

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

**Assemblymember Mervyn Dymally, Chair**

**WEDNESDAY, APRIL 20, 2005**  
**STATE CAPITOL, ROOM 126**  
**4:00 P.M.**

**INFORMATIONAL ITEM**

**THE LEGISLATIVE ANALYST OFFICE (LAO) OVERVIEW OF THE PROPOSED 2005-06  
BUDGETS FOR THE UC AND CSU**

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## ITEMS TO BE HEARD

### ITEM 6440 UNIVERSITY OF CALIFORNIA (UC)

#### ISSUE 1: SUPPORT BUDGET

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

#### BACKGROUND

The UC system includes eight general campuses, one health science campus in San Francisco and one new campus currently under development in Merced. The University of California, founded in 1868 as a public land-grant institution, is the primary state supported academic agency for research, with exclusive jurisdiction in public higher education over instruction in the professions of law, medicine, dentistry, and veterinary medicine. The University of California currently serves an estimated 201,621 full-time equivalent (FTE) students including undergraduate, graduate and professional students.

The Governor's proposed budget includes a total of \$19.4 billion for the UC from all fund sources including federal contracts and grants, teaching hospital revenue, self-supporting enterprises, private gifts and grants, student fee revenue and State General Fund. This is an increase of \$722 million, or 3.9 percent, from the revised current year amount. The proposed General Fund expenditures include \$2.8 billion, which represents an increase of \$97.5 million, or 3.6 percent, from the fiscal year 2004-05 level of \$2.7 billion General Fund.

#### MAJOR BUDGET PROPOSALS

**Base Budget Increase.** The Governor's budget proposes a \$76.1 million increase, or 3 percent, for the basic support budget that is not restricted for specific purposes. The UC has indicated that these funds will be used towards various salary increases, cost-of-living adjustments (COLA's) and general price increases on goods and services.

**Enrollment Growth.** The Governor's budget proposes a \$37.9 million increase, or 2.5 percent, for enrollment growth to fund an additional 5,000 FTES.

**Student Fee Increases.** The Governor's budget assumes that the university will receive \$144.6 million in new student fee revenue - \$30.6 million associated with the 2.5 percent enrollment growth and \$114 million from fee increases recently approved by the UC Board of Regents last November. The approved fees include an increase of 8 percent for undergraduate students, 10 percent for graduate students, 5 percent for nonresident undergraduate and 3 percent increase in professional school fees.

**Institutional Financial Aid.** Last November, the UC Board of Regents approved a 25 percent "set-aside" for undergraduates and a 50 percent "set-aside" for graduate students from fee generated revenue to be used for financial aid.

**Unallocated Reductions.** While the Governor's budget proposes a total of \$128 million in General Fund augmentations, it also proposes \$21.1 million in General Fund reductions. Specifically, the budget proposes a \$17.3 million reduction in unallocated cuts, which the UC can achieve either by reducing academic preparation programs, or, reducing enrollment by the same amount. The 2004-05 Budget Act provided \$29.3 million in General Fund for academic preparation programs.

**UC Merced.** The Governor's budget proposes a continuation of \$10 million in ongoing operating funds and an additional \$14 million in one-time funds for the costs associated with the UC Merced campus, which is scheduled to open this fall.

**Labor Research Funding.** The Governor's budget proposes \$3.8 million elimination in funding for labor research and education.

The table below summarizes the Governor's proposed General Fund changes for the current year and the budget year:

<b>University of California (UC) General Fund Budget Proposal</b>	
<i>(Dollars in Millions)</i>	
	General Fund
<b>2004-05 Budget Act</b>	<b>\$2,721.0</b>
Baseline adjustments	-\$12.2
<b>2004-05 Revised Budget</b>	<b>\$2,708.8</b>
<b>Baseline and Technical Adjustments</b>	-\$9.5
<b>Proposed Increases</b>	
Base budget increase (3 percent)	\$76.1
Enrollment growth (2.5 percent)	37.9
One-time augmentation for UC Merced	14.0
Subtotal	(\$128.1)
<b>Proposed Reductions</b>	
Reduce funding for enrollment and outreach	-\$17.3
Eliminate labor research institute	-3.8
Subtotal	(-\$21.1)
<b>2005-06 Proposed Budget</b>	<b>\$2,806.3</b>
<b>Change From 2004-05 Revised Budget</b>	
Amount	\$97.5
Percent	3.6%

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

The LAO does not raise an issue with the 3 percent base increase proposal since this percentage will roughly match their projections on inflation in 2005-06. However, their concern is that the Governor applies the 3 percent increase only to the portion of UC's budget funded from the General Fund. The LAO believes that a base increase should be applied to all of UC's base budget, including that portion which is funded with student fee revenue. Under their approach, a 3 percent base increase would cost \$122.2 million.

**UC:**

The UC budget staff will provide committee members with information on their \$76.1 million base budget increase expenditure plan.

**ISSUE 2: LABOR RESEARCH FUNDING**

The issue for the Subcommittee to consider is the Governor's proposal to eliminate \$3.8 million for labor research funding.

**BACKGROUND:**

Labor research studies funding, previously under the Institute for Labor and Employment (ILE), has been reduced from \$6 million in 2000-01 budget to \$3.8 million in the *2004-05 Budget Act*.

The infrastructure of the ILE was eliminated last year as part of the final budget negotiations. Instead, the \$3.8 million funding is now divided in three ways: one third is allocated to the University of California Office of the President to oversee a competitive research grant program that is available to faculty on all ten UC campuses. One third is allocated to the UC Berkeley Institute of Industrial Relations and one third is allocated to the UCLA Institute of Industrial Relations both for labor research and education.

The UC Berkeley and UCLA Institutes were established following World War II by former UC President Clark Kerr and have a 60 year history of labor research and education. The Industrial Relations Institutes are well established, reputable institutions with extensive faculty support. Over the years, these institutes have generated important research and educational initiatives on labor and the work place.

**COMMENTS:**

Although labor research and education receives only a small fraction of the UC's \$213 million General Fund total research funding, the 2005-06 budget proposal does not include any indications as to why funding for this type of research has been selected for elimination.

**ITEM 6610 CALIFORNIA STATE UNIVERSITY (CSU)****ISSUE 1: SUPPORT BUDGET**

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

**BACKGROUND**

The California State University (CSU) system is comprised of 23 campuses, including 22 university campuses and the California Maritime Academy. While each campus in the system has its own unique geographic and curricular character, all campuses, offer undergraduate and graduate instruction for professional and occupational goals, as well as broad liberal education programs. In addition to providing baccalaureate and master level instruction, the CSU trains approximately 60 percent of California's K-12 teachers and administrators, and a limited number of doctoral degrees are offered jointly by the CSU with the University of California and with select private universities.

The California State University currently serves approximately 324,120 full-time equivalent (FTE) undergraduate and graduate students. The Governor's proposed budget for the CSU totals \$6 billion. The proposed General Fund expenditures include \$2.6 billion, which represent an increase of \$111 million, or 4.4 percent, from the fiscal year 2004-05 budget level of \$2.5 billion General Fund.

**MAJOR BUDGET PROPOSALS:**

**Base Budget Increase.** The Governor's budget proposes a \$71.7 million increase, or 3 percent, for basic support budget. The CSU has indicated that these funds will be used towards various salary increases, cost-of-living adjustments (COLA's) and general price increases on goods and services.

**Enrollment Growth.** The Governor's budget proposes a \$50.8 million increase, or 2.5 percent, for enrollment growth to fund an additional 8,000 FTES.

**Retirement Contribution.** The Governor's budget proposes a \$44.4 million increase for baseline retirement contribution increases.

**Fee Increases.** The Governor's budget assumes that the university will receive \$101.2 million in new student fee revenue - \$25.3 million associated with the 2.5 percent enrollment growth and \$75.9 million from fee increases recently approved by the CSU Board of Trustees last November. The approved fees include an increase of 8 percent for undergraduate students, 8 percent for Teaching Credential students and 10 percent for graduate students.

**Unallocated Reduction.** The Governor's budget proposes a \$7 million reduction in unallocated cuts, which the CSU can achieve by either reducing academic preparation programs, or, reducing enrollment by the same amount. The *2004-05 Budget Act* provided \$52 million to fund academic preparation programs. Of this amount, \$7 million were General Fund and \$45 million were CSU redirected funds.

**Financial Aid.** Last November, the CSU Board of Trustees approved a 25 percent "set-aside" from fee generated revenue to be used for financial aid.

The table below summarizes the Governor's proposed General Fund changes for the current year and the budget year:

<b>California State University General Fund Budget Proposal</b>	
<i>(Dollars in Millions)</i>	
<b>General Fund</b>	
<b>2004-05 Budget Act</b>	<b>\$2,448.0</b>
<b>Baseline and Technical Adjustments</b>	
Public Employees' Retirement System rate increase	\$44.4
Carryover/reappropriation	4.4
Lease-revenue bond payment adjustment	-0.1
<b>Revised 2004-05 Budget</b>	<b>\$2,496.7</b>
<b>Proposed Increases</b>	
Base increase (3 percent)	\$71.7
Enrollment growth (2.5 percent)	50.8
Subtotal	(\$122.5)
<b>Proposed Reductions</b>	
Reduce funding for enrollment or outreach	-\$7.0
Technical adjustments	-5.0
Subtotal	(-\$12.0)
<b>2005-06 Proposed Budget</b>	<b>\$2,607.2</b>
<b>Change From 2004-05 Revised Budget</b>	
Amount	\$110.5
Percent	4.4%

**COMMENTS:**

**LAO:**

The LAO does not raise an issue with the 3 percent base increase proposal since this percentage will roughly match their projections on inflation in 2005-06. However, their concern is that the Governor applies the 3 percent increase only to the portion of CSU's budget funded from the General Fund. The LAO believes that a base increase should be applied to all of CSU's base budget, including that portion which is funded with student fee revenue. Under their approach, a 3 percent base increase would cost \$105 million.

**CSU:**

The CSU budget staff will provide committee members with information on their \$71.7 million base budget increase expenditure plan.

**ISSUE 2: CAPITAL FELLOWS PROGRAM**

The issue for the Subcommittee to consider is a 2005-06 proposed budget augmentation request of \$370,000 for the Center for California Studies.

**BACKGROUND:**

The Center for California Studies administers the Assembly, Senate, Executive and Judicial Administration Fellowship Programs known collectively as the Capital Fellows Programs. Each year, 18 individuals are selected to participate in the Assembly, Senate and Executive Branch and 10 in the Judicial Branch. The 11-month fellowship provides participants with an opportunity to work in state government while earning graduate units in Public Policy and Administration.

The Governor's 2005-06 budget proposes \$2.7 million in funding, which maintains the same level of funding provided in 2004-05. As a result of recent U.S. Department of Labor regulations, the Center is currently facing unavoidable increases. Last summer, the Labor Department adopted new regulations governing exempt and non-exempt employees. Under the new regulations, any employee making less than \$1,970 per month is automatically deemed a non-exempt employee subject to overtime pay and time-keeping. The only way to keep the Fellows as exempt employees is to increase their monthly stipend from \$1,882 to \$1,972. The total cost of this increase would be \$73,000.

As with other state agencies, the benefits costs for both the Fellows and the Center staff have also increased. The percentage in health benefits costs, which are costs that have not been funded, has increased from 18 percent to 24 percent. The augmentation requested to cover these costs totals \$275,000.

In addition, this request includes an augmentation of \$22,000 to cover the graduate fee increases. Fellows receive full-paid enrollment at California State University, Sacramento and earn 12 units of graduate course credit for two graduate seminars taught by faculty from the Government Department.

The augmentation requested totals \$370,000 for 2005-06.

**ITEM 6440 UNIVERSITY OF CALIFORNIA (UC)**  
**ITEM 6610 CALIFORNIA STATE UNIVERSITY (CSU)****ISSUE 1: ENROLLMENT GROWTH**

The issue for the Subcommittee to consider is the UC's and the CSU's enrollment growth funding as proposed in the 2005-06 budget.

**BACKGROUND**

**2004-05 Student Redirection Proposal.** The January 10<sup>th</sup> 2004-05 budget last year included a proposal to reduce new freshman enrollment at the UC and the CSU by 10 percent. These students were to be redirected to the community colleges through a new dual admissions program. Under this program, students who were eligible to attend the 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. As an incentive for encouraging participation in this program, the Administration also proposed waiving the community college fees of participating students.

In response to the proposed reductions, the UC began admitting students under their newly created Guaranteed Transfer Option (GTO) program, which provided eligible new freshmen who were not admitted with deferred admission to a specific campus upon completion of a transfer program at a community college. After the 7,641 GTO offers were sent, two campuses -Davis and Santa Cruz- began offering freshman admission to some of these students based on their enrollment capacity. As a result, the GTO pool was reduced to 5,700 eligible freshmen applicants. About 1,500 GTO offers were accepted while the others were declined presumably because students had accepted other admission offers or had made other plans.

In the *2004-05 Budget Act*, the Legislature and the Governor directed the UC to offer enrollment to every eligible applicant who was offered the GTO. The UC committed to using \$12 million to admit these students. This funding allowed the University to accommodate another 1,548 full time equivalent (FTE) students.

Since restoration of the enrollment growth funding to bring back the redirected students was one of this committee's highest priorities last year, staff has requested the UC to provide the committee members with an update on the status of the GTO students.

Even though the CSU was also under pressure to make admission decisions based on the proposed budget, they chose not to implement the redirection proposal and instead opted to place students on waiting lists pending the Legislature's decision on this issue.

The *2004-05 Budget Act* included \$21.1 million to restore the 10 percent reduction in new freshmen enrollment and \$12.2 million for enrollment growth above the budgeted 2003 enrollment. Combined with the redirection restoration, this funding allowed the system to accommodate another 5,950 FTE students.

**2004-05 Enrollment Reports.** In the *2004-05 Budget Act*, the Legislature included language that requires the UC to submit an enrollment report by March 15, 2005 and the CSU to submit a preliminary enrollment report on March 15, 2005 and a final report on May 1, 2005. The provision also included that if the university systems fail to meet their enrollment target (200,976

FTE students for UC and 324,120 FTE students for CSU), the Director of Finance would revert the unused enrollment funding to the General Fund.

The LAO provided the following enrollment summaries from the reports that were submitted:

*UC Above Target.* The UC estimates that it will exceed its enrollment target by 645 FTE students, for a total of 201,621 FTE students.

*CSU Below Target.* The CSU estimates that it will enroll a total of 323,000 FTE students, which are 1,120 FTE students below its enrollment target. The CSU's final enrollment report is due on May 1, 2005. This report will provide more information as to whether the CSU has met the enrollment target or not.

**Enrollment Growth Funding for 2005-06.** The Governor's budget proposes to fund both the UC (\$37.9 million for an additional 5,000 FTES) and CSU (\$50.8 million for an additional 8,000) with a 2.5 percent enrollment growth. This amount would provide \$7,588 in General Fund support for each additional student at UC and \$6,270 for each additional student at CSU.

**Marginal Cost Formula.** The state funds enrollment growth at UC and CSU based on the marginal cost of instruction. In their analysis of the 2005-06 Budget Bill, the LAO is recommending the Legislature to direct the LAO, the Department of Finance (DOF), the UC and the CSU to review the marginal cost methodology and propose modifications for its use in future budgets. The LAO is also recommending that the committee approve the following Supplemental Report Language:

*"The Legislative Analyst's Office (LAO) shall convene the University of California, the California State University, and the Department of Finance to review the components of the per full-time equivalent student marginal cost calculation. The LAO, in consultation with the working group members, shall report to the Legislature on the working group's findings and recommend any modifications to the marginal cost calculation in its Analysis of the 2006-07 Budget Bill."*

**CSU's New Rerouting Procedure for Eligible First Time Freshmen.** During this subcommittee's Overview Hearing on March 1, 2005 and at the request of Assemblywoman Daucher, the CSU was directed to develop and establish a procedure for processing first-time freshmen applications systemwide. The CSU will provide committee members with an update on the status of this request.

<b>COMMENTS:</b>
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**LAO Recommendation:**

*Proposed 2005-06 Enrollment Growth Funding.* Based on their demographic projections, the LAO is recommending the Legislature to fund a 2 percent enrollment growth for the budget year. In addition, the LAO is recommending that the subcommittee adopt budget bill language specifying enrollment targets for both the UC and CSU as the subcommittee agreed to do last year.

DOF, UC and CSU believe that a 2.5 percent enrollment growth is adequate to be able to admit all eligible students.

The California Postsecondary Education Commission (CPEC) estimates that fall 2005 enrollment will be slightly higher than the proposed budgeted enrollment. While CPEC enrollment projections for the UC concur with the proposed funding at 2.5 percent, they estimate that the CSU enrollment can grow up to 3.36 percent annually.

**ISSUE 2: STUDENT FEES**

The issue for the Subcommittee to consider is the Governor's proposed student fee increases for both the UC and the CSU.

**BACKGROUND**

**Undergraduate and Graduate Systemwide Fees.** Last November, the UC Board of Regents approved systemwide fee increases of 8 percent for undergraduate students, 10 percent for graduate students and 5 percent for nonresident undergraduates.

The CSU Board of Trustees also approved last November systemwide fee increases of 8 percent for undergraduate students, 8 percent for Teaching Credential students and 10 percent for graduate students.

<b>UNDERGRADUATE AND GRADUATE FEES</b>				
<i>(Charges for Full-Time Students)</i>				
	<b>2004-05 Systemwide</b>	<b>2004-05 Total Fees</b>	<b>Proposed 2005-06 Systemwide</b>	<b>Proposed 2005-06 Total Fees</b>
<b>University of California</b>				
Resident Charge				
Undergraduates	\$5,684	\$6,312	\$6,141	\$6,769
Graduates	\$6,269	\$7,928	\$6,897	\$8,556
Nonresident Charge				
Undergraduates	\$22,640	\$23,268	\$23,961	\$24,589
Graduates	\$21,208	\$22,867	\$21,858	\$23,517
<b>California State University</b>				
Resident Charge				
Undergraduates	\$2,334	\$2,916	\$2,520	\$3,102
Teacher education students	\$2,706	\$3,288	\$2,922	\$3,504
Graduates	\$2,820	\$3,402	\$3,102	\$3,684
Nonresident Charge				
Undergraduates	\$12,504	\$13,086	\$12,690	\$13,272
Graduates	\$12,990	\$13,572	\$13,272	\$13,854

The UC total fees include a registration fee of \$735 and an average campus-based fee of \$628 for undergraduate students and \$1,659 for graduate students.

The CSU total fees include a campus-based fee of \$582 for both undergraduate and graduate students.

**Professional School Fees.** The Governor's budget assumes \$7.3 million in additional revenue from a planned 3 percent average increase in professional school fees. The budget also proposes extending a supplementary fee to professional programs in public health, public policy, and pacific international affairs. Currently, professional school fees vary by program. For 2005-06, the professional school fee is planned to range from a low of \$3,013 for students in nursing programs to a high of \$14,276 for business/management school students. In addition to paying the systemwide and campus-based fees, professional school students and nonresident students also pay special supplementary fees

The following table compares 2004-05 undergraduate and graduate fee levels with the proposed 2005-06 levels:

<b>PROFESSIONAL SCHOOL FEES</b>				
<i>(Systemwide Charges for Full-Time Students<sup>a</sup>)</i>				
	2004-05 Budget Act	2005-06 Proposed	Change	
			Amount	Percent
<b>University of California</b>				
Resident Charge				
Business/management	\$19,324	\$20,368	\$1,044	5%
Law	19,113	20,150	1,037	5
Medicine	18,513	19,532	1,019	6
Dentistry	18,024	19,029	1,005	6
Veterinary medicine	16,029	16,974	945	6
Optometry	14,139	15,027	888	6
Pharmacy	14,139	15,027	888	6
Theater, film, and television	11,249	12,051	802	7
Nursing	8,389	9,105	716	9
Public health	6,269	10,092	3,823	61
New programs <sup>b</sup>	6,269	10,092	3,823	61
Nonresident Charge				
Business/management	\$31,569	\$32,613	\$1,044	3%
Law	31,358	32,395	1,037	3
Medicine	30,758	31,777	1,019	3
Dentistry	30,269	31,274	1,005	3
Veterinary medicine	28,274	29,219	945	3
Optometry	26,384	27,272	888	3
Pharmacy	26,384	27,272	888	3
Theater, film, and television	23,494	24,296	802	3
Public health	20,963	22,337	1,374	7
New programs <sup>b</sup>	20,963	22,337	1,374	7
Nursing	20,634	21,350	716	3
<b>Hastings College of the Law</b>				
Resident charge	\$18,750	\$19,725	\$975	5%
Nonresident charge	30,950	30,950	—	—
<sup>a</sup> Reflects only systemwide charges. Does not include campus-based fees. In 2004-05, average campus-based fees ranged from \$1,199 in public health programs to \$4,101 in the veterinary medicine program.				
<sup>b</sup> Public health, public policy, and international relations and pacific studies.				

**Student Fee Policy.** The UC and the CSU have and will develop their budget plans each year based on the assumption that fees will be increased consistent with the Governor's proposed long-term student fee policy. That policy states that increases in student fees should be equivalent to the rise in California per capita personal income. However, in years in which the systems determine that fiscal circumstances require increases that exceed the rate of growth in per capita personal income, the systems may decide that fee increases up to 10 percent are necessary. *Revenue from student fees will remain with the systems and will not be used to offset reductions in State support.*

**Excess Unit Fee.** In the 2004-05 budget, the Administration proposed to establish an excess unit fee policy. Under this policy, undergraduate students would be charged the full cost for units taken in excess of 110 percent of the units needed to obtain their degree. For most programs, the LAO believes the cap would need to be set at 198 quarter units and 132 semester units. Initially, this proposal assumed that the implementation of this policy would result in General Fund savings of \$9.3 million for the UC and \$24.4 million for the CSU. These savings were revised at May Revise last year to \$1.1 million for the UC while the CSU's estimates remained the same.

This policy is to be implemented over a five-year period—capturing only one-fifth of the potential excess-unit fee revenue in 2004-05, two-fifths of potential excess-unit fee revenue in 2005-06, and, so forth, until all excess-unit fee revenue is scored in 2008-09. This extended implementation period was designed to give the UC and the CSU considerable flexibility in implementing the new policy and determining who should be assessed the higher fee.

Both the UC and CSU are currently developing their respective excess unit fee policies. The UC plans to submit their policy proposal to the UC Regents at either their May or July meeting. The CSU continues to work on their Increased Graduation Initiative to improve students' time-to-degree. This is an effort to look at the number of units students are taking to graduate, make them aware of the threshold they would need to meet before the surcharge applies, give them notification on a timely fashion and provide them with the resources that they need in order to graduate on time.

<b>COMMENTS:</b>
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**LAO Recommendations:**

**Student Fee Policy.** Currently, the state has no student fee policy. Instead of making fee decisions based upon an explicit agreement as to the share of cost or an assessment of other specified factors such as fee levels at similar institutions, the state has made fee decisions based almost entirely on the state's fiscal situation—raising fees in bad fiscal times and lowering them in good fiscal times. Given the recent volatility in fee levels and disparity in cost burden among student groups over time, both the Governor and Legislature worked in 2004-05 to develop a state fee policy. Despite these efforts, fee legislation was not enacted. The LAO recommends that the state consider adopting a fee policy that designates explicit share-of-cost targets. This policy then could be used to guide annual fee decisions.

**Use of Student Fee Revenue.** The LAO estimates that the planned fee increases for the budget year will provide the UC with \$144.6 million in new student fee revenue and the CSU with \$101.2 million. The LAO's concern with this proposal is that, as proposed, the UC and the CSU have the flexibility to decide how to use this new fee revenue without the Legislature

considering their own funding priorities for both systems. The LAO is recommending that the Legislature reject this proposal and instead assess the needs of the UC and CSU and fund the new student fee revenue according to their priorities.

**Excess Unit Fee.** The LAO recommends that the Legislature score \$25.5 million in additional fee revenue associated with the second-year phase-in of the excess-unit fee policy and capture a like amount of General Fund savings -\$1.1 million for the University of California and \$24.4 million for the California State University.

**ISSUE 3: INSTITUTIONAL FINANCIAL AID**

The issue for the Subcommittee to consider is the UC's and CSU's student fee revenue "set-aside" for institutional financial aid.

**BACKGROUND**

The campus-based financial aid programs are established systemwide and administered by the the UC and CSU campuses. The UC's primary need-based institutional aid program is the University Student Aid Program (USAP), and CSU's primary need-based aid program is the State University Grant (SUG) program.

Historically, both systems have been committed to setting aside a portion of student fee revenue for financial aid. As fees, along with the percentage of students having financial need, have increased over time so has the percentage of student fee revenue dedicated to financial aid increasing from 16 percent sixteen years ago to 33 percent beginning in 1994-95. In the 2004-05 budget, however, the Governor proposed, and the Legislature approved, a reduction from the 33 percent to 20 percent in return to aid.

As in prior years, the Governor's budget proposes to allow UC and CSU to set aside a portion of additional student fee revenue for these institutional aid programs. Specifically, the Governor's budget proposes that the UC and CSU set aside an amount equivalent to no less that 20 percent and no more than 33 percent of the revenue generated from student fees to be used for financial aid.

Having been given the flexibility, within a specified range, in determining the amount of student fee return to dedicate to financial aid, the UC Board of Regents approved last November a 25 percent "set-aside" for undergraduates and a 50 percent "set-aside" for graduate students from fee generated revenue to be used for financial aid.

Also last November, the CSU Board of Trustees approved a 25 percent "set-aside" of fee revenue for State University Grants.

Staff has requested both the UC and CSU to present to the subcommittee their respective institutional aid expenditure plans and report on the impact on students on last year's return to aid reduction from 33 percent to 20 percent.

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

**No Basis for Set-Aside.** Neither the state nor the UC or CSU should budget for institutional financial aid by setting aside an arbitrary percentage of new fee revenue. This set-aside approach has no rational policy basis and has resulted in funding levels that are disconnected from identified needs.

**No Accountability Measures.** The fee set-aside approach also disregards basic budgeting standards for accountability and hinders legislative oversight. For example, when asked for

information about the institutional aid set aside, the UC and CSU could estimate neither the number of need-based institutional aid recipients nor the average institutional aid award for the prior, current, or budget years. In lieu of this approach, we continue to recommend the elimination of fixed percentage fee set asides. Instead, the UC and CSU should be required to provide the Legislature with evidence of their student aid needs and justification for any requested augmentation. In the absence of better information or more sophisticated forecasting tools, we recommend the Legislature address any shortfalls in undergraduate financial aid by augmenting the Cal Grant program. Since the Cal Grant program does not address *graduate* financial need, it would be appropriate for the Legislature to consider providing additional resources to the segments in this area, given growth in graduate students and proposed graduate fee increases.

**UC/CSU:**

The 25 percent return to aid, along with the Cal Grant funding, is sufficient to cover the proposed fee increase as well as provide some assistance for other costs of attendance.

**ISSUE 4: ACADEMIC PREPARATION PROGRAMS**

The issue for the Subcommittee to consider is the Governor's proposed unallocated reduction of \$17.3 million for the UC and \$7 million for the CSU.

**BACKGROUND**

**UC Unallocated Reduction.** The Governor's budget proposes a \$17.3 million reduction in unallocated cuts, which the UC can achieve either by reducing academic preparation programs or, reducing enrollment by the same amount. The *2004-05 Budget Act* provided \$29.3 million in General Fund for academic preparation programs.

**CSU Unallocated Reduction.** The Governor's budget proposes a \$7 million reduction in unallocated cuts, which the CSU can achieve by either reducing academic preparation programs or, reducing enrollment by the same amount. The *2004-05 Budget Act* provided \$52 million to fund academic preparation programs. Of this amount, \$7 million were General Fund and \$45 million were CSU redirected funds.

**COMMENTS:**

Staff notes that unallocated reductions have usually allowed the UC and CSU to determine how to implement the reduction. However, in the proposed budget, the Administration has given them the flexibility to make this "unallocated" reduction in either enrollment or academic preparation programs. Both, enrollment and academic preparation programs have been and continue to be a priority for the Legislature when considering proposed budgets.

Staff has requested the UC and CSU to provide a brief update on the status of the funding for these programs and the progress on the Accountability Framework Working Group.

Also, both the UC and the CSU are required in the *2004-05 Budget Act* to submit to the Legislature a report including information on the outcomes and effectiveness of these programs no later than March 15, 2005. The UC's report is overdue and the CSU has submitted a preliminary report on their Early Assessment Program.