

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

Assemblymember Julia Brownley, Chair

WEDNESDAY, MARCH 14, 2007
STATE CAPITOL, ROOM 126
4:00 P.M.

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LAO'S ANALYSIS OF THE 2007-08 BUDGET BILL HIGHER EDUCATION BUDGET

MAJOR FUNDING SOURCES

The 2007-08 budget proposal provides \$11.4 billion from the General Fund for higher education. This amount is \$539 million, or 5 percent, more than current-year funding. The budget also projects that local property taxes will contribute \$2.1 billion for California community colleges (CCC) in 2007-08, which reflects an increase of \$193 million, or 10 percent, more than proposed current-year funding.

Student fee revenue at all the public higher education segments, including Hastings College of the Law, supports \$3.8 billion of proposed expenditures. This is \$238 million, or 6.6 percent, greater than fee revenue in the current year. Most of this increase comes from a proposed 7 percent fee increase at the University of California (UC), which will generate \$105 million, and a proposed 10 percent fee increase at the California State University (CSU), which would generate \$98 million. Fee revenue at CCC is projected to decline by about \$33 million due mainly to the full-year effect of reducing student fees from \$26 to \$20 per unit that became effective January 1, 2007.

FUNDING BY SEGMENTS

UC. The Governor's proposed budget provides General Fund appropriations of \$3.3 billion, which is \$192 million, or 6.2 percent, more than the proposed current-year estimate. The other major source of funding for UC's educational programs is student fee revenue. This is projected to total \$2.2 billion in 2007-08, which is 7.7 percent above the current-year estimate. When General Fund and fee revenues are combined, UC's budget would increase by 6.8 percent.

CSU. The Governor's proposed budget provides \$3 billion in General Fund support, which is an increase of \$165 million, or 5.9 percent, from the revised current-year level. Fee revenue would increase by \$123 million, or 9.9 percent, to \$1.4 billion. Total General Fund and fee revenue combined would increase by 7.1 percent.

CCC. The Governor's proposed budget provides \$4.2 billion in General Fund support, which is \$117 million, or 2.9 percent, above the current-year amount. Local property tax revenue, the second largest source of CCC funding, would increase by 10.4 percent, to \$2.1 billion. Fee revenue would provide an additional \$282 million, reflecting a reduction of \$39.8 million, or 12.4 percent. Combined, these three sources of district apportionments (General Fund support, property taxes, and fee revenue) would amount to \$6.6 billion, which reflects an increase of \$271 million, or 4.3 percent.

The table below shows the major General Fund budget changes proposed by the Governor for the three segments:

Governor's 2007- 08 Higher Education Budget Proposal				
<i>(Dollars in Millions)</i>				
	2006-07	2007-08	Change	Percent
UC				
General Fund	\$3,078.0	\$3,270.1	\$192.1	6.2%
Fees	1,998.0	2,151.0	153.0	7.7
Subtotals	(\$5,076.0)	(\$5,421.1)	(\$345.0)	(6.8%)
All other funds	\$13,252.8	\$13,738.3	\$485.5	3.7%
Totals	\$18,328.8	\$19,159.3	\$830.6	4.5%
CSU				
General Fund	\$2,811.4	\$2,976.3	\$165.0	5.9%
Fees	1,243.4	1,366.4	123.0	9.9
Subtotals	(\$4,054.8)	(\$4,342.7)	(\$287.9)	(7.1%)
All other funds	2,631.9	2,433.2	-198.7	-7.5
Totals	\$6,686.7	\$6,775.9	\$89.2	1.3%
CCC				
General Fund ^a	\$4,115.6	\$4,232.9	\$117.4	2.9%
Local property tax	1,857.4	2,050.5	193.1	10.4
Fees	321.7	281.9	-39.8	-12.4
Subtotals	(\$6,294.7)	(\$6,565.4)	(\$270.6)	(4.3%)
All other funds ^b	\$262.8	\$267.2	\$4.4	1.7%
Totals	\$6,557.6	\$6,832.6	\$275.1	4.2%
CSAC				
General Fund	\$827.2	\$891.6	\$64.4	7.8%
All other funds	832.5	832.2	-0.3	—
Totals	\$1,659.7	\$1,723.8	\$64.1	3.9%
Other agencies				
General Fund	\$12.8	\$12.8	—	-0.2%
Fees	26.4	28.3	\$1.9	7.4
Other	24.9	17.9	-6.9	-27.9
Totals	\$64.1	\$59.1	-\$5.0	-7.8%
Grand Totals	\$33,296.8	\$34,550.7	\$1,253.9	3.8%
General Fund	\$10,845.0	\$11,383.8	\$538.8	5.0%
Fee revenue	3,589.6	3,827.7	238.1	6.6
Local property tax	1,857.4	2,050.5	193.1	10.4
All other funds	17,004.9	17,288.8	284.0	1.7
^a Excludes teachers' retirement funds and bond payments.				
^b Excludes other funds maintained in local budgets.				

MAJOR BUDGET CHANGES

- **Base Augmentations.** The Governor's proposed budget provides a four percent base funding increase for both the UC (\$117 million) and the CSU (\$109 million) for salary increases and other costs.
- **Enrollment Growth.** For the UC, the budget includes \$54.4 million for 2.5 percent enrollment growth, which is sufficient to fund 5,340 additional full-time equivalent students (FTES). For the CSU, the budget includes \$65.5 million for 2.5 percent enrollment growth, which is sufficient to fund 8,355 additional FTE students. For CCC, the budget provides \$109.1 million for two percent enrollment growth to fund an additional 23,000 FTES.
- **Student Fees.** Both the UC Board of Regents and the CSU Board of Trustees are scheduled to approve a seven percent and a 10 percent student fee increase respectively at their March meetings. These increases would generate an additional \$105 million for UC and \$97.8 million for CSU. Fees at the CCC were reduced by 23 percent in January 2007, and the Governor proposes that this reduced fee remain in place through 2007-08.
- **Capital Outlay.** The Governor's proposed budget includes about \$1.5 billion in new capital outlay funding for 2007-08. In addition to this funding, the budget provides \$592 million in carryover and re-appropriated funding that was originally appropriated in prior years. For CSU, the budget also includes \$50 million in bond funding for special repairs that is counted as part of CSU's support budget.

MAJOR BUDGET COST DRIVERS

According to the LAO analysis, annual base adjustments for higher education generally arise from three major factors: (1) enrollment growth, (2) inflation, and (3) student fee levels. Specifically, these factors influence costs in the following ways:

Enrollment Growth. For UC and CSU, the state uses a "marginal cost" formula that estimates the added cost imposed by enrolling one additional full-time equivalent student. This estimate includes instructional costs such as faculty salaries and teaching assistants, related educational costs such as instructional materials and libraries, administrative costs, and student services. Because faculty, particularly at UC, spend part of their time performing non-instructional activities such as research, the marginal cost formula "buys" part of these other activities with each additional student enrolled. A different methodology is used to calculate funding for community college enrollment growth, although functionally the approaches are similar.

Inflation. Like other parts of the State budget, general inflationary pressures cause higher education costs to rise over time. For example, inflation increases the cost of supplies, utilities, and services that are purchased by campuses. In addition, inflation creates pressure to provide cost-of-living adjustments (COLA) to maintain the buying power of faculty and staff salaries.

Student Fees. Student fees comprise a portion of total revenue available to the segments. When fees are increased, this generates new revenue that either can substitute for General Fund revenue, thus creating General Fund savings, or increase total funding for the higher education segments. Either way, fee revenue and General Fund support work together interchangeably to support a given level of services.

BUDGET CHOICES TO MAKE

In their analysis, the LAO advises that, although the State's higher education budget involves billions of dollars of expenditures and a variety of interrelated issues, the Legislature's budgetary choices involve three basic steps:

Adjust Base Budgets. In any given year, funding contained in a segment's base budget may need to be adjusted to account for one-time costs or anomalies. For example, if the base budget contained funds for expected enrollment growth that never materialized, it could be appropriate to reduce that segment's enrollment funding to match actual experience. Similarly, the inclusion of funds for a one-time purpose, such as start-up costs for a new campus, would normally be backed out of a segment's base budget for the following year.

Determine What New Higher Education Costs the Budget Should Accommodate. Given the State's current fiscal circumstances, the LAO believes that first priority for budget increases should be given to those new costs that are necessary to maintain existing services. The largest costs in this area typically include enrollment growth and inflationary adjustments. After addressing these base issues, the Legislature then typically considers proposals for program expansions or new programs. The sum of these various changes results in new costs to each higher education segment or agency.

Determine How Costs Should Be Covered. After making decisions about the total budget for each segment, the Legislature then has to decide how these costs are to be covered by various funding sources. In general, education-related programs at the three higher education segments are funded with a combination of State General Fund support and student fee revenue. These funds are essentially interchangeable. The LAO believes that the key decision for the Legislature to make in this area is: What share of total costs should students and their families bear?

COMMENTS:

LAO and CPEC staff will brief members of the subcommittee on the short term and long term issues challenging the State's higher education institutions as members begin to consider the Governor's 2007-08 budget proposals.

ITEMS TO BE HEARD

ITEM 6120 CALIFORNIA STATE LIBRARY (STATE LIBRARY)

ISSUE 1: SUPPORT BUDGET

The issue for the subcommittee to consider is the State Library's support budget.

BACKGROUND

The California State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library administers and promotes literacy outreach programs such as the California Library Literacy Services, develops technological systems to improve resource sharing, and administers the Public Library Foundation (PLF) Act, which established a formula under which the State contributes funding for basic local library services through grants.

The State Library provides the following services:

State Library Services (SLS) Program. The program serves as the central reference and research library for the Governor, the Legislature and State government officials and staff. The State Library also provides library services to the public by making available an extensive government publications collection, a law library, an outstanding collection of California historical materials, library statistical data, and information on laws pertaining to the establishment and operation of local libraries. The State Library also coordinates the distribution of State and federal publications to public libraries, loans Braille cassette and talking books, magazines and playback equipment for the blind and physically handicapped, and provides nonpartisan analytical research and specialized library services on major State issues through the California Research Bureau (CRB).

Library Development Services (LDS) Bureau. These programs provide State and federal financial and technical consulting assistance to libraries to help them extend and improve services to all residents.

The primary assistance programs include:

Library Services and Technology Act (LSTA). This is a federal program which provides competitive grants to libraries to develop new and innovative library services, provide technology assistance, promote library networking and resource sharing, and provide library services to underserved populations. For the current year, the LSTA federal allocation for California is \$16.5 million and the State Library estimates that the amount for the budget year will be at least this amount. There are 154 grants to local libraries in the current year funded with federal funds.

Public Library Foundation (PLF) Act. The Public Library Foundation (PLF) was established in 1982 as a way to mitigate the negative effects of Proposition 13 on local libraries. Funding goes to local libraries to support their operations costs and the costs of materials. In addition, the PLF has helped libraries address the effects of the property tax shifts of the early 1990's, when some libraries suffered additional losses of between 30 and 50 percent of their budgets. State law established the per-capita cost of the program to be \$12 for 1982-83, with an inflation adjustment equal to the average statewide percentage increase in revenue limits for unified school districts. The amount needed to fully fund the programs is also driven by the population served by local libraries. The 2007-08 proposed budget includes \$21.3 million in funding for the PLF, which is the same funding level as the current year. The State has never fully funded the program according to the formula prescribed in statute. If the State was to fund the PLF according to statute, the General Fund cost in the budget year would be \$94.2 million.

Local libraries receiving PLF grants have the flexibility to use these grant funds as they see fit as long as it is for library support. This funding is used by local libraries for staffing, extending library hours, developing and extending library programs such as homework help centers and after school reading programs, and purchasing books, research materials and bookmobiles.

California Library Literacy and English Acquisition Services. In 2003, the Legislature combined the four literacy services provided by the public libraries under one program entitled the California Library Literacy and English Acquisition Services Program. The program provides community-centered literacy assistance to adults who wish to reach their literacy goals and use library services effectively.

The four literacy programs include:

Adult Literacy Services. The program represents a partnership between State and local government to improve the literacy skills of more than 20,000 adults annually. Trained volunteers provide one-to-one and small group tutoring for adults in a library setting. In 2005-06, the State Library distributed \$5.1 million to public libraries statewide to support these services, a fraction of what it takes to run and support these programs. However, the State's funding serves as leverage for local fundraising as local libraries generate four times that amount in support from cities, counties, businesses, foundations and other sources. Despite this support, this program is considered to be under-funded as public libraries continue to keep long waiting lists for individuals who would like to receive these services.

Families for Literacy Services. In 1988, the Legislature created the Families for Literacy Services Program, a statewide family literacy initiative for public libraries already providing adult literacy services, which would allow them to extend these services to include the families of low literate adults with preschool children. The program's goal is to introduce adult learners and their families to the value and joy of reading helping assure that each child will enter school ready to read. In 2005-06, there were 3,714 participating families in 74 library systems with 40,174 children's books being distributed to help them build home libraries.

English Language and Literacy Intensive Program. The program was created to provide innovative, bilingual and English-language instruction for targeted school-age children to better prepare them for school-administered standardize tests. The instruction is provided by staff and volunteers and is designed to meet the individual needs and goals of the children receiving these services. The family component of this program involves parents and siblings in fun, library-based programs. In 2005-06, the program provided services for 7,092 English-language learner school children and 3,455 English-language learner parents.

Mobile Library Literacy Services. The program was developed by the State Library in partnership with the California Children and Families Commission now known as First 5 California. Mobile library vehicles deliver literacy and other services to hard-to-reach and underserved areas in many parts of the State. Bookmobiles visit low-income housing developments, migrant camps, local day care centers, Head Start programs, recreation centers, family resource centers and community health clinics to reach their targeted audience of families with children ages 0-5. The program distributed 78,246 books in 2005-06.

California Library Services Act. The Act promotes resource sharing by enabling public libraries and participating public library systems to provide coordinated information services, support communication and delivery among libraries, and provide reimbursement for interlibrary loans of materials and direct loans to non-resident borrowers.

Information Technology Services. The program supports library technology operations and infrastructure including the integrated bibliographic library system, networks infrastructure, data communications, microcomputer systems and applications, electronic mail, web-related interfaces and services, Internet access and related support services.

The following table provides information on the State Library's expenditures by fund including all funding sources that support the Library's programs:

California State Library: Summary of Expenditures by Fund			
<i>(Dollars in Millions)</i>			
	Actual 2005-06	Estimated 2006-07	Proposed 2007-08
General Fund	\$47,443	\$62,697	\$62,780
California State Law Library Special Account	450	581	580
Deaf and Disabled Telecommunications Program Administrative Committee Fund	426	552	552
Federal Trust Fund	19,067	19,572	19,540
Reimbursements	187	1,633	1,730
California Public Library Construction and Renovation Fund	1,828	2,825	2,874
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund	1,127	1,780	1,817
Total Expenditures (All Funds)	\$70,558	\$89,640	\$89,873

MAJOR BUDGET PROPOSALS

Integrated Library System Replacement Project (ILS). The Governor's budget proposes a redirection of \$52,000 from the PLF program to fund the initial stage of this project. This is the first year funding for a multi-year project to acquire and implement a replacement library system to support the State Library's operations.

California Civil Liberties Public Education Act. The Governor's budget continues to provide \$500,000 in General Fund support for this program, which reflects no change from the *2006-07 Budget Act* funding level. The program was created in 1999 as the result of the passage of the California Civil Liberties Public Education Act to provide competitive grants for public educational activities and the development of educational materials about the internment of Japanese Americans during World War II.

Public Library Foundation (PLF). The Governor's budget continues to provide \$21.3 million for this program, which is the same amount provided in the *2006-07 Budget Act*. Funding for this program has fallen from an all time high of \$56.8 in 2000-01 to \$14.3 million in 2004-05.

COMMENTS:

Susan Hildreth, the State Librarian, will comment on the State Library's goals and objectives for the budget year.

ISSUE 2: INTEGRATED LIBRARY SYSTEM (ILS) REPLACEMENT PROJECT

The issue for the subcommittee to consider is the State Library's Integrated Library Replacement Project funding request.

BACKGROUND

The Governor's budget proposes a redirection of \$52,000 from the PLF program to fund the initial stage of this project. This is the first year funding for a multi-year project to acquire and implement a replacement library system to support the State Library's operations.

The State Library's ILS system was implemented as a result of a feasibility study report, the Basic Library Services System Upgrade, submitted in November 1985 to the Department of Finance (DOF) Office of Information Technology. DOF approved the project and authorized the purchase of a commercial turnkey system (an ILS) from a library automation vendor at an initial contract cost of nearly two million dollars to automate the manual processes supporting the State Library's four basic service functions, which include public catalog, circulation, materials acquisition, and serials control.

The ILS allows the State Library to manage an inventory of nearly two million items in various formats, handle about three fourths of a million transactions per year, and provide web access to literally millions of electronic information resources online including current database subscriptions.

There are two main reasons why the ILS needs to be replaced:

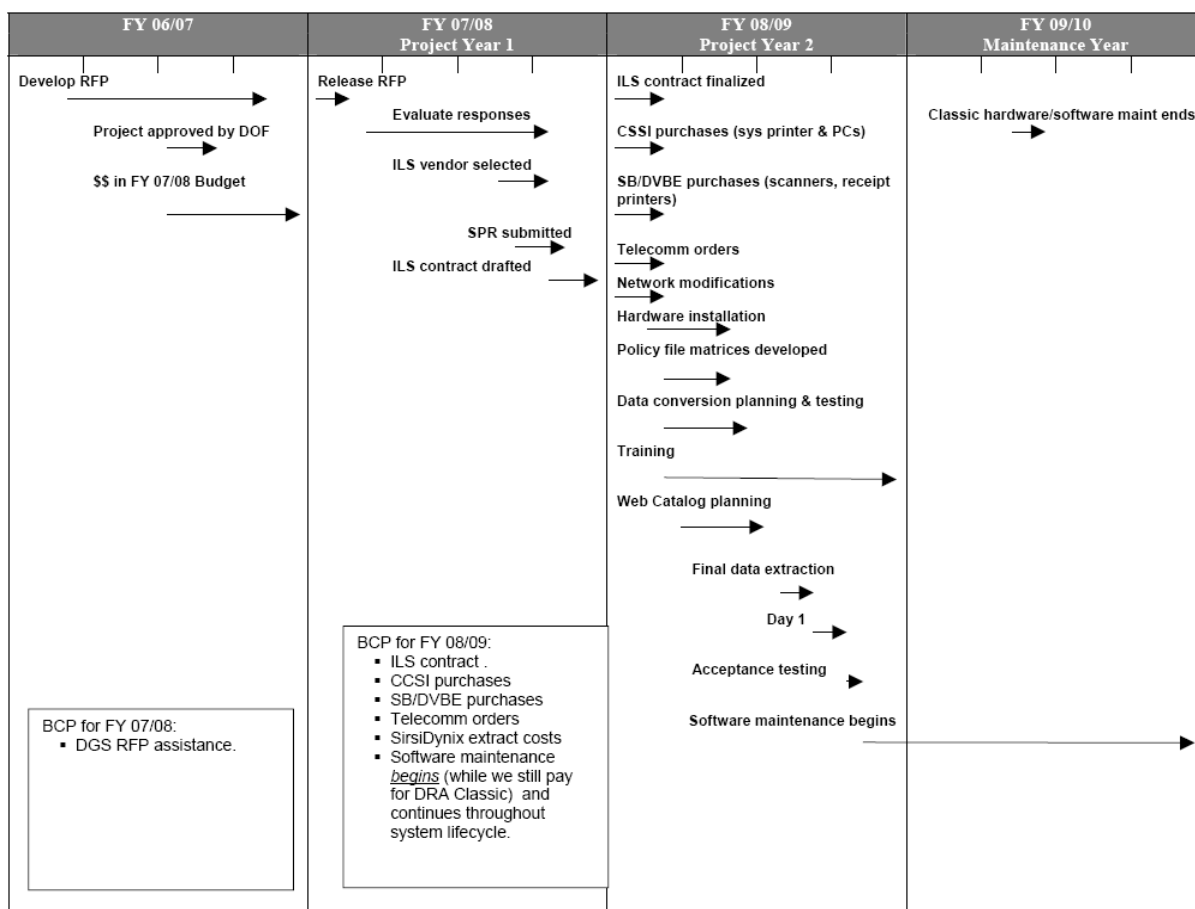
1. *Discontinued Software.* Data Research Associates (DRA), the ILS's vendor was acquired by a competing library automation vendor, SirsiDynix, Inc., in 2001. SirsiDynix subsequently announced plans to discontinue the DRA software including modifications needed to keep the system abreast of the changing standards in library automation. Because bibliographic record and data transmission standards are continuously evolving, it is critical that library system software be modified on an ongoing basis to adapt to these changes. Once software modification ceases, the unsupported system will begin to lose compatibility with changing hardware, software and library system standards and will eventually lose interoperability with other libraries, bibliographic vendors and bibliographic utilities.
2. *Discontinued Server.* In October 2006 Hewlett Packard (HP) discontinued the sale of the Alpha line of HP servers on which ILS runs. HP will replace the Alpha line with HP's new Integrity servers. The Integrity servers run a different flavor of the operating system (OpenVMS Integrity) than the Alpha servers (OpenVMS AXP). SirsiDynix will not port the current Integrated System applications software to the Integrity operating system. After October 2006, no server replacement option will exist that is compatible with the Library's ILS. Once the 8-year old server fails, recovery of the ILS will be dependent upon the availability of a used server and/or parts.

Why address these issues now? According to the State Library's ILS Budget Change Proposal (BCP) submitted to DOF, these ILS issues are being addressed until now because the software that supports the State Library's Braille and Talking Book Library (BTBL), which is a component of the ILS, was also facing a cessation of support. Based on a number of factors, the State Library's management made a strategic decision to address the BTBL system migration first.

During 2002-2005, the State Library focused on resolving the BTBL's business problem of running an unsupported circulation system. With the completion of the Braille and Talking Book Library project in spring 2006, the State Library is now directing its focus on the remaining problem of running an unsupported ILS for all of its other core library operations.

While SirsiDynix's cessation of support of the existing ILS creates a major risk to current operations, changes in the library automation marketplace that have developed since the Library's purchase of the DRA system in 1989 present opportunities for implementing functional enhancements with a replacement system. Specifically, features now commonly found in modern commercial off-the-shelf library system products include functionality that streamlines direct access for library users to a wide range of electronic information.

Project Timeline. The table below provides information on the proposed project timeline for the ILS replacement project:



Project Funding. The estimated cost for the project is \$1.6 million for three years including \$1.3 million in one-time purchases of goods and services and \$249,728 in continuing costs for maintenance and telecommunication services. Existing staff resources of \$913,958 will be utilized for the project.

The funding proposal is detailed below:

Fiscal Year	Total Projects	Redirected Staff Costs	Redirected Existing System Costs*	Percent Redirected	General Fund Needed	Percent via Augmentation
2007-08	\$191,658	\$140,246	-	73.2%	\$51,322	26.8%
2008-09	2,052,768	633,313	-	30.9%	1,419,455	69.1%
2009-10	299,459	140,399	\$23,487	54.7%	135,573	45.3%
Total	\$2,543,795	\$913,958	\$23,487		\$1,606,350	

*The existing system will be decommissioned in 2009-10. Beginning 2010-11, redirected existing system costs will total \$47,684 annually.

COMMENTS:

Budget staff recognizes the need and the urgency to replace the ILS system. However, there is concern with the funding requested in the Governor's proposal. The State Library's ILS BCP includes a request of \$51,322 in 2007-08. The Governor's budget proposes to redirect these funds from the PLF.

There is great concern from the public library community on the redirection of PLF funds. The PLF has never received full funding according to the formula in statute. On the contrary, funding for this program has fallen from an all time high of \$56.8 in 2000-01 to \$14.3 million in 2004-05. During this five-year period, public library use has reached record highs with increased circulation of 10 percent per capita. Although public libraries are cognizant of the different budget priorities competing for scarce resources, they are concerned that, even though the \$52,000 redirection is a relatively small investment, the PLF would be used as a funding source for future library projects.

**ITEM 6420 CALIFORNIA POSTSECONDARY EDUCATION COMMISSION
(CPEC)**

ISSUE 1: SUPPORT BUDGET

The issue for the Subcommittee to consider is CPEC's proposed support budget.

BACKGROUND

CPEC provides policy analyses, advice and recommendations to the Legislature and the Governor on statewide policy and funding priorities for colleges, universities, and other postsecondary education institutions. The Commission has 16 members, which represent the public and private university segments, the State Board of Education, students and the general public. In addition, CPEC has other responsibilities including reviewing the proposed new academic facilities and programs, making recommendations on the need for and proposed location of new campuses and off-campus centers, developing and updating long-range plans for postsecondary education, and identifying potential barriers to student access and success.

The Governor's budget proposes a total of \$11.2 million for CPEC, of which \$9 million are federal funds for the Teacher Quality Grant Program that supports professional development activities for K-12 teachers and \$2.2 million in General Fund to support the Commission's operations. The proposed budget funds 21 positions, including an executive director, staff counsel, seven policy and programs analytical staff, six information services staff, and five administrative and support staff. Two positions are supported with federal funds.

The following table shows the Commission's expenditures by fund:

California Postsecondary Education Commission (CPEC)			
Summary of Expenditures by Fund			
<i>(Dollars in Millions)</i>			
	2005-06	Estimated 2006-07	Proposed 2007-08
State Operations			
General Fund	\$1,995	\$2,177	\$2,186
Federal Trust Fund	275	447	449
Reimbursements	--	3	3
<i>State Operations</i>	<i>\$2,270</i>	<i>\$2,627</i>	<i>\$2,638</i>
Local Assistance			
General Fund	--	--	--
Federal Funds	\$8,401	\$8,579	\$8,579
<i>Local Assistance</i>	<i>\$8,401</i>	<i>\$8,579</i>	<i>\$8,579</i>
Total	\$10,671	\$11,206	\$11,217

COMMENTS:

CPEC's budget is a maintenance budget. Budget staff has no concerns with the proposed 2007-08 funding.

ISSUE 2: BUDGET BILL LANGUAGE (BBL): CPEC'S ROLES AND RESPONSIBILITIES AND NEW FACULTY COMPENSATION METHODOLOGY

The issue for the subcommittee to consider is the Governor's proposed budget bill language and the LAO's recommendations regarding the prioritization of CPEC's role and responsibilities and a new faculty compensation methodology.

GOVERNOR'S PROPOSED BBL

The Governor's budget includes the following provision within CPEC's budget item:

Provision:

1. *To the extent that the funding in this item is not adequate to fulfill all of the Commission's statutory responsibilities, it is the intent of the Legislature that the Commission prioritize its workload to ensure at a minimum that the following statutory responsibilities are completed in a timely manner during the 2007-08 fiscal year:*
 - a) *All reviews and recommendations of the need for new institutions for the public higher education segments, inclusive of community colleges, pursuant to subdivision (e) of Section 66903.*
 - b) *All reviews and recommendations of the need for new programs for the public higher education segments, inclusive of community colleges, pursuant to subdivision (f) of Section 66903.*
 - c) *Consistent with the statutory role of the Commission pursuant to subdivision (s) of Section 66903, a determination of options and a recommendation for a new methodology for faculty compensation comparisons for the University of California (UC) and the California State University (CSU) faculty. Considerations for this effort shall address the intent that faculty compensation shall include, but not necessarily be limited to, all forms of employee compensation including regular salary for the academic year, fringe benefits including health, dental, and vision insurance, vehicle use, housing and mortgage assistance, life insurance, opportunities for additional compensation and any other forms of compensation. The new methodology shall also identify options for assessing the appropriateness of UC and CSU compensation levels. These options should include, but not be limited to, comparing UC and CSU compensation with other appropriate university systems or campuses. Such options shall specifically consider comparisons with other public systems separately from options which may include private institutions. For purposes of developing options and recommendations, the Commission shall consult with the Legislative Analyst, the Department of Finance, the University of California and the California State University. The Commission shall initiate this effort no later than September 1, 2007, and shall provide a progress report and timeline for completion of the study no later than January 1, 2008. It is intended that a final report of options considered and recommendations be available to the Governor's Office and the*

Legislature by June 30, 2008. It is intended that the University of California and the California State University provide any and all data in a timely manner as necessary to facilitate this effort.

BACKGROUND

In 2002-03, CPEC's budget was reduced from \$3.7 million to \$2.2 million in General Fund to support 21.6 positions, out of the 43.6 existing positions, and to cover costs for other operating expenses. Recognizing that such a reduction would affect CPEC's workload, the *Supplemental Report of the 2002 Budget Act* directed the LAO to re-examine CPEC's statutory functions.

The LAO's Supplemental Report included the following findings in regards to CPEC's role, responsibilities, data and analysis:

- CPEC needs to prioritize which functions can reasonably accomplish within existing resources
- CPEC's competing functions between its advocacy/coordination role conflict with its oversight/analysis role
- CPEC's data collection and efforts and ability to provide statewide data, specifically on fiscal and student profiles, are well respected. Therefore, CPEC should continue to generate such annual publications
- CPEC's responsiveness to information requests can be slow and its policy analysis lack incisiveness and independence.

Reassessing CPEC's Responsibilities

According to the LAO analysis on this issue, the Governor's proposed budget bill would make three responsibilities the highest priority for CPEC:

- All reviews and recommendations of the need for new institutions for the public higher education segments
- All reviews and recommendations of the need for new programs for the higher education segments
- A determination of options and a recommendation for a new methodology for assessing the adequacy of the UC and the CSU faculty compensation and comparing it with compensation at other university systems and campuses

The LAO believes that the proposed language is a good start. However, the LAO recommends that the Legislature adopt substitute language that (1) assigns priority to these coordination roles and CPEC's data management responsibilities, and (2) directs CPEC to report specified compensation data for UC, CSU, and a broad range of other institutions.

LAO Analysis

The Legislature should include among CPEC's priorities its data management responsibilities. The LAO believes that CPEC's level of staffing is sufficient to perform other duties beyond those identified in the Governor's proposal. In particular, CPEC should be expected to continue its core data management responsibilities. Therefore, the LAO recommends that the Legislature also adopt language assigning priority to the maintenance of CPEC's comprehensive higher education database.

The Legislature should rethink the basis for comparing faculty compensation and direct CPEC to take an alternative approach to collecting and reporting specified faculty compensation information. Currently, CPEC produces salary reports that compare UC and CSU faculty salaries with the salaries at a selected group of other public and private universities. CPEC selects these comparison institutions in consultation with a Faculty Salary Advisory Committee that includes representatives of the UC and CSU, DOF, and the LAO. The comparison institutions are intended to represent the segments' competitors in the labor market.

Among other things, the faculty salary reports identify "parity figures" for UC and CSU, which represent the percentage difference between the segment's current faculty salaries and the projected average salary of its comparison institutions for the coming year. In other words, the "parity figure" represents the percent increase in the California segment's salaries that would be required to match the average of the comparison institutions in the budget year. Based on the information included in the March 2006 salary report, CPEC estimated that CSU's faculty salaries would need to increase by 18 percent to match its comparison institutions, while UC's would have to increase by 14.5 percent.

The LAO has two major concerns with the current faculty salary methodology:

- *CPEC's faculty salary reports only measure base salaries.* Faculty typically receive various other forms of compensation as well, including retirement and health benefits, sabbaticals, housing allowances, and bonuses. Several studies commissioned by the segments have found that the non-salary benefits provided to UC and CSU faculty are worth considerably more than the average of their comparison institutions. In fact, when all forms of compensation are considered, UC and CSU appear to be at or above their comparison averages. Thus, reporting a parity figure based only on salaries can be misleading.
- *It is time to rethink the basis for comparing faculty compensation.* The UC and CSU are large, diverse, multi-campus systems while most of their comparison institutions are single campuses. While some UC and CSU campuses may appropriately be compared with these institutions, many UC and CSU campuses are far different in terms of selectivity, national ranking of programs, and other factors. For example, a very general illustration is provided by *US News & World Reports'* 2007 academic rankings of the nation's top research universities. The highest-rank UC campus (Berkeley at 21) is in the middle of the CPEC salary comparison institutions (4 UC campuses are ranked higher and 4 are ranked lower). But other UC campuses do not compare as well with UC Riverside, for example, ranked lower (at 88) than all but one comparison institution. Variation within the CSU system is similarly broad. For example, CSU campuses are spread fairly evenly among the four quartiles of

“master’s universities” ranked by *US News*. While rankings of any individual institution in this or any other survey is subject to debate, they do give a rough relative measure of a school’s standing. In other words, they provide one reasonable indicator of who the segments are competing against in the labor market. Comparing UC and CSU with different groups of institutions can tell a very different story than what CPEC’s recent reports have suggested.

The following table provides information on the current UC and CSU comparison institutions:

UC and CSU Current Comparison Institutions	
California State University Comparison Institutions	
Public Institutions	Private Institutions
Arizona State University	Bucknell University
Cleveland State University	Loyola University, Chicago
George Mason University	Reed College
Georgia State University	Tufts University
Illinois State University	University of Southern California
North Carolina State University	
Rutgers, the State University of New Jersey, Newark	
State University of New York, Albany	
University of Colorado, Denver	
University of Connecticut	
University of Maryland, Baltimore County	
University of Nevada, Reno	
University of Texas, Arlington	
University of Wisconsin, Milwaukee	
Wayne State University	
University of California Comparison Institutions	
Public Institutions	Private Institutions
State University of New York, Buffalo	Harvard University
University of Illinois, Urbana	Massachusetts Institute of Technology
University of Michigan, Ann Arbor	Stanford University
University of Virginia, Charlottesville	Yale University

LAO Recommendations

In their analysis, the LAO recommends that the Legislature direct CPEC to collect and report specified compensation information, including regular salaries, fringe benefits, vehicle use, housing and mortgage assistance, life insurance, and additional forms of compensation. This information would provide a more complete measure of an important cost of the State's public university systems. The LAO believes that even without comparison institution information, this data would give the Legislature and the general public a sense of the investment that is made in higher education faculty. In addition, it would facilitate comparisons between UC and CSU faculty compensation, as well as tracking of increases in compensation funding over time.

In order to provide context for the UC and CSU faculty compensation data, the LAO also recommends that CPEC be directed to collect the same information for other selected institutions. However, the LAO does not recommend that a new group of comparison institutions be established because CPEC's approach of calculating a "parity" number based on a single set of comparison institutions improperly implies a precise compensation target. Instead, the LAO recommends that CPEC calculate compensation for broad ranges of institutions, both public and private, that reflect the spectrum of campuses within the UC and CSU systems. The intent would not be to develop a close match of the UC and CSU systems, but rather to reflect the breadth of institutional characteristics within those systems. Such information would allow interested parties to draw their own conclusions about the adequacy of faculty compensation. For example, the Legislature might adopt an expectation that UC or CSU faculty be compensated at some percentile level of the range measured by CPEC. On the other hand, it might not set a target at all, and instead simply use the information as one factor in considering what level of funding to appropriate for the systems each year. University officials might use the information as they recruit and make offers to new faculty. At the same time, this information would not preclude the systems and their campuses from using available funding to make whatever compensation decisions they felt would best serve their needs.

LAO's Suggested BBL Language. The LAO is suggesting the following additions/changes to the Governor's proposed language:

Provision:

1. *To the extent that the funding in this item is not adequate to fulfill all of the Commission's statutory responsibilities, it is the intent of the Legislature that the Commission prioritize its workload to ensure at a minimum that the following statutory responsibilities are completed in a timely manner during the 2007-08 fiscal year:*
 - a) *All reviews and recommendations of the need for new institutions for the public higher education segments, inclusive of community colleges, pursuant to subdivision (e) of Section 66903.*
 - b) *All reviews and recommendations of the need for new programs for the public higher education segments, inclusive of community colleges, pursuant to subdivision (f) of Section 66903.*

(c) All data management responsibilities pursuant to Education Code Section 66903, subdivision (l) and (m), as well as its responsibilities as the designated state educational agency to carry out federal education programs, as called for in Education Code Section 66903 (d).

~~(e) (d) Consistent with the statutory role of the Commission pursuant to subdivision (s) of Section 66903, a determination of options and a recommendation for a new methodology for study of faculty compensation comparisons for the University of California (UC) and the California State University (CSU) faculty. Considerations The methodology for this effort shall address the intent that faculty compensation shall include, but not necessarily be limited to, all forms of employee compensation including regular salary for the academic year, fringe benefits including health, dental, and vision insurance, vehicle use, housing and mortgage assistance, life insurance, opportunities for additional compensation and any other forms of compensation. CPEC shall also use the same methodology to measure faculty compensation for a broad range of public and private institutions that reflects the spectrum of campus within the UC and CSU systems. The new methodology shall also identify options for assessing the appropriateness of UC and CSU compensation levels. These options should include, but not be limited to, comparing UC and CSU compensation with other appropriate university systems or campuses. Such options shall specifically consider comparisons with other public systems separately from options which may include private institutions. For purposes of developing options and recommendations this methodology, the Commission shall consult with the Legislative Analyst, the Department of Finance, the University of California and the California State University. The Commission shall initiate this effort no later than September 1, 2007, and shall provide a progress report and timeline for completion of the study no later than January 1, 2008. It is intended that a final report of options considered and recommendations be available to the Governor's Office and the Legislature by June 30, 2008. It is intended that the University of California and the California State University provide any and all data in a timely manner as necessary to facilitate this effort.~~

Council of UC Faculty Associations

Charles Nash, Vice President for External Relations, is respectfully requesting that faculty representatives are part of the working group as this issue directly impacts their members (See Attachment II).

COMMENTS:

Budget staff has no concerns with the proposed language prioritizing CPEC's reviews and recommendations regarding new institutions and new programs for the higher education segments as well as with the LAO's suggestion to also prioritize CPEC's data management responsibilities. However, in regards to the new faculty compensation methodology, budget staff recommends that the subcommittee direct the LAO, DOF, UC, CSU, CPEC and UC to work on budget bill language to be considered by the subcommittee at a later hearing. Such language would (1) make recommendations to create a working group that includes all stakeholders on this issue including UC and CSU faculty representatives, (2) identify and set the parameters for the information to be collected, (3) include any additional implementation costs to be accrued, and (4) establish goals for the purpose and use of this information.