

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

Assemblymember Joseph S. Simitian, Chair

WEDNESDAY, MAY 1, 2002
STATE CAPITOL, ROOM 126
4:00 P.M.

REGULAR BUSINESS

ITEM DESCRIPTION

OUTSTANDING COMMITMENTS (HANDOUT)

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ITEMS TO BE HEARD

6440 UNIVERSITY OF CALIFORNIA

ISSUE 1: MAJOR BUDGET ADJUSTMENTS

The issue for the Subcommittee to consider is the Governor's proposed support budget for the University of California (UC).

BACKGROUND:

The UC system includes eight general campuses, one health science campus in San Francisco and one new campus currently under development in Merced. The University of California currently serves an estimated 181,031 full-time equivalent (FTE) graduate and undergraduate students.

The Governor's proposed budget includes a total of \$16 billion for the UC, an increase of \$414.9 million or 2.7 percent over the current year. The table below illustrates the Governor's proposed budget for the UC from selected program funds, which includes proposed General Fund expenditures of \$3.4 billion, representing a General Fund increase of \$40.3 million or 1.2 percent over the revised current budget year.

University of California				
Sources of Funds	2001-02	2002-03	Change	Percent Change
General Fund	\$3,327	\$3,367	\$40	1.2%
Student Fees	663	688	24	3.6
UC General Funds Income	428	410	-18	-4
Lottery Education Fund	22	22	0	0.0
Teaching Hospitals	2,680	2,734	54	2.0
Federal/State Contracts & Grants	2,493	2,622	129	5.2
Department of Energy Labs	3,162	3,257	95	3.0
Other Funds	2,848	2,939	91	3.2
Total	\$15,623	\$16,038	\$415	2.7%

This table includes only a few selected public program funds.

Budget Increases. The Governor proposes approximately \$147.7 million in augmentations to the UC support budget including the following adjustments:

- **Base Increase.** The Governor proposes a \$47.6 million increase in the state's base funding support, for a 1.5 percent general fund increase.
- **Enrollment Growth.** The Governor proposes \$63.8 million to fully fund enrollment growth by 3.9 percent at 7,100 additional full-time equivalent students, including continued funding support for enrollment growth at the Berkeley, Los Angeles and Santa Barbara campus during the summer term. In addition, the proposed budget provides \$8.4 million to fund, at the agreed-upon marginal cost of instruction, the full cost of existing summer enrollment (897 FTE) at the Davis campus and to "buy down" summer fees for new summer enrollments at the Irvine, Riverside, San Diego and Santa Cruz campuses.
- **UC Merced.** In addition to funds for UC Merced capital outlay projects, the Governor proposes to provide \$4 million in one-time funds for expenses associated with recruiting faculty in time for the accelerated opening of the campus by fall 2004.
- **California Institutes for Science and Innovation.** The Governor proposes \$4.75 million in operational support for the four California Institutes for Science and Innovation.

Program Reductions. The Governor also proposes a total of \$30 million in reductions for UC, including:

- **K-12 Minority Outreach Programs.** The Governor proposes a \$4.2 million reduction from K-12 outreach programs designed to increase diversity at UC due to the precipitous decline in admissions of underrepresented students resulting from the elimination of affirmative action. This proposed reductions are in addition to a \$2 million budget reduction to these programs in the final current year budget initiated by the Governor's veto.
- **Institutional Financial Aid Programs.** The Governor proposes a \$17 million reduction that he asserts is excess funds provided in prior years when fees were at a higher level. If approved, this reduction would leave \$69.2 million in state funds and \$574 million from all sources of funds (not including loan or work-study programs) for both undergraduate and graduate need based financial aid.
- **Digital California Project.** The Governor proposes a continuation of the \$4.9 million reduction for the K-12 Internet2 program through the Digital California Project. If approved, this reduction would leave \$27.2 million in the program.
- **California Subject Matter Projects.** The Governor proposes a \$4 million reduction in the California Subject Matter Projects reflecting a lower than expected demand for training of K-12 teachers. If approved, this reduction would leave \$31.3 million for the California Subject Matter Projects.

COMMENTS:

Budget staff makes the following general observations for the Subcommittee's consideration regarding the Governor's proposed budget for UC:

- **Student Fees.** For the eighth consecutive year, there is not a proposed increase in student fees, however, the Governor does not propose for the state to provide funding to continue the State's "buy-out" of a proposed student fee increase, creating a state "savings" of \$36.1 million.
- **Faculty and Staff Salaries.** UC plans to use funding provided in the Governor's proposed budget for an average of approximately 1.5% (\$44.8 million) merit increase in salaries for eligible faculty and staff.

The Subcommittee will discuss the Governor's proposed increases in funding for UC Merced and proposed reductions to K-12 minority outreach programs in further detail later in the agenda.

ISSUE 2: UC MERCED

The issue for the Subcommittee to consider is the Governor's proposed \$4 million in one-time funds for expenses associated with recruiting faculty at UC Merced.

BACKGROUND:

The Governor's budget requests \$13.9 million for support of the Merced campus, which is not scheduled to open until 2004-05. Of this amount, \$4 million is provided to hire faculty. The requested amount is in addition to \$2 million in one-time General Fund support that UC received in the current year for the same purpose.

Since 1998-99, the state has appropriated \$43.5 million for support of the planned Merced campus. The Governor's budget proposes an additional \$13.9 million for 2002-03—\$9.9 million in "base" spending on start-up costs and the \$4 million specifically for hiring faculty. Budget bill language specifies that the entire amount is for planning and startup costs associated with academic programs and ongoing support for the unopened campus including academic planning activities, faculty recruitment, and ongoing support for faculty and staff.

COMMENTS:

Legislative Analyst's Recommendation. The Legislative Analyst recommends deletion of \$4 million in one-time General Fund support requested for hiring faculty for the Merced campus, because they believe that UC can recruit and hire faculty using existing resources. The Analyst makes the following points to support her recommendation:

- **Current-Year Funding Will Not Be Spent.** To date, UC has not hired any faculty at UC Merced. The UC plans to hire 20 permanent faculty beginning in 2002-03, and an additional 20 faculty in both 2003-04 and 2004-05 (for a total of 60 faculty when the campus opens). Although initial recruitment for the first 20 faculty has begun, UC has informed the Legislature that it has not yet spent the \$2 million it received for the current year, and expects to carry most of this funding into the budget year.
- **Proposed Funding Not Urgent.** Even without the proposed \$4 million in new one-time funding, UC still will have \$2 million (in carried-over current-year funding) and \$9.9 million (in budget-year baseline funding) for planning and startup costs at the Merced campus. The Analyst believes that this amount is sufficient given that the campus is not scheduled to open for more than two years.

Given the state's fiscal crisis, the Subcommittee may wish to request UC to provide the Legislature with a justification for the new funding proposed by the Governor and an accurate accounting of unexpended funds provided for UC Merced. UC plans to provide the Subcommittee with an oral report on this issue and progress made in developing UC Merced during the hearing.

ISSUE 3: K-12 MINORITY OUTREACH PROGRAMS

The issue for the Subcommittee to consider is the Governor's proposed \$4.2 million reduction to K-12 minority outreach programs.

BACKGROUND:

In response to the precipitous decline in underrepresented student admissions to the University resulting from the elimination of affirmative action, the State has invested over \$80.8 million (after the Governor's \$2 million veto in 2001) in outreach programs to assist the UC in its efforts to increase diversity. In addition, the University has been spending \$3.1 million of its own funds for this effort. When combined with an estimated \$66.1 million from other segments, private and federal resources, the University has a total of \$150 million available for this effort.

Types of Outreach Program. UC runs several different types of outreach programs, including the following:

- **Student Academic Development Programs.** These programs work to increase the academic preparation of students directly through activities such as tutoring, academic advising, skills development and test preparation. These activities are typically one-on-one and have demonstrated success in preparing students for college. Two student academic development programs run out of UC, MESA and PUENTE, recently received national recognition for their efforts. These programs, complemented by the efforts of the Early Academic Outreach Program and the student-initiated outreach efforts have been viewed as part of an effective short-term strategy to increase the number of historically underrepresented students being admitted and attending UC.
- **School University Partnerships.** These programs are new programs established by the University to improve student performance indirectly by systemically reforming and improving K-12 education. These programs are usually longer-term efforts lasting more than two years. Because these programs are designed as long-term, several classes of students will not benefit because of the time it takes to reform schools. It is in this area where UC has had the most trouble demonstrating results.
- **Informational Outreach and Recruitment.** These efforts help students plan and prepare for college through informational outreach and recruitment programs. Informational outreach and recruitment combine long-term and short-term strategies. This type of outreach increases student awareness about the accessibility and benefits of a college education and provides assistance with the information on financial aid.

Subcommittee Reviews UC Admissions and Outreach Last Year. On April 4, 2001, the Subcommittee joined with the Assembly Higher Education Committee and the Senate Budget and Fiscal Review Subcommittee No. 1 on Education to hold a hearing on UC admissions, access and outreach. The impetus for the joint hearing centered on continued concerns regarding the negative impact of UC Regent's Resolution SP-1 and how current outreach efforts had or had not been successful at addressing the severe decline and continued underrepresentation of students of color at UC.

During the course of the April 4th, 2001 hearing, members expressed several concerns related to the University's admission policies and related outreach programs. The concerns expressed

during the hearing included the following: the increasing racial and ethnic stratification of the university, the problems inherent in a two-tiered admissions process and the cost effectiveness of long-term outreach programs. At the time, while UC could demonstrate the success of its short-term efforts, UC was not able to present data that demonstrated that their long-term efforts were in fact working or meeting goals and expectations. This was particularly troubling given that UC had been receiving over \$1.2 million annually to evaluate their efforts. UC assured the Subcommittee that in one more year they would have information to demonstrate that their long-term efforts were working and urged patience from the Legislature.

Based on the deliberations and the concerns expressed by members about the lack of sufficient short-term outcomes and the substantial expenditures on longer-term partnership programs, the University agreed to a partial redirection of funds. This redistribution plan redirected \$5 million from UC long-term partnership programs to shorter-term "yield" efforts with the objective that this redirection would help the recruitment and admissions efforts of students to UC. A slightly modified version of the Subcommittee's actions was adopted by the Legislature and sent to the Governor.

The Governor's Veto. In signing the Budget Act of 2001, the Governor vetoed \$2 million from UC outreach programs without specifying which programs should have their funding reduced. In addition, as part of the veto message, the Governor inserted the words "up to" before dollar amounts provided in the UC budget item, under Provision 10 that was established by the Legislature for various outreach programs. By doing so, the Governor created unprecedented discretion for the University of California to fund the programs at whatever level they determined, or even to not fund the programs at all. Moreover, the Governor's actions effectively delegated the Legislature's ability to determine funding priorities and undercut the Legislature's redirection of outreach funds to short-term efforts or the Legislature's authority to appropriate funding in the manner in which it sees fit.

Given concerns over the constitutionality of the Governor's actions and the importance of K-12 outreach to the Legislature, the Legislature passed and the Governor signed AB 1287 (Chapter 564) deleting the objectionable language and setting appropriation levels for outreach programs consistent with the Legislature's desire for short-term results. In acting on this measure, the Legislature in no way sanctioned the Governor's use of his line item veto authority to add language to appropriation legislation or to delegate the Legislature's appropriation authority.

Governor's Proposed Reductions. This year, the Governor proposes to reduce funding for UC K-12 outreach by \$4.2 million. This is in addition to his \$2 million reduction to these programs last year. The reductions affect eight UC outreach programs, one of which was strongly supported by the Legislature last year as part of the shift of funding from long-term efforts to short-term efforts.

COMMENTS:

Complete Evaluation of Long-term Efforts Still Unavailable. UC has been provided about \$1.5 million annually for the last four years (approximately \$6 million since 1998-99) for the purpose of evaluating its outreach efforts. While UC had told the Subcommittee it would be able to provide data demonstrating the effectiveness of its long-term efforts this year, UC now indicates that its studies of programmatic outcomes and cost-effectiveness will not be complete until the end of the 2003-04 academic year. Consequently, little is known about the effectiveness of UC long-term K-12 outreach programs. Without reliable data on program

effectiveness, it is difficult for the Legislature or the University to determine which outreach programs are most successful in achieving the important objectives of increased awareness, preparation, and access to higher education.

Legislative Analyst's Recommendations. The Legislative Analyst recommends the Legislature approve the Governor's proposed reductions for K-12 outreach because it is their view that the majority of these programs do not provide direct services or increase preparedness of students. In addition, the Legislative Analyst has raised several far-reaching recommendations in this year's analysis of the Governor's proposed budget. These recommendation include the consolidation of existing programs to reduce inefficiencies and administrative overlap and redirecting funding for student academic development to schools and districts.

While some of the Legislative Analyst's observations and recommendations are worthy of further consideration, the Analyst does not appear to view UC outreach efforts in the same context as the Legislature. For example, while the Analyst believes the University's focus on yield is misplaced, the Legislature has requested the University to place more emphasis on these efforts as part of a larger short-term strategy to increase the number of underrepresented students becoming eligible, admitted and enrolling at UC. In addition, the Analyst's recommendation to shift funding for student academic development to schools and districts negates the fact that the most successful programs run by the University are the student academic development programs, two of which have won national recognition for their efforts. These programs are virtually the only programs in which UC can fully demonstrate actual impact on students served through the admission of underrepresented students to the University. The student academic development programs have been and continue to at the heart of the University's short-term strategy and are consistent with the Legislature's desire for short-term results.

The Legislative Analyst plans to give an oral report of her recommendations to the Subcommittee during the hearing. In addition, UC plans to give the Subcommittee a progress report of their outreach efforts. The Subcommittee may wish to specifically request that UC provide additional information on its long-term outreach efforts and provide an accounting of expenditures related to funding provided for evaluation. Given the budget situation and the high priority placed on K-12 outreach programs by the Legislature, Budget staff has been working with the University to re-evaluate the Governor's proposed reductions to K-12 outreach programs.

ISSUE 4: UPDATE ON COMPREHENSIVE ADMISSIONS

The issue for the Subcommittee to consider is the University of California's implementation of comprehensive admissions.

BACKGROUND:

At the urging of the Legislature, in November 2001 the University of California Board of Regents approved a modified selection process for freshman admissions expected to lead to a more thorough and complete review of the qualifications a student presents when applying to one of UC's eight undergraduate campuses. Called "comprehensive review" or "comprehensive admissions," this new process replaced the previous "two-tiered" process embedded in Regent's Resolution SP-1 in which each campus was required to admit 50-75 percent of its freshman students solely on the basis of certain academic factors (i.e. GPA and test scores).

The 2001 Budget Act appropriated \$750,000 to support UC campus efforts to move toward comprehensive assessment of freshman applications. Budget bill language further stipulated that "funding shall be provided to campuses contingent on the elimination of the two-tiered admissions system and the establishment of a unitary admissions review process."

COMMENTS:

In an effort to monitor the University of California's progress in achieving educational equity, Assembly Budget Committee Chairwoman Jenny Oropeza requested that UC provide the Legislature with information about their implementation of comprehensive admissions, including an accounting of expenditures. As part of her information request, Assemblywoman Oropeza further requested that UC address the following elements for each campus individually:

- 1) The factors to be used in admissions selection and the differential weights assigned to each factor, if any.
- 2) Definitions of academic achievement, as compared to the list of system-wide criteria.
- 3) Additional information, if any, used to augment the application review process, other than information obtained through the standard University of California application.
- 4) Expected impact on the diversity and demographics of the student populations.

The Subcommittee will hear an oral presentation by UC regarding their implementation of comprehensive admissions as part of their response to Assemblywoman Oropeza's request.

ISSUE 5: UC RIVERSIDE/UC LOS ANGELES THOMAS HAIDER PROGRAM IN BIOMEDICAL SCIENCES

The issue for the Subcommittee to consider is the UC Riverside/UC Los Angeles Thomas Haider Program in Biomedical Sciences and concerns that have been expressed about its admissions and retention practices.

BACKGROUND:

The UCR/UCLA Thomas Haider Program in Biomedical Sciences provides highly qualified students with an opportunity to obtain a M.D. degree in seven years. Students must meet the requirements of the B.S. degree in the first three years of the program. A faculty review committee annually evaluates the performance of each student to determine continuation in the program. At the end of the third year, students are selected for continuation to the medical school phase of the program. The program is currently authorized to admit 24 students per year into the UCLA medical school. Those students that advance to the medical school phase are enrolled concurrently at UCR and the UCLA School of Medicine while in residence at UCR. After completing their basic sciences education, students complete their last two years at UCLA.

COMMENTS:

Concerns have been raised that the university admits a far greater number of students into the program than the number of available slots for admission to the UCLA Medical School. Between 1994 and 1997, the university enrolled 827 students as freshman into the program, roughly 200 annually.

Concerns have also been expressed that the number of underrepresented minorities that advance to the medical school phase of the program is low. In addition, students are not provided with sufficient counseling and support programs in order to be successful in the program.

The Subcommittee may want to ask the following questions:

- Why does the university admit a larger number of students into the program than the number of available slots at the UCLA Medical School?
- What kinds of support services are provided to students that enroll in the program to insure their academic success?

Public testimony will be provided at the hearing on this issue.

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6610 CALIFORNIA STATE UNIVERSITY
6870 CALIFORNIA COMMUNITY COLLEGES CROSS CUTTING ISSUE

ISSUE 1: STUDENT FEES

The issue for the Subcommittee to consider is the Legislative Analyst's recommendation that the Legislature adopt a long-term student fee policy.

BACKGROUND:

Governor's Proposed Budget:

For the eighth consecutive year, there will be no increases to system-wide mandatory student fees. Current fee levels at UC and CSU continue to be moderate in comparison to comparable institutions nationwide. Likewise, students will pay only a portion of the state's cost of their education, with the majority of this cost being paid by the state. This, of course, does not take into consideration the additional costs of attending a higher education institution, including campus-based fees, housing and living expenses, as well as other related expenses.

Under the Governor's proposed budget, for UC, the 2002-03 cost of education for a general campus student is \$16,314. Of this amount, students pay \$3,637 or approximately 22 percent, and the General Fund supports approximately 69 percent. For CSU, the average cost of education for a general campus student is \$10,722, with students paying approximately 15 percent of this total cost, and the General Fund supporting 80 percent. A variety of other funding sources make up the difference between student fees and General Fund support. For the community colleges, the General Fund and local property tax share is 91 percent of the \$4,678 cost of education, with students paying 7 percent of the cost of their education.

Past Attempts to Develop a Long-term Student Fee Policy:

The state has attempted to develop fee policies in the past. For example, Chapter 1523, Statutes of 1985 (SB 195, Maddy), was meant to establish a long-term student fee policy. This legislation was, in part, a reaction to significant fee increases in the early 1980s. Generally, it required CSU and requested UC to establish specific fee methodologies, limited annual adjustments to student fees to 10 percent, and required a ten-month lead-time before a fee change could go into effect. Chapter 572, Statutes of 1990 (SB 1645, Dills), reauthorized major expiring provisions of Chapter 1523 until 1996. Next, Chapter 853, Statutes of 1997 (AB 1318, Ducheny), reduced fees at UC and CSU by 5 percent, and backfilled those reductions from the General Fund. Chapter 853 also reduced the per unit resident fee at the CCC to \$12. Finally, the 1999-00 Budget Act reduced fees at UC and CSU by an additional 5 percent. In addition, community college fees were reduced from \$12 to \$11 per unit.

COMMENTS:

Legislative Analyst's Recommendation. In her analysis of the Governor's proposed 2002-03 budget, the Legislative Analyst points out that California lacks a consistent fee policy for post-secondary education. She asserts that typically changes to student fee levels have been influenced more by the availability of state funds in any given year than through an established policy for sharing the cost of higher education between the state and students.

Given the state's fiscal situation, as well as the recent expansion of financial aid opportunities, the Legislative Analyst believes that the Legislature should consider enacting in statute a consistent fee policy. They believe such a policy should provide for an appropriate sharing of educational costs between students and the state, and which preserves student access to higher education. The Analyst presents the following two options in considering the development of a long-term student fee policy:

- **Option 1: Set Fees at a Fixed Percentage of Educational Costs.** One option for the Legislature in establishing a long-term fee policy is to set fee levels as a fixed percentage of the "cost of education." This approach recognizes that students receive direct benefits from their education, and therefore should pay a portion of the cost that is proportional to their benefits.

If the Legislature selects a fixed percentage that results in a fee that is significantly higher than the current fee, it could increase fees gradually over a number of years until they reached the selected percentage of educational costs. Once the target is reached, fees would be adjusted annually to maintain the same percentage. If educational costs increase, fees would increase by a proportional amount. Conversely, if educational costs decreased (for example, from increases in efficiency), then fees would decrease.

- **Option 2: Set Fees at the Average for Comparison Institutions.** As an alternative, student fees could be set at the average fee charged at the segments' national comparison institutions. The average could be limited to public comparison schools or could be a weighted average of public and private comparison schools. For 2002-03, the estimated difference between UC fees and the average of its public comparison institutions is \$2,005. For CSU, the estimated difference between its fees and the average of its public comparison institutions is \$2,500.

If the Legislature decided to use the average of comparison institutions as a basis for resident fees, it could raise fees gradually to avoid sticker shock. For example, if UC were to increase fees by 10 percent a year, fees would reach their public comparison target by 2009-10. This assumes that the average of the public comparison institutions increases by 5 percent annually. The actual length of time required would depend on inflation in the intervening years. For CSU, more time would be required because current fee levels are further below CSU's public comparison institutions. If CSU fees increased by 10 percent a year, fees would reach the average of comparison institutions in 2019-20.

The Legislative Analyst plans to provide an oral presentation on their proposal on student fees during the hearing.

Budget Staff Recommendation. Given the impact of student fees on California's families, budget staff recommends that any discussion regarding the development of a long-term student fee policy

should take into consideration the total costs of education, including campus-based fees, housing and living expenses, as well as other related expenses. In addition, staff recommends that the discussion of a long-term student fee policy involve a discussion of the impact of raising to student fees on enrollment and the impact of raising student fees on certain groups of students.