

THE 2005-2006 STATE BUDGET



Higher Education

California's higher education system is governed by *the Master Plan of Higher Education* (1960), which promises a high quality, affordable higher education for all California citizens who can benefit from it. The *Master Plan* also delineates different missions for each of the three segments, the California Community Colleges system (CCC), the California State University (CSU) and the University of California (UC). The California Student Aid Commission (CSAC) and the California Postsecondary Education Commission (CPEC) also play an integral role in implementing the goals of the Master Plan, with CSAC providing and overseeing state financial aid programs and CPEC providing policy analysis and recommendations to the Governor and the State Legislature.

THE HIGHER EDUCATION COMPACT AGREEMENT

On May 11, 2004, Governor Arnold Schwarzenegger, UC President Robert Dynes and CSU Chancellor Charles Reed reached an agreement or "compact" outlining their intentions for state funding levels and institutional accountability in the University of California and California State University systems. This new Compact covers the six-year period from fiscal years 2005-06 through 2010-11.

The provisions of the Compact include:

- **Enrollment.** General Fund support for enrollment growth of 2.5 percent annually to fund an additional 5,000 full-time equivalent students (FTES) at the UC and 8,000 (FTES) at the CSU.
- **Student Fees.** Fee increases of 14 percent in fiscal year 2004-05 and 8 percent in both fiscal years 2005-06 and 2006-07; graduate fee increases of 20 percent in fiscal year 2004-05 and 10 percent in both fiscal years 2005-06 and 2006-07.

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

- **Adjustments to the Base Budget.** General Fund base increases of 3 percent in fiscal years 2005-06 and 2006-07 and adjustments of four percent for 2007 through 2010-2011.
- **Core Academic Support Needs.** An additional 1 percent adjustment to the base beginning fiscal year 2008-09 and continuing through fiscal year 2010-11 to address annual budgetary shortfalls in State funding for faculty and other instruction and research support funding including instructional equipment, instructional technology, libraries and ongoing building maintenance.
- **Other Budget Adjustments.** Annual adjustments for debt service, employer retirement contributions, annuitant health benefits and other basic adjustments.
- **One-Time Funds and New Initiatives.** Consideration of additional resources for one-time purposes and new initiatives when the State's fiscal situation improves.
- **Capital Outlay.** Continued support for bond financing to meet capital outlay needs.

UNIVERSITY OF CALIFORNIA (UC)

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

The Governor's proposed budget includes a total of \$19.4 billion for the UC. This total includes funds for the Department of Energy to manage three national laboratories, federal contracts and grants, teaching hospital revenue, self-supporting enterprises, private gifts and grants, student fee revenue and State General Fund. The proposed General Fund expenditures include \$2.8 billion, which represents an increase of \$97.5 million, or 3.6 percent, from the fiscal year 2004-05 level of \$2.7 billion General Fund.

Key Provisions

- **Support Budget.** The Governor's budget proposes a \$76.1 million increase, or 3 percent, for basic support budget.
- **Enrollment Growth.** The Governor's budget proposes a \$37.9 million increase, or 2.5 percent, for enrollment growth to fund an additional 5,000 FTES.
- **Fee Increases.** Consistent with the Compact agreement, last November, the UC Board of Regents approved system wide fee increases of eight percent for undergraduate students (from \$4,971 to \$5,406); 10 percent for graduate students (from \$5,556 to \$6,162); 5 percent for nonresident undergraduate students (from \$16,476 to \$17,304); and three percent increase in professional school fees ranging from an \$88 increase in Nursing to \$416 in Business. The Governor's budget anticipates that student fee revenue at the UC will increase by \$150 million.
- **Unallocated Reductions.** The Governor's budget proposes a \$17.3 million reduction in unallocated cuts, which the UC can achieve either by reducing academic preparation programs (leaving the \$12 million in UC funds as committed in the Compact), or, reducing enrollment by the same amount. The 2004-05 Budget Act provided \$29.3 million in General Fund for academic preparation programs.
- **Financial Aid.** The Compact also provides that an amount equivalent to no less than 20 percent and no more than 33 percent of the revenue generated from student fees be used for financial aid. The UC Board of Regents approved a 25 percent "set-aside" for undergraduates and a 50 percent "set-aside" for graduate students from fee generated revenue to be used for financial aid.
- **Operating Fund.** The Governor's budget proposes continuation of \$10 million in ongoing operating funds and an additional \$14 million in one-time funds for costs associated with the UC Merced campus opening in Fall 2005
- **Institute for Labor and Employment.** The Governor's budget proposes \$3.8 million elimination of last year's General Fund restoration to the Institute for Labor & Employment.

HASTINGS COLLEGE OF LAW

Hastings College of Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and was affiliated with the University of California by the Legislature in the same year. A board of directors, are appointed by the Governor for 12-year terms, oversee the college. The juris doctor degree is granted by the Dean of Hastings and the Regents of the University of California.

The Governor's proposed budget includes a total of \$35.4 million for Hastings College of Law, including \$8.4 million General Fund. These amounts reflect an increase of 1.3 percent in total funds and 3 percent in General Fund from the 2004-05 budget levels of \$34.9 million in total funds and \$8.1 million General Fund.

CALIFORNIA STATE UNIVERSITY (CSU)

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

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

Key Provisions

- **Support Budget.** The Governor's budget proposes a \$71.7 million increase, or 3 percent, for basic support budget.
- **Enrollment Growth.** The Governor's budget proposes a \$50.8 million increase, or 2.5 percent, for enrollment growth to fund an additional 8,000 FTES.
- **Retirement Contribution.** The Governor's budget proposes a \$44.4 million increase for baseline retirement contribution increases.

- **Fee Increases.** Consistent with the Compact agreement, last November, the CSU Board of Trustees approved system wide fee increases of eight percent for undergraduate students (from \$2,344 to \$2,520), eight percent for Teaching Credential students (from \$2,334 to \$2,922) and 10 percent for graduate students (from \$2,820 to \$3,102). The Governor's budget anticipates that student fee revenue at the CSU will increase by \$101 million.
- **Unallocated Reduction.** The Governor's budget proposes a \$7 million reduction in unallocated cuts, which the CSU can achieve by either reducing academic preparation programs (leaving the \$45 million in UC funds as committed in the Compact), or, reducing enrollment by the same amount. The 2004-05 Budget Act provided \$52 million to fund academic preparation programs. Of this amount, \$7 million were General Fund and \$45 million were CSU redirected funds.
- **Financial Aid.** The Compact also provides that an amount equivalent to no less than 20 percent and no more than 33 percent of the revenue generated from student fees be used for financial aid. The CSU Board of Trustees approved a 25 percent "set-aside" of fee revenue for State University Grants.

CALIFORNIA COMMUNITY COLLEGES (CCC)

The California Community Colleges (CCC) provide a general education and vocational certificate program at 109 Community Colleges through 72 local districts, which serve approximately 2.5 million students annually. By law, California Community Colleges admit any Californian seeking admission who has graduated from high school and may admit anyone who is 18 years of age or older and who is capable of profiting from the instruction offered. The Colleges may also admit any nonresident, possessing a high school diploma or the equivalent thereof, provided the student pays a nonresident fee that fully covers the cost of instruction. This policy of "open access" fulfills the Community College mission to provide all Californians with the opportunity for advanced education and training. *The Master Plan for Higher Education* envisioned this goal could be achieved through a tripartite mission: lower-division instruction for students preparing to transfer to the UC or the CSU; occupational training for those seeking entry or re-entry to the labor force; and basic skills instruction in language and computation for adults functioning below the collegiate level.

Community College Funding

Proposition 98, approved by the voters in 1988, amended the State constitution to specify procedures for determining annual K-14 funding. Proposition 98 accounts for over 90 percent of the funds provided annually to the community colleges. Fiscal year 1989-90 established the base year for calculating the percentage split at 89.07 percent for K-12 and other agencies and 10.93 percent for the community colleges. This split has been the basis for calculating the allocation of Proposition 98 funds in all subsequent fiscal years. However, statutory requirements to divide funding between K-12 and community colleges in a specified proportion have historically been made non-operative through the annual Budget Act.

Key Provisions

- **Proposition 98.** The Governor's proposed budget includes \$7.9 billion for community colleges from all funds reflecting a five percent increase in total funds. Of this amount, \$5.1 billion are Proposition 98 funds. This amount represents 10.35 percent of the total Proposition 98 funds available for community colleges leaving 89.47 percent, or \$44.7 billion, for K-12.
- **No Student Fee Increase.** In the 2004-05 Budget Act, community college student fees increased from \$18 to \$26 per unit. The Governor's budget does not propose a fee increase for 2005-06.
- **Enrollment Growth.** The Governor's budget proposes a \$136.5 million increase to fund a 3 percent growth. This funding would provide access for an additional 34,000 full-time equivalent students (FTES).
- **Cost-of-Living Adjustment (COLA).** The Governor's proposed budget includes \$195.5 million, or 3.93 percent, for cost-of-living adjustment for general apportionments (\$184.5 million) and some categorical funds (\$11.1 million). By law, the community college COLA rate has to be the same as the K-12 rate.
- **Potential Restoration of Partnership for Excellence Funds (PFE).** The Governor's budget proposes a "set-aside" of \$31.4 million, which is the amount of PFE funds vetoed in the 2004-05 Budget Act. Restoration of this funding is contingent upon the development of district-specific accountability recommendations to be considered by the Board of Governors in March 2005.

The PFE program was established in budget year 1998-99 to provide supplementary funding to community colleges in exchange for their commitment to improve student outcomes in specified areas such as student transfer, number of degrees and certificates awarded and

successful course completions. Anticipating the sunset of the program on January 1, 2005, the Governor proposed and the Legislature approved that the annual funding level of \$225 million for PFE provided in the fiscal year 2004-05 budget be folded into the general apportionments. Out of this amount, the Governor vetoed \$31.4 million to backfill General Fund restorations that exceeded his May Revision total of proposed spending for the community colleges.

The veto message stated that the PFE funds were the appropriate place to make the \$31.4 million reduction because the Legislature had not adopted the Governor's proposal to establish annual performance objectives for each community college district.

- **Funding Reduction to State Operations.** The Governor's proposed budget includes a \$137,000 reduction in funding for the Chancellor's Office. According to the Administration, this is part of a larger non-Proposition 98 General Fund reduction necessary to bridge the gap between expenditures and projected revenues. However, it is important to note that the Chancellor's Office's ability to serve the colleges has already been impacted by a series of reductions in prior years. Despite higher employee compensation costs imposed by statewide bargaining agreements, the Office's budget is now \$3.3 million, or 16 percent less than its fiscal year 2001-02 funding level. Staffing for the Chancellor's Office has declined from 236 employees in fiscal years 2001-02 to 153 in 2004-05.
- **Career Technical Education Reform.** The proposed budget includes a \$20 million funding increase for the Community College Economic Development Program. These are one-time funds for the community colleges to implement the following reforms:
 - 1) Work with K-12 schools to articulate vocational coursework in order to expand the existing Tech Prep 2+2 program, which integrates the curriculum of high schools and community colleges to offer students four years of focused vocational education.
 - 2) Develop consistent credentialing requirements for K-12/CCC career technical and vocational education instructors.
 - 3) Revise the community colleges 75/25 rule to exclude career technical education courses.
 - 4) Support the UC's and CSU's Compact commitment to ensure articulation of high school career preparatory courses that integrate academic "a-g" requirements.

- **CalSTRS Reform.** The funding increases for community colleges proposed in the Governor's budget would significantly be offset by the Governor's proposal to terminate the state's 2 percent contribution into STRS transferring the responsibility for these payments to school and community college districts. The Chancellor's Office estimates that this proposal would impose close to \$40 million of new costs on community colleges statewide.

CALIFORNIA STUDENT AID COMMISSION (CSAC)

The California Student Aid Commission (CSAC) is responsible for making higher education affordable and accessible to students in California. CSAC accomplishes this mission by administering a variety of student aid and loan programs, including the Cal Grant program, which is the primary state source of financial aid. In addition, the Commission administers the federal guaranteed Student Loan Operating Fund (SLOF) program.

The Governor's proposed budget includes a total of \$1.4 billion in State and federal funds for CSAC. Of these total funds, \$745.5 million are General Fund support, an increase of 26.5 percent from the fiscal year 2004-05 level of \$589.4 million General Fund.

Key Provisions

- **Cal Grant Increase.** The Governor's budget proposes a \$23 million increase, or 8 percent, for Cal Grant awards for all recipients attending public institutions to match approved fee increases at the UC and the CSU.
- **General Fund Backfill.** The Governor's budget proposes a \$146.5 million General Fund backfill to replace the SLOF funds used to support financial aid programs in the Budget Act of 2004-05.
- **Revised Current Year Estimates.** The Governor's budget proposes a \$44.8 million increase for the revised current-year estimate of the Cal Grant Program, which reflects a General Fund savings of a similar amount that CSAC expects for 2004-05.
- **One-time shift in SLOF funds.** The Governor's budget proposes a \$35 million one-time shift in SLOF funds to the General Fund to support financial aid programs in 2005-06, thereby generating an equivalent General Fund savings.
- **Reduction of Cal Grant awards to Private Colleges.** The Governor's budget proposes a \$7.5 million reduction achieved by reducing the maximum Cal Grant award for students attending private colleges and universities from \$8,322 to \$7,449. CSAC estimates that approximately

12,100 students in entitlement and competitive programs would be impacted.

- **APLE.** The Governor's budget proposes \$6.8 million General Fund to reflect additional payments to new and continuing Assumption Program of Loans for Education (APLE) recipients.
- **National Guard APLE awards.** The Governor's budget proposes a \$200,000 General Fund allocation to implement an initial cohort of National Guard APLE awards pursuant to chapter 549 and 554, Statutes of 2004. These awards would provide up to \$11,000 for reimbursement of college loans in exchange for completing service enlistments in the National Guard. As proposed, this financial aid program is not "need-based" financial aid.

CALIFORNIA STATE LIBRARY

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 Literacy Campaign, develops technological systems to improve resource sharing and enhance access to information, and administers the Public Library Foundation Act, which establishes a formula under which the State contributes funding for basic local library services.

The Governor's proposed budget includes a total of \$72 million for the California State Library. This reflects a \$3 million reduction from the fiscal year 2004-05 funding level of \$75 million.

Major Provisions

- **State Operations.** The Governor's budget proposes to reduce operations by \$170,000. The Library will have the flexibility to implement this reduction through layoffs, hiring freeze, procurement reductions or other administrative means as determined.
- **Local Assistance.** The Governor's budget is proposing to reduce the Public Library Foundation (PLF) by \$2.2 million, Library Development by \$828,000 and English acquisition programs by \$276,000 for a total of \$3.3 million.
- **Braille and Talking Book Library.** The Governor's budget includes a \$329,000 General Fund increase for the acquisition and implementation of a replacement automated library system to support the California's State Library Braille and Talking Book Library (BTBL) program.

- **California Civil Liberties Public Education Act.** The Governor's budget includes \$500,000 in General Fund support to fund this program.