

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

**Assemblymember Julia Brownley, Chair**

**WEDNESDAY, MARCH 21, 2007**  
**STATE CAPITOL, ROOM 126**  
**4:00 P.M.**

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**ITEM 6600 UC HASTINGS COLLEGE OF THE LAW (HASTINGS)****ISSUE 1: SUPPORT BUDGET**

The issue for the subcommittee to consider is the Hastings 2007-08 proposed support budget.

**BACKGROUND**

Hastings College of the Law (Hastings) was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice. On March 26 of that same year, the Legislature provided for affiliation with the University of California (UC). Policy for Hastings is established by the Board of Directors and is carried out by the Chancellor, Dean, and other officers of the College. The Board has 11 directors; one is a representative of Hastings and the other 10 are appointed by the Governor and approved by the Senate. Directors serve for 12 year-terms. The Juris Doctorate degree is granted by the Regents of the University of California and signed by both the UC President and the Chancellor and Dean of Hastings.

The Governor's proposed budget includes a total funding of \$47.8 million for Hastings, including \$10.6 million in General Fund. Hastings General Fund support decreases from the prior year appropriation level of \$52.9 million due to a one-time \$4 million appropriation in non-State funds to support renovation activities for the law library. In addition, the State provided a one-time allocation of \$523,000 in General Fund for moving and relocation expenses associated with the code compliance upgrade of the College's building at 200 McAllister Street.

The following table provides information on Hastings expenditures by fund including all funding sources:

<b>UC Hastings College of Law: Summary of Expenditures by Fund</b>			
<i>(Dollars in Millions)</i>			
	<b>Actual 2005-06</b>	<b>Estimated 2006-07</b>	<b>Proposed 2007-08</b>
General Fund	\$8,363	\$10,671	\$10,631
University Funds (Unclassified)	26,529	28,041	28,993
State Lottery Education Fund	183	196	196
Extramural Funds	10,865	14,013	8,061
<b>TOTAL EXPENDITURES (ALL FUNDS)</b>	<b>\$45,940</b>	<b>\$52,921</b>	<b>\$47,881</b>

**MAJOR BUDGET PROPOSALS**

**Support Budget Increase.** The Governor's budget includes \$406,000, or a four percent increase, consistent with the Compact agreement between the Governor, the UC and the California State University (CSU).

**Student Fees.** The Governor's budget reflects an increase of \$2 million associated with an eight percent student fee increase, which was adopted by the Hastings Board of Directors in September 2006.

**COMMENTS:**

Nell Jessup Newton, Chancellor and Dean of the College, will comment on the College's goals and objectives for the budget year.

**ISSUE 2: STUDENT FEES**

The Chancellor and Dean of Hastings will present on the challenges for students to pursue their law degree with increasing fees and the College's ability to continue to provide a high quality legal education.

**BACKGROUND**

According to the UC Board of Regents 2007-08 budget, the University and the Governor agreed in the 2004 Compact to develop a plan to achieve fee levels for professional school students that would take into consideration a number of factors including: 1) average fees at other public comparison institutions, 2) average cost of instruction, 3) total cost of attendance, 4) market factors, 5) the need to preserve and enhance the quality of the professional programs, 6) the State's need for more graduates in a particular discipline, and 7) the financial aid requirements of professional school students.

Although the UC Office of the President and the campuses are currently engaged in long-term fee policy discussions, a multi-year plan for professional fee increases has yet to be developed at this time. In absence of such plan and as a Board with its own fee-setting authority, the Hastings Board of Directors approved an eight percent fee increase for Hastings students at its September 2006 meeting.

The table below provides information on estimated student fees for 2007-08:

<b>UC Hastings College of the Law: 2007-08 Schedule of Estimated Tuition and Fees*</b>			
<i>(Dollars in Thousands)</i>			
<b>Tuition and Fees</b>	<b>Fall 2007</b>	<b>Spring 2008</b>	<b>Annual</b>
Enrollment Fee	\$10,651	\$10,652	\$21,303
Activity Fee**	82	-	82
Academic Enhancement Fee	100	100	200
Exam Materials and Processing Fee	60	60	120
Health Services Fee	155	155	310
Accident & Sickness Insurance Premium***	775	1,085	1,860
<b>Total Resident Fees</b>	<b>\$11,823</b>	<b>\$12,052</b>	<b>\$23,875</b>
Non-Resident Tuition	5,612	5,613	11,225
<b>Total Non-Resident Fees</b>	<b>\$17,435</b>	<b>\$17,665</b>	<b>\$35,100</b>

\*Tuition and fees are estimated and subject to further action by the Hastings Board of Directors, the Legislature and the Governor. These are subject to change without notice.

\*\*The activity fee is charged annually. Students who attend in the spring are charged the fee in the spring semester.

\*\*\*The Accident and Sickness Insurance may be waived for the year with proof of alternate insurance.

On Wednesday, March 14, 2007, the UC Board of Regents approved a seven percent fee increase for professional students in most programs and a 10 percent increase for law students at UCLA, UC Berkeley and UC Davis and business students at UCLA and UC Berkeley.

<b>COMMENTS:</b>
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### Student Fees

In the 2007-08 UC Board of Regents budget, the University states that professional schools fees are likely to be needed for several years for most professional school programs to help cover salary increases, other cost increases and the gap in salaries for professional schools' faculty. Furthermore, the University states that a sustained program of fee increases over and above the levels proposed for other professional schools is anticipated for the law and business schools at Berkeley and UCLA to begin to restore excellence and ensure broad accessibility.

The table below provides information on Hastings fees over a seven-year period:

<b>UC Hastings College of the Law: Fees Over A Seven-Year Period</b>				
<i>(Dollars in Thousands)</i>				
<b>Tuition and Fees</b>	<b>2000-01</b>	<b>2003-04</b>	<b>2006-07</b>	<b>2007-08</b>
Resident Student Fee	\$10,175	\$13,725	\$19,725	\$21,303
Non-Resident Tuition	9,121	10,666	11,225	11,225
Health Services Fee	226	275	356	356
Health Insurance	749	1,203	1,707	1,707
Other Fees	82	402	402	402
<b>Total Resident</b>	<b>\$11,232</b>	<b>\$15,605</b>	<b>\$22,190</b>	<b>\$23,768</b>
<b>Total Non-Resident</b>	<b>\$20,353</b>	<b>\$26,271</b>	<b>\$33,415</b>	<b>\$34,993</b>

During the same period of time, State support (including lottery funds) for Hastings has decreased from \$14.5 million in 2000-01 to \$10.6 million in 2007-08, which reflects a reduction of \$3.9 million.

Hastings concerns with student fee increases include:

- As fees increase, prospective students may choose to pursue their legal education at private institutions or institutions out-of-state.
- Student debt will continue to increase. For those students eligible for financial aid, the average law school debt has increased from \$78,000 to \$82,000 for resident students.

- To the extent that enrollment levels decline as nonresident students make other choices, Hastings revenues generated from these students will decline since nonresident students pay in excess of their average cost of instruction.

### **LAO Recommendation on Student Fees**

Absent a State fee policy, the LAO recommends that the current share of educational costs borne by students through fees be maintained in 2007-08. The LAO estimates that this would entail a modest fee increase of 2.4 percent, which is their projection of inflation for the budget year.

**ISSUE 3: STUDENT FACULTY RATIO**

The Chancellor and Dean of Hastings will present on the current challenges in addressing the student-faculty ratio.

**BACKGROUND**

Budget cuts in the early 2000's affected Hastings General Fund support dramatically. Revenue growth over time has come from student fee revenue. And the State's General Fund support has not increased in the last 17 years.

<b>UC Hastings College of the Law: Funding Changes</b>			
<i>(Dollars in Millions)</i>			
<b>Funds</b>	<b>1990-91</b>	<b>2000-01</b>	<b>2007-08</b>
General Fund	\$13.7	\$14.5	\$10.8
Student Fees	3.5	13.5	26.3
<b>Total</b>	<b>\$17.2</b>	<b>\$28</b>	<b>\$37.1</b>

According to Hastings, the College needs to achieve substantial parity with other UC law schools. Hastings current faculty-ratio is 20.4 to 1. The College is an outlier among its sister UC law schools whose average student to faculty ratio is 13.2:1 for UCLA, 13.5:1 for UC Davis, 14.2:1 for UC Berkeley (U.S. News and World Report 2005 data). An additional 32.8 faculty per full-time equivalent (FTE) student would be required for Hastings to achieve a student-faculty ratio equal to the UC average of 13.2:1.

<b>UC Hastings College of the Law: Student-Faculty Ratio</b>		
<b>Law School</b>	<b>2005 Student-Faculty Ratio</b>	<b>Overall US News Ranking</b>
UC Hastings	20.4	43
UCLA	11.8	15
UC Davis	13.5	34
UC Berkeley	14.2	8

Hastings currently has 60 FTE faculty positions. For the College to hire an additional 32.8 faculty per FTE student, the total current-year cost would be \$5.1 million.

As a way to address the student-faculty ratio, Hastings has proposed to utilize \$462,000 of new student fee revenue to hire an additional 3 entry-level faculty to begin a multi-year effort to remedy this imbalance between the College and its sister UC law schools. Hastings had requests that this amount be matched by an additional \$462,000 in State General Fund. With the addition of a total of 6.0 faculty positions per FTE student, Hastings would have a student-faculty ratio of 18.6 to 1. This would be an improvement and, while still well below the UC average, it would represent a positive first step in a multi-year effort to improve the College's position relative to all American Bar Association (ABA) schools from 175 of 190 to 162 of 190 using 2005 ABA data.

<b>COMMENTS:</b>
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**DOF**

According to DOF, Hastings staff presented a \$462,000 funding augmentation request to them in the Fall. However, DOF believes that the proposal did not meet the criteria for additional funding given that this proposal represented a discretionary increase in context of the continued existence of the structural budget deficit and other competing needs. In addition, the Administration has extended the base funding provisions of the Compact to Hastings, as has traditionally been done in past Administrations. This provides discretionary new funding to Hastings that could be used toward this objective at the College's discretion. DOF further notes that Hastings did not present any information to substantiate how the current student-faculty ratio impacts the quality of the College's educational programs or the ability of their graduates to find employment after graduation.



**ITEM 6610 CALIFORNIA STATE UNIVERSITY (CSU)**

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**ISSUE 1: FACULTY AND STAFF COMPENSATION (INFORMATIONAL ITEM ONLY)**

Both, Representatives for the California Faculty Association (CFA) and CSU budget staff will provide members with information on the status of CFA's negotiations with the CSU Administration.

**BACKGROUND****CSU'S WEB SITE INFORMATION****September 15, 2006**

Negotiators for the CSU and the CFA met for the last 3 days at the Office of the Chancellor in Long Beach and, unfortunately, were unable to reach an agreement on a new labor agreement. The parties have been bargaining for a new contract to replace the contract that was originally scheduled to expire on June 30, 2005. The terms of the contract have been extended since June of 2005, and continue to be in effect at the current time.

**December 20, 2006**

Mediation sessions between the CSU and the faculty union ended on Dec. 15 without the parties reaching an agreement. Both parties maintained their positions on all outstanding issues during mediation sessions. The parties will now move to fact-finding, which is the next step for impasse procedures under the Higher Education Employer-Employee Relations Act.

**CFA'S WEB SITE INFORMATION**

Bargaining between CFA and the CSU has been going on for over 20 months. CFA's issues include the following:

- CSU faculty salaries are much lower than faculty salaries at similar universities and the average salary for community college faculty surpassed the CSU average
- Almost all non-economic (no cost) terms are settled

- Economic terms center on salary increases and the disagreement can be broken down into disagreement over the following:
  - 1) Raises for year 1 (the current budget year, retro to July 2006)
  - 2) Raises for years 2, 3 and 4 (2007-08 to 2009-10)

**COMMENTS:**

CSU budget staff and CFA representatives will provide information on the current status of the bargaining negotiations.

**ISSUE 2: STUDENT HEALTH SERVICES (INFORMATIONAL ITEM ONLY)**

Dr. Floyd Anscombe, currently a physician at California State University, Northridge, would like to present to members his concerns with CSU's student health centers funding.

**BACKGROUND**

CSU Student Health Centers provide services to students many of whom are uninsured and have no other healthcare resources. These services include prevention, care, and treatment of issues and conditions that have been identified by the National College Health Assessment as the top obstacles to academic retention and success. Preventative health practices among college students include vaccinations for Hepatitis B, meningitis, varicella, influenza, dental exams, gynecological exams, and blood pressure and cholesterol checks. The top five factors affecting college students' academic performance include stress, cold/flu/sore throat; sleep disorders, concerns for friend or family members, and depression or anxiety disorders. Of the 166 student health centers accredited by the Accreditation Association for Ambulatory Health Care (AAAHC), 20 are in the CSU.

**How are Student Health Centers Funded?** Other than the State University Fee (SUF), all CSU students must pay campus fees, which cover the cost for services such as student health services, child care services, cultural and recreational programs, and capital improvements that provide extracurricular benefits for students such as Recreational Centers.

According to Dr. Anscombe, student fees are unable to cover the full cost of critical and needed health services. Despite significant health fee increases paid by students, all health fee revenues collected on many campuses are not available for maintenance or growth of health services to meet growth in enrollment and student needs. The Legislature, via the Chancellor's Office, has appropriated additional funding to cover negotiated cost-of-living/salary increases for union health center staff. Unfortunately, on many campuses, these funds are not forwarded to the student health centers.

Dr. Anscombe believes that inadequately funding the student health centers results in the following:

- Relative or actual reduction in student health services
- Mandatory payment of negotiated staff pay increase without budget augmentation leads to a reduction in the health center workforce

- Inability to fill vacant health care and education positions due to non-competitive salaries
- Increased waiting time for appointments on many campuses that can be up to three weeks
- Insufficient appointment availability for appropriate clinical follow-up resulting in a lower quality of patient care and risk of loss of accreditation
- Inadequate mental health services on many campuses, thus placing some of the most vulnerable students in jeopardy

The table below provides information on fees including campus-based health fees:

CSU 2006/07 Academic Year Resident Undergraduate Fees<sup>1</sup>

	State University Fee (SUF)		Campus Fees (Annual fees that must be paid to apply to, enroll in, or attend the university)						Total (6.1 units or greater)
	Up to 6 units	6.1 units or more	Health Facilities	Health Services	Instructionally Related Activities	Materials, Services, and Facilities	Student Body Assoc.	Student Body Center	Total Campus Fees
Bakersfield	\$1,464	\$2,520	6	210	66	\$12	261	312	\$3,387
Channel Islands	1,464	2,520	6	120	100	70	124	40	2,980
Chico	1,464	2,520	6	224	224	4	110	324	3,412
Dominguez Hills	1,464	2,520	6	130	10	0	135	210	3,011
East Bay	1,464	2,520	6	129	48	3	75	165	2,946
Fresno	1,464	2,520	6	174	20	46	63	210	3,039
Fullerton	1,464	2,520	6	60	52	46	118	208	3,010
Humboldt	1,464	2,520	6	257	96	10	101	185	3,175
Long Beach	1,464	2,520	6	90	50	10	88	100	2,864
Los Angeles	1,464	2,520	6	165	60	0	54	275	3,080
Maritime Academy	1,464	2,520	6	580	130	30	210	0	3,476
Monterey Bay	1,464	2,520	0	0	53	291	96	42	3,002
Northridge	1,464	2,520	6	102	30	0	144	240	3,042
Pomona	1,464	2,520	6	135	40	0	88	226	3,015
Sacramento	1,464	2,520	6	132	21	0	241	362	3,282
San Bernardino	1,464	2,520	6	122	74	15	66	289	3,092
San Diego	1,464	2,520	50	170	190	20	30	180	3,160
San Francisco	1,464	2,520	6	210	198	4	84	144	3,166
San Jose	1,464	2,520	6	143	198	30	147	252	3,296
San Luis Obispo	1,464	2,520	7	153	232	871	238	328	4,349
San Marcos	1,464	2,520	50	100	80	112	100	130	3,092
Sonoma	1,464	2,520	24	218	370	24	144	348	3,648
Stanislaus	1,464	2,520	6	187	47	65	98	120	3,043
<b>CSU Average</b>	<b>\$1,464</b>	<b>\$2,520</b>	<b>\$10</b>	<b>\$166</b>	<b>\$104</b>	<b>\$72</b>	<b>\$122</b>	<b>\$204</b>	<b>\$3,199</b>

Average Campus Based Fees: \$679

<sup>1</sup>Credential SUF rates \$1,698 0-6 units / \$2,922 6.1+ units; Graduate SUF rates \$1,800 0-6 units / \$3,102 6.1+ units. Nonresident tuition is \$226/quarter unit & \$339/semester unit with Acad. Yr. maximum of \$10,170 (nonresident tuition paid by nonresident students in addition to SUF and campus fees).

Dr. Anscombe is requesting that the Legislature increase funding for CSU's student health centers. He believes that this must be a specific allocation and such funding must be forwarded directly for health and counseling centers services and not be re-allocated for other uses by individual campuses. At the campus level, campuses must not be allowed to use health services fees as sources of revenue to fund other campus activities, either directly through removal of previously allocated General Fund support or by the institution of new or expanded charges for previously discounted or subsidized services.

**COMMENTS:**

CSU Board of Trustees' Executive Order 661 on Fees, Rates and Charges, effective August 23, 1996, delegates to campus presidents the authority to adjust campus-based mandatory fees. Each campus is required to establish a Fee Advisory Committee made up of administrators, faculty, staff and students, which make recommendations to the campus president on proposed fee actions. Before increasing campus-based mandatory fees, an advisory student referendum must be conducted. Most CSU campuses have a Health Advisory Committee, which, as the Fee Advisory Committee, makes recommendations to the campus president, specifically, on the scope of service, delivery, funding and other issues related to campus health services.

According to the CSU's Policy on University Health Services, effective April 28, 2005, campuses may fund basic health services by:

- Assessing a mandatory health services fee. However, as noted on the fee table in the previous page, health services fees vary from campus to campus. This implies that services on individual campuses may vary from those provided elsewhere in the system due to the availability of medical personnel, facilities and equipment.
- Such fees shall not exceed substantially the cost of services provided.
- Additional fees may not be charged except for the cost of laboratory tests sent to reference laboratories and the actual acquisition cost of vaccines, medications and devices/appliances.
- All proceeds of the mandatory student health fee and interest earned shall be used to support Student Health Center operations.
- Campuses may also fund basic student health services using General Fund allocations.

At their January 2000 meeting, the CSU Board of Trustees directed the Office of the University Auditor to review the Student Health Centers system-wide. The proposed scope of such audit would include all services rendered in or through student health facilities, including activities of doctors, nurses, and other medical providers.

Among the audit recommendations to the Chancellor's Office in the Student Health Centers System-wide report dated April 1, 2001, include:

- Update and complete the student health services policy. The current policy was incomplete, outdated and conflicted with other CSU standards.
- Evaluate and revise campus reporting requirements.
- Define and formalize oversight responsibilities for an effective monitoring function for system-wide student health services activities

Subcommittee members may want to request CSU budget staff for an update on the implementation of these audit recommendations. In addition, it would be helpful to understand how the Chancellor's Office allocates any General Fund to each campus to support student health services. And, at the campus level, how are these funds allocated to the student health centers?

If CSU budget staff is unable to provide this information at this hearing, members may want to request that it be presented at a later hearing.

**ISSUE 3: SUPPORT BUDGET**

The issue for the subcommittee to consider is the CSU's 2007-08 proposed support budget.

**BACKGROUND**

The CSU system is comprised of 23 campuses, including 22 university campuses and the California Maritime Academy. While each campus 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. Each campus requires a basic program of general education for graduation regardless of the major selected by the student. CSU also offers the doctorate in Education, as well as a limited number of doctoral degrees offered jointly with the UC and with Claremont Graduate School. In addition to providing baccalaureate and master level instruction, the CSU trains approximately 60 percent of California's K-12 teachers and administrators.

The CSU system is administered by an independent governing Board of Trustees that includes 25 members: five ex-officio members and 20 members, which are appointed by the Governor. Of the 20 members, 16 are appointed to four-year terms, and four members are appointed to two-year terms. Of the four members appointed to two-year terms, two of them are student representatives—one voting and one non-voting, one is a faculty representative, and one is an alumni representative. The Trustees appoint the Chancellor, who is the chief executive officer of the system, and the Presidents, who are the chief executive officers of the respective campuses. The Academic Senate, made up of elected faculty representatives from each campus, recommends academic policy to the Board of Trustees through the Chancellor. The CSU currently serves approximately 334,198 FTE undergraduate and graduate students.

The Governor's 2007-08 proposed budget for the CSU totals \$6.8 billion from all funds sources. The proposed General Fund expenditures include \$3 billion, which represents an increase of \$165 million, or 5.9 percent, from the revised 2006-07 budget.

**MAJOR BUDGET PROPOSALS:**

**Support Budget Increase.** The Governor's budget proposes \$108.9 million, or four percent, for basic support budget. The CSU indicates that it would apply most of these funds to support salary and benefit increases for faculty and staff.

**Enrollment Growth.** The Governor's budget proposes \$65.5 million for a 2.5 percent enrollment growth to fund an additional 8,355 FTES. (*Issue 4 on this agenda*)

**Student Fees.** The Governor's proposed budget includes \$97.8 million associated with the Board of Trustees 10 percent student fee increase for undergraduate, graduate and teacher credential students. The fee increase was approved on March 14, 2007. *(Issue 5 on this agenda)*

**Institutional Financial Aid.** The Governor's budget continues the 33 percent set-aside from student fee revenue for institutional financial aid. *(Issue 6 on this agenda)*

**Academic Preparation and Student Support Services Programs.** The Governor's budget proposes to eliminate \$7 million for academic preparation and student services programs. *(Issue 7 on this agenda)*

**Master's in Nursing Programs.** The Governor's proposed budget includes \$2.6 million to continue to support nursing enrollment expansions at the CSU. Budget bill language includes a reporting requirement for the program, which is due May 1, 2007. This issue has been scheduled to be heard in subcommittee on May 2, 2007.

**Math and Science Teacher Initiative.** The Governor's budget proposes an increase of \$2 million for a total of \$2.7 million to support the third year of the Initiative. The increase in funding would be used to support the establishment of three regional math and science teacher recruitment centers. Budget bill language includes a reporting requirement for the program, which is due April 1, 2007. This issue has been scheduled to be heard in subcommittee on April 18, 2007.

**Capitol Fellows Programs.** The Governor's proposed budget provides an increase of \$120,000, or four percent, consistent with the Compact augmentations to the base budget. The CSU's Center for California Studies at Sacramento State University 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 proposed 2007-08 budget includes \$3.1 million in total funding for this program.

**Retirement Costs.** The Governor's proposed budget provides an increase of \$23.3 million for retirement costs. This increase reflects the DOF's employer-paid retirement adjustment for the fiscal year. The California Public Employees' Retirement System (CalPERS) benefit pension plan is funded by employer-paid contributions, employee contributions and the plan's investment earnings. Employer-paid contributions are adjusted each year in order to meet defined pension benefit obligations.



**Lease Purchase Payments.** The Governor's budget includes a \$2.7 million reduction for lease purchase payments. Lease purchase payments are annual payments that are made to retire the debt on lease revenue bonds that are issued by the Public Works Board (PWB) for construction projects at UC and CSU. These payments are based upon estimates that are provided by the Treasurer's Office, which keeps track of the bonds issued. DOF's capital Outlay Unit provides the information on the adjustments, which are reflected in the proposed budget bill items for UC and CSU.

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

<b>CSU: General Fund Budget Proposal</b>	
<i>(Dollars in Millions)</i>	
<i>2006-07 Budget Act</i>	<b>\$2,788.9</b>
Public Employees' Retirement System rate increase	\$23.3
Carryover/reappropriation	1.2
Other technical adjustments	-2.0
<b>Revised 2006-07 Budget</b>	<b>\$2,811.4</b>
<b>Baseline and Technical Adjustments</b>	<b>-\$4.4</b>
Proposed Increases	
Base increase (4 percent)	\$108.9
Enrollment growth (2.5 percent)	65.5
Expand science and math teacher initiative	2.0
Subtotal	(\$176.3)
Proposed Reductions	
Reduce General Fund support for outreach programs	-\$7.0
<b>2007-08 Proposed Budget</b>	<b>\$2,976.3</b>
Change From 2006-07 Revised Budget	
Amount	\$165.0
Percent	5.9%

**COMMENTS:****BASE BUDGET INCREASE****LAO Recommendation**

In view of their inflation estimate for the budget year, the LAO recommends that the Legislature provide a 2.4 percent COLA rather than the proposed four percent increase, thus reducing the base increase from \$108.9 million to \$65.3 million, resulting in General Fund savings of \$43.6 million.

Under the LAO's proposal, the University would still receive sufficient general purpose funding to compensate for increased costs. At the same time, the Legislature could use the identified General Fund savings of \$43.6 million to address other priorities in higher education or elsewhere.

**CSU**

According to CSU staff, most of the funding for basic support goes into a compensation pool to provide for salary increases for faculty and staff. Other mandatory expenditures include costs such as health benefits increases, energy cost increases and maintenance of new space.

**ISSUE 4: ENROLLMENT GROWTH**

The issue for the subcommittee to consider is the CSU's enrollment growth funding as proposed in the 2007-08 budget.

**BACKGROUND**

The Governor's proposed budget includes a \$65.5 million General Fund augmentation for enrollment growth at CSU. This would increase the University's state-supported enrollment by 8,355 FTE students, or 2.5 percent, above the current-year level. The proposed augmentation assumes a marginal General Fund cost of \$7,837 per additional student, reflecting a new methodology proposed by the Governor for calculating the marginal cost of serving an additional student.

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

**Fund 2 percent enrollment growth.** The Governor's proposed enrollment growth funding of 2.5 percent is based on the Compact agreement. This increase far exceeds the projected 1.1 percent growth in the underlying college-age population as well as DOF's own projections of increases in the enrollment at the UC and CSU.

**Reject the Governor's proposed marginal cost methodology.** Enrollment growth funding is based on the marginal cost formula or the cost of supporting an additional student. The marginal cost methodology that the Legislature developed and approved as part of the 2006-07 budget more appropriately funds the increased costs associated with enrollment growth and preserves legislative prerogatives. Using this legislatively determined marginal cost methodology would reduce the Governor's proposed CSU student funding rate from \$7,837 to \$7,710.

The LAO believes that the Governor's proposed marginal cost methodology has significant shortcomings:

1. *Ignores Contribution of Student Fees.* The proposed methodology does not account for new student fee revenue resulting from fee increases that is available to support a greater share of the marginal cost of instruction. In addition, the methodology does not recognize that General Fund and fee revenue are "fungible" resources that support the total marginal cost.

2. Overbudgets Faculty Costs. The Governor's proposal assumes faculty costs at the UC and CSU will increase on the average (rather than on the margin) with each additional full-time equivalent student.
3. Limits Legislative Budgetary Discretion. The methodology assumes that the Legislature will approve the annual base budget increase contained in the Governor's Compact each year. Moreover, it "shields" the marginal cost from policy decisions, such as changes to the share of education cost paid by students.

Budget staff would like to note that in 2004-05, the subcommittee approved budget bill language that directs DOF to revert to the General Fund any unused enrollment growth funding. For the current year, the language states that if CSU does not meet its total State-supported enrollment goal by at least 425 FTE students, funding for unmet enrollment growth will be reverted. At the same time, there is no language regarding funding for enrollment growth if the CSU enrolls more students above the enrollment target.

In regards to the Governor's marginal cost formula, Budget staff notes, as stated in the LAO's analysis, that the *Supplemental Report of the 2005 Budget Act* directed the LAO and DOF to jointly convene a new working group, including representatives from UC and CSU, to examine possible modifications to the 1995 methodology for the 2006-07 budget. Although the LAO and DOF worked collaboratively during the summer and fall of 2005, they were not able to reach consensus on a new methodology, and the Governor's budget proposal for 2006-07 included enrollment funding based on an entirely new methodology developed by the administration. Legislative staff held several meetings with the group during the 2006-07 budget process but was unable to reach consensus with DOF staff. The subcommittee adopted the legislative marginal cost formula, but it was later vetoed by the Governor.

**ISSUE 5: STUDENT FEES**

The issue for the subcommittee to consider is the \$97.8 million in assumed student fee increases in the Governor's proposed budget.

**BACKGROUND**

Last year, the Governor proposed and the Legislature approved \$54.4 million to "buy out" fee increases of eight percent for all students. Consistent with the Compact agreement, the CSU Board of Trustees had approved these fee increases at their November 2005 meeting. The State's "buy out" of the fee increases allowed the 2006-07 fees to remain at the 2005-06 levels.

On March 14, 2007, the CSU Board of Trustees approved a student fee increase of 10 percent for all students for the 2007-08 academic year. The Governor's proposed January 10<sup>th</sup> budget included the revenue generated associated with this fee increase.

The table below provides information on the CSU's student fees in 2007-08:

<b>CSU Systemwide Fees<sup>a</sup></b>				
<b>Resident Full-Time Students</b>				
	2006-07	Proposed 2007-08	Change From 2006-07	
			Amount	Percent
<b>Resident Students</b>				
Undergraduate students	\$2,520	\$2,772	\$252	10%
Teacher credential students	2,922	3,216	294	10
Graduate students <sup>b</sup>	3,102	3,414	312	10
<b>Non-Resident Students</b>				
Undergraduate	3,164	3,164	-	-
Graduate	10,170	10,170	-	-
<sup>a</sup> Amounts do not include campus-based fees.				
<sup>b</sup> Excludes students enrolled in teacher credential programs.				

When combined with campus based fees, the proposed total student fee for a full-time student in 2007-08 would be \$3,451 for undergraduates, \$3,895 for teacher credential students and \$4,093 for all other graduate students.

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

Absent a State fee policy, the LAO recommends that the current share of educational costs borne by students through fees be maintained in 2007-08. The LAO estimates that this would entail a modest fee increase of 2.4 percent, which is their projection of inflation for the budget year.

The table below shows the LAO's recommended fees:

<b>LAO Recommended Resident Fee Levels for 2007-08</b>			
	<b>Actual 2006-07</b>	<b>Governor's Proposed 2007-08</b>	<b>LAO's Proposed 2007-08</b>
<b>Resident Students</b>			
Undergraduate students	\$2,520	\$2,772	\$2,580
Teacher credential students	2,922	3,216	2,992
Graduate students <sup>b</sup>	3,102	3,414	3,176
<b>Non-Resident Students</b>			
Undergraduate	3,164	3,164	
Graduate	10,170	10,170	

According to the LAO, there are various ways for the Legislature to act on whatever decision it makes about fees. Although the Legislature does not formally set fees for UC and CSU, it can explicitly incorporate its expectations into the budget act and, if deemed necessary, adopt provisions that create incentives for the segments' governing boards to enact the fee levels assumed in the budget.

**CSU**

Student fee revenues constitute approximately 25 percent of the overall CSU budget and are critical to support faculty and staff salaries, increased health care and energy costs, student services and financial aid. Student fee generated revenue will total \$1.4 billion in 2007-08.

Student fees increased by 14 percent in 2004-05 and 8 percent in 2005-06. Fees were held at the 2005-06 level in the current year due to an additional \$54.4 million "buy out" provided by the Governor and the Legislature.

**ISSUE 6: INSTITUTIONAL FINANCIAL AID**

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

**BACKGROUND**

The CSU's primary need-based aid program is the State University Grant (SUG) program. This grant award was established in the 1982-83 award year to aid in offsetting the impact of student fees on financially needy students not adequately served by State and federal student aid programs. In 1992-93, the CSU Board of Trustees adopted a policy, which provided that one-third of additional revenue from fee increases would be dedicated to support institutional financial aid programs. The campus-based financial aid programs are established system-wide and administered by the campuses.

Consistent with the 2004 Compact, the Governor's proposed budget continues the 33 percent set-aside from student fee revenue for institutional financial aid.

**Who Qualifies for Institutional Financial Aid?** According to information provided in the CSU's annual Institutional Financial Aid report required by the Legislature, the eligibility requirements established for the SUG award include:

- Be admitted or enrolled at a CSU campus.
- Be classified as a California resident for fee payment purposes by the campus admission's or registrar's office.
- Pay the student fees.
- Demonstrate financial need according to the approved federal need analysis methodology.
- Not be in default on a student loan.
- Not owe a repayment for a previously received student grant.
- Be making satisfactory academic progress according to the standards established for financial aid purposes by the CSU campus.
- Have an expected family contribution for a 9 month academic year that does not exceed the maximum established for the program.

**Institutional Financial Aid Programs at CSU.** Revenues dedicated for institutional financial aid programs include:

State University Grant (SUG). These are need-based awards provided to cover a portion of the student fees for eligible undergraduate, graduate, and post-baccalaureate students. System-wide, the priority is to award a SUG at least equal to the amount of the student fees (\$1,428 for undergraduates and \$1,506 for graduate and post-baccalaureate students) to eligible students who apply for financial by March 2, who have an expected family contribution (EFC) of \$800 or less, and who are not receiving a Cal Grant or other award designated to cover fees. Each campus has established local awarding policies and priorities for these funds.

Educational Opportunity Program (EOP) Grant. These grants provide assistance to economically and educationally disadvantaged undergraduates. Recipients must be California residents who are admitted to a CSU campus through the Educational Opportunity Program. EOP students may receive a grant, based on need, of up to \$2,000 per year.

Aid Programs Administered by CSU Campuses.

1. *Scholarships.* The availability and application procedures for institutional scholarships vary among the campuses.
2. *Other Aid Programs.* The availability of other aid programs varies among institutions. Several CSU campuses have small institutional long-term loan programs and a number of them currently participate in the State Work-Study program.

<b>COMMENTS:</b>
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### LAO RECOMMENDATIONS

In its Analysis of the 2004-05 Budget Bill, the LAO made the following recommendations regarding institutional financial aid:

**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, the LAO continues 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, the LAO recommends that 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.

### CSU

The SUG is unique to CSU and is a critical source of grant assistance for CSU students who can least afford the costs to attend college.

Each year, campuses supply the Chancellor's Office with a financial aid database report that is used to document the financial need of CSU students and to determine how SUG funds are allocated among the campuses. The State University Grant awarding policy was modified effective in summer 2001 to allow campuses greater flexibility to design financial aid strategies that best address the needs of their student population and their enrolment management goals.

One-third of the revenue from student fees generated from growth enrollment will be used to increase the CSU State University Grant pool. This pool is administered centrally and is allocated to campuses based on student needs. In 2007/08, the CSU estimates that it will award approximately 115,438 SUGs to students with need.

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
<b>CSU Fee Revenue</b>						
	\$81,268,000	\$157,274,000	\$175,534,000	\$198,832,000	\$205,070,000	\$211,370,000
<b>State Funds</b>						
	\$33,785,000	\$33,785,000	\$33,785,000	\$33,785,000	\$33,785,000	\$33,785,000
<b>Total Financial Aid-SUG Funding</b>						
	\$115,053,000	\$191,059,000	\$209,319,000	\$232,617,000	\$238,855,000	\$245,155,000

**ISSUE 7: ACADEMIC PREPARATION PROGRAMS AND STUDENT SUPPORT SERVICES**

The issue for the subcommittee to consider is the Governor's proposed elimination of \$7 million in General Fund to support State-funded academic preparation programs and student support services at the CSU.

**BACKGROUND**

The Governor's budget proposes to eliminate \$7 million for academic preparation and student services programs. Without General Fund support, funding for these programs in 2007-08 would be \$45 million from CSU funds as agreed in the Compact with the Governor. The *2006-07 Budget Act* provided \$52 million for these programs. Of this amount, \$7 million were General Fund and \$45 million were CSU funds. In the Compact, the CSU agreed to provide no less than \$45 million to support the continuation of the "most effective" programs. The Compact also states that "additional funding provided by the State would be subject to the annual budget act."

**Funding for Academic Preparation and Student Support Services Programs.**

Academic Preparation programs have experienced severe budget cuts in the last three years to the point where the State General Fund support for these programs at the CSU has fallen by more than 50 percent from an all time high of \$58.1 million in 2000-01 to \$7 million in 2004-05.

**What are Academic Preparation and Student Support Services Programs?**

These programs have become the gateway to higher education by providing elementary, middle and high school students with instruction in the areas of academic development, academic advising, study skills training, career exploration, mentorship and test preparation for college admission exams. Most of the students that participate in these programs come from low-income families, are the first generation in their family to attend college, are English language learners and/or are attending a low performing school. For the 2005-06 year, the CSU served 5,621 schools and 496,412 K-12 students.

Academic Preparation Programs at the CSU include:

**Early Assessment Program (EAP)**

The program was established to provide opportunities for students to measure their readiness for college-level English and mathematics in their junior year of high school, and to facilitate opportunities for them to improve their skills during their senior year. In 2005-06, the EAP English program served 210,000 students and the EAP Math program served 134,000 students.

### **Educational Opportunity Programs (EOP)**

EOP is an education access and retention program that provides the following support services;

- *Academic Advising.* Students are teamed with a counselor who helps them develop an academic roadmap. The counselor meets with students on a regular basis to review short- and long-term goals to ensure a timely graduation.
- *Tutoring.* Qualified CSU students tutor EOP students in subject areas to help improve students' academic performance. Trained peer tutors provide support on an individual basis or in groups.
- *Workshops and Study Skills Courses.* EOP sponsors seminars and workshops to help students develop learning skills. Sessions cover topics such as test taking, note taking, time management, computer and software skills, career planning, campus policies and numerous other helpful topics.
- *Counseling.* Professional counselors and graduate student advisers are available to assess and evaluate students' academic and personal needs. Taking physical, economic, social and cultural environments into consideration, counseling staff members work to involve students in academic and extracurricular activities that integrate them into the campus community and promote personal well being and success.
- *Summer Bridge.* The Summer Bridge Program is a comprehensive support program that assists incoming freshmen to prepare for the rigors of university work. It typically consists of a five-week residential program that assists EOP incoming freshman in making the transition from high school to the university. Summer Bridge offers courses in math, writing and ethnic studies and academic advising, tutorials, workshops.

### **Student Services Programs.**

These programs support students with academic advising, new student orientation, staffing for learning centers, tutoring centers and study skills help centers and services for disabled students.

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

The LAO withholds recommendation on the proposed General Fund reduction to support academic preparation programs and student support services pending their review of their program evaluation report due this spring.

**CSU**

Student academic preparation programs target students who are economically and educationally disadvantaged, who are enrolled in public K-12 schools that have low college-going rates, and who need assistance in strengthening basic skills in math and English. These programs provide academic support services that raise the aspirations and improve students' academic performance, advise students about courses needed to meet admission requirements, provide instructional programs for students requiring academic support before they matriculate at a CSU, and provide retention services to students once they enroll at a CSU campus.