

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

Assemblymember S. Joseph Simitian, Chair

WEDNESDAY, APRIL 9, 2003
STATE CAPITOL, ROOM 126
4:00 P.M.

REGULAR BUSINESS

ITEM **DESCRIPTION**
OUTSTANDING COMMITMENTS (HANDOUT GIVEN AT HEARING)

ITEMS TO BE HEARD

ITEM	DESCRIPTION	PAGE
6440	UNIVERSITY OF CALIFORNIA	2
Issue 1	Major Budget Adjustments	2
Issue 2	UC Merced	6
Issue 3	K-12 Outreach Programs	8
Issue 4	UC Riverside/UC Los Angeles Thomas Haider Program in Biomedical Sciences	10
6610	CALIFORNIA STATE UNIVERSITY	12
Issue 1	Major Budget Adjustments	12
Issue 2	General Fund Carryover	15
Issue 3	K-12 Outreach Programs	18
Issue 4	Legislative, Executive and Judicial Fellows Program	20
6440	UNIVERSITY OF CALIFORNIA/CALIFORNIA STATE	21
6610	UNIVERSITY CROSS CUTTING ISSUES	
Issue 1	Enrollment Growth Funding	21
Issue 2	Institutional Financial Aid	22
Issue 3	Student Fees	24

ITEMS TO BE HEARD

6440 UNIVERSITY OF CALIFORNIA

ISSUE 1: MAJOR BUDGET ADJUSTMENTS

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

BACKGROUND:

The University of California (UC) includes eight general campuses and one health science campus. The university is developing a tenth campus in Merced. The budget proposes General Fund spending of \$3 billion in 2003-04, a decrease of \$134 million, or 4.2 percent, from estimated expenditures in the current year. The Governor's current-year estimate assumes passage of his mid-year reduction proposals, which would reduce current-year spending for UC by \$74 million.

The table below summarizes the various changes proposed in UC's budget. Major augmentations in 2003-04 include \$117 million for enrollment growth, \$24.4 million for lease revenue costs, \$16.1 million for increased costs of annuitant health and dental benefits, and \$11.3 million for the planned UC Merced campus. The budget also proposes General Fund base reductions of \$299 million in 2003-04. Of this amount, \$195 million is unallocated and \$89 million reflects the budget year expansion of allocated reductions proposed in the December revision. In addition, the budget proposes a reduction of \$15 million for the California Subject Matter Projects (SMP).

The budget assumes student fee increases will result in about \$130 million of additional revenue that will be available to offset the unallocated General Fund reductions. As a result, the remaining unallocated reduction would be about \$65 million.

University of California Governor's Budget Proposals	
(In Millions)	
	General Fund
2002-03 Budget Act	\$3,223.9
December Revision Reductions	-\$74.3
Baseline Funding Adjustments	
Public Employees' Retirement System rate adjustment	\$0.1
Unexpended balance lease revenue, estimated savings	-3.0
2002-03 Revised Budget	\$3,146.7
Reduction of one-time expenditures in 2002-03	-\$6.6
Proposed Increases	
Enrollment growth (6.9 percent)	\$117.2
Lease revenue bond payments	24.4
Increased costs of annuitant health and dental benefits	16.1
Support for Merced campus	11.3

Subtotal	(\$169.0)
Proposed Reductions	
Unallocated base reduction	-\$194.9
Expansion of December revision reductions	-89.2
Reduce funding for the Subject Matter Projects	-15.0
Subtotal	(-\$299.1)
2003-04 Proposed Budget	\$3,013.0
Change From 2002-03 Revised Budget	
Amount	-\$133.7
Percent	-4.2%

- **Enrollment Growth of 6.9 Percent.** The budget provides UC with \$117 million to increase its budgeted enrollment by 13,000, or 6.9 percent, additional full-time equivalent (FTE) students in 2003-04. This would bring UC's budgeted enrollment to 202,628 FTE students.
- **Student Fee Increases.** The budget assumes further increases in resident student fees, professional school fees, and nonresident tuition in the budget year. Although the Governor's budget assumes these further increases, UC student fees are established by the UC Regents. These increases, excluding nonresident tuition, are expected to provide an additional \$130 million in student fee revenue that would be available to partially offset the proposed \$195 million unallocated reduction in UC's General Fund support.
- **Continuation of the Governor's December Revision.** The following table summarizes the Governor's proposed December revisions and highlights the increased reductions in the budget year proposed by the Governor in specified areas:

University of California Governor's Proposed December Revision		
(In Millions)		
General Fund Reductions	2002-03	2003-04
Academic and institutional support	\$20.0	\$36.5
Student services	6.3	25.3
Outreach programs	3.3	33.3
Public service programs	2.5	15.0
Digital California Project (K-12 Internet Initiative)	1.1	1.1
Unallocated	19.0	19.0
Research ^a	18.0	28.8
Advanced Placement On-Line Project ^a	4.0	4.4
Totals^b	\$74.3	\$163.5

^a The 2002-03 December revision identifies this amount as prior-year savings associated with the reversion of unused funds. Programs would be funded in 2002-03 using prior-year savings. Program services will be reduced in 2003-04.

^b Detail may not add due to rounding.

COMMENTS:

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

- **Continuation of the Governor's December Revision.** Budget staff notes that the Subcommittee and the Legislature, as a whole, rejected the Governor's proposed \$3.3 million reduction to K-12 outreach programs in the current year. These programs have been substantially reduced in the last two years.
- **Unallocated Reductions.** Some concern has been raised with allowing departments full discretion to implement undesignated cuts without Legislative oversight. As a result, Budget staff has continually recommended that the Legislature requested detailed information from departments and agencies on how they plan to implement any proposed undesignated reductions. Budget staff notes that to the extent that the Legislature allows departments and agencies 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.

Legislative Analyst Recommendation. In her analysis of the Governor's proposed 2003-04 budget, the Legislative Analyst suggests that the Legislature could direct the University of California to temporarily increase its student-faculty ratio (SFR) in order to minimize any potentially negative impact on instruction due to unallocated reductions. The university has some flexibility in how it chooses to increase its SFR—it could increase class size or it could redistribute faculty workload. The UC's current budgeted SFR is 18.7 to 1.

An increase in UC's SFR would allow UC to serve more students with fewer faculty. The UC would experience savings because it would not need to hire as many new faculty as it would at a lower SFR. The Analyst notes that UC has some flexibility in how it would accommodate a higher SFR. For example, the university could increase average class size, thus serving more students with the same number of faculty. Alternatively, UC could increase the portion of faculty time that is dedicated to teaching (rather than other activities, such as research, administration, or public service). The university indicates that in 1999-00, the average teaching load (undergraduate and graduate students) for regular-rank FTE faculty was 4.9 classes per year—less than two courses per quarter. Increasing the average teaching load of existing faculty above 4.9 classes per year would allow the university to offer more classes to students without hiring additional faculty, thus achieving savings in the budget year. This would not require an increase in faculty's overall workload. Instead, it would shift current workload to teaching from other activities

Budget Staff notes that while the Analyst suggests increasing the student-faculty ratio a way for UC to minimize the impact of the unallocated reductions, increasing the student-faculty ratio could also be used as a cost savings measure by the Legislature if the budget situation appears worse than currently predicted. Likewise, there are several other cost saving measures that the Legislature may wish to employ that would minimize the impact to students and quality at the University including reducing general fund supported research and further reductions to administration. Staff further notes that the Governor proposes to increase the student-faculty ratio at the CSU, in addition to an \$83 million unallocated reduction to the segment as part of a cost savings strategy while maintaining that he is trying to keep reductions as far away from the classroom as possible.

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

ISSUE 2: UC MERCED

The issue for the Subcommittee to consider is the Governor's proposed \$11.3 million in one-time funds for expenses associated with the opening of UC Merced.

BACKGROUND:

The Governor's budget requests an \$11.3 million augmentation to expand funding for the planned UC campus in Merced. This is in addition to \$10 million in "base" funding, bringing total budget-year General Fund support for the campus to \$21.3 million. Proposed budget bill language specifies that funding is for planning and startup costs associated with academic programs and ongoing support for the unopened campus, including academic planning activities, faculty recruitment, and ongoing support for faculty and staff. An additional \$16.6 million in bond funds is proposed for capital outlay expenditures at the campus.

Funding History. The University first received ongoing funds for Merced in 1997-98 totaling \$4.9 million. The total was increased to approximately \$9.9 million in 1998-99, which is where the total for the ongoing permanent budget has remained. The University has asserted that this total is consistent with early estimates of funds needed annually to operate the campus. As University developed the campus, they had fewer expenses in the earlier years, so they were permitted to save the unspent funds from earlier years to help fund the added costs that come with the ramp-up that needs to occur closer to the opening of the campus. When the opening date for the campus was accelerated to 2004-05, a year earlier than originally planned the University's ramp-up costs also grew. They have one-time needs associated with recruitment and start-up costs for faculty and staff who are needed to be in place and developing programs and curriculum before students begin enrolling. While enrollment funding will eventually support these costs, until students begin enrolling and sufficient funding is provided through normal workload funding for the campus, the State has provided one-time funds to help with these costs. In 2001-02, the State provided \$2 million in one-time funds for this purpose. Again in 2002-03, the State provided \$4 million in one-time funds for this purpose and the Governor's Budget is proposing \$11.3 million in 2003-04 as one-time funds for this purpose. Budget staff notes that in addition to approximately \$21.3 million specified in the budget bill, UC is planning to internally redirect \$5 million in 2003-04 for the campus.

Reporting Requirements. Supplemental report language from the *1998-99 Budget Act* requires UC to submit annual reports on expenditures for the Merced campus, including actual expenditures for the past year and budgeted expenditures for the current and budget year. These reports are due by February 15 each year until the campus opens. The campus is currently scheduled to open in 2004-05.

COMMENTS:

Legislative Analyst's Recommendation. In her analysis of the Governor's proposed 2003-04 budget, the Legislative Analyst withholds recommendation on \$11.3 million in additional General Fund support requested for the UC Merced, pending their review of an expenditure plan for the campus to be submitted in mid-February. In addition, the Analyst asserts that there is little detail that has been provided on the proposed use of the \$11.3 million.

- **Expenditure Plan Requested.** The university indicates it will hire 15 faculty by the end of 2002-03 using funds provided by the state in the current and prior years. The UC plans to hire an additional 20 faculty in the budget year and 25 in 2004-05 (for a total of 60 faculty by the time of the planned opening in fall 2004). The Analyst notes that other than stating its intent to hire faculty, the university has provided little detail on expenditures in the budget year. Without an expenditure plan, the Legislature cannot determine the degree to which additional funds are necessary in the budget year. Neither can the Legislature evaluate how this proposal compares with other priorities in higher education and elsewhere. As a result, the Analyst has withheld a recommendation on the \$11.3 million proposed augmentation for the Merced campus until we receive and review the campus expenditure plan.

Now that the University's report on UC Merced has been submitted to the Legislature, the Analyst will present her findings and recommendations at the hearing. The Analyst will explain that a review of the University's expenditure plan suggests that the budget numbers and assumptions for the support side of the campus are reasonable if the campus is to open in fall 2004. The key issue for the Legislature is one of priorities given the severity of the state's fiscal situation. Should the state and UC spend approximately \$27 million in the budget year for a campus that is not serving any students in the budget year and that will only serve approximately 1,000 students when it opens in Fall 2004?

Budget staff notes that the opening of UC Merced has been a high priority for the Governor and the Legislature has approved all prior-funding requests associated with the opening of the campus. The Analyst suggest that if the Legislature approves the Governor's proposed augmentation, budget bill language be added to the appropriation specifying that the \$11.3 million augmentation in 2003-04 is one-time in nature. UC plans to provide the Subcommittee with an oral report on this issue and progress made in developing UC Merced during the hearing. The University will also provide an internal cost-benefit analysis of potential savings that may be achieved by delaying the campus opening by a year.

ISSUE 3: K-12 OUTREACH PROGRAMS

The issue for the Subcommittee to consider is the Governor's proposed \$37.0 million reduction to K-12 minority outreach programs (excluding the \$4.0 million on-going reduction proposed for the Colleges Preparatory Initiative) and a progress report by UC on its outreach strategy.

BACKGROUND:

In 1995, the UC Regents approved SP-1, a policy that prohibited campuses from using race, religion, sex, color, ethnicity, or national origin as criteria in granting admission—eliminating the use of affirmative action. In 1996-97, in response to the precipitous decline in underrepresented student admissions to UC resulting from the elimination of affirmative action, the State supported a major initiative to improve and expand student outreach efforts in order to increase the population of disadvantaged K-12 students that are eligible for admission to UC.

The proposed budget includes a proposed reduction of \$37 million to UC outreach programs, excluding the \$4 million on-going reduction to the College Preparatory Initiative. This leaves approximately \$36 million for UC's outreach programs. Of the amount remaining, \$33 million is from the General Fund. This is a reduction of \$37 million would be a reduction of over 50 percent from the current-year enacted budget. It should be noted that the Governor's proposed mid-year reductions would have reduced current-year spending for UC outreach by \$3.3 million, and the Governor's proposed budget for the budget year assumes that additional reduction.

COMMENTS:

Funding Reductions to UC Outreach. 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 40%. The Legislature rejected that reduction due to the need to continue to make the state's higher education institutions accessible to all students and negotiated a compromise outreach package that reduced outreach programs by approximately \$8 million.

Legislative Analyst's Recommendations. The Legislative Analyst recommends the Legislature approve the Governor's proposed 50% reductions for K-12 outreach. However, the LAO recommends a more targeted approach in achieving the savings. In making their recommendations, the Analyst revisits many of their recommendations from last year including their suggestion to consolidate existing programs to reduce inefficiencies and administrative overlap.

Budget staff notes that while some of the Legislative Analyst's observations and recommendations may be worthy of further consideration, the Analyst does not appear to view UC outreach efforts in the same context as the Legislature. For example, while the Analyst believes the University's focus on yield is misplaced, the Legislature has requested the University to place more emphasis on these efforts as part of a larger short-term strategy to increase the number of underrepresented students becoming eligible, admitted and enrolling at UC. In addition, the Analyst's recommendation to consolidate programs due to duplication, and to reduce inefficiencies and administrative overlap, does not appear to be supported by any data but rather anecdotal information.

The Legislative Analyst plans to give an oral report of her recommendations to the Subcommittee during the hearing. In addition, UC plans to give the Subcommittee a progress report of their outreach efforts. Given the budget situation and the high priority placed on K-12 outreach programs by the Legislature, Budget staff has been working with the University to re-evaluate the Governor's proposed reductions to K-12 outreach programs.

ISSUE 4: UC RIVERSIDE/UC LOS ANGELES THOMAS HAIDER PROGRAM IN BIOMEDICAL SCIENCES

The issue for the Subcommittee to consider is the UC Riverside/UC Los Angeles Thomas Haider Program in Biomedical Sciences and progress made in meeting Supplemental Report and Budget Bill Language requirements.

BACKGROUND:

For the past two years, the Legislature had heard concerns over the nature and structure of the UC Riverside/UC Los Angeles Thomas Haider Program in Biomedical Sciences. Concerns had been raised that the university admits a far greater number of students into the program than the number of available slots for admission to the UCLA Medical School, making the program into a fiercely competitive program that was designed to "weed-out" students without regard to their interest in pursuing a medical education or the state's needs. Concerns had also been expressed that the number of underrepresented minorities that advance to the medical school phase of the program is low. In addition, it was felt that all students in the program had not been provided with sufficient counseling and support programs in order to be successful in the program. As a result, the Subcommittee adopted both Supplemental Report Language and Budget Bill Language making funding for the program contingent of changes in the structure of the program as follows:

- **Budget Act Language.** *It is the intent of the Legislature that funding for the UCR/UCLA Biomedical Sciences program provided in Schedule (1) of this item be phased out beginning July 1, 2003, unless the Director of Finance has certified and provided the Legislature with notification that the University reconfigured the program consistent with the university's May 22, 2002, proposal. It is further the intent of the Legislature that programs changes will be accomplished in time to be implemented no later than for the entering class of fall 2004. It is the further intent of the Legislature that admission to the program, as it currently exists, will be suspended effective for the entering class of fall 2003, until structural changes are fully implemented.*

- **Supplemental Report Language.** *It is the intent of the Legislature that the UC Riverside Biomedical Sciences program be reconfigured, consistent with the following objectives/goals:*
 - ◆ *Increase the probability that all interested students from across campus will become successful in attaining a career in the health sciences, including obtaining an M.D. degree from the UC Riverside/UCLA Biomedical Sciences Program or from other medical schools throughout the state and country.*

 - ◆ *Improve the academic progress of all students who are dismissed from the Biomedical Sciences undergraduate program during their first 3 years at UC Riverside.*

 - ◆ *Increase the accessibility of the medical school phase of the Biomedical Sciences Program to a broader range of undergraduate students, including*

educationally disadvantaged students and those who may require some experience and guidance prior to deciding upon a career path. And

- ◆ *Help meet the State's need for physicians and health practitioners who are committed to pursuing medical careers of service in medically underserved communities.*

It is the intent of the Legislature that future funding for the UC Riverside Biomedical Sciences program shall be contingent upon the successful reconfiguration of the program to address the above goals and structural changes agreed by the University. It is the intent of the Legislature that program changes will be accomplished in time to be implemented no later than for the entering class of fall 2004. It is further the intent of the Legislature that admission to the UC Riverside/UCLA Biomedical Sciences program, as it currently exists, will be suspended effective for the entering class of fall 2003, until structural changes are fully implemented.

The university shall report to the fiscal committees of the Legislature by January 15, 2003 on its efforts to reconfigure this program and meet the requirements of this language.

COMMENTS:

The University will report on changes to the UC Riverside/UC Los Angeles Thomas Haider Program in Biomedical Science summarized in their report to the Legislature in February. Members of the Riverside community who have been working with the University on the proposed changes will also testify.

Budget Staff Recommendation. Given the many concerns raised over the past two years by the Subcommittee, as well as the Subcommittee's and Legislature's desire to see changes in the program as expressed through Supplemental Report Language and Budget Act Language, Budget staff recommends that the Subcommittee consider adoption of Supplemental Report Language that would request the University to report to the Legislature for the next five years on progress made in changing the program and in meeting the Legislature's stated goals and objectives (as expressed in SRL and BBL).

6610 CALIFORNIA STATE UNIVERSITY

ISSUE 1: MAJOR BUDGET ADJUSTMENTS

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

BACKGROUND:

The California State University (CSU) consists of 23 campuses. The Governor's budget proposes General Fund spending of \$2.6 billion for the system in 2003-04. This is a decrease of \$97.4 million, or 3.6 percent, from the enacted 2002-03 budget and a decrease of \$123.1 million, or 4.5 percent, from the Governor's proposed revision of the 2002-03 budget. For the current year, the Governor proposes a \$59.6 million unallocated General Fund reduction that is more than offset by proposed baseline increases. For the budget year, the Governor proposes \$153.1 million in General Fund augmentations and \$266.4 million in General Fund reductions.

The Governor's proposed budget includes \$5.5 billion for CSU from all fund sources—including General Fund, student fee revenue, and federal and other funds. This is an increase of \$63.1 million, or 1.2 percent, from the revised current-year amount. The table below summarizes the various proposed changes to CSU's budget.

California State University General Fund Budget Proposal	
(In Millions)	
	General Fund
2002-03 Budget Act	\$2,680.3
December Revision Reductions	
Unallocated reduction	-\$59.6
Baseline Adjustments	
PERS employer rate increase	\$68.1
Carryover/re-appropriation	17.2
2002-03 Revised Budget	\$2,705.9
Baseline Adjustments	
Carryover/re-appropriation	-\$17.2
Other adjustments	7.5
Proposed Increases	
Enrollment growth (7.1 percent)	\$150.9
Other increases	2.2
Subtotal	(\$153.1)
Proposed Reductions	
Unallocated reduction (in addition to December revision)	-\$83.1
Academic and institutional support	-58.1
Increase student-faculty ratio	-53.5
Student services	-53.2
Outreach programs	-12.6
CalTEACH teacher recruitment	-2.0

Bilingual Teacher Recruitment program	-2.0
Other reductions	-1.9
Subtotal	-(\$266.4)
2003-04 Proposed Budget	\$2,582.9
Change From 2002-03 Revised Budget	
Amount	-\$123.1
Percent	-4.5%

- **Enrollment Growth of 7.1 Percent.** The Governor's budget provides CSU with \$150.9 million from the General Fund for enrollment growth. This would increase CSU's budgeted enrollment by 22,881 full-time equivalent (FTE) students, or 7.1 percent, above the current-year level.
- **Proposed Reductions.** While the Governor's budget proposes a total of \$153.1 million in General Fund augmentations (primarily for enrollment growth), it also proposes \$266.4 million in General Fund reductions. These reductions consist of:
 - ◆ \$83.1 million to expand the "unallocated" reduction proposed by the Governor in the current year to \$142.8 million.
 - ◆ \$58.1 million reduction to academic and institutional support.
 - ◆ \$53.5 million from increasing the student-faculty ratio from 18.9:1 to 19.9:1.
 - ◆ \$53.2 million reduction to student services.
 - ◆ \$12.6 million reduction to CSU's K-12 outreach programs.
 - ◆ \$5.9 million in other program reductions.
- **Student Fee Increases.** The Governor's budget assumes an increase in student fee revenue of \$141.5 million in 2003-04 resulting from current-year and budget-year student fee increases. The CSU Board of Trustees approved increases of 10 percent and 15 percent for undergraduates and graduates, respectively, for the spring 2003 term (in the current fiscal year). This is the first fee increase for the segment in eight years. The Governor's budget assumes that the Trustees will approve an additional fee increase for the 2003-04 academic year of 25 percent for undergraduates and 20 percent for graduates.

The budget presumes that the increased student fee revenue of \$141.5 million will essentially backfill the total \$142.8 million unallocated General Fund reduction. Thus, nearly all the unallocated reduction would result in a fund shift rather than a true reduction in budgeted resources for CSU.

COMMENTS:

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

- **Unallocated Reductions.** Some concern has been raised with allowing departments full discretion to implement undesignated cuts without Legislative oversight. As a result, Budget staff has continually recommended that the Legislature requested detailed information from departments and agencies on how they plan to implement any proposed undesignated reductions. Based on information received by Budget staff in the past, CSU has reported that, with few exceptions, the Chancellor's office does not direct campuses on how to manage unallocated reductions on the campus level. Instead, the Chancellor's Office

leaves it up to the campus Presidents to determine where these reductions will be made at the local level. Budget staff notes that to the extent that the Legislature allows departments and agencies 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.

- **Common Management System (CMS).** CMS is the CSU's effort to integrate and streamline its existing administrative computing functions. At the time of the beginning of this project, CSU estimated the project would cost approximately \$332-\$400 (1998). These costs were revised in 1999 to approximately \$440 and later revised again in 2002 to approximately \$482 million. Due to an increase in concern over expenditures on CMS and concern over the state's IT procurement practices, the Joint Legislative Audit Committee requested that the State Auditor conduct an extensive audit of CSU's efforts with respect to CMS. Similarly, last year, the Legislature approved Budget Bill Language that would have delayed CMS pending the results of the audit. CSU opposed the budget bill language and the Governor voted the language.

On March 11th of this year, the State Auditor issued her report in which she predicted that the actual costs of the system's conversion to CMS would total \$662 million over a nine-year period (1998-99 to 2006-07). This is approximately \$300 million over the amount originally estimated by CSU. CSU notes that their cost estimates only included the implementation costs of the projects, which are one time in nature and do not include ongoing maintenance and operation of the CMS. To date, the CSU has expended approximately \$176 million on the CMS project (an average of \$43 million a year to date). Among the various concerns raised by the State Auditor, she noted that the CSU did not conduct a cost-benefit analysis or feasibility study prior to embarking in this effort. Approximately 86% of the expenditures associated with the project from 1998-02 is from general fund support. This amount is expected to grow to 98% from 2002 through 2007. CSU is spending \$92.7 million in the current year and plans to spend \$93.1 million in the budget year for CMS. The Joint Legislative Audit Committee is currently reviewing the Auditor's findings and recommendations. One of the potential issues for the Subcommittee to consider may be an issue of cost-savings, if any, that may result from these deliberations or any cost-savings that may be achieved from phasing out the old Legacy IT system to convert to CMS at the campus level.

The Subcommittee will discuss the Governor's proposed reductions to K-12 outreach programs and the fellows program in further detail later in the agenda.

ISSUE 2: GENERAL FUND CARRYOVER

The issue for the Subcommittee to consider is the Legislative Analyst recommendation regarding general fund carryover.

BACKGROUND:

For virtually all General Fund appropriations in the annual budget act, money unspent at the end of the fiscal year reverts to the General Fund. This can create an incentive for some agencies to rapidly (and potentially wastefully) spend down any remaining balances as the end of the fiscal year approaches. To reduce this incentive, recent budget acts have included provisions that permit CSU to "carry over" unexpended funds from one fiscal year to the next. Specifically, General Fund monies provided to CSU but not expended in one fiscal year are re-appropriated in the subsequent year.

In some years, the budget act has directed CSU to use the one-time carryover funds for specific purposes. More often, however, the budget has given CSU wide latitude in spending the monies. In such cases, CSU must propose an expenditure plan to the Department of Finance and the Joint Legislative Budget Committee, by September 30, for the balance of unexpended funds from the prior year. The past six budget acts limited CSU's carryover funds to \$15 million. They required that any unexpended funds in excess of this amount revert to the General Fund. Budget language has also specified that the \$15 million cap only applies to funds generated from CSU's "systemwide" allocations. This means that the cap did not apply to unexpended funds that CSU had allocated to specific campuses or to the Chancellor's Office.

For multiple reasons, including the size of CSU's overall appropriation and spending choices, the amount of funds that CSU has carried forward has varied considerably from year to year. The table below shows carryover amounts from 1996-97 (the first year of the \$15 million systemwide-carryover limit) through 2001-02. During these years, the total carryover amount ranged from \$10.8 million to \$35.8 million. In the current year, CSU has \$17.1 million available from funds originally appropriated in the *2001-02 Budget Act*. All of these unspent funds are from campus/Chancellor's Office allocations and thus are not subject to the cap. The CSU reports no carryover from systemwide allocations.

California State University General Fund Carryover						
1996-97 Through 2001-02 (In Millions)						
	Carryover Amount from Budget Act					
	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Systemwide	\$8.9	\$14.2	\$9.1	\$6.4	\$8.4	—
Campuses and Chancellor's Office	1.9	5.6	15.2	17.9	27.4	\$17.1
Total	\$10.8	\$19.8	\$24.3	\$24.3	\$35.8	\$17.1

At the time the Legislature first placed a limit on carryover from CSU's systemwide allocations, the amount of unexpended funds that CSU had allocated to campuses and the Chancellor's Office was relatively small. However, as indicated in the table above, the level of carryover from campus/Chancellor's Office allocations has grown in recent years from \$1.9 million in 1996-97 to \$27.4 million in 2000-01 and \$17.1 million in 2001-02. Moreover, the percentage of

campus/Chancellor's Office carryover compared to CSU's total carryover amount for a given fiscal year also has increased.

The CSU has used one-time carryover funds for a variety of purposes. Systemwide funds have been used for technology initiatives, special repairs, new campus start-up costs, unexpected needs, and other purposes. Carryover funds allocated to campuses and the Chancellor's Office have been used for one-time expenditures, including campus-initiated projects, technology upgrades, and acquisition of library books and materials. However, in the current year, CSU plans to use all of its available carryover (\$17.1 million) for faculty compensation. We have serious concerns about the out-year implications of using one-time funds for ongoing initiatives.

COMMENTS:

Legislative Analyst Recommendation. The Legislative Analyst recommends the Legislature amend budget bill language to count all unexpended allocations towards the \$15 million carryover cap for the California State University, in order to increase legislative oversight. We further recommend that carryover funds be spent only on one-time purposes. As with recent budget acts, the proposed budget bill contains language that would allow CSU to carry over up to \$15 million in unexpended system-wide funds from the *2002-03 Budget Act*. The budget does not place a limit on carryover from allocations made to individual campuses and the Chancellor's Office. The proposed language does not direct CSU to spend the one-time carryover funds for specific purposes. As in past years, the proposed language imposes reporting standards and time frames similar to those described above.

Given recent trends in the composition of CSU's unexpended balances, the LAO believes that the Legislature should reexamine CSU's authority to carry over an unlimited amount of funds from campus/Chancellor's Office allocations. Because CSU is able to move funds freely between the system-wide and the campus/Chancellor's Office allocations, the LAO believes that distinctions between these allocations are not meaningful. The CSU can easily circumvent the cap by allocating amounts over \$15 million to the campuses and the Chancellor's Office. The Analyst argues that by counting all unexpended allocations toward the \$15 million cap, the Legislature would create a meaningful limit on carryover funds that CSU could spend without legislative oversight. The Analyst notes that this policy would be consistent with current budget act language regarding UC's carryover funds. Accordingly, this would allow the Legislature to strengthen its budgeting flexibility to use fund balances in excess of \$15 million on any of its budget priorities. Depending on the Legislature's assessment of state needs in a given year, this could include CSU-related initiatives or not. The Analyst also believes that the Legislature should prevent CSU from allocating carryover funds to ongoing programs, in order to avoid cost pressures in the out years.

In view of the above, the Analyst recommends the Legislature amend Provision 1 of Item 6610-490 to read:

Of the funds reappropriated in this item from Item 6610-001-0001, Budget Act of 2002 (Ch. 379, Stats. 2002), up to \$15,000,000 shall be available for one-time projects to the general support of the California State University. ~~This \$15,000,000 limitation applies to reappropriations generated from systemwide allocations. As of June 30, 2003, the balance in excess of \$15,000,000 shall revert to the General Fund.~~

The Analyst believes that their proposal strikes a balance between budget flexibility and legislative oversight. First, she argues that it would continue to provide CSU with some level of carryover authority. Such authority reduces the incentive for CSU to spend the funds quickly prior to the end of the fiscal year in which the funds were originally budgeted. In addition, the Analyst believes that their proposal prevents CSU from (1) carrying over high fund balances to address selected priorities without legislative oversight and (2) using one-time carryover funds for ongoing expenses.

ISSUE 3: K-12 OUTREACH PROGRAMS

The issue for the Subcommittee to consider is the Governor's proposed reduction of \$12.6 percent reduction to K-12 outreach programs.

BACKGROUND:

The Governor's budget provides a total of \$6.5 million (General Fund) to CSU for various outreach programs that focus on preparing disadvantaged K-12 students for college. This is a decrease of \$12.6 million, or 66 percent, from the current-year level. Under the Governor's proposal, CSU would have full discretion in allocating the \$12.6 million reduction across its various programs. The table below summarizes the major state outreach programs currently administered by CSU.

California State University Major K-12 Outreach Programs	
Program	Description
California Academic Preparation Initiative	Faculty-to-Faculty Alliance. CSU English and mathematics faculty collaborate with high school teachers to increase the rigor of high school courses to better prepare students in meeting CSU's standards.
	Learning Assistance Program. CSU students tutor high school students in English and mathematics.
Precollegiate Academic Development	CSU students tutor K-12 students in English and mathematics.
California Academic Partnership Program	K-12 and higher education institutions form partnerships for the purpose of strengthening high school curricula and improving instruction. Funds also support the Mathematics Diagnostic Test Project.
Educational Opportunity Program	Provides a comprehensive array of academic support services to K-12 students.

COMMENTS:

In anticipation of the Governor's proposed reduction in CSU outreach, the CSU has begun implementation of a strategy designed to reorganize components of the segment's outreach programs. This reorganization includes the collapse of two programs, the California Academic Preparation Initiative (-\$9 million) and the Pre-collegiate Academic Development (-\$5.3 Million). In addition, CSU proposes to reduce the Educational Opportunity Program (EOP) by \$2 million and the College Readiness Program by \$290,808. And the difference between these amounts and the Governor's proposed \$12.5 million reduction is \$3,994,808, which CSU is proposing to use to continue the use of the Diagnostic Writing Service (\$140,000) and the first year of the

new program, Early Assessment Academic Preparation Program (\$4 million). At the time of the writing of this item, CSU indicated that they had begun implementation of their proposed outreach reorganization.

Concern over CSU Strategy. Given that the Legislature has yet to act on the Governor's proposed reductions to CSU outreach it appears premature for the CSU to begin reorganizing or making any reductions to their outreach programs. The preemptive nature of the CSU strategy has the potential to undermine the Legislature's authority to respond to the Governor's proposals and state its intent in exercising its authority to authorize the use of state funds for specific purposes. In addition, this approach clouds the merits of any plan prior to consideration by the Legislature. This preemptive approach to dealing with the Governor's proposed reductions is even more troubling considering the important priority that the Legislature has placed on K-12 outreach programs designed to increase the preparation and participation of the state's diverse population. Budget staff recommends that the Subcommittee request that the CSU withhold implementing the Governor's proposed reductions until the Legislature has had an opportunity to analyze and react to the Governor's proposal.

Budget staff further notes that CSU has proposed to reduce funding for Educational Opportunity Program (EOP) by \$2 million as part of the \$12.5 million reduction proposed by the Governor. The Legislature augmented the EOP program by an equal amount in 1998-99 in order to mitigate the impact of Proposition 209 and the Board of Trustees policies on remedial education. This is program that has historically received a great deal of support by the Legislature and is the oldest and most comprehensive academic support program run by CSU to increase the participation of all students in higher education. Like many outreach programs, it was originally created to increase the participation of historically underrepresented students.

Legislative Analyst Recommendation. The Legislative Analyst recommends that the Legislature approve the Governor's proposal to reduce outreach funding, but target the reductions at programs that (1) provide duplicative services, (2) do not focus on students most in need of additional state help, and (3) are ineffective. Similarly, the Analyst has concerns about the unallocated nature of the reduction. Specifically, the Analyst believes that the unallocated cut would give CSU far too much discretion in determining which programs or types of services are of lower priority. The Analyst asserts that they are concerned that this could result in programmatic reductions that do not match the Legislature's priorities. In contrast, targeting the reductions at specific programs would allow the Legislature to preserve its priorities and exercise oversight.

ISSUE 4: EXECUTIVE, LEGISLATIVE AND JUDICIAL FELLOWS PROGRAM

The issue for the Subcommittee to consider is the Governor's proposed reduction to the executive, legislative and judicial fellows program.

BACKGROUND/COMMENTS:

The Governor's Budget proposes to reduce funding for the Center for California Studies and its associated programs (including the LegiSchool Project, the Sacramento Semester Internship program and the Legislative, Executive and Judicial Fellows programs). This reduction would result in a fifty-percent decline in the number of individuals accepted into and supported by the Fellows Programs; this would reduce the number of fellows from 64 to 32.

The Legislative Analyst did not raise any issues or concerns with this reduction; however, staff notes that a fifty percent reduction to this item, in light of the level of decreases proposed throughout higher education, seems excessive.

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY CROSS CUTTING ISSUES

ISSUE 1: ENROLLMENT GROWTH FUNDING

The issue for the Subcommittee to consider is the Legislative Analyst's recommendation related to enrollment growth funding.

BACKGROUND:

Governor's Proposed Budget. The Governor's 2003-04 budget proposes to augment the budgets of the University of California and the California State University by a total of \$268.1 million (\$117.2 million and \$150.9 million respectively) to support the projected enrollment growth for the 2003-04 academic year.

- University of California: Specifically, the Governor proposes to provide \$117.2 million to UC to support 13,000 full time equivalent students (FTES). Of this amount, 5,000 students (2.4 percent) are already enrolled on UC's campuses, without any financial support from the state. The remaining 8,000 FTE (4.5 percent) are expected to enroll next year. This equates to total enrollment growth funding of 6.9 percent.
- California State University: The Administration proposes to provide \$150.9 million to support 22,880 new FTE students (which equates to 7.1 percent growth) at the CSU. \$45 million of these funds are attributable to 6,824 students (2.1 percent) who already enrolled on CSU campuses; the remaining \$105.9 million will support projected growth of 5.0 percent (16,056 students).

COMMENTS:

Legislative Analyst Recommendation. The Analyst believes that the level of enrollment growth funding proposed by the Governor's Budget is neither necessary nor prudent. According to the LAO, it "cannot find a basis for assuming, in a time of fee increases, such a large increase in enrollment at the higher-cost [UC/CSU] institutions while assuming such a large decrease in enrollment at the lower-cost institutions [community colleges]." As an alternative, the Analyst recommends funding budget-year enrollment growth at four percent for both UC and CSU; this recommendation would result in savings (from the Governor's Budget) of \$114.9 million. In support of its recommendation, the LAO notes that campuses are already serving the "over-enrollment" in the current year and providing the universities with funding for these same students in the budget year does nothing to increase student access.

Budget staff notes that in dramatic contrast to enrollment at UC and CSU, enrollments are expected to decline by 5.7 percent at the California Community Colleges as a result of the Governor's proposed budget. This issue will be heard at the Subcommittee's April 29th hearing.

ISSUE 2: INSTITUTIONAL FINANCIAL AID

The issue for the Subcommittee to consider is the Legislative Analyst's recommendation related to institutional financial aid.

BACKGROUND:

Financial assistance for students comes in many forms and is offered by many entities. The major forms of financial assistance for post-secondary students includes grants (scholarships and fellowships), loans, work study, investment accounts, and tax credits. The major providers of financial assistance are the federal government, state government, universities, and private benefactors. The state of California provides student financial aid through the Cal Grant Program, university-based institutional aid, and Governor's Merit Scholarships. Each of the public university systems administers its own financial assistance programs (known as "campus-based financial aid") using dollars derived from student fees and/or the state General Fund.

Governor's Proposed Budget. The Governor's proposed budget retains the current policy of the UC Board of Regents and the CSU Board of Trustees which returns one-third of the new student fee revenue derived from fee increases to campus-based financial aid. Under current practice, the UC and CSU retain the authority to distribute these funds to students on their campuses as they see fit. Due to the proposed increases in student fees, campus-based financial aid programs are proposed to rise for UC and CSU by \$95 million and \$71 million respectively, for a total of \$246.6 million at the UC and \$193.5 million at the CSU.

COMMENTS:

Legislative Analyst Recommendation. The Legislative Analyst has a variety of recommendations aimed at student financial aid. The Analyst recommendations, which focus on Cal Grants and other programs, administered by the Student Aid Commission were heard last week. The remaining recommendations focus on the Governor's Merit Scholarship Program and campus-based financial aid.

The LAO believes that, under current practice, there is a disconnect between the original intent of setting aside one-third of new fee revenue for financial aid, and the current campus-based aid programs. Specifically, the LAO sites the original intent behind the "return-to-aid" policy as insuring that financially needy students are covered when fees are increased. However, the LAO notes that under the Cal Grant Program, financially needy students who are also academically meritorious will have the amount of the fee increases covered by an accompanying increase in their Cal Grant award. With this in mind, the LAO notes the following questions:

- How are the UC and CSU using their campus-based financial aid monies?
- Should the state, rather than the educational systems, determine how these dollars (which are derived from student fee increases) are re-allocated amongst students?

The LAO proposes a much more centralized approach to financial aid that places the state in the role of providing oversight over how campus-based (and student fee-derived) financial aid dollars are expended. Specifically, the LAO recommends that the legislature: (1) appropriate all campus-based financial aid funding through the Budget Act; (2) reduce the amount of funding provided in the Governor's Budget for campus-based financial aid; (3) adopt Budget Bill Language specifying how campus-based financial aid dollars should be expended; and (4) begin working with the university segments and interested parties to develop legislation to express the objectives of financial aid policy and more clearly identify the intended beneficiaries of the funds.

Budget Staff Comments. Budget staff notes that the administration of financial aid programs appears to be moving from a state-administered, overly bureaucratic, and centralized system to one that is campus-based, student-centered and more flexible in nature. In response to Supplemental Report Language adopted by the Legislature, CPEC, in its review of the administration of the Cal Grant Program, noted that the Cal Grant Program, which is centrally administered by the Student Aid Commission, would better serve students if the administration of the program moved towards a more decentralized, campus-based model. Further, staff notes that there continues to be a need to allow campus financial-aid officers to work with, and meet the unique circumstances of, students on a case-by-case basis.

In response to concerns raised last year by the Analyst, the Legislature adopted supplemental report language requesting both UC and CSU to report on their institutional aid policies. The report was to include any changes to these policies, a description of students who benefit from this form of aid and the various type of aid students receive. The report was due March 15th and has yet to be received by the Legislature. The Subcommittee may wish to request that segments provide the report as soon as possible.

In anticipation of the Subcommittee's consideration of these issues, Budget staff has requested that the Analyst draft Supplemental Language for the Subcommittee's considerations that would explore the interaction between state administered aid and campus based institutional aid. Such a report would provide the Legislature with an assessment of the interaction between institutional and state programs, provide the state options for improving the coordination of these programs and might suggest policy changes that the Legislature may wish to consider in the future.

ISSUE 3: STUDENT FEES

The issue for the Subcommittee to consider is the Legislative Analyst's recommendation related to student fees at UC and CSU.

BACKGROUND:

Governor's Proposed Budget. The Governor's 2003-04 budget proposes to increase student fees at UC and CSU by 35 percent over the amount students paid in the Fall of 2002; ten percent of this increase was already imposed on students beginning this semester/term and the remaining 25 percent would be assessed beginning in the Fall of 2003. The funds derived from this fee increase would be used to: (1) "backfill" a combination of allocated and unallocated reductions proposed by the Governor for the UC and CSU; and (2) support financially-needy students on a campus-by-campus basis. Specifically, student fees are proposed to increase as follows:

Proposed UC and CSU Systemwide Fees ^a							
	2001-02	2002-03 ^b	Change		2003-04 Proposed	Change From 2001-02	
			Amount	Percent		Amount	Percent
UC							
Undergraduates	\$3,429	\$3,834	\$405	12%	\$4,629	\$1,200	35%
Graduates	3,609	4,014	405	11	4,869	1,260	35
CSU							
Undergraduates	\$1,428	\$1,572	\$144	10%	\$1,968	\$540	38%
Graduates	1,506	1,734	228	15	2,082	576	38

^a For UC amounts include educational fee and registration fee. For CSU amounts include systemwide fee. Students also pay campus-based fees.

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

Without an explicit student fee policy (statutory or otherwise) to guide the Governor or the Legislature, the Governor's budget proposal continues the "boom and bust" cycle of student fees, which holds stable or decreases student fees in good economic times and dramatically increases fees when the economy is struggling. The UC Board of Regents and, in the absence of a statutory policy, the CSU Board of Trustees, have the authority to set student fee levels for students attending their institutions; the fee level for students attending community colleges is set at a per unit rate in statute.

COMMENTS:

CPEC Recommendations. As part of last year's budget deliberations, the Legislature adopted Supplemental Report Language requesting that the California Postsecondary Education Commission (CPEC) develop recommendations (with the input of various constituency groups) regarding a long-term student fee policy. As part of its report on this topic, CPEC outlined a variety of policy principles and an implementation framework for consideration by the Legislature. More specifically, CPEC's principles for the development of a student fee policy included the following: (1) fee increases should be gradual, moderate and predictable so that students and families can prepare financially for college; (2) the total cost of receiving a college

education is one that should be shared by students, families and the State; (3) student fee costs, and associated changes, should take into account the total cost of college attendance as well as a family's ability to pay; (4) financial aid resources should be used to protect financially-needy students from increased fee costs; (5) it is appropriate for students enrolled in graduate and professional-level programs to pay a higher fee.

Further, CPEC proposes a framework for implementing fee increases that: (1) places the bulk of the responsibility for annually adjusting student fees on the UC and CSU; (2) requires the UC and CSU to develop a student fee methodology and report annually on the impact of the methodology; (3) requires the UC and CSU to act on proposed changes to student fees no later than November 30th and notify students of the proposed changes at that time; (4) recommends that the Legislature and the Governor avoid "back-filling" student fee increases and instead let fees increase or decrease in a manner determined by the segments.

Legislative Analyst Recommendation. Drawing upon its previously discussed recommendation to decrease the amount of fee revenue that is diverted for campus-based financial aid, the LAO recommends that the Legislature increase student fees for UC and CSU resident undergraduates by 15 percent, rather than the 25 percent proposed in the budget year. Further, the LAO proposes an increase of 20 percent, for graduate student fees at the UC rather than the 25 percent proposed in the Governor's Budget. In order to provide the same amount of revenue to the campuses (in order to backfill the Governor's proposed reductions), the LAO recommends that the segments direct a much smaller amount of new fee revenue to campus-based financial aid rather than the current policy of one-third.

Budget Staff Comments. Budget staff notes that the recommendations put forward by CPEC represent important changes in student fee policy for the state, and as such should be placed in legislation and evaluated through the legislative process. Assembly Member Carol Liu is currently carrying AB 843 that would put many of CPEC's recommendations into statute.