivalent to a 9.2% pay reduction-- as a one-year "bridge" until enrollment levels reduced.
- Increased student fees and non-resident tuition.
- Imposed hiring freeze. Eliminated positions at Chancellor's Office and campuses through attrition and layoffs.
- Reduced operating expenses by 14%, including a 39% cut to equipment, 36% cut to travel, 28% cut to library acquisitions and 19% cut to contracted services.
- In July 2009, CSU Board of Trustees revised regulations to authorize campuses to review academic status of "super seniors" and to confer degrees on students as appropriate.

➤ *Hastings College of the Law:*

- In 2009-10, when Governor Schwarzenegger presented a budget that proposed 100 percent elimination of state support, a decision was made to maximize class size to provide additional revenue for the upcoming year.
- Eliminated general salary adjustments since October 2007 and have frozen merit pay and equity adjustments for faculty and staff.
- Implemented a permanent five percent reduction in operating allocations in January 2009 and then an additional five percent reduction in January 2011.
- Placed on hold deferred maintenance projects and planned purchases for information technology upgrades were delayed.

➤ Student Fee Revenue:

- *University of California:* In May 2009, approved a 9.3 percent mandatory system-wide student fee increase. Due to significant reductions in the July budget package, UC decided to approve a mid-year fee increase of 15 percent for 2009-10. This mid-year fee increase is expected to generate \$100.2 million, after redirecting one-third of fee revenue to financial assistance.
- *California State University:* Increased State University Fee rates by 20 percent. This July 2009 action by the Board of Trustees followed a 10 percent increase authorized in May; the compounded increase equaling 32 percent. CSU's expected fee revenue is \$75 million after redirecting one-third of fee revenue to financial assistance.
- *Hastings College of the Law:* In 2009-10, student fees increased by 11.7 percent, which includes health service fees. And in 2010-11, student fees increased by 20 percent, accounting for health service and activity changes.
- *California Community Colleges:* In 2009-10, the Legislature raised fees from \$20 per unit to \$26 per unit, to generate \$70 million given the magnitude of reductions in General Fund support to the colleges.

➤ Mandatory Costs: are defined as those costs that the university must cover regardless of enrollment levels or student fee revenue. These include electricity, capital outlay lease-revenue payments, employee health care cost increases, and retirement costs. Though UC and CSU have in the past presented certain employee compensation costs as mandatory costs, employee compensation costs can be tied to enrollment levels and thus do not have to be viewed as mandatory.

- *California State University:* The CSU's new mandatory cost growth for 2011-12 totals about \$48.9 million. The CSU has an additional \$44.6 million in contractual schedule salary increases, which the CSU would likely argue are a mandatory cost.

CSU Mandatory Cost Growth*(dollars in millions)*

Mandatory Item	2011-12
Health Insurance Premiums	\$ 36.4
Dental Insurance Premiums	\$ 3.2
Energy Price Increases	\$ 5.5
New Space (Utilities/Maintenance)	\$ 3.8
Total	\$ 48.9

- *University of California:* The UC's new mandatory cost growth for 2011-12 totals about \$148.7 million. In addition to these mandatory costs, UC has another \$180.7 million in costs increases related to contractual salary increases and facilities maintenance.

UC Mandatory Cost Growth*(dollars in millions)*

Mandatory Item	2011-12
Employee Health Benefits	\$ 22.9
Annuitant Health Benefits	\$ 10.5
Purchased Utilities	\$ 5.5
Non-Salary Cost Increases	\$ 24.0
Retirement Contributions	\$ 85.8
Total for Mandatory	\$ 148.7

Non-Mandatory Item	2011-12
Deferred Maintenance	\$ 60.0
Academic Merit Increases	\$ 27.7
Compensation Increases	\$ 87.0
Collective Bargaining Agreements	\$ 6.0
Total for Non-Mandatory	\$ 180.7

- Retirement Costs: Growth in retirement costs has been occurring for both UC and CSU. Contributions to retirement plans is not optional because retirement is part of each employees benefits package, but the amount of the total annual contribution can vary depending on the number of employees each system chooses to employ.
 - *California State University:* Like most state employees, the CSU's employees are in the CalPERS retirement system. Thus the CSU does not independently determine the contribution rate of its employees or the employer into the retirement plan. The Governor's budget proposes an additional \$75.2 million General Fund for the CSU CalPERS contributions. This amount is sufficient to cover the CSU increased costs for 2011-12.
 - *University of California:* Unlike CSU, the UC system has its own independent retirement system called University of California Retirement Plan (UCRP). The UC Regents determine the amount of the employee and employer contributions into the plan. For approximately 19 years (until 2009) when the UCRP was earning large amounts of interest, there were no state or employee contributions made into the plan. However, the economic difficulties of 2008 made UCRP insolvent, and the UC Regents decided to restart both employer and employee contributions in the spring of 2010. Hastings College of the Law also participates in UCRP and has to meet the employer's increased contributions made into the plan.