

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

**Assemblymember S. Joseph Simitian, Chair**

**May Revise: Higher Education Part 2**

**WEDNESDAY, MAY 19, 2004**

**STATE CAPITOL, ROOM 447**

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**REGULAR BUSINESS**

<b>ITEM</b>	<b>DESCRIPTION</b>	<b>ITEMS TO BE HEARD</b>	<b>PAGE</b>
<b>OUTSTANDING COMMITMENTS (HANDOUT)</b>			
<b>6440</b>	<b>UNIVERSITY OF CALIFORNIA</b>		<b>3</b>
ISSUE 1	SUPPORT BUDGET		3
ISSUE 2	MAY 13TH DOF LETTER---STUDENT FEES, REVISED UNDERGRADUATE AND GRADUATE ENROLLMENT ESTIMATES, REVISED ESTIMATE FOR EXCESS UNIT FEE, OUTREACH FUNDING REPORTING ERROR AND HEALTH CARE BENEFITS FUND EXPENDITURES		6
ISSUE 3	RESTORATION OF ONE-TIME REDUCTION FROM 2003-04		7
ISSUE 4	INSTITUTE FOR LABOR AND EMPLOYMENT		8
<b>6600</b>	<b>HASTINGS COLLEGE OF LAW</b>		<b>10</b>
ISSUE 1	SUPPORT BUDGET		10
<b>6610</b>	<b>CALIFORNIA STATE UNIVERSITY</b>		<b>12</b>
ISSUE 1	SUPPORT BUDGET		12
ISSUE 2	MAY 13TH DOF LETTER---STUDENT FEES AND REVISED UNDERGRADUATE ENROLLMENT		15
ISSUE 3	RESTORATION OF ONE-TIME REDUCTION FROM 2003-04		16
<b>6870</b>	<b>CALIFORNIA COMMUNITY COLLEGES</b>		<b>17</b>
ISSUE 1	MAJOR BUDGET PROPOSALS		17
ISSUE 2	EQUALIZATION FUNDING		23
ISSUE 3	APRIL 1ST DOF LETTER---EQUALIZATION FUNDING, ADJUSTMENTS TO GROWTH AND COLA		24
ISSUE 4	MAY 13TH DOF LETTER---INCREASE TO EQUALIZATION FUNDING AND VARIOUS		25

PROGRAM ADJUSTMENTS

ISSUE 5	CATEGORICAL REFORM	29
ISSUE 6	NON-CREDIT FUNDING	32
<b>6440</b>	<b>UNIVERSITY OF CALIFORNIA</b>	<b>33</b>
<b>6610</b>	<b>CALIFORNIA STATE UNIVERSITY</b>	<b>33</b>
<b>6870</b>	<b>CALIFORNIA COMMUNITY COLLEGES: INTERSEGMENTAL ISSUES</b>	<b>33</b>
ISSUE 1	ENROLLMENT GROWTH	33
ISSUE 2	STUDENT FEES	35
ISSUE 3	FINANCIAL AID	40
ISSUE 4	OUTREACH PROGRAMS	42

## **ITEMS TO BE HEARD**

### **ITEM 6440      UNIVERSITY OF CALIFORNIA**

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#### **ISSUE 1: SUPPORT BUDGET**

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

#### **BACKGROUND**

The University of California (UC) consists of eight general campuses and one health science campus. The university is developing a tenth campus in Merced. The Governor's budget proposal includes about \$18.4 billion for UC from all fund sources—including General Fund, student fee revenue, federal funds, and other funds. This is a decrease of \$420 million, or 2.3 percent, from the revised current-year amount. The budget proposes General Fund spending of \$2.7 billion for the segment in 2004-05. This is a decrease of \$232 million, or 8 percent, from the enacted 2003-04 budget and a decrease of \$198 million, or 6.9 percent, from the Governor's proposed revision of the 2003-04 budget.

For the current year, the Governor proposes a \$15.7 million unallocated General Fund reduction and a \$12.2 million targeted reduction to UC's K-14 outreach programs. The Governor proposes to make these reductions pursuant to Section 27.00 of the *2003-04 Budget Act*. In addition, the Governor proposes to reduce funding in the current year for UC's labor research institute by \$2 million. For the budget year, the Governor proposes \$82.1 million in General Fund augmentations, \$360 million in General Fund reductions, and a \$79.9 million net increase for various baseline adjustments.

The table below summarizes the various changes from the enacted 2003-04 budget to the revised 2003-04 budget. It also describes the Governor's 2004-05 General Fund proposals.

<b>University of California Governor's Budget Proposals</b>	
(In Millions)	
	<b>General Fund</b>
<b>2003-04 Budget Act</b>	<b>\$2,902.1</b>
One-time unallocated reduction	-\$15.7
Reduce outreach programs	-\$12.2
Reduce labor research institute funding	-\$2.0
<b>Subtotal</b>	<b>-\$29.9</b>
<b>Other Adjustments</b>	
Public Employees' Retirement System rate adjustment	\$0.2
Unexpended balance from lease revenue	-\$4.2
<b>2003-04 Revised Budget</b>	<b>\$2,868.2</b>
Baseline and Technical Adjustments	\$79.9
<b>Proposed Increases</b>	
Restore one-time reduction from 2003-04	\$80.5
Dual admissions program	\$1.6
<b>Subtotal</b>	<b>\$82.1</b>
<b>Proposed Reductions</b>	
Unallocated reduction (backfilled with increased fee revenue)	-\$195.5
Reduce academic and institutional support	-\$45.4
Increase student-faculty ratio	-\$35.3
Reduce freshman enrollment	-\$24.8
Expand mid-year outreach reduction (\$33.3 million total)	-\$21.1
Eliminate Digital California Project	-\$14.3
Reduce funding for research by 5 percent	-\$11.6
Eliminate subsidy for excess course units (Phase 1)	-\$9.3
Expand mid-year reduction to labor research institute	-\$2.0
<b>Subtotal</b>	<b>-\$359.7</b>
<b>2004-05 Proposed Budget</b>	<b>\$2,670.5</b>
<b>Change From 2002-03 Revised Budget</b>	
Amount	-\$197.7
Percent	-6.9%

**Proposed Augmentations.** The Governor's budget provides UC with an \$80.5 million General Fund augmentation to restore a one-time unallocated reduction made in 2003-04. The budget also includes \$1.6 million in General Fund support for UC to provide counseling services to students that participate in the Governor's proposed dual admissions program for otherwise eligible students.

**Proposed Reductions.** While the Governor's budget proposes \$82.1 million in General Fund augmentations, it also proposes \$360 million in General Fund reductions. These reductions consist of:

- \$196 million unallocated reduction
- \$45.4 million from reducing academic and institutional support by 7.5 percent
- \$35.3 million from increasing the student-faculty ratio by 5 percent (from 19.7:1 to 20.7:1)
- \$24.8 million from reducing freshman enrollment by 10 percent
- \$21.1 million to expand the reduction to K-14 outreach programs proposed by the Governor in the current year to \$33.3 million
- \$14.3 million from eliminating the California Digital Project
- \$11.6 million from reducing research support by 5 percent
- \$9.3 million for the first phase of eliminating General Fund support for students that exceed by more than 10 percent the minimum number of units for their degree programs
- \$2 million to expand the proposed mid-year reduction and eliminate all General Fund support for the labor research institute

<b>MAJOR BUDGET PROPOSALS IN THE JANUARY 10<sup>TH</sup> BUDGET:</b>
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**Enrollment Growth:** The Governor proposes no new funding for enrollment growth at UC and instead proposes to reduce new freshman enrollment by 10 percent, with the foregone enrollment being redirected to California Community Colleges (CCC). The UC's budget would be reduced by \$24.8 million in General Fund support consequently cutting access to approximately more than 3,200 students.

**Student Fees:** The Governor's budget proposes to increase undergraduate fees by 10%, graduate fees by 40% and nonresident student fees by 20%. The Governor's budget also reduces General Fund support for professional school students by 25 percent, with the assumption that UC would offset this reduction by increasing professional school fees (except for nursing school students). The fee increases are expected to provide an additional \$196 million in student fee revenue that would fully backfill the proposed unallocated reduction to UC's General Fund support. Although the budget assumes these increases, student fees at UC are established by the UC Board of Regents.

**Student Fees and Institutional Financial Aid:** The Governor's budget assumes further increases in student fees, but in a departure from previous practice, the Governor proposes to reduce from 33 percent to 20 percent the set-aside taken from the increase in student fees for institutional financial aid. Despite this reduction, the UC's institutional aid budget would increase by \$38.3 million totaling \$391.1 million. The Governor's Cal Grant proposals include an increase of \$49.2 million in the number of Cal Grants to be issued in 2004-05, a 10% (\$11.2 million) reduction of the Cal Grant A and B program income ceilings, a 44% (\$32.7 million) reduction of Cal Grant for new students attending private colleges and universities and the "decouple" (\$25.1 million cost-avoidance) of Cal Grant award amounts from the proposed mandatory fee increases.

**Elimination of Academic Outreach Programs:** The Governor proposes to continue his November proposal to eliminate academic outreach programs by zeroing out the \$33.3 million state supported budget for all UC academic outreach programs. These programs annually serve over 300,000 students and were already reduced by over 50% in the 2003-04 state budget.

**ISSUE 2: MAY 13<sup>TH</sup> DOF LETTER ---STUDENT FEES, REVISED UNDERGRADUATE AND GRADUATE ENROLLMENT ESTIMATES, REVISED ESTIMATE FOR EXCESS UNIT FEE, OUTREACH FUNDING REPORTING ERROR AND HEALTH CARE BENEFITS FUND EXPENDITURES**

The issue for the subcommittee to consider is the May 13<sup>th</sup> letter from the Department of Finance requesting various amendments to the January 10<sup>th</sup> budget.

**BACKGROUND**

In a May 13<sup>th</sup> letter, DOF is requesting the following amendments to the January 10<sup>th</sup> budget:

1. ***Amendments to the budget regarding student fees for the 2004-05 budget year.*** Undergraduate student fees will increase by 14 percent graduate student fees by 20 percent. The net General Fund savings are identical to those associated with the 10 percent undergraduate and 40 percent graduate fee increases proposed in the 2004-05 January 10<sup>th</sup> budget. It is noted that, in accordance with the Compact, UC and CSU undergraduate fees will be 8 percent in 2005-06 and 2006-07. This ensures that the three-year average increase will not exceed 10 percent per year in conformance with the Administration's undergraduate fee policy.
2. ***DOF is requesting an increase of \$20,198,000 to reflect the following changes:***

**(Issue 001) Reduce General Fund Reduction Associated with the Undergraduate Fee Increase.** The increase of \$1,275,000 reflects the revised undergraduate enrollment estimates. When calculating the General Fund reduction associated with a 10 percent undergraduate fee increase for purposes of the 2004-05 Governor's Budget, a full-time equivalent student number was inadvertently used that did not account for the proposed 10 percent reduction in the number of first-time freshmen.

**(Issue 002) Reduce General Fund Reduction Associated with the Graduate Fee Increase.** The increase of \$6,723,000 reflects the revised graduate enrollment estimates. When calculating the General Fund reduction associated with a 40 percent undergraduate fee increase for purposes of the 2004-05 Governor's Budget, a full-time equivalent student number was inadvertently used that included 4,025 medical residents. While these medical residents are counted as graduate students, they pay no fees.

**(Issue 003) Reduce General Fund Reduction Associated with the Excess Units Policy.** The increase of \$8.2 million reflects a revised estimate of the savings associated with eliminating the General Fund subsidy for undergraduate students who accumulate in excess of 110 percent of the units required for their degree.

**(Issue 4) Reduce General Fund Reduction Associated with Eliminating Outreach Funding.** The increase of \$4.0 million reflects a revised estimate from the University of California of the General Fund provided by the 2003 Budget Act for outreach. This is due to

*a reporting error by the University, which inadvertently characterized \$4.0 million of University funds that are provided for outreach as being General Fund.*

**3. In addition, the following technical change is requested:**

*Health Care Benefits Fund Expenditures (Issue 001)—In accordance with Chapter 795, Statutes of 2002, it is requested that Item 6440-001-3054 be added in the amount \$3,237,000. This action is necessary because that legislation did not include an appropriation from the Health Care Benefits Fund.*

*In accordance with Chapter 795, Statutes of 2002, the University will use these funds to analyze health care-related legislation.*

**(APPROVED 5/18)**

**ISSUE 3: RESTORATION OF ONE-TIME REDUCTION FROM 2003-04**

The issue for the Subcommittee to consider is the Governor's proposed restoration of the one-time unallocated reduction made in 2003-04.

**BACKGROUND**

The enacted 2003-04 budget included a one-time unallocated reduction of \$80.5 million to UC's General Fund support budget. The Governor's budget for 2004-05 proposes an \$80.5 million General Fund augmentation to fully restore this reduction.

The Legislative Analyst has indicated that UC accommodated the reduction in its current-year budget in two ways. According to UC's official reports summarizing its final budget plan for 2003-04 (as approved by the Board of Regents), the university redirected \$33 million in additional fee revenue resulting from student fee increases in the current year to partially backfill the unallocated reduction. The remaining \$47.5 million of the reduction was addressed through internal borrowing from funds within the university.

Consequently, the university backfilled \$33 million of the \$80.5 million unallocated reduction with an ongoing revenue source—student fee revenue. This source will produce another \$33 million of revenue in 2004-05, even if the General Fund it is currently backfilling is restored. This means that the Governor's proposal has the effect of *increasing* UC's available revenue by \$33 million.

**COMMENTS:**

Budget staff notes that allowing segments full discretion in implementing unallocated cuts without Legislative oversight has previously raised concerns. As a result, Budget staff has continuously recommended that the Legislature request detailed information from the segments on how they plan to implement any proposed unallocated reductions. Budget staff also notes that to the extent that the Legislature allows the segments the authority to implement

unallocated reductions without any specific guidelines, the Legislature delegates its appropriation authority to the segments and their respective boards to determine where those reductions should be made.

**UC Position:** Given the budget reductions the system has experienced in recent years, the UC asserts that these funds are needed to cover other costs such as building maintenance, higher workers' compensation rates, increasing energy costs, employee health benefits and some of the cuts proposed in the budget year.

**LAO Recommendation:**

The Legislative Analyst is recommending that the Legislature reduce by \$33 million the Governor's proposed restoration of an \$80.5 million one-time unallocated reduction made in 2003-04. The proposed reduction would account for the availability of ongoing funds the university has dedicated too partially offset this one-time reduction.

#### **ISSUE 4: INSTITUTE FOR LABOR AND EMPLOYMENT**

The issue for the Subcommittee to consider is the Governor's proposed elimination of funding for the Institute of Labor & Employment (ILE).

#### **BACKGROUND**

The ILE was first established as an act of the Legislature in 2000 with an annual budget of \$6 million. The ILE's budget was reduced to \$5.5 million in 2001-02 and it was again reduced to \$4 million in 2003-04.

Last November, the Governor's mid-year reductions included a \$2 million reduction in funding (*Section 27.00 of the 2003-04 Budget Act*) for the ILE. In his 2004-05 budget, the Governor is proposing to expand this reduction by \$2 million eliminating all General Fund support for the labor research institute.

The ILE is the only statewide research program within the UC that specifically addresses the labor and employment concerns of California's changing workforce. The institute supports faculty and graduate student research on labor and employment issues generating cutting-edge research on a wide variety of topics. Recent examples of such research include a statewide employer survey of human resource and training practices, research on paid family leave, a study of the California unemployment insurance system and an analysis of union membership in the state.

In addition, the ILE has nurtured a new generation of scholars through its graduate fellowships program. These fellowships – more needed than ever in an era when graduate student fees are rising and other sources of funding are in jeopardy – provide funding for MA and PhD students all over the state in a variety of fields, including business, public policy, sociology, geography, economics and urban planning. Since its inception in 2000, the ILE has awarded over 200 masters' and dissertation fellowships through an annual competition open to students on all UC campuses.

From the inception of the ILE, each year about 20-25% of the budget (about \$1.2 million) has been devoted to direct grants to faculty and graduate students on all nine campuses to support

labor and employment research through a competitive, peer-reviewed award process. Over the four cycles of research grants, one hundred and thirty-two faculty members have received one hundred and eighty-six ILE grants to support their research totaling \$2.9 million.

**COMMENTS:**

Budget staff notes that it is unclear why this particular research institute is targeted for elimination when the funding for other research facilities at the UC is being reduced by 5 percent. In addition, budget-year savings of \$4 million make it difficult to justify the elimination of an entire institute.

The subcommittee chair is suggesting the following language for consideration by subcommittee members:

**Amendments to AB 1800**

On pages 401 and 402, strike out Provisions 9 to 16, inclusive and insert a new Provision 9 to read:

*9. Of the funds appropriated in Schedule (1), \$31,664,000 shall be expended for the purposes identified in Provisions 12 to 21 inclusive of Item 6440-001-0001 of the Budget Act of 2003 and shall be allocated in proportion to the amounts designated in those provisions.*

This language would restore \$3.8 million for the ILE reflecting the 5 percent reduction to the programs included in this budget item.

**ITEM 6600 HASTINGS COLLEGE OF LAW**

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**ISSUE 1: SUPPORT BUDGET**

The issue for the Subcommittee to consider is the Hastings College of Law support budget.

**BACKGROUND**

Hastings College of the Law (Hastings) was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and became affiliated with the University of California in the same year. Policy development and oversight for the college is established and carried out by a board of directors, who are appointed by the Governor for 12-year terms. The Juris Doctorate degree is granted by the Regents of the University of California and signed by both the University of California President and the Dean of Hastings College of Law.

The Governor's budget proposes a total of \$33.5 million for Hastings College of Law, representing an overall increase of \$2.7 million of which \$1.5 million is dedicated to additional financial aid to mitigate fee increases. The increase in funding is attributable to the student fee increases the College is implementing for next year. Of the \$33.5 million, \$ 8.1 million is General Fund support, which reflects a decrease of \$3.3 million, or 29 percent, from the revised current year. Over the past two fiscal years, Hastings General Fund support has been reduced by 47 percent.

**MAJOR BUDGET PROPOSALS:**

The Governor's budget for Hastings include the following proposals:

- Reduce total General Fund support for Hastings by 25 percent (\$2.8 million). This proposal assumes that student fee revenue will be available to offset the reductions in state support. Hastings is increasing fees by \$5,000 for resident students from \$13,735 to \$18,750. Of this amount, 45 percent (\$2,275) offsets General Fund reduction and the balance is for increased financial aid (\$1,200) and core cost increases.
- A 20 percent increase in nonresident tuition (\$188,000). Total nonresident tuition for 2004-05 would be \$32,710, which is comparable to the student fees charged at private institutions such as USC at \$32,144 and Stanford at \$32,424.
- A 7.5 percent reduction in Academic and Institutional support (\$402,000).
- An increase of \$170,000 in annuitant health and benefit costs.

**COMMENTS:**LAO Recommendation:

Approve the Governor's proposed 25% GF subsidy reduction. The Governor's budget assumes that Hastings would increase resident and nonresident student fees to offset this General Fund reduction. According to the LAO, the fee increase would be comparable to the Governor's proposed 40% increase and their recommended 30% increase for graduate students at the UC and CSU.

HastingsConcerns:

- As fees increase, prospective students may choose to pursue their legal education at private institutions or institutions out-of-state.
- Student debt will increase. For those students eligible for financial aid, the average law school debt will increase from \$63,000 to \$78,000 for resident students.
- To the extent that enrollment levels decline as nonresident students make other choices, Hastings revenues generated from these students will decline. Nonresident students pay in excess of their average cost of instruction.
- Cost reductions and deferrals over the past three years have been implemented in efforts to manage reduced levels of state support funding. This trend cannot be continued indefinitely.

Budget staff shares the College's concerns and reiterates that further reductions will compromise the services provided to students. The need to increase student fees to offset the proposed reduction in state subsidy will limit access to students who up to this point have chosen to attend the College believing that a public law school should be affordable.

**ITEM 6610****CALIFORNIA STATE UNIVERSITY****ISSUE 1: SUPPORT BUDGET**

The issue for the Subcommittee is to consider the support budget for the California State University (CSU).

**BACKGROUND**

The California State University (CSU) consists of 23 campuses. The Governor's budget includes about \$5.8 billion for CSU from all fund sources—including General Fund, student fee revenue, federal funds, and other funds. This is a decrease of \$82.4 million, or 1.4 percent, from the revised current-year amount. The budget proposes General Fund spending of \$2.4 billion for the system in 2004-05. This is a decrease of \$82.5 million, or 3.3 percent, from the enacted 2003-04 budget and a decrease of \$220.5 million, or 8.4 percent, from the Governor's proposed revision of the 2003-04 budget.

For the current year, the Governor proposes an \$11.3 million unallocated General Fund reduction and a \$12.5 million targeted reduction to CSU's K-12 outreach programs. The Governor proposes to make these reductions pursuant to Section 27.00 of the *2003-04 Budget Act*. In addition, the Governor proposes a \$155 million General Fund augmentation in the current year for increased Public Employees' Retirement System benefit costs. For the budget year, the Governor proposes \$71.4 million in General Fund augmentations and \$299 million in General Fund reductions.

The table below summarizes the changes from the enacted 2003-04 budget to the revised 2003-04 budget. It also describes the Governor's 2004-05 General Fund budget proposals.

<b>California State University General Fund Budget Proposal</b>	
(In Millions)	
	<b>General Fund</b>
<b>2003-04 Budget Act</b>	<b>\$2,492.0</b>
<b>Mid-Year Reductions</b>	
One-time Unallocated reduction	-\$11.3
Reduce outreach programs	-\$12.5
<b>Other Adjustments</b>	
PERS Employer Rate Increase	\$155.1
Carryover/re-appropriation	\$7.6
Other Adjustments	\$.09
<b>2003-04 Revised Budget</b>	<b>\$2,630.1</b>
<b>Baseline and Technical Adjustments</b>	<b>\$6.7</b>
<b>Proposed Increases</b>	
Restore one-time reduction from 2003-04	\$69.5
Dual Admissions Program	\$1.9
<b>Subtotal</b>	<b>\$71.4</b>
<b>Proposed Reductions</b>	
Unallocated reduction (backfilled with increase fee revenue)	-\$101.5
Increase student-faculty ratio	-\$53.5
Reduce Academic and Institutional Support	-\$52.6
Expand mid-year outreach reduction (for a total of \$52 million)	-\$39.5
Eliminate subsidy for excess course units (Phase I)	-\$24.4
Reduce freshman enrollment	-\$21.1
Defer some Common Management System costs	-\$6
<b>Subtotal</b>	<b>-\$298.6</b>
<b>2004-05 Proposed Budget</b>	<b>\$2,409.6</b>
<b>Change From 2002-03 Revised Budget</b>	
Amount	-\$220.5
Percent	-8.4%

**Proposed Augmentations.** The Governor's budget provides CSU with a \$69.5 million General Fund augmentation to restore a one-time unallocated reduction made in 2003-04. The budget also includes \$1.9 million in General Fund support to provide counseling services to students that participate in the Governor's proposed dual admissions program. Under this new program, students who are eligible to attend the university directly from high school would be admitted to a specific CSU campus provided they first complete a transfer program at a community college.

**Proposed Reductions.** While the Governor's budget proposes a total of \$71.4 million in General Fund augmentations, it also proposes \$299 million in General Fund reductions. These reductions consist of:

- \$102 million unallocated reduction
- \$53.5 million from increasing the student-faculty ratio by 5 percent (from 19.9:1 to 20.9:1)
- \$52.6 million from reducing academic and institutional support by 7.5 percent
- \$39.5 million to expand the reduction to K-12 outreach programs proposed by the Governor in the current year to \$52 million
- \$24.4 million for the first phase of eliminating General Fund support for students that exceed by more than 10 percent the minimum number of units required for their degree programs
- \$21.1 million from reducing freshman enrollment by 10 percent
- \$6 million from deferring costs associated with CSU's Common Management System.

#### **MAJOR BUDGET PROPOSALS IN THE JANUARY 10<sup>TH</sup> BUDGET:**

**Enrollment Growth:** The Governor proposes no new funding for enrollment growth at CSU and instead proposes to reduce new freshman enrollment by 10 percent, with the foregone enrollment being redirected to CCC. The CSU's budget would be reduced by \$21.1 million in General Fund support consequently cutting access to approximately more than 3,800 students.

**Student Fees:** The Governor's budget proposes to increase undergraduate fees by 10%, graduate fees by 40% and nonresident student fees by 20%. The fee increases are expected to provide an additional \$102 million in student fee revenue that would fully backfill the proposed unallocated reduction in CSU's General Fund support. Although the budget assumes these increases, student fees at CSU are established by its Board of Trustees.

**Student Fees and Institutional Financial Aid:** The Governor's budget assumes further increases in student fees, but in a departure from previous practice, the Governor proposes to reduce from 33 percent to 20 percent the set-aside taken from the increase in student fees for institutional financial aid. Despite this reduction, the CSU's institutional aid budget would increase by \$26.4 million totaling \$217.5 million. The Governor's Cal Grant proposals include an increase of \$49.2 million in the number of Cal Grants to be issued in 2004-05, a 10% (\$11.2 million) reduction of the Cal Grant A and B program income ceilings, a 44% (\$32.7 million) reduction of Cal Grant for new students attending private colleges and universities and the "decouple" (\$25.1 million cost-avoidance) of Cal Grant award amounts from the proposed mandatory fee increases.

**Elimination of Academic Outreach Programs:** The Governor proposes to continue his November proposal to eliminate academic outreach programs by zeroing out the remaining CSU outreach program budget by \$52 million. Of this amount, approximately \$37 million is allocated to the Educational Opportunity Program (EOP) which provide services and grants to financially needy students. These programs annually serve over 600,000 students and were already reduced by over 50% in the 2003-04 state budget.

**ISSUE 2: MAY 13<sup>TH</sup> DOF LETTER ---STUDENT FEES AND REVISED UNDERGRADUATE ENROLLMENT**

The issue for the Subcommittee to consider is the May 13<sup>th</sup> letter from the Department of Finance (DOF) requesting amendments to the student fees and revision of undergraduate enrollment estimates in the January 10<sup>th</sup> budget.

**BACKGROUND**

In a May 13<sup>th</sup> letter, DOF proposes the following amendments to the January 10<sup>th</sup> budget:

1. ***Amendments to the budget regarding student fees for the 2004-05 budget year--***  
*Undergraduate fees will increase by 14 percent and graduate fees will increase by 20 percent for students participating in teacher preparation programs, and 25 percent for all other graduate students. The net General Fund savings are identical to those associated with the 10 percent undergraduate and 40 percent graduate fee increases proposed in the 2004-05 Governor's Budget. It is noted that, in accordance with the Compact, UC and CSU undergraduate fees will be 8 percent in 2005-06 and 2006-07. This ensures that the three-year average increase will not exceed 10 percent per year in conformance with the Administration's undergraduate fee policy.*
2. ***Reduce General Fund Reduction Associated with the Undergraduate Fee Increase (Issue 001)***—*It is requested that Item 6610-001-0001 be increased by \$623,000 and Item 6610-001-0498 be decreased by \$623,000 to reflect revised undergraduate enrollment estimates. When calculating the General Fund reduction associated with a 10 percent undergraduate fee increase for purposes of the 2004-05 Governor's Budget, a full-time equivalent student number was inadvertently used that did not account for the proposed 10 percent reduction in the number of first-time freshmen.*

**ISSUE 3: RESTORATION OF ONE-TIME REDUCTION FROM 2003-04**

The issue before the Subcommittee to consider is the Governor's proposed restoration of the one-time unallocated reduction made in 2003-04.

**BACKGROUND**

The *2003-04 Budget Act* included a one-time unallocated reduction of \$69.5 million to CSU's General Fund support budget. The Governor's budget for 2004-05 proposes a \$69.5 million General Fund augmentation to fully restore this reduction.

The Legislative Analyst has indicated that CSU accommodated the reduction in its current-year budget in two ways. First, the university redirected \$24.5 million in additional fee revenue resulting from student fee increases in the current year to partially backfill the unallocated reduction. In addition, CSU decided to redirect \$45 million from the funds the Legislature provided in the budget for enrollment growth to backfill other reductions in its budget. This caused the university to enroll 6,744 fewer full-time equivalent students than funded in the budget.

Consequently, the university backfilled by \$24.5 million of the \$69.5 million unallocated reduction with an ongoing revenue source—student fee revenue. This source will produce another \$24.5 million of revenue in 2004-05, even if the General Fund reduction it is currently backfilling is restored. This means that the Governor's proposal has the effect of *increasing* CSU's available revenue by \$24.5 million.

**COMMENTS:**

Budget staff notes that allowing the segments full discretion in implementing unallocated cuts without Legislative oversight has previously raised concerns. As a result, Budget staff has continuously recommended that the Legislature request detailed information from the segments on how they plan to implement any proposed unallocated reductions.

LAO Recommendation:

The Legislative Analyst is recommending that the Legislature reduce by \$24.5 million the Governor's proposed restoration of an \$69.5 million one-time unallocated reduction made in 2003-04. The proposed reduction would account for the availability of ongoing funds the university has dedicated to partially offset this one-time reduction.

CSU Position:

The CSU asserts that these funds are needed to fund established and proposed budget reductions. These costs are real and university needs to find funding from elsewhere.

On the use of enrollment funds to backfill other budget reductions, the CSU argues that they have to make a choice between access and quality. When resources are scarce, they opt for enrolling only the number of students they can serve.

**ITEM 6870**

**CALIFORNIA COMMUNITY COLLEGES**

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**ISSUE 1: MAJOR BUDGET PROPOSALS**

The issue for the Subcommittee to consider is the California Community Colleges (CCC) major budget adjustments.

**BACKGROUND**

The California Community Colleges (CCC) provide instruction to about 1.7 million students at 109 campuses operated by 72 locally governed districts throughout the state. The system offers academic, occupational, and recreational programs at the lower-division (freshman and sophomore) level. Based on agreements with local school districts, some college districts offer a variety of adult education programs. In addition, pursuant to state law, many colleges have established programs intended to promote regional economic development.

The Governor's budget includes significant increases in Proposition 98 funding and student fee revenue increasing total funding for CCC by 8 percent. In regards to the CCC share in Proposition 98 funding, the Governor's budget includes \$4.7 billion in Proposition 98 funding for the community colleges in 2004-05. As proposed by the Governor, CCC would receive 10 percent of total Proposition 98 funding, K-12 education would receive 89.8 percent, and the other state agencies would receive the remaining 0.2 percent.

State law calls for CCC to receive approximately 10.9 percent of total Proposition 98 appropriations. However, in recent years, this provision has been suspended in the annual budget act and CCC's share of Proposition 98 has been lower than 10.9 percent. The Governor's budget proposal would again suspend this provision.

<b>Community College Budget Summary</b>					
<i>(Dollars in Millions)</i>					
					<b>Change</b>
	Actual 2002-03	Estimated 2003-04	Proposed 2004-05	Amount	Percent
<b>Community College Proposition 98</b>					
General Fund	\$2,642.1	\$2,244.1	\$2,414.4	\$170.3	7.6%
Local property tax	1,981.0	2,114.8	2,264.4	149.7	7.1
Subtotals, Proposition 98	(\$4,623.1)	(\$4,358.9)	(\$4,678.8)	(\$319.9)	(7.3%)
<i>Other Funds</i>					
General Fund	\$237.4	\$125.7	\$221.7	\$96.1	76.4%
Proposition 98 Reversion Account	85.4	0.1	—	-0.1	-100.0
State operations	10.9	8.6	8.6	—	—
Teachers' retirement	74.1	40.3	90.5	50.2	124.6
Bond payments	66.9	76.6	122.6	46.0	60.0
State lottery funds	141.2	140.9	140.9	—	—
Other state funds	11.3	11.0	10.9	-0.1	-0.5
Student fees	169.2	265.1	356.1	91.0	34.3
Federal funds	228.2	228.2	228.2	—	—
Other local funds	1230.2	1230.2	1230.2	—	—
Subtotals, other funds	(\$2017.6)	(\$2001.1)	(\$2188.0)	(\$187.0)	(9.3%)
<b>Grand Totals</b>	<b>\$6,640.7</b>	<b>\$6,360.0</b>	<b>\$6,866.9</b>	<b>\$506.9</b>	<b>8.0%</b>
Deferrals <sup>a</sup>	-\$115.6	\$200.0	— <sup>b</sup>	-\$200.0	-100.0%
Programmatic spending levels	6,525.1	6,560.0	\$6,866.9	306.9	4.7

<sup>a</sup> Adjustments to reflect when funds are spent on programs as opposed to when funds are appropriated.  
<sup>b</sup> Net effect of zero because \$200 million payment of 2003-04 costs is backfilled with a new deferral of \$200 million in 2004-05 costs to 2005-06.

## MAJOR BUDGET PROPOSALS:

The Governor's budget includes the following proposals:

- An increase of student fees from \$18 per unit to \$26 per unit. For students already holding a bachelor's degree, the fee would increase to \$50 per unit. The budget assumes that the proposed fee increases will generate about \$91 million in revenue facilitating General Fund savings in the same amount.
- \$121.1 million or 3 percent, increase in enrollment growth funding to serve an additional 33,120 full-time equivalent (FTE) students.

- \$81.3 million for COLA general apportionment (\$76.4 million) and selected categorical programs (\$4.9 million)
- \$59.8 million for equalization of credit FTE students
- \$4.8 million for growth for selected categorical programs
- \$4 million to serve an additional 1,900 FTE students in noncredit courses. This additional noncredit funding would be available only to districts that did not receive any of the \$59.8 million in equalization funding.

<b>California Community Colleges Governor's Budget Proposal</b>	
<i>Proposition 98 Spending (In Millions)</i>	
<b>2003-04 (Enacted)</b>	\$4,365.5
Property tax shortfall (not backfilled)	-\$6.6
<b>2003-04 (Revised)</b>	\$4,358.9
2003-04 costs deferred to 2004-05	\$200.0
<b>2003-04 Base</b>	\$4,558.9
<b>Proposed Budget-Year Augmentations</b>	
Enrollment growth of 3 percent	\$121.1
Equalization	59.8
Additional enrollment growth in noncredit programs	4.0
Increase lease purchase payments	2.3
Additional BOG <sup>a</sup> fee waiver administrative costs	1.8
Other adjustments	5.7
Subtotal	(\$214.9)
<b>Proposed Budget-Year Reductions</b>	
Apportionment's (reduction to be backfilled with anticipated increase in student fee revenue)	-\$91.0
Eliminate Teacher and Reading Development program and Fund for Instructional Improvement	-4.0
Subtotal	(-\$95.0)
<b>2004-05 (Proposed)</b>	\$4,678.8
<b>Change From 2003-04 (Revised)</b>	
Amount	\$319.9
Percent	7.3%

<sup>a</sup> Board of Governors.

**Clarification of budget for CCC COLA.** The January 9, 2004 budget did not include an estimated \$81 million needed for COLA that would normally be provided to the CCC. The administration indicated that this omission was unintended and later clarified that the CTA agreement had requested that COLA be provided for both K-12 and CCC. The administration submitted a Budget Change Proposal (BCP) to amend this proposal. The April 1 letter reduced the CCC equalization funding to \$59.8 million.

**Proposition 98 Spending by Major Program.** The table below shows the Proposition 98 expenditures for various community college programs. The Governor's proposal seeks to consolidate and reorganize funding for some CCC programs. These programs support a wide range of activities—from services to disabled students to part-time faculty health insurance. Apportionment funding (available to districts to spend on general purposes) accounts for \$3.9 billion in 2004-05, or about 84 percent of total Proposition 98 expenditures. Total Proposition 98 funds available for general purposes would increase to about \$4.3 billion, or 92 percent of Proposition 98 funding, under the Governor's categorical reform proposal.

<b>Major Community College Programs Funded by Proposition 98<sup>a</sup></b>				
<i>(Dollars in Millions)</i>				
	Estimated 2003-04	Proposed 2004-05	Change	
			Amount	Percent
<b>Apportionment's</b>				
State General Fund	\$1,702.1	\$1,671.7	-\$30.4	-1.8%
Local property tax revenue	2,114.8	2,264.4	149.7	7.1
Subtotals	(\$3,816.9)	(\$3,936.1)	(\$119.2)	(3.1%)
<b>Categorical Programs<sup>b</sup></b>				
Partnership for Excellence	\$225.0	\$225.0	—	—
Extended Opportunity Programs and Services	94.9	94.9	—	—
Disabled students	82.6	82.6	—	—
Matriculation	54.3	54.3	—	—
Services for CalWORKs <sup>c</sup> recipients	34.6	34.6	—	—
Part-time faculty compensation	50.8	50.8	—	—
Part-time faculty office hours	7.2	7.2	—	—
Part-time faculty health insurance	1.0	1.0	—	—
Maintenance, repairs, instructional equipment, and library materials	24.9	24.9	—	—
Economic development program	35.8	35.8	—	—
Telecommunications and technology	22.1	22.1	—	—
Basic skills and apprenticeships	40.6	40.6	—	—
Financial aid/outreach	46.4	47.3	\$0.8	1.8%
Teacher and Reading Development	3.7	—	-3.7	-100.0
Growth in noncredit full-time equivalent student	—	4.0	4.0	—
Fund for Student Success	6.2	6.2	—	—
Other programs	12.0	11.6	-0.4	-3.4
Subtotals	(\$742.0)	(\$742.7)	(\$0.7)	(0.1%)
Lease-revenue bonds <sup>d</sup>	(\$55.0)	(\$57.4)	(\$2.3)	(4.3%)
<b>Totals</b>	<b>\$4,558.9</b>	<b>\$4,678.8</b>	<b>\$119.9</b>	<b>2.6%</b>

<sup>a</sup> Includes costs deferred to later fiscal years. Thus, costs are expressed on a programmatic spending basis.  
<sup>b</sup> Governor's budget proposes to consolidate and reorganize some of these programs. See Figure 4 and associated discussion later in this section.  
<sup>c</sup> California Work Opportunity and Responsibility to Kids.  
<sup>d</sup> Included as part of General Fund apportionment's.

**COMMENTS:****STUDENT FEES****LAO Recommendations:**

- Approve the \$8 per unit increase (from \$18 to \$26 per unit) since the current fee is the lowest in the nation.
- Approve the \$50 per unit for students that already hold a bachelor's degree. When resources are limited, it is best to target higher education subsidies where they are needed the most.

Budget staff notes that on the differential fee proposal many of these students may be enrolled in CCC due to changing careers, training to advance in their current jobs or training for a new career after being unemployed for a period of time.

**CCC's concern:**

The state increased the enrollment fee for all students by 64 percent in Fall 2003 from \$11 per unit to \$26 per unit. According to CCC staff, the Department of Finance estimates that the latest proposed fee increase would cause a decline in enrollment of about 37,000 FTE students.

The CCC notes that an identical \$50 per unit fee was established in 1992, but was rescinded by the Legislature in 1996. The \$50 differential fee was difficult for campuses to implement and had a punitive effect on access, particularly for adults in need of mid-career training (including public safety and emergency personnel) and retraining for second careers.

**ENROLLMENT FUNDING**

Although the Governor's budget proposes to increase CCC enrollment funding by 3 percent, there are concerns about whether these funds will be enough to address the enrollment growth demands of traditional CCC students as well as the needs of the redirected UC and CSU students.

***What happens if enrollment growth isn't funded?*** Community colleges are obligated under the Master Plan for Higher Education to provide open access to higher education for all adults "who can benefit from instruction." Consistent with this goal, campuses do not generally impose admissions requirements, and as such, have no means to deny admission or otherwise turn students away. If student enrollment exceeds the amount for which they are budgeted, campuses will be forced to accommodate students without the financial support to do so.

While "unfunded enrollment" is nothing new (statewide, the community colleges are "overenrolled" by approximately 42,000 FTE), budget staff notes that – coupled with the budgetary reductions – class sections may be cancelled, instructors may be laid-off and students may be unable to take the courses that they need in order to earn a degree, transfer to a four-year institution or otherwise meet their educational objectives. In most cases, how individual campuses implement these cuts will determine how many students drop out (or fail to attend all together). The actions taken by each of the campuses ultimately determines the mechanisms used to "manage" enrollments.

***What's the appropriate level of enrollment growth at the Community Colleges?*** Budget staff notes that the Governor's enrollment growth proposal does not take into account the likely shift of some enrollment demand from the UC and CSU to the community colleges resulting from the proposed student fee increases and the lack of courses offered at the UC and CSU campuses due to budget reductions. It is important to recognize that other than the 7,000 students the administration is asking the UC and CSU to redirect to community colleges, there will also be a significant number of students that will "self redirect" to their local community college. In addition, it is difficult to measure the impact of the CSU remediation policies which requires students who do not successfully complete required remedial courses within the first year of attendance at CSU to go to a local community college before continuing their education at the CSU. Although it is difficult to accurately predict how many students will enroll in public colleges and universities in the coming fiscal year, it is clear that community colleges will continue to receive a significant number of students that will cascade down from the other two higher education segments.

**CCC concern:**

Due to the Governor's proposed Dual Admissions Program, the UC and CSU campuses are aggressively managing their enrollment for Fall 2004. These enrollment funds will shift enrollment demand to the CCC in various ways beyond the redirection of first time freshmen. For example, the CSU plans to reduce overall enrollment by 16,700 FTE students. Most of this reduction will create enrollment pressures in the CCC. Students already in the transfer "pipeline" will have to stay in community colleges longer before CSU will allow them to transfer. In addition, as more CSU students experience difficulty obtaining needed courses at their campus, many will try to enroll in CCC courses at their community colleges.

**ISSUE 2: EQUALIZATION FUNDING**

The issue for the Subcommittee to consider is the Governor's proposed funding for equalization.

**BACKGROUND**

The Governor released his proposed 2004-05 budget on January 9, 2004. This budget did not include several program augmentation requests that the CCC Board of Governors had requested although the budget included funds for K-12 augmentations in similar areas such as PERS costs, facility maintenance and COLA. An estimated \$81.3 million needed for COLA that would normally be provided to the CCC was the largest single omission. The administration indicated that this omission was unintended and later clarified that the CTA agreement had requested that COLA be provided for both K-12 and CCC. The administration submitted a Budget Change Proposal (BCP) to the Legislature to amend this proposal. The April 1<sup>st</sup> letter reduced the proposed \$80 million CCC equalization funding by \$20.1 million to fund the COLA adjustment for CCC as well as COLA and statutory growth adjustments for selected community college categorical programs.

The Governor's revised budget proposal (April 1<sup>st</sup> letter) would dedicate the \$59.8 million to help equalize the amount of apportionment funding each community college district receives to serve an FTE student. Currently, this amount varies from about \$3,550 to \$8,150 per FTE student, with a statewide average of about \$3,800.

**Efforts to Equalize Funding Have a Long History.** According to the Legislative Analyst, the Governor's proposal is the latest in a number of efforts to equalize community college funding. In fact, current law already contains funding allocation mechanisms that are in part intended to gradually equalize district funding. For example, the allocation of the California Community College's COLA funding involves a number of calculations that in theory should gradually move funding for low-revenue districts closer to the statewide average. In addition, funding for new enrollment growth is allocated relatively equally on a per-student basis, and thus would have the effect of equalizing funding at the margin. Finally, the state has made special additional appropriations for equalization. For example, the 1996-97 Budget Act appropriated \$14 million for this purpose, and the 1997-98 Budget Act appropriated an additional \$8.6 million for this purpose.

**COMMENTS:****LAO recommendation:**

- Given the state's current fiscal situation, funding for new programs such as the Governor's equalization plan should instead be directed to existing fiscal obligations.

Budget staff notes that although the Governor is supportive of CCC in his budget proposals, the main issue for the community colleges districts now is how to allocate the equalization funds. The CCC will speak on the allocation methodology currently being considered for the allocation of these funds.

**ISSUE 3: APRIL 1<sup>ST</sup> DOF LETTER--EQUALIZATION FUNDING, GROWTH & COLA ADJUSTMENTS**

The issue for the Subcommittee to consider is the April 1<sup>st</sup> letter from the Department of Finance (DOF) requesting a reduction on the proposed \$80 million equalization funding by \$20.2 million to provide increases in funding to COLA and growth adjustments.

**BACKGROUND**

In an April 1<sup>st</sup> letter, DOF proposes the following amendments to the January 10<sup>th</sup> budget:

1. **Reduce Equalization Funding.** *It is requested that Schedule (1) of this item be reduced by \$20,196,000, to fund a COLA adjustment for community college apportionments, as well as COLA and statutory growth adjustments for selected community college categorical programs.*
2. **COLA Adjustments.** *It is requested that this item be increased by the following amounts, to provide a 1.84 percent COLA adjustment for community college apportionments and selected community college categorical programs:*

*Schedule (1), Apportionments, \$76,405,000*

*Schedule (2), Basic Skills and Apprenticeship, \$521,000*

*Schedule (6), Targeted Student Services, \$1,778,000 (\$1,549,000 for EOPS and \$229,000 for CARE)*

*Schedule (7), Disabled Students, \$1,547,000*

*Schedule (10), Matriculation, \$1,018,000*

3. **Growth Adjustments.** It is requested that this item be increased by the following amounts, to provide a 1.83 percent statutory growth adjustment to selected community colleges categorical programs:

*Schedule (2), Basic Skills and Apprenticeship, \$509,000*

*Schedule (6), Targeted Student Services, \$1,737,000 (\$1,513,000 for EOPS and \$224,000 for CARE)*

*Schedule (7), Disabled Students, \$1,511,000*

*Schedule (10), Matriculation, \$994,000*

It is additionally requested that conforming changes be made to the dollar figures referenced in Provisions 6, 7 and 12 of this item.

**ISSUE 4: MAY 13<sup>TH</sup> DOF LETTER---INCREASE TO EQUALIZATION FUNDING AND VARIOUS PROGRAM ADJUSTMENTS**

The issue for the Subcommittee to consider is the May 13<sup>th</sup> letter from the Department of Finance (DOF) requesting to restore the \$20,196,000 reduction which they proposed in the April 1<sup>st</sup> letter and other program adjustments in the current year and budget year.

**BACKGROUND**

In a May 13<sup>th</sup> letter, DOF proposes the following amendments to the January 10<sup>th</sup> budget:

**Budget Year**

1. ***Increase Equalization Funding.*** *It is requested that this item be increased by \$20,196,000 Proposition 98 General Fund to provide additional equalization funding for the community colleges. This augmentation restores the Governor's proposed funding for equalization of the per pupil credit instruction rate to a total of \$80.0 million for 2004-05, representing approximately one-third of the estimated total multi-year cost of \$239.0 million to reach the 90<sup>th</sup> percentile level.*

*It is additionally requested that the following language be added to Provision 6 to exempt these funds from Title 5 regulations:*

*"Of the funds appropriated in Schedule (1), \$80 million is for equalization pursuant to this provision. These funds shall not be considered to be Program Improvement funds pursuant to Title 5 regulations. These funds shall not be allocated to districts until the Chancellor develops a plan that is approved by the Department of Finance. Finance shall not approve any plan prior to a 30-day review by the Joint Legislative Budget Committee and the respective committee of each house of the Legislature that considers the budget. Notwithstanding any other provision of law or regulation, the plan shall conform to the following requirements."*

2. ***Increased COLA for CCC Apportionment and Selected Categorical Programs (Issue 107).*** *It is requested that this item be increased by a total of \$25,255,000 Proposition 98 General Fund. This adjustment includes \$23,759,000 to reflect a revised COLA rate of 2.41 percent for apportionments, and \$1,496,000 to reflect the revised COLA rate for selected categorical programs, as reflected on the attachment. It is additionally requested that Provisions 7, 9, and 12 be amended to conform to this action.*
3. ***Growth Adjustment for Selected CCC Categorical Programs.*** *It is requested that this item be reduced by \$442,000 Proposition 98 General Fund to reflect a revised statutory growth rate of 1.66 percent for selected categorical programs, as reflected on the attachment. It is additionally requested that Provisions 7, 9, and 12 be amended to conform to this action.*

4. **Local Revenue Adjustment.** It is requested that Item 6870-101-0001 be increased by \$492,572,000 Proposition 98 General Fund to offset a reduced allocation in property tax revenue for community colleges. This adjustment reflects the recent agreement with California's local governments to eliminate their support from the Vehicle License Fee offset, replace those revenues with additional property tax allocations, and hold schools harmless by providing additional General Fund moneys. It is further requested that Item 6870-601-0986 be adjusted to conform to this action.
5. **Student Fee Revenue Adjustment.** *It is requested that this item be increased by \$17,926,000 Proposition 98 General Fund to reflect a reduced estimate of student fee revenues for 2004-05. Updated information from the Chancellor's Office indicates that the CCC system did not utilize growth funding provided in 2003-04, resulting in a lower projected number of students for 2004-05. It is requested that Item 6870-601-0992 also be adjusted to conform to this action.*
6. **Financial Aid Administration Program Adjustment.** *It is requested that this item be increased by \$492,000 Proposition 98 General Fund to reflect an increased estimate of the number of Board of Governor's Fee Waiver recipients. These funds reflect the statutory 2 percent fee offset and the \$0.91 per unit cost associated with administering these waivers. It is additionally requested that Provision 11(a) be amended to conform to this action.*
7. **Foster Parent Training Program Adjustments.** *Expenditures required for enrollment, caseload, and population changes have increased since the release of the January Governor's Budget. Additionally, the mid-year reductions proposed in December 2003 have not been fully enacted and some have eroded due to missed opportunities. These factors necessitate further adjustments to reduce, eliminate, or change the funding source of various programs included in the January Governor's Budget. Accordingly, the Administration is proposing the following reductions:*

*It is therefore requested that Item 6870-101-0959 be deleted in its entirety, Item 6870-102-0959 be added to transfer \$5,383,000 to the General Fund, and Item 6870-486 be added to reappropriate funds in a new non-Budget Act Item, 6870-680-0001. These changes will replace special fund expenditures in 2003-04 and 2004-05 with \$2,383,000 and \$3.0 million, respectively, to be reappropriated from the Proposition 98 Reversion Account for the Foster Parent Training Program. Together with related adjustments proposed for 2003-04, these actions will result in non-Proposition 98 General Fund savings of \$5.4 million while sustaining the same level of funding for this important program.*

*It is therefore requested that Item 6870-102-0959 be added as follows:*

*6870-102-0959 – For transfer by the Controller, upon order of the Director of Finance, from the Foster Parent Training Fund to the General Fund. . . . . (\$5,383,000)*

*Additionally, it is requested that Item 6870-486 be added, as follows:*

*6870-486—Reappropriation (Proposition 98), Board of Governors of the California Community Colleges. The sum of \$5,383,000 is hereby reappropriated on a one-time basis*

from the Proposition 98 Reversion Account, for support of the Foster Parent Training Program. Of this amount, \$2,383,000 shall be for support of the program in the 2003-04 fiscal year, and \$3,000,000 for support of the program in the 2004-05 fiscal year.

8. **Federal Reimbursement Authority Adjustment.** It is requested that this item be amended to reflect a recalculation of the federal matching funds that will be received by the Foster Parent Training Program during 2004-05. The Governor's Budget assumed a greater level of matching funds than will be available according to the federal formulas for the program.
9. **Community College Reversions.** It is requested that Item 6870-495 be added to the Budget Bill to revert a total of \$9.5 million in unexpended balances from various programs from the 2000-01, 2001-02, and 2002-03 fiscal years, as follows:

6870-495 – Reversion, California Community Colleges (Proposition 98). The following amounts shall revert to the Proposition 98 Reversion Account:

- (1) \$3,898,000, or whatever greater or lesser amount represents the balance available, from Item 6870-101-0001 Schedule (10) of Section 2.00 of the Budget Act of 2002 (Ch. 379, Stats. of 2002).
- (2) \$186,000, or whatever greater or lesser amount represents the balance available, from Item 6870-101-0001 Schedule (6) of Section 2.00 of the Budget Act of 2002 (Ch. 379, Stats. of 2002).
- (3) \$129,000, or whatever greater or lesser amount represents the balance available, from Item 6870-101-0001 Schedule (21) of Section 2.00 of the Budget Act of 2002 (Ch. 379, Stats. of 2002).
- (4) \$37,000, or whatever greater or lesser amount represents the balance available, from Item 6870-101-0001 Schedule (11) of Section 2.00 of the Budget Act of 2002 (Ch. 379, Stats. of 2002).
- (5) \$1,023,000, or whatever greater or lesser amount represents the balance available, from Item 6870-101-0001 Schedule (10) of Section 2.00 of the Budget Act of 2001 (Ch. 106, Stats. of 2001).
- (6) \$569,000, or whatever greater or lesser amount represents the balance available, from Item 6870-101-0001 Schedule (6) of Section 2.00 of the Budget Act of 2001 (Ch. 106, Stats. of 2001).
- (7) \$121,000, or whatever greater or lesser amount represents the balance available, from Item 6870-101-0001 Schedule (21.5) of Section 2.00 of the Budget Act of 2001 (Ch. 106, Stats. of 2001).
- (8) \$21,000, or whatever greater or lesser amount represents the balance available, from Item 6870-101-0001 Schedule (11) of Section 2.00 of the Budget Act of 2001 (Ch. 106, Stats. of 2001).

- (9) \$3,000,000, or whatever greater or lesser amount represents the balance available, from Item 6870-101-0001 Schedule (x) of Section 2.00 of the Budget Act of 2000 (Ch. 52, Stats. of 2000).
- (10) \$3,000,000, or whatever greater or lesser amount represents the balance available, from Item 6870-101-0001 Schedule (x) of Section 2.00 of the Budget Act of 2000 (Ch. 52, Stats. of 2000).

**Current Year Changes**

**Local Assistance**

1. **Foster Parent Training Program Adjustment.** As noted above, a combination of factors have resulted in the need to achieve greater General Fund savings. It is therefore requested that the Budget Act of 2003 be amended by deleting Item 6870-101-0959 in its entirety, through trailer bill legislation in the 2004 legislative session. Together with the actions requested in Issue 117, above, for the 2004-05 fiscal year, these adjustments will result in non-Proposition 98 General Fund savings without harming the program in the current year.
2. **Scheduled Maintenance/Special Repairs/Instructional Equipment and Library Materials Replacement One-Time Adjustment.** It is requested that this new non-Budget Act item be created in the amount of \$28,376,000 on a one-time basis to appropriate funds, for the purposes of the Scheduled Maintenance, Special Repairs, Instructional Equipment, and Library Materials Block Grant pursuant to trailer bill legislation in the 2004 legislative session. These Proposition 98 General Fund resources are available on a one-time basis due to an increase in the 2003-04 Proposition 98 minimum guarantee.

## ISSUE 5: CATEGORICAL REFORM

The issue for the Subcommittee to consider is the Governor's proposed categorical reform.

### BACKGROUND

The Governor's budget proposal would restructure the funding for a number of categorical programs.

<b>Governor's Categorical Reform Proposal</b>		
<b>Program Consolidations</b>	<b>2003-04</b>	<b>2004-05</b>
General Apportionments		
Base general apportionments	\$1,589.1	\$1,589.1
Partnership for Excellence	225.0	
Matriculation	54.3	
Part-time faculty compensation	50.8	— 350.8
Part-time faculty office hours	7.2	
Part-time faculty health insurance	1.0	
TTIP <sup>b</sup>	12.5	
<b>Totals</b>	<b>\$1,939.9</b>	<b>\$1,939.9</b>
Telecommunication and Technology Services		
TTIP <sup>b</sup>	\$9.6	— 10.9
California Virtual University	1.3	
<b>Totals</b>	<b>\$10.9</b>	<b>\$10.9</b>
Targeted Student Services		
Extended Opportunity Programs and Services	\$94.9	— 101.1
Fund for Student Success	6.2	
<b>Totals</b>	<b>\$101.1</b>	<b>\$101.1</b>
Physical Plant and Institutional Support		
Maintenance, repairs, equipment, and library materials	\$24.9	— 29.3
Hazardous substances	4.4	
<b>Totals</b>	<b>\$29.3</b>	<b>\$29.3</b>
<b>Program Deletions</b>		
Teacher and Reading Development Program	\$3.7	—
Fund for Instructional Improvement	0.3	—
<b>Program Additions</b>		
Special growth allocation for noncredit instruction	—	\$4

<sup>a</sup> Includes costs whose payments are deferred to subsequent fiscal year.  
<sup>b</sup> Telecommunications and Technology Infrastructure Program.. Current-year funding of \$22.1 million is split in budget year between general apportionments and new Telecommunication and Technology Services category.

**CATEGORICAL PROPOSALS:**

1. Shifting the funding of five and a half-categorical programs into base apportionment. These programs include the Partnership for Excellence, Matriculation, and the Part-Time Faculty Health Insurance, Compensation and Office Hours and part of the Telecommunications and Technology Infrastructure Program.
2. Grouping of five and a half other categorical programs into three larger items in the budget display. These programs include the Extended Opportunity Program and Services, Fund for Students, California Virtual University, Maintenance, repairs, equipment and library materials and hazardous substances and part of the Telecommunications and Technology Infrastructure Program.
3. Eliminating two small programs, the Teacher and Reading Development Partnership and the Fund for Instructional Improvement.

**COMMENTS**LAO recommendations:

- Delete provisional language specifying funding levels for the combined categorical programs since it defeats the purpose of consolidating them.
- Include accountability measures to ensure that districts address specific priorities.

CCC's concern:

The CCC budget request for 2004-05 proposed consolidating the Partnership for Excellence funds into the general apportionment. This statute was based on the fact that the statute for the program is scheduled to sunset in 2004-05 and that these funds are general purpose funds already. This proposal is also justified as a way of simplifying local district reporting requirements.

The Governor's proposal to consolidate Matriculation, the Part-Time Faculty Compensation, Office Hours and Health Insurance and a portion of the Telecommunications Technology Infrastructure Program (TTIF) raise potential concerns that do not exist in the case of the Partnership for Excellence funds. The main concern is how the CCC system would continue to assure that the program objectives, desired by the Legislature and the system, are met if the funding is consolidated into general apportionment.

Budget staff notes that although these programs would give districts greater fiscal and program flexibility, the subcommittee may want to consider whether districts would continue to use state funds to address the Legislature's priorities and whether the Governor's proposed accountability measures are adequate provisions.

The LAO notes in their analysis that although categorical programs are designed to address situations where local incentives lead districts to under-invest in a particular input that the state views as critical to the educational process, the drawback to this approach can be a lack of local flexibility. There can be situations where districts identify ways to provide more or better services for their students, but categorical restrictions prevent districts from implementing them. In regards to the accountability provisions, language in the Governor's budget proposal would require that districts receiving these consolidated funds agree to two conditions: (1) that they will "assure that courses related to student needs for transfer, basic skills, and vocational and workforce training are provided to the maximum extent possible within budgeted funds" and (2) that they will "make annual increases in the number of transfer ready and transfer students, the number of degrees and certificates awarded, rates of successful course completion, and workforce development and basic skills improvement."

In addition, proposed trailer bill language would prohibit districts that accept the consolidated funds from using them to fund the concurrent enrollment of K-12 students in physical education, dance, recreation, study skills, and personal development courses.

**ISSUE 6: NON-CREDIT FUNDING**

The issue for the Subcommittee to consider is the Governor's proposed \$4 million in additional funding for noncredit students.

**BACKGROUND**

In addition to the 3 percent enrollment growth funding, the budget proposal includes an additional \$4 million to serve an additional 1,900 FTE students specifically in noncredit courses. This additional noncredit funding would be available only to districts that do not receive any of the \$59.8 million in equalization funding that the budget provides for CCC.

When the two growth funding amounts are combined, the Governor's budget provides for overall growth of 3.2 percent. Because \$4 million is earmarked for noncredit instruction, noncredit enrollment is projected to grow by at least 5 percent from the current-year level.

**COMMENTS**LAO recommendations:

Reject the \$4 million augmentation for the following reasons:

- By creating a categorical program for the entire noncredit programs administered by districts, the administration appears to work against its proposal to remove categorical boundaries in order to provide greater flexibility for districts in allocating their funding across programs.
- The Governor's proposal states that the special noncredit funding would be available only to districts that did not benefit from equalization. Since equalization funding goes to districts whose level of funding per credit FTE student is lower than a specified target, the districts that would be eligible for the special noncredit growth allocation would be those whose funding per FTE student is above that level.

**ITEM 6440            UNIVERSITY OF CALIFORNIA**  
**ITEM 6610            CALIFORNIA STATE UNIVERSITY**  
**ITEM 6870            CALIFORNIA COMMUNITY COLLEGES**  
**INTERSEGMENTAL ISSUES**

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**ISSUE 1: ENROLLMENT GROWTH**

The issue for the Subcommittee to consider is the Governor's enrollment funding proposals.

**BACKGROUND**

**Governor's Proposed Budget:** As part of the 2003-04 budget package, the Legislature expressed its intent to provide no new funding for enrollment growth at the University of California (UC) and the California State University (CSU) in 2004-05. In keeping with that intent, the Governor's budget proposal includes no new enrollment growth funding. In fact, the Governor proposes to reduce new freshman enrollment at UC and CSU by 10 percent, with the foregone enrollment being redirected to the California Community Colleges (CCC) under a new dual admissions program.

This would result in a \$45.9 million General Fund reduction from the UC and CSU enrollment growth funding as follows:

**UC Enrollment Funding:** \$24.8 million reduction to UC for a 1.6 percent overall enrollment decline, which is 3,200 full-time equivalent (FTE) students below current-year budgeted enrollment.

**CSU Enrollment Funding:** \$21.1 million reduction to CSU for a 1.1 percent overall enrollment decline, which is roughly 3,800 FTE students below current-year budgeted enrollment.

**CCC Enrollment Funding:** In contrast to the Governor's proposal for the UC and CSU, the budget actually *increases* funded enrollment at CCC by 3 percent, which is considerably higher than the statutory growth rate of 1.8 percent. The budget requests \$121 million in Proposition 98 funds for the community colleges to serve an additional 33,120 FTE students above the current-year budgeted level. This increase is partly in recognition of the enrollment that is expected to be diverted from UC and CSU to the community colleges.

The Governor's proposal also includes a \$3.5 million in General Fund support—\$1.6 million for UC and \$1.9 million CSU—to provide counseling services to students participating in the new dual admissions program. Under this program, students who are eligible to attend UC or CSU directly from high school would be admitted to a specific campus provided they first complete a transfer program at a community college.

**COMMENTS:**

**CPEC Estimates:** Enrollment growth for the 2004-05 academic year was estimated to be about 5,000 additional FTE students at the UC and approximately 13,000 additional FTE students at the CSU. The General Fund savings associated with not funding the estimated enrollment growth at UC is approximately \$40 million and approximately \$80 million at CSU.

Budget staff notes that it has been a priority for the Legislature to provide the segments with adequate enrollment growth funding so that they can continue to admit all eligible students as called for in the Master Plan for Higher Education. Providing the segments with no enrollment funding and instead reducing the number of new freshman enrollment by 10 percent has the potential to further raise admissions standards at both UC and CSU as the campuses manage their enrollment. Although it is not clear how the redirection process will be implemented, it is highly probable that the most disadvantaged students would be denied access and be redirected to the community colleges. The combined impact of these actions would be to deny access to over 7,000 eligible students.

LAO Position:

**Enrollment Growth.** The segments can accommodate additional eligible students without increased funding for enrollment growth because the 2003-04 Budget Act funded the UC and CSU at higher enrollment growth rates of 6.9 percent and 7.1 percent respectively. However, the UC and CSU chose to redirect enrollment growth funding to backfill budget reductions in other program areas.

The LAO believes that the segments should be transparent on how the segments spend these funds. The Legislature should know where enrollment funds go and if the use of these funds is in line with the Legislature's priorities.

**Dual Admissions Program.** Under the proposed new dual admissions program, students who are eligible to attend UC or CSU directly from high school would be admitted to a specific campus provided they first complete a transfer program at a community college. The Governor's budget requests a total of \$3.5 million in General Fund support-\$1.6 for UC and \$1.9 for CSU-to provide counseling services to students participating in the new program.

The LAO's concerns with this proposal are the following:

- 1) Rather than redirecting *all* eligible students who are denied admission, students should be encouraged to participate in this program on a *voluntary basis* since some students may be inclined to attend a community college for their lower division coursework due to the lower costs.
- 2) Waiving fees for the redirected students is not an efficient and effective incentive since CCC's fees are already lower than UC and CSU. In addition, all of the redirected students who demonstrate financial need will not have to pay any fees under the Board of Governor's Fee Waiver Program.
- 3) The Governor's proposal gives no indication as to how the UC and CSU will implement this program. The Legislature may want to request more information as to how the segments will choose the students to be redirected, what criteria will be used and how students are allocated to a particular campus.

Budget staff also notes that it is important to find out if the CCC are equipped to handle the influx of redirected students and if they will have available transfer courses needed for students to transfer to the UC and CSU in a timely fashion.

## ISSUE 2: STUDENT FEES

The issue for the Subcommittee to consider is the Governor's student fee proposals at the University of California (UC), California State University (CSU) and the California Community Colleges (CCC).

### BACKGROUND:

The Governor's budget includes numerous proposals relating to student fees.

#### MAY REVISE UNDERGRADUATE AND GRADUATE FEES AT THE UC AND CSU

The Governor's fee proposal for the UC and CSU include the following:

- A 14 % increase for undergraduate fees reducing the General Fund support for UC by \$62.9 million and for CSU by \$47.4 million.
- A 20% increase for graduate fees reducing the General Fund support for UC by \$57.7 million. For the CSU, the Governor's May Revise proposes a 20 percent fee increase for teacher preparation graduate students and 25 percent for other graduate students. This is a General Fund reduction of \$37.9 million.
- A 20% increase for nonresident student fees reducing the General Fund support for UC by \$32.6 million and for CSU by \$16.2 million.

All of these fee proposals would generate the revenue to offset the \$195.8 million of proposed unallocated reductions at UC and \$101.5 million at CSU.

The table below summarizes the undergraduate and graduate fee increases at the UC and CSU in the last three years as well as the proposals for the budget year.

Proposed UC and CSU Systemwide Fees <sup>a</sup>						
	2001-02	2002-03 <sup>b</sup>	2003-04	2004-05 Proposed	Change From 2003-04	
					Amount	Percent
<b>UC</b>						
Undergraduates	\$3,429	\$3,834	\$4,984	\$5,482	\$498	10%
Graduates	\$3,609	\$4,014	\$5,219	\$7,305	\$2,088	40%
<b>CSU</b>						
Undergraduates	\$1,428	\$1,572	\$2,046	\$2,250	\$204	10%
Graduates	\$1,506	\$1,734	\$2,256	\$3,156	\$900	40%

<sup>a</sup> For UC amounts include educational fee and registration fee. For CSU amounts include systemwide fee. Students also pay campus-based fees.

<sup>b</sup> Fee that would result if spring 2003 increases were applied to all quarters/semesters of the academic year.

**PROFESSIONAL SCHOOLS FEE INCREASE**

The Governor's budget proposes to reduce total General Fund support for professional schools by 25 percent. This reduction would apply to all UC professional schools (except nursing) and Hastings College of the Law. The Governor's budget assumes \$42.6 million in General Fund savings associated with UC's professional schools and \$3 million in savings associated with Hastings. The Governor's budget assumes that UC and Hastings would increase student fees to offset these General Fund reductions.

The UC and Hastings are in the process of determining the fee levels needed to offset the proposed 25% subsidy reduction. The UC has suggested that professional student fees would likely be raised by between \$4,000 and \$7,000 for each professional program (except nursing, for which student fees would remain at the 2003-04 level). Hastings proposed to increase student fees by approximately \$4,200 for resident students and \$6,300 for nonresident students.

**CCC FEES**

The Governor proposes that CCC student fees be increased from \$18 per unit to \$26 per unit. This represents an increase of \$8 per unit, or 44 percent. For a student taking the average full-time load of 24 units per year, this would translate into an additional \$192 for the academic year. Total student fees for the average full-time load under the Governor's proposal would be \$624.

The Governor proposes a different fee for students who already possess a baccalaureate degree. These students would pay \$50 per unit (rather than \$26 per unit) under the Governor's proposal. The higher fee causes the state's subsidy for these students to be reduced, thus permitting CCC resources to be focused on students who have not yet earned a baccalaureate degree.

The budget assumes that the base fee increase and the surcharge for baccalaureate holders together will generate about \$91 million in new student fee revenue. This revenue would facilitate General Fund savings of the same amount.

**EXCESS UNIT FEE**

The Governor's January 10<sup>th</sup> budget proposed to establish a per-unit surcharge for undergraduate students at UC and CSU who enroll in considerably more classes than required to obtain a baccalaureate degree. Specifically, for each unit taken beyond 110 percent of the units required to obtain a baccalaureate degree, students would be charged the full cost of instruction. For most programs, the cap would be set at 198-quarter units and 132-semester units. The Governor's budget includes associated General Fund reductions of \$9.3 million and \$24.4 million for UC and CSU, respectively.

The May Revise is proposing an augmentation of \$8.2 million for the UC associated with a recalculation of the expected revenues. The UC provided information to DOF that they can only generate \$1.1 million.

## PROPOSED FEE POLICY

In addition to these budget-year proposals, the administration proposes to establish a long-term undergraduate and graduate fee policy for UC and CSU. The policy would not apply to CCC or professional schools. The administration's policy consists of two major components.

- **Modest and Predictable Annual Adjustments.** Undergraduate and graduate fees at UC and CSU would increase annually. Typically, fees would increase by the change in per capita personal income, but the policy would allow for increases of as much as 10 percent.
- **Differential Rates for Undergraduates and Graduates.** Graduate fees would be pegged at 150 percent of undergraduate fees and would be allowed to increase more quickly than undergraduate fees over the next several years until this target was met. (That is, over the near term, graduate fees would not be subject to the 10 percent cap.) Once the target has been reached, graduate and undergraduate fees would be adjusted annually by the same rate (change in per capita income) and both would be subject to the 10 percent cap.

## COMMENTS:

### STUDENT FEES

#### LAO Recommendations:

- Approve the proposed 10% increase in undergraduate fees but reduce the proposed 40% increase for graduate students to 30%.
- Reject the proposed 20% increase for nonresident undergraduates since they are already paying more than their full education costs, but approve the proposed increase for nonresident graduate students since they are paying less than their full education costs.

#### UC'S CONCERNS:

- Department of Finance numbers on the estimate of fund revenue generated is wrong. (UC and DOF are working on this issue)
- The proposed fee increases are too high considering that the fees have increased significantly in the last three years.
- The Regents have yet to make a decision on the fee increases they will adopt but will most likely reject the proposed 40% fee increase for graduate students and increase the proposed undergraduate fee by more than 10%.
- The UC may lose nonresident students due to the proposed 20% fee increase. The campuses are already experiencing a reduction in nonresident applications. It is doubtful whether the system will generate the revenue estimated in the proposed budget.

**CSU's Concerns:**

- The Board of Trustees has yet to decide on the fee increases that they will adopt. However, the Board has indicated that they will keep the 40% for graduate students but will lower this proposed fee increase to 25% for students in certificate programs.

**PROFESSIONAL SCHOOLS FEE INCREASES:**

**LAO Recommendation:**

- Approve the Governor's proposed 25% reduction since the UC can accommodate it by increasing resident and nonresident charges each by 25%. This increase is comparable to the 30% increase they are recommending for graduate students at the UC and CSU.

**UC's Concerns:**

- The UC believes the higher fees may drive prospective students to private institutions or institutions out-of-state.
- The UC is currently working on its own proposal but it may not generate as much revenue as proposed by the Governor.
- The Governor's proposal does not include financial aid.
- The nonresident fees in the UC's professional schools are the highest in the country.

**CCC FEES**

**LAO Recommendations:**

- Approve the \$8 per unit increase (from \$18 to \$26 per unit) since the current fee is the lowest in the nation.
- Approve the \$50 per unit for students that already hold a bachelor's degree. When resources are limited, it is best to target higher education subsidies where they are needed the most.

Budget staff notes that many of these students may be enrolled in CCC due to changing careers, training to advance in their current jobs or training for a new career after being unemployed for a period of time.

**CPEC's Recommendation:**

Reject the Governor's differential fee and approve a 10% student fee increase (raising the per unit fee charge from \$18 to \$20) consistent with the fee increases proposed for the UC and CSU.

**EXCESS UNIT FEES****CPEC:**

The Assembly Higher Education Committee asked the Commission to develop a comprehensive analysis of this policy proposal and to complete that analysis by no later than May 1, 2004. Members may want to ask the Commission to present them with their findings.

**LAO Recommendation:**

- Approve policy charging full costs for excess units generating the \$33.7 million in General Fund savings.
- Require the UC and CSU to report to the Legislature regarding the actual implementation of the surcharge during next year's budget hearings.

**UC/CSU Concerns:**

- It is unclear how the segments are supposed to implement the surcharge.
- It hasn't been determined which students will be subjected to the surcharge.
- The segments don't believe they will be able to generate the revenues estimated in the proposal.

**PROPOSED FEE POLICY****LAO's Recommendation:**

Adopt a long-term fee policy for all the segments that would set fees at a fixed percentage of students' total education costs.

**CPEC's Recommendations:**

- Adopt a long-term fee policy consistent with their fee policy recommendations issued in December 2002.
- Student fee increases be limited to no more than 10% in any given academic year.
- Adequate financial aid must be provided with any fee increase to assist financially needy students.

The Governor's fee policy proposal is contained in Senate Bill 1535 (Karnette). This bill would link student fee increases to changes in per capita personal income with an overlap cap of a 10 percent increase in any given year. Graduate fees would be increased at a level deemed appropriate by UC and CSU governing boards until the fee level reaches a point that is 50 percent higher than the level of undergraduate fees. Then, both undergraduate and graduate fees would increase at the same rate. SB 1535 is scheduled to be heard in Senate Education Committee on April 22.

The previous fee policy expired in 1996 and the Legislature has not taken any action to establish a new policy since then.

**ISSUE 3: FINANCIAL AID**

The issue for the Subcommittee to consider is the Governor's financial aid proposals.

**BACKGROUND:**

The Governor's budget includes several financial aid proposals relating to the statewide Cal Grant program as well as the UC and the CSU institutional aid programs.

***January 10<sup>th</sup> Cal Grant Proposals***

The Governor's budget includes four Cal Grant proposals.

- It funds an increase of \$48.4 million in the total number of Cal Grant awards to be issued in 2004-05.
- It reduces the Cal Grant income ceilings by 10% reducing General Fund support by \$11.2 million. This proposal would reduce the number of new students who would qualify for the Cal Grant Entitlement program by 4,450 and it reduces the Competitive program pool by 19,000.
- It reduces the Cal Grant for private university students by 44% reducing General Fund support by \$32.7 million. This proposal would reduce the maximum award from its current-year level of \$9,708 to \$5,482 and it would affect 9,700 new Entitlement and Competitive recipients.
- Because the Governor's budget proposes to increase the systemwide student fee at UC and CSU by 10 percent, Cal Grants for UC and CSU students would, for the first time in many years, be "decoupled" from the full systemwide fee. Whereas the income ceiling proposal and private university grant proposal would affect only new award cohorts, the public university grant proposal would affect both new and renewal cohorts.

***Institutional Aid Proposals.*** The Governor's budget assumes further increases in student fees, but in a departure from previous practice, the Governor proposes to reduce from 33% to 20% the set-aside taken from the increase in student fees for institutional financial aid. Despite this reduction, the UC's institutional aid budget would increase by \$38.3 million totaling \$391.1 million. The CSU's institutional aid budget would increase by \$26.4 million totaling \$217.5 million.

***May Revise***

The Governor restores \$34.2 million rescinding his proposal to decouple student fees from financial aid. However, he retains his proposals to reduce the Cal Grant income ceilings by 10 percent and adds a new proposal to reduce the number of Competitive Cal Grant awards by 25 percent reducing the General Fund support by \$5.4 million.

**COMMENTS:**

LAO POSITION:

- 1) There has been a trend to overestimate the number of new entitlement awards since the inception of the program. Instead of reverting overfunded Cal Grant costs each year, the Legislature should adopt more realistic growth projections.
- 2) In regards to the proposed reduction in the Cal Grant income ceilings, the LAO recommends that the Legislature adheres to existing statutory policy for annually adjusting these ceilings.
- 3) Rather than reducing the maximum Cal Grant for financially needy students attending private universities, the LAO recommends providing these students a subsidy equivalent to that provided to needy students at public universities.
- 4) Rather than augmenting the undergraduate institutional aid programs at UC and CSU, the LAO recommends that the Legislature use the \$32.2 million augmentation to sustain existing Cal Grant entitlement benefits.

Budget staff once again notes that reducing the Cal Grant income ceilings by 10% will impact the neediest students from low-income households. Of particular concern to budget staff is the reduction in the Cal Grant B program because the program's income ceilings are intended to identify the students with the highest financial need.

**ISSUE 4: OUTREACH PROGRAMS**

The issue for the Subcommittee to consider is the Governor's proposed elimination of K-12 academic outreach programs at the University of California (UC) and the California State University (CSU).

**BACKGROUND:**

The state maintains over 35 different K-14 outreach programs that focus on preparing students from disadvantaged backgrounds for college. The *2003-04 Budget Act* included \$233.3 million for such programs. This amount consists of \$94.2 million from the General Fund (non-Proposition 98), \$50.7 million in Proposition 98 funds, and \$88.4 million in federal and other funds. Of the over 35 programs, the University of California (UC) administers 23 programs and the California State University (CSU) administers 5 programs. The California Community Colleges (CCC), Student Aid Commission, and the State Department of Education (SDE) administer the remaining programs.

**Current-Year Proposal.** For 2003-04, the Governor proposes to reduce General Fund support for outreach by \$12.2 million (or 38 percent) at UC and \$12.5 million (or 24 percent) at CSU. The Governor has proposed to make these reductions pursuant to Section 27.00 of the *2003-04 Budget Act*. Under the Governor's proposal, the segments would have full discretion in allocating the reductions across their various programs.

**Budget-Year Proposal.** For 2004-05, the Governor's budget expands the proposed mid-year reductions to UC and CSU outreach programs. Specifically, the budget reduces outreach funding for UC by an additional \$21.1 million (for a total of \$33.3 million over the two-year period) and for CSU by an additional \$39.5 million (for a total of \$52 million over the two-year period). These actions would eliminate all General Fund support for UC and CSU outreach programs, including EOP financial aid grants at CSU.

The Governor's budget for 2004-05 also eliminates funding for the Academic Improvement and Achievement Act, which is an outreach program administered by SDE. This reduction would result in General Fund (Proposition 98) savings of \$5 million. The proposed budget also reduces outreach funding for CCC by \$1 million (Proposition 98), but does not propose any outreach funding adjustments for the Student Aid Commission.

**COMMENTS:**

Budget staff notes that the University's K-12 outreach budget has suffered significant reductions over the past several years, including a \$5.0 million redirect in 2001-02 from school university partnership efforts (long-term efforts) and a \$2.0 million vetoed by the Governor that same year. In the 2002-03 budget process, the Governor proposed further reducing UC outreach programs by over \$33 million or over 50%. The Legislature has consistently rejected all proposed reductions to these programs due to the Legislature's priority to continue to make the state's higher education institutions accessible to all students.

**LAO Recommendation:**

Although the LAO agrees that outreach programs ensure continued access to higher education, the Analyst believes that the state should revisit and assess the overall outreach strategy.

The LAO is recommending the following:

1. College Preparation Block Grant targeted at K-12 schools with very low college participation rates.
2. Preserve selected outreach programs at UC and CSU by redirecting funds proposed by the Governor for the redirection counseling services under the dual admissions program.

Budget staff notes that in making their recommendations, the Analyst revisits many of their recommendations from the last two years including their suggestion to consolidate existing programs to reduce inefficiencies and administrative overlap. In addition, staff understands that SDE was not approached to get their input or feedback on this recommendation.

In the analysis, the LAO proposes that school districts have the flexibility to use outreach funds and select a service delivery model that best meets the needs of the students whether this is accomplished by developing their own programs or contracting with UC, CSU or another provider. As a condition of receiving funds through the block grant, the LAO proposes requiring school districts to submit a plan to SDE specifying the types of outreach services that will be provided and how these services will accomplish measurable objectives. Given K-12's commitment to many other state funded programs, it may not be feasible for school districts to take on another state program and establish a new process for delivering outreach services to students.

To preserve the selected outreach programs at the UC and CSU, the LAO is proposing to use \$30 million out of the \$37 million total provided in the *2003-04 Budget Act* for CCC's financial aid outreach.