

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

ASSEMBLYMEMBER S. JOSEPH SIMITIAN, CHAIR

**WEDNESDAY, APRIL 14TH, 2004
STATE CAPITOL, ROOM 126
4:00 P.M.**

REGULAR BUSINESS

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ITEMS TO BE HEARD

ITEM 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) 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.

University of California Governor's Budget Proposals	
(In Millions)	
	General Fund
2003-04 Budget Act	\$2,902.1
One-time unallocated reduction	-\$15.7
Reduce outreach programs	-\$12.2
Reduce labor research institute funding	-\$2.0
<i>Subtotal</i>	-\$29.9
Other Adjustments	
Public Employees' Retirement System rate adjustment	\$0.2
Unexpended balance from lease revenue	-\$4.2
2003-04 Revised Budget	\$2,868.2
Baseline and Technical Adjustments	\$79.9
Proposed Increases	
Restore one-time reduction from 2003-04	\$80.5
Dual admissions program	\$1.6
<i>Subtotal</i>	\$82.1
Proposed Reductions	
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
<i>Subtotal</i>	-\$359.7
2003-04 Proposed Budget	\$2,670.5
Change From 2002-03 Revised Budget	
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

MAJOR BUDGET PROPOSALS:

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.

COMMENTS:

Budget staff notes that all of these proposals will have a major policy impact on all the segments and will be further discussed in the Intersegmental Issues section.

The Subcommittee is scheduled to hear the Intersegmental issues on student fees and financial aid at the April 21st hearing.

ISSUE 2: RESTORATION OF ONE-TIME UNALLOCATED REDUCTION FROM 2003-04

The issue before the Subcommittee 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 to partially offset this one-time reduction.

ISSUE 3: UC MERCED

The issue for the Subcommittee to consider is the Governor's proposed \$20 million for the Merced campus. This consists of \$10 million in base funding and \$10 million in one-time augmentation.

BACKGROUND:

For the current year, the *2003-04 Budget Act* includes a total of \$17.3 million in General Fund support for the planned UC campus in Merced. This amount consisted of \$10 million in base funding and a one-time increase of \$7.3 million. Provisional language in the enacted budget expressed the Legislature's intent that the opening of the new campus be delayed from fall 2004 to fall 2005.

For the budget year, the Governor proposes a total of \$20 million for the Merced campus. This consists of \$10 million in base funding and \$10 million in a one-time augmentation. 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 \$9.3 million in bond funds is proposed for capital outlay expenditures at the campus.

Funding History. The University first received ongoing funds for Merced in the 1997-98 budget totaling \$4.9 million. The total was increased to approximately \$9.9 million in the 1998-99 budget. Since then, this amount has been continuously appropriated in their annual budget. The University has stated that this total is consistent with early estimates of funds needed annually to operate the campus. At the time the University began to develop the campus, they had fewer expenses which allowed them to save the unspent funds. These funds were used to cover the added costs that came about as projects were expedited nearing the scheduled opening of the campus. When the opening date for the campus was changed to 2004-05, a year earlier than

originally planned, the University's costs also grew. They had one-time needs associated with recruitment and start-up costs for faculty and staff who needed to be hired and placed to develop the programs and curriculum before students began to enroll. While enrollment funding will eventually support these costs, the State has been providing the campus with one-time funds and will continue to do so until students begin to enroll and sufficient funds are generated through established funding mechanisms. In 2001-02, 2002-03 and 2003-04, the State provided the campus with \$2 million, \$4 million and \$7.3 million respectively in one-time funds for this purpose.

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 scheduled to open in Fall 2005 with 1,000 students.

COMMENTS:

LAO Recommendation:

In her analysis of the Governor's proposed 2004-05 budget, the Legislative Analyst withholds recommendation on the \$10 million in additional General Fund support for UC Merced, pending their review of an expenditure plan for the campus submitted in mid-February. Lacking an expenditure plan for the budget year and with no details on expenditures in the current year, the Analyst could find neither justification nor rationale for the \$10 million augmentation proposed for the budget year.

Expenditure Plan. The University presented Merced's total budget plans for 2003-04 and 2004-05 in its annual report to the Legislature in February 2004. The one-time funds are part of the campus's overall budget plan for each year.

The \$7.3 million appropriated by the Legislature in 2003-04 represents more than a third of the campus's state support:

UC Merced One-Time Funding Allocation	2003-04	Proposed 2004-05
Faculty Costs-Salaries, Recruitment, Start-Up Funds	\$3.7	\$5
Library Implementation and Collection Support	\$1.0	\$1.4
Enrollment Services (admissions, financial aid services, Registration start-up)	\$1.2	\$2.2
Information Technology, Online Services and Network Security	\$1.4	\$1.4
Total	\$7.3	\$10.0

The 2004-05 proposal for one-time funds is an increase of \$2.7 million over last year's amount. Most of this increase in funds will be used to pay the salaries of the 17 new hires and provide their start-up costs.

Budget staff notes that the opening of UC Merced is a high priority for the new Governor and the Legislature has consistently approved all prior-funding requests associated with the opening of the campus. Given the State's fiscal situation and the status of the new campus, it is worth

emphasizing that it will cost the state more money to further delay the opening of the campus for another year than to provide them with the \$10 million one-time augmentation request.

UC plans to make an oral presentation before the Subcommittee as to the progress made in developing the campus and to answer any questions on the expenditure report.

ISSUE 4: INSTITUTE FOR LABOR & EMPLOYMENT (ILE)

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.

ITEM 6610 CALIFORNIA STATE UNIVERSITY

ISSUE 1: MAJOR BUDGET ADJUSTMENTS

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.

California State University General Fund Budget Proposal	
(In Millions)	
	General Fund
2003-04 Budget Act	\$2,492.0
Mid-Year Reductions	
One-time Unallocated reduction	-\$11.3
Reduce outreach programs	-\$12.5
Other Adjustments	
PERS Employer Rate Increase	\$155.1
Carryover/re-appropriation	\$7.6
Other Ajustments	\$-.09
2003-04 Revised Budget	\$2,630.1
Baseline and Technical Adjustments	\$6.7
Proposed Increases	
Restore one-time reduction from 2003-04	\$69.5
Dual Admissions Program	\$1.9
Subtotal	\$71.4
Proposed Reductions	
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
Subtotal	-\$298.6
2004-05 Proposed Budget	\$2,409.6
Change From 2002-03 Revised Budget	
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:

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.

COMMENTS:

Budget staff notes that all of these proposals will have a major policy impact on all the segments and will be further discussed in the Intersegmental Issues section.

The Subcommittee is scheduled to hear the Intersegmental issues on student fees and financial aid at the April 21st hearing.

ISSUE 2: 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.

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.

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.

**6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY
6870 CALIFORNIA COMMUNITY COLLEGES**

ISSUE 1: ENROLLMENT FUNDING

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 full-time equivalent (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 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 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: K-12 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), the California State University (CSU) and the California Community Colleges (CCC).

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.

CCC Position:

Funds for community college financial aid administration and outreach were augmented by \$38 million to enable the colleges to offset the impact of a 64% enrollment fee increase on low-income students and to increase community college participation in the Federal Pell Grant Program. Of that amount, \$3.8 million was designated for a statewide media campaign and \$34.2 million was allocated directly to the colleges for targeted outreach and increased administrative capacity.

Community colleges have already invested the \$34.2 million in increasing financial aid offices' staffing by more than 500 full-time personnel statewide. This is in addition to an estimated 73 full-time temporary student and adult hourly workers that have been hired to help students to apply for financial aid, process the applications and promote the availability of financial aid to populations who might otherwise fail to seek enrollment due to rising fees. Redirection of the \$30 million would result in the elimination of most of these approved and filled positions at the same time that record numbers of students will be applying for financial aid as a result of the aggressive outreach efforts currently underway.