

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Wilmer Amina Carter, Chair

WEDNESDAY, MARCH 24, 2010
STATE CAPITOL, ROOM 126
4:00 PM

OVERVIEW OF THE 2010-11 PROPOSED HIGHER EDUCATION BUDGET

2010-11 HIGHER EDUCATION FUNDING OVERVIEW

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HIGHER EDUCATION SEGMENT PERSPECTIVES

- Dr. Jack Scott, Chancellor, California Community Colleges
- Patrick Lenz, Vice President for Budget, University of California
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Public Comment

Items to Be Heard

Issue 1	History of Recent Changes to Higher Education Funding (Information Only)	3
Issue 2	Segments' Report on Implementation of Budget Reductions (Information Only)	10
Issue 3	Overview of the Governor's 2010-11 Budget Proposals	12
6440 6610	Major Funding Proposals for University of California and California State University	14
6870	Major Funding Proposals for California Community Colleges	16
7980	Major Funding Proposals for California Student Aid Commission	19
6420 6600	Major Funding Proposals for California Postsecondary Education and Hastings College of the Law	19

**ISSUE 1: HISTORY OF RECENT CHANGES TO HIGHER EDUCATION FUNDING
(INFORMATION ONLY)**

This agenda item provides background information as to the funding levels appropriated to the higher education segments over the last three years, prior to major funding reductions.

**THE MASTER PLAN FOR
HIGHER EDUCATION**

The 1960 Master Plan for Higher Education expresses the goal that all Californians should be afforded the opportunity to receive a college education. The Legislature has periodically authorized reviews of the plan that included recommendations for statutory changes. Major reviews were completed in 1973, 1987, and 2002. This year, the Legislature has convened a Joint Committee to review and recommend various policy changes for a comprehensive kindergarten through higher education system. Below are three basic state policies on higher education.

- Assigns Missions to the Different Higher Education Segments. The Master Plan envisions the University of California (UC) as the state's primary public research university and directs it to grant baccalaureate, masters, doctoral, and other professional degrees. The California State University (CSU) is to focus on instruction in the liberal arts and sciences and grant baccalaureate and master's degrees. The California Community Colleges (CCC) offers lower-division instruction that is transferable to four-year colleges, provides remedial and vocational training, and grants associate degrees and certificates.
- Specifies Eligibility Targets. According to Master Plan goals, the top 12.5 percent of all graduating public high school students are eligible for admission to UC, the top 33.3 percent are eligible for admission to CSU, and all persons 18 years or older who can "benefit from instruction" are eligible to attend CCC.
- Expresses Other Goals for Higher Education. The Master Plan includes a number of other statements concerning the state's higher education goals and policies. For example, it expresses the state's intent that higher education remain accessible, affordable, high-quality, and accountable.

THE HIGHER EDUCATION COMPACT

Starting in the mid-1990s, the state's public universities have entered into a series of non-binding funding compacts to try to gain greater fiscal and programmatic stability.

Previous Higher Education Funding Agreements. In 1995, UC and CSU entered a four-year compact with the Wilson Administration following several years of fiscal uncertainty caused in large part by the state's economic recession. Under the agreement, the Governor committed to request at least a specified level of General Fund revenue in his annual budget proposals to support base budget increases, enrollment growth, and other priorities. In return, UC and CSU agreed to meet certain program objectives. Desiring to extend this arrangement, UC and CSU negotiated a new agreement with the Davis Administration in 1999. This agreement, known as the "*Partnership*," contained many of the same provisions of the previous compact. The *Partnership* agreement lasted from 1999 through 2003.

Previous Agreements Did Not Deliver Expected Funding. The *Partnership* agreement included provisions for a 5 percent annual base increase for UC and CSU. However, the state experienced a pronounced fiscal deterioration, caused by significantly lower-than-expected revenues. As a result, Governor Davis proposed in the May Revision to his 2001-02 budget to provide UC and CSU with a 2 percent base increase instead of the 5 percent called for under the *Partnership*. The following year he proposed a 1.5 percent base increase—again, less than outlined in the agreement. As shown by these and other experiences, the provisions of the segments' funding agreements are primarily expressions of intent at a point in time. They have not and cannot guarantee budgetary predictability to the public universities.

The Current Compact Agreement. In the Spring of 2004, while confronting a \$17 billion General Fund shortfall, the Governor recommended significant funding reductions to UC and CSU, much of which were backfilled with revenue from student fee increases. While the Legislature deliberated and modified his budget proposals, the Governor developed a new *Compact* with the University of California and California State University to provide specific General Fund beginning in 2005-06. Since the Legislature was not included in the development of this agreement, the Legislative Analyst's Office recommended the Legislature use the annual budget process as a mechanism to fund its legislative priorities and to hold the segments accountable for fulfilling the mission assigned by the Master Plan for Higher Education.

The *Compact* established General Fund increases of 3 percent in 2005-06 and 2006-07, 4 percent in 2007-08, and 5 percent in 2008-09 through 2010-11. Additionally, the segments would be provided funds to cover increases in debt services, retirement contributions, and annuitant health benefits, as well as provide bond funds for capital outlay projects. These funding expectations for enrollment growth, base increases, and student fees did not have a direct link to funding needs derived from the Master Plan.

In exchange, UC and CSU committed to the following:

- Increasing undergraduate student fees by 8 percent in 2005-06 and 2006-07, and afterwards at the growth rate of per capita personal income (although the segments could increase fees up to 10 percent under “compelling circumstances”). Graduate student fees would move toward the goal of 150 percent of undergraduate fee levels. All new fee revenue would be retained by UC and CSU, providing them with new funding on top of the General Fund augmentations discussed on the previous page.
- Providing annual reports on a variety of activities and outcomes.

<p>CHANGES IN HIGHER EDUCATION FUNDING SINCE 2007-08</p>

Prior to Major Funding Reductions. The 2007-08 Budget Act funded the higher education *Compact*, including enrollment growth and cost-of-living increases for all three segments. The 2008-09 and 2009-10 budgets were complicated with retroactive reductions, backfills with federal stimulus revenue, and future deferrals, unallocated reductions, mid-year funding cuts, and other budget solutions that make it difficult to determine meaningful, programmatic funding levels for those years.

General Fund Support has Decline. General Fund support has declined by about \$1.6 billion, or 14 percent, since 2007-08. However, simply looking at state General Fund support can be misleading, as higher education receives other sources of funds in combination with General Fund to support core programs. The other sources are illustrated in the chart on page 13, which are fee revenue, local property tax, and federal funds.

General Fund Support for Higher Education Has Declined

(Dollars in Millions)

	2007-08	2008-09	2009-10	Change From 2007-08	
				Amount	Percent
Universities	\$6,228	\$4,574	\$4,946	-\$1,282	-21%
CCC	4,170	3,944	3,734	-436	-10
Cal Grants	867	888	1,009	142	16
Other	13	12	10	-3	-21
Totals	\$11,278	\$9,418	\$9,699	-\$1,578	-14%

Source: LAO

University of California & California State University

Overall Funding.

General Fund support for UC has declined by about \$660 million, or 20 percent, between 2007-08 and current year. For the 2008-09 budget, \$716.5 million of one-time Federal stimulus funds were used to backfill reductions of a similar amount.

General Fund support for CSU has declined by about \$620 million, or 20 percent, between 2007-08 and current year. For the 2008-09 budget, \$716.5 million of one-time Federal stimulus funds were used to backfill reductions of a similar amount.

Student Fees.

In May 2009, UC had approved a 10 percent system-wide fee increase for Fall 2009, raising fees from \$7,126 in 2008-09 to \$7,788. Due to significant state funding reductions and uncertainties, UC Regents decided in their November meeting to approve a mid-year increase of 15 percent for winter/spring 2010, raising system-wide fees to \$8,373. An additional 15 percent increase was approved effective summer 2010, increasing fees to \$10,302. The UC's fee revenue increased by about \$300 million between 2007-08 and 2009-10.

In July 2009, CSU approved a 32 percent fee increase for 2009-10, increasing the system-wide undergraduate fee from \$3,048 in 2008-09 to \$4,026. CSU has not approved a fee increase of 10 percent for 2010-11, but approved a request for state funds in lieu of the fee increase. The Governor's budget proposal assumes they will approve the 10 percent fee increase, which would lead to system-wide undergraduate fees to increase from \$4,026 to \$4,429. The CSU's fee revenue increased by \$260 million between 2007-08 and 2009-10.

Enrollment Growth.

In 2007-08, both segments received augmentations for 2.5 percent enrollment growth, bringing their budgeted enrollment levels to 198,455 FTE students at UC and 342,893 FTE students at CSU. However, UC enrolled 5,400 more students than budgeted and CSU enrolled approximately 11,000 more students than budgeted.

In 2008-09, the budget did not include explicit augmentations for enrollment and did not specify enrollment targets in order to provide the universities flexibility for responding to unallocated General Fund reductions. UC decided to raise its total enrollment by about 5,000 FTE students, however, actual enrollment exceeded target by about 1,600 FTES. CSU attempted to manage enrollment levels closer to the 2007-08 budgeted level by moving Fall 2008 application deadlines earlier. Despite efforts, CSU's enrollment increased by approximately 3,300 FTES.

In 2009-10, UC adopted a policy to decrease freshman enrollment by approximately 2,300 FTE students, increase transfer enrollment by approximately 500 FTE students, and maintain graduate enrollment at the previous year's level. CSU indicated it intends to admit no students in spring 2010, and have set a goal to reduce overall enrollment by about 40,000 students over a two-year period. The budget directs the segments to report by March 15, 2010 on whether they met their 2009-10 enrollment goals. Enrollment growth will be discussed on the April 21st hearing.

California Community Colleges

Overall Funding. Between 2007-08 and 2009-10, Proposition 98 funding level for CCC was reduced by \$438 million. Of this amount, \$97 million was due to lower than anticipated local property tax revenue. However, once the student fee revenue and deferrals are counted, the total decrease in CCC programmatic funding is \$295 million. The July 2009-10 budget package increased Community College enrollment fees from \$20/unit to \$26/unit in order to generate an additional \$80 million in revenue that would mitigate the impact of reduced state support for apportionments. Lower- and middle-income students are largely shielded from the fee increases by CCC's fee waivers, which cover the full tuition, and the recently expanded federal tax credit.

In 2008-09, community colleges did not receive a COLA, but received 2 percent enrollment growth funding, though demand outpaced funding. CCC did experience a \$47 million local property tax shortfall that was not backfilled by the state. That year, General fund savings were achieved by deferring \$340 million in CCC's apportionment payments by several months, into the 2009-10 fiscal year. No categorical programs experienced funding reductions.

In 2009-10, in contrast, included significant reductions to CCC's apportionment and categorical-program based budgets. The budget imposed a reduction of \$140 million, about 2 percent, for apportionments. This includes an unallocated reduction of \$130 million as well as \$10 million in savings from the elimination of the California High School Exit Exam. Community college apportionments were further reduced by a local property tax shortfall, which was partially backfilled, and currently estimated to be \$50 million. Provisional language expressed the Legislature's intent that CCC's reduce their workload as much as possible to areas other than basic skills, workforce training, and transfer-level coursework.

The budget package deferred an additional \$163 million in apportionment payments from 2009-10 to 2010-11. This brings the total inter-year deferrals to \$703 million when combined with the \$340 million from 2008-09 and a \$200 million deferral from 2003-04.

General Fund support was reduced for categorical programs by a total of \$263 million, or 37 percent, compared to 2008-09 levels. Ten of the CCC's 21 programs received base cuts of 50 percent, with 8 other programs cut between 30 and 40 percent. 12 of CCC's categoricals were moved a "flex item" to improve college districts' ability to contend with the cuts.

Enrollment History. After peaking in 2002, enrollment levels entered a phase of decline then modest growth over a few years. During this time of uneven growth, the state budget repeatedly provided more funding for enrollment growth than community colleges could use. In fact, in order to bring funding into line with the lower enrollment levels, in 2007 the Legislature reduced the system's base budget by \$80 million (the amount of funding associated with approximately 20,000 slots that became vacant before 2006-07).

Consistent with nationwide trends, enrollment at California's community colleges has rebounded strongly since 2007. (This is due in large part to individuals responding to a tight job market.) Enrollment grew so rapidly in 2007-08 that system-wide growth exceeded the budgeted level by about 13,000 Full-Time Equivalent students (FTES). If funded, this excess enrollment would have required about \$56 million in additional apportionment monies. The budget, however, also provided a total of \$43 million in "stability" funding—representing over 9,000 students—for slots that became vacant in declining districts that year.

The 2008-09 Budget Act included an augmentation of \$114 million to fund new enrollment growth of 2 percent, or about 23,000 FTE students. In addition, the 2008-09 base budget retained \$43 million for the enrollment slots that became newly vacant in 2007-08. As a result, the budget provided CCC with enough funding to accommodate an additional 32,000 FTE students, or about 3 percent of base enrollment. Yet, this was insufficient to accommodate the number of students served by CCC. By the end of the year, enrollment had exceeded funding by over 50,000 FTE students. A total of 47 districts ended 2008-09 with at least some "overcap" students, with the remaining 25 districts right at or just below their respective enrollment targets.

The 2009-10 Budget Act included a net \$190 million cut to CCC apportionments (comprised of General Fund reductions as well as shortfalls in other revenue sources). To maintain the same amount of funding per student, districts' enrollment targets were reduced in proportion to the net reduction in base apportionment funding. As a result, funded enrollment levels for CCC in 2009-10 declined by 3.3 percent from the budgeted level in 2008-09 (about 43,000 FTE student slots).

To accommodate these reductions, community colleges have cut the number of course sections that they offer. Districts began the 2009-10 year by reducing the number of course sections offered during the summer by about 30 percent. Most community colleges that the LAO contacted indicated that they have cut sections by 5 percent or more when compared with the previous fall, and that they have made even deeper cuts in the spring term to achieve sufficient savings. Many districts report that while virtually all areas of instruction have been affected by cuts, they have disproportionately targeted physical education and other recreational courses—consistent with intent language included in the *2009-10 Budget Act* that directed colleges to preserve "core" academic and workforce training instruction as much as possible.

California Student Aid Commission (CSAC)

The 2009-10 budget package provided \$967 million in General Fund support to CSAC, rejecting the Governor's proposals to 1) phase out the Cal Grant Programs, 2) decentralize the administration of Cal Grants to the campuses, and 3) eliminate CSAC and California Postsecondary Education Commission and transfer some of their functions to an executive agency.

The Governor in turn vetoed \$6.3 million from CSAC's \$13.6 million state support budget, but signaled a willingness to restore \$4.3 million of this amount if the Legislature enacted a decentralization plan. In the fall 2009, a compromise was reached in the form of AB 187 (ch. 644, 2009), a measure to implement an alternative delivery system pilot program for Cal Grants and restore \$4.3 million for the 2009-10 state operations of CSAC.

**ISSUE 2: SEGMENTS' REPORT ON IMPLEMENTATION OF BUDGET REDUCTIONS
(INFORMATION ONLY)**

The issue before the Subcommittee is informational only and will be incorporated in the testimony of the segments. Staff highlighted major actions reported by segments.

BACKGROUND

The Legislature directed the University of California and California State University to provide a report to the Legislature and the Governor on or before January 10, 2010 describing the implementation of the unallocated reductions to state support in the 2008-09 and 2009-10 fiscal years. The budget act language specifies that the report include information about changes in enrollment, changes in personnel costs, receipt of funds related to the federal American Recovery and Reinvestment Act (ARRA), new fee revenues, and other general purpose funding sources.

Examples of Budget Reduction Management: Both segments implemented various actions to mitigate their General Fund reductions.

- Enrollment Management
 - *University of California:* Served 15,000 unfunded students as of 2009-10. For 2009-10, UC will reduce freshmen enrollment by 2,300 and increase Community college transfers by 500 students.
 - *California State University:* Aligned enrollment levels with available resources, establishing a two-year plan to return to 2007-08 levels. In July 2009, CSU Board of Trustees revised regulations to authorize campuses to review academic status of "super seniors" and to confer degrees on students as appropriate.
- Student Fee Revenue
 - *University of California:* In May 2009, approved a 9.3 percent mandatory system-wide student fee increase. Due to significant reductions in the July budget package, UC decided to approve a mid-year fee increase of 15 percent for 2009-10. This mid-year fee increase is expected to generate \$100.2 million, after redirecting one-third of fee revenue to financial assistance.
 - *California State University:* Increased State University Fee rates by 20 percent. This July 2009 action by the Board of Trustees followed a 10 percent increase authorized in May; the compounded increase equaling 32 percent. CSU's expected fee revenue is \$75 million after redirecting one-third of fee revenue to financial assistance.

- Compensation Changes
 - *University of California:* UC Regents approved a one-year salary reduction/furlough plan, estimated to provide \$184 million in savings. Faculty hiring and merit programs have been frozen or deferred, and layoffs have been instituted.
 - *California State University:* Reduced compensation expenditures through furloughs, estimated to provide \$270 million in savings.
- Structural Efficiencies
 - Both segments reported reducing expenditures by restraining travel, equipment purchases, debt restructuring and implementation of energy saving programs.

ISSUE 3: OVERVIEW OF THE GOVERNOR'S 2010-11 BUDGET PROPOSALS

The issue for the Subcommittee to consider is the Governor's 2010-11 Budget proposal for higher education.

PANELISTS

- Legislative Analyst's Office
- Department of Finance

BACKGROUND

The Governor's January Budget proposal provides \$10.9 billion in General Fund support for higher education, about 12 percent more than the estimated funding level for the current year. The higher education budget includes funding for the University of California (UC), the California State University (CSU), the California Community Colleges (CCC), Hastings College of the Law, the California Student Aid Commission (CSAC), and the California Postsecondary Education Commission (CPEC).

The Governor proposes to suspend the new awards of the Cal Grant Competitive Program, for a savings of \$45 million. Again, the Governor does not provide a rationale for targeting this program aside of asserting that its "largely duplicative of the Cal Grant High School Entitlement program and the Community College Transfer Entitlement program," which is inaccurate. The Competitive program services non-traditional students, many of whom are financially independent from their parents.

The Governor's Budget includes a "trigger list" of reductions that would eliminate UC's and CSU's enrollment growth funding of \$112 million as well as reduce the Cal Grants by an additional \$79 million, in the event that the state doesn't receive a proposed \$6.9 billion in additional federal funding.

The Governor also proposes a constitutional amendment that, beginning in 2014-15, would require at least 10 percent of annual state General Fund support to be spent on the University of California, the California State University, and the state's Cal Grant program. This would represent a substantial increase in funding for these purposes, which together currently receive about 7 percent of General Fund support. The amendment would also require that no more than 7 percent of General Fund expenditures go to state corrections, which currently receives about 10 percent of General Fund spending.

Higher Education Core Funding (Per Governor's 2010–11 Budget Proposal)

(Selected Core Funds, in Millions)

	2007–08 Actual	2008–09 Actual	2009–10 Estimated	2010–11 Proposed
University of California (UC)				
General Fund	\$3,257.4	\$2,418.3	\$2,596.1	\$3,018.6
Fees ^a	1,064.6	1,114.5	1,370.7	1,794.0
ARRA ^b	—	716.5	—	—
Lottery	25.5	24.9	28.1	26.7
Totals	\$4,347.5	\$4,274.3	\$3,994.8	\$4,839.4
California State University (CSU)				
General Fund	\$2,970.6	\$2,155.3	\$2,350.1	\$2,723.4
Fees ^a	900.3	1,092.1	1,158.1	1,260.5
ARRA ^b	—	716.5	—	—
Lottery	58.1	42.1	45.8	43.6
Totals	\$3,929.1	\$4,005.9	\$3,554.0	\$4,027.5
California Community Colleges				
General Fund	\$4,170.3	\$3,944.1	\$3,734.4	\$3,991.1
Fees	291.3	302.7	357.3	365.2
Local property taxes	1,970.7	2,010.7	1,953.2	1,913.3
ARRA	—	—	35.0	—
Lottery	168.7	151.3	160.8	153.2
Totals	\$6,601.0	\$6,408.8	\$6,240.7	\$6,422.8
Hastings College of the Law				
General Fund	\$10.6	\$10.1	\$8.3	\$8.4
Fees ^a	21.6	26.6	30.6	35.7
Lottery	0.1	0.1	0.2	0.2
Totals	\$32.4	\$36.9	\$39.1	\$44.2
California Postsecondary Education Commission				
General Fund	\$2.1	\$2.0	\$1.8	\$2.0
California Student Aid Commission				
General Fund	\$866.7	\$888.3	\$1,008.9	\$1,110.2
SLOF ^c	94.9	117.3	124.3	92.3
Totals	\$961.6	\$1,005.6	\$1,133.1	\$1,202.5
Grand Totals	\$15,873.6	\$15,733.4	\$14,963.6	\$16,538.4
General Fund	\$11,277.7	\$9,418.0	\$9,699.4	\$10,853.7
Fees	2,277.8	2,536.0	2,916.8	3,455.4
ARRA	—	1,433.0	35.0	—
Local Property Taxes	1,970.7	2,010.7	1,953.2	1,913.3
SLOF ^c	94.9	117.3	124.3	92.3
Lottery	252.4	218.4	234.8	223.7

^a The UC, CSU, and Hastings fee revenue does not include amounts diverted to institutional financial aid.

^b American Recovery and Reinvestment Act funding. This money was received in the 2009 calendar year, and was all applied to the 2008–09 fiscal year for UC and CSU.

^c Student Loan Operating Fund.

Source: LAO

MAJOR FUNDING PROPOSALS FOR UC AND CSU

The two university systems would receive General Fund increases above current year of roughly 16 percent each: \$422.6 million for UC and \$373.4 million for CSU. These increases consist of augmentations to:

- Restore earlier one-time General Fund reductions of \$305 million (\$255 million from the February 2009 Special Session veto and \$50 million in “trigger cuts” to each segment due to the state receiving less than \$10 billion in federal stimulus funds.
- Provide new funding for 2.5 percent enrollment growth of \$51.3 million (5,121 FTES) to UC and \$60.6 million (8,290 FTES) to CSU.

Enrollment Targets. The Governor proposes new enrollment targets for both segments. These targets are less than current-year enrollment for both segments: 209,977 FTE students at UC and 339,873 FTE students at CSU.

Enrollment Would Decrease in 2010-11

(Full-Time Equivalent Students)

	2009-10 Enrollment Estimate	2010-11 Enrollment			
		Segments' Plan	Percent Change	Governor's Budget	Percent Change
University of California	213,880	213,049	-0.4%	209,977	-1.8%
California State University	340,643	310,317	-8.9	339,873	-0.2

Source: LAO

Fee Revenue. The chart below shows past, current, and proposed annual student fees at the public colleges and universities. Undergraduate fees at UC would increase by 23 percent (due to an approved 15 percent increase for 2010-11, as well as the annualization of a mid-year increase imposed in the current year). The Governor assumes that CSU will increase its undergraduate fees by 10 percent. The budget recognizes student fee revenues for each segment, after settings aside one-third to augment institutional financial aid programs: \$423.3 million in new revenue for UC and \$102.3 million for CSU (after they approve a 10 percent fee increase).

Annual Education Fees for Full-Time Resident Students

(2007-08 Through 2010-11)

	2007-08	2008-09	2009-10	2010-11 Proposed	Change 2009-10 to 2010-11	
					Amount	Percent
University of California						
Undergraduate	\$6,636	\$7,126	\$8,373	\$10,302	\$1,929	23.0%
Graduate	7,440	7,986	8,847	10,302	1,455	16.4
Hastings College of the Law	\$21,303	\$26,003	\$29,383	\$36,000	\$6,617	22.5%
California State University						
Undergraduate	\$2,772	\$3,048	\$4,026	\$4,429	\$403	10.0%
Teacher Credential	3,216	3,540	4,674	5,141	467	10.0
Graduate	3,414	3,756	4,962	5,458	496	10.0
Doctoral	7,380	7,926	8,676	9,544	868	10.0
California Community Colleges	\$600	\$600	\$780	\$780	—	—

Source: LAO

MAJOR FUNDING PROPOSALS FOR COMMUNITY COLLEGES

As the chart below shows, the Governor's 2010-11 proposal would increase total Proposition 98 funding for CCC by \$219 million, or 3.9 percent, over revised current year level. When deferral payment is excluded, CCC would grow by \$56 million, or 1 percent. The Governor proposes to save \$23 million by applying a -0.38 percent Cost-of-Living Adjustment (COLA), adjusting program funding after two consecutive years of the state not providing positive COLAs.

California Community Colleges – Governor's Proposition 98 Budget Proposal

(Dollars in Millions)

2009-10 (Enacted)	\$5,668.8
Local property tax adjustment	\$6.3
2009-10 Revised	\$5,675.1
Proposed Budget-Year Augmentations	
Enrollment growth for apportionments	\$126.0
Proposed Budget-Year Reductions	
Cost-of-living adjustment (COLA) for apportionments	-22.1
COLA adjustment for certain categorical programs	-0.8
Reduce Career Technical Education (CTE) Initiative	-28.0 ^a
Reduce Extended Opportunity Programs and Services	-10.0
Reduce Part-Time Faculty Compensation program	-10.0
Suspend mandates	— ^b
Other Adjustments	
Payment of prior-year deferral	163.0
Technical adjustments	1.3
2010-11 Proposal	\$5,894.6
Change From 2009-10 Revised Budget	
Amount	\$219.4
Percent	3.9%
^a The Governor's budget proposes to provide the CTE Pathways Initiative with a total of \$20 million in Proposition 98 resources in 2010-11, with an additional \$48 million in non-Proposition 98 support through the Quality Education Investment Act (grand total of \$68 million for the program).	
^b Reduction of \$3,000 to reflect proposal to suspend, rather than defer, three mandates.	
Source: LAO	

Programmatic Funding Changes Proposed. Community Colleges apportionment funding totals \$5.4 billion in 2010-11, an increase of \$264 million, or 5.1 percent from current year level. The Governor's budget would reduce total funding for categorical programs by about 11 percent from the current year level. As proposed by the Governor, CCC would receive 11.8 percent of total Proposition 98 funding in 2010-11.

Community College Programs Funded by Proposition 98^a

(Dollars in Millions)

	Actual 2007-08	Actual 2008-09	Revised 2009-10	Proposed 2010-11	Change From 2009-10	
					Amount	Percent
Apportionments						
General Fund	\$3,385.7	\$3,144.2	\$3,213.0	\$3,517.0	\$304.0	9.5%
Local Property Taxes	1,970.7	2,010.7	1,953.2	1,913.3	-40.0	-2.0
Subtotals	(\$5,356.4)	(\$5,154.9)	(\$5,166.2)	(\$5,430.3)	(\$264.1)	(5.1%)
Categorical Programs						
Academic Senate	\$0.5	\$0.5	\$0.3	\$0.3	—	—
Apprenticeships	15.2	14.6	7.2	7.1	—	-0.4%
Basic Skills Initiative	33.1	33.1	20.0	20.0	—	—
CalWORKs student services	43.6	43.6	26.7	26.7	—	—
Campus child care support	6.8	6.8	3.4	3.3	—	-0.4
CTE Initiative	10.0	20.0	48.0	20.0	-\$28.0	-58.3
Disabled Students Program	115.0	115.0	69.2	69.0	-0.3	-0.4
Economic and Workforce Development	40.7	46.8	22.9	22.9	—	—
EOPS	122.3	122.3	73.6	63.3	-10.3	-14.0
Equal Employment Opportunity	1.7	1.7	0.8	0.8	—	—
Financial Aid Administration	51.6	51.3	52.9	55.0	2.1	4.0
Foster Parent Education	5.2	5.3	5.3	5.3	—	—
Fund for Student Success	6.2	6.2	3.8	3.8	—	—
Matriculation	101.8	101.8	49.2	49.0	-0.2	-0.4
Nursing grants	21.0	22.1	13.4	13.4	—	—
Part-Time Faculty Compensation	50.8	50.8	24.9	14.9	-10.0	-40.1
Part-Time Faculty Office Hours	7.2	7.2	3.5	3.5	—	—
Part-Time Faculty Health Insurance	1.0	1.0	0.5	0.5	—	—
Physical Plant/Instructional Support	27.3	27.3	—	—	—	—
Telecommunications/ Technology	26.2	26.2	15.3	15.3	—	—
Transfer Education	1.4	1.4	0.7	0.7	—	—
Subtotals	(\$688.7)	(\$705.0)	(\$441.5)	(\$394.8)	(\$46.7)	(-10.6%)
Other Appropriations						
District financial-crisis oversight	\$0.6	\$0.6	\$0.6	\$0.6	—	—
Lease revenue bond payments	63.1	68.1	66.8	68.9	\$2.0	3.0%
Mandates	4.0	—	—	—	—	—
Subtotals	(\$67.7)	(\$68.7)	(\$67.4)	(\$69.4)	(\$2.0)	(3.0%)
Totals	\$6,112.8	\$5,928.6	\$5,675.1	\$5,894.6	\$219.4	3.9%

^a Excludes available funding appropriated in prior years and scores deferred monies in the fiscal year in which they were received.

CalWORKs = California Work Opportunity and Responsibility to Kids; CTE = Career Technical Education; EOPS = Extended Opportunity Programs and Services.

Source: LAO

The Governor proposes four major policy changes, one of which, the categorical flexibility proposal, veers away from the flexibility proposal passed in the July budget package. These issues will be discussed in depth during the Community College hearing on April 21, 2010 and Proposition 98 Mandate Suspension will be discussed on May 4, 2010. Below are quick descriptions of the proposals.

- Categorical Cuts & Flexibility Proposal. The Governor proposes to remove the Career Technical Education (CTE) program from the “flex item” and replace it with the three protected programs: Extended Opportunities Program and Services (EOPS), Basic Skills, and Fund for Student Success. The proposal would also restore CTE’s funding to 2008-09 levels by significantly reducing EOPS and Part-Time Faculty Compensation, which experienced roughly 40 percent reductions last year. The July budget package reduced funding of categorical programs by \$263 million compared to 2008-09 levels. In order for districts to better accommodate reductions, 12 of the 21 programs were moved to a “flex item.” From 2009-10 through 2012-13, districts are permitted to transfer funds from categorical programs in the flex item to any other categorical spending support.
- Suspends all Mandates. The Governor proposes to suspend all mandates, allowing districts to choose whether to perform various activities.
- Contract Out Services. The budget would ease restrictions on districts to contract out for non-instructional services.
- Suspend the 75/25 percent law. The Governor would suspend a requirement that prescribes the percentage and number of full-time faculty that districts must employ each year.

2009-10 Budget Package Created “Flex Item” for Many California Community College Categorical Programs

Programs Included in Flex Item	Programs Excluded From Flex Item
Academic Senate	Basic Skills Initiative ^a
Apprenticeship	CalWORKs Student Services
Campus Child Care Support	Disabled Students Program
Career Technical Education Initiative ^b	Extended Opportunity Programs and Services ^a
Economic and Workforce Development	Financial Aid Administration
Equal Employment Opportunity	Foster Care Education Program
Matriculation	Fund for Student Success ^a
Part-Time Faculty Compensation	Nursing Grants
Part-Time Faculty Health Insurance	Telecommunications and Technology Services
Part-Time Faculty Office Hours	
Physical Plant and Instructional Support	
Transfer Education and Articulation	

^a Governor proposes to include this program in flex item beginning in 2010-11.

^b Governor proposes to remove this program from the flex item in the current and budget years.

Source: LAO

**MAJOR FUNDING FOR
CALIFORNIA STUDENT AID
COMMISSION**

California Student Aid Commission (CSAC) provides financial aid to students through a variety of grant and loan programs. The proposed 2010-11 budget for the commission provides \$1.1 billion in General Fund support, 10 percent increase from current year. This increase is attributed to \$132 million augmentation to fully fund the Cal Grant entitlement program due to recent UC and CSU fee increases. It also fully funds the Cal Grant C program for occupational and technical training, and several loan assumption programs.

The Governor's budget also proposes to suspend Cal Grant competitive awards. Although current law authorizes 22,500 new competitive awards annually, the budget includes no funding for new awards in 2010-11. Trailer bill language proposed by the Administration would authorize new awards only to the extent funding is provided in the annual budget act.

The Governor's proposes trigger reductions, to be implemented in the event a proposed \$6.9 billion in additional federal funding does not materialize, includes an additional reductions of \$79 million in Cal Grants, by decoupling award amounts from fee levels (\$78 million) and freezing income eligibility limits (\$1.1 million).

**MAJOR FUNDING FOR CPEC
AND HASTINGS**

California Postsecondary Education Commission (CPEC) was established in 1974 as the State planning and coordinating body for higher education. CPEC serves a role in integrating policy, fiscal, and programmatic analyses regarding California's entire system of postsecondary education.

The Governor's 2010-11 budget proposal provides CPEC with \$2 million, restoring their funding back to the 2008-09 level. This restoration reflects a reversal of the furlough plan.

Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, the first Chief Justice of the State of California. On March 26, 1878, the Legislature provided for affiliation with the University of California. Hastings is the oldest law school and one of the largest public law schools in the West.

The Governor's 2010-11 budget proposal provides Hastings with \$8.4 million, a 1.1 percent increase from current year. Hastings' state funding was reduced by \$1.8 million in the current-year budget.

STAFF COMMENTS

This subcommittee will explore each segment's funding appropriation and policy proposals as well as consider the Legislative Analyst's Office's fiscal recommendations in up-coming hearings.

Staff recommends that major decisions on appropriate funding levels and reductions be made until after the May Revision when the Legislature will have updated information about the State's fiscal situation.