

HIGHER EDUCATION

Each year, millions of Californians pursue degrees and certificates and enroll in courses to improve their knowledge and skills at the state's higher education institutions. More are connected to the system as employees, contractors, patients, and community members.

From 2008-09 through 2011-12, the state reduced funding by \$2.65 billion General Fund to the University of California, the California State University, the California Community Colleges, and the Hastings College of the Law. The most notable consequences have been significant student tuition and fee increases and declining course offerings, which have made it difficult for students to complete their certifications and degrees in a timely manner.

The Administration's long-term plan for higher education is rooted in the belief that higher education should be affordable and student success can be improved. The Administration proposes stable and increasing state funding to higher education and provides fiscal incentives to improve management of all costs. The significant components of the plan include the following:

- **Affordability**—The plan will curtail tuition and fee increases and will lessen the pressure for students to take out burdensome loans.
- **Student Success**—The plan will make annual General Fund augmentations contingent upon each institution achieving the Administration's priorities, including improvements in specific accountability metrics, such as graduation rates,

time to completion, transfer students enrolled, faculty teaching workload, and, for community colleges, successful credit and basic skills course completion.

- **Stable Funding Source**—The state will increase its General Fund contribution to each institution's prior year base by a minimum of four percent per year, from 2013-14 through 2015-16, contingent upon the passage of the Governor's tax initiative.
- **Fiscal Incentives**—The state currently budgets separately for, and adjusts annually, retirement program contributions and general obligation and lease revenue bond debt service for higher education capital improvement projects. The Budget proposes to shift these appropriations into each institution's budget (except retirement program and general obligation bond debt service for the California Community Colleges). This will encourage the institutions to factor these costs into their overall fiscal outlook and decision-making process.

For 2012-13, the Budget proposes total funding of \$22.5 billion, reflecting an increase of \$367.5 million above 2011-12, a 1.7-percent increase. As a subset of total funding, the Budget proposes funding of \$11.6 billion in General Fund and Proposition 98 related-sources reflecting a decrease of \$335.1 million below 2011-12. This decrease is due chiefly to the use of available federal Temporary Assistance for Needy Families funds in lieu of General Fund for the Cal Grant Program.

See Figure HED-01 for a summary comparison of individual institution funding totals reflecting the budget proposal and prior year appropriations.

UNIVERSITY OF CALIFORNIA

Drawing from the top 12.5 percent of the state's high school graduates, the University of California (UC) educates approximately 237,800 undergraduate and graduate students at its ten campuses and is the primary institution authorized to independently award doctoral degrees and professional degrees in law, medicine, business, dentistry, veterinary medicine, and other programs. UC manages one U.S. Department of Energy national laboratory, partners with private industry to manage two others, and operates five medical centers that support the clinical teaching programs of the UC's medical and health sciences schools that handle more than 3.8 million patient visits each year.

Figure HED-01
Higher Education Expenditures
(Dollars in Millions)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Change from 2011-12	
							Dollar	Percent
University of California ^{1/}								
Total Funds	\$5,453.3	\$5,453.4	\$5,298.1	\$5,948.2	\$6,064.2	\$6,362.7	\$298.5	4.9%
General Fund	3,257.4	2,418.3	2,591.2	2,910.7	2,273.6	2,570.8	\$297.2	13.1%
ARRA Reimbursement ^{2/}	-	716.5	-	106.6	-	-	-	-
California State University ^{1/}								
Total Funds	4,487.1	\$4,616.9	\$4,279.9	\$4,674.5	\$4,499.3	\$4,697.1	\$197.8	4.4%
General Fund	2,970.6	2,155.3	2,345.7	2,577.6	2,002.7	2,200.4	\$197.7	9.9%
ARRA Reimbursement ^{2/}	-	716.5	-	106.6	-	-	-	-
Community Colleges								
Total Funds	9,081.6	\$9,558.8	\$9,965.7	\$10,029.8	\$9,500.7	\$9,980.3	\$479.6	5.0%
General Fund & P98 ^{3/}	6,425.6	6,332.6	6,117.5	6,297.7	5,729.4	6,210.2	\$480.8	8.4%
ARRA Reimbursement ^{2/}	-	35.0	-	4.0	-	-	-	-
Student Aid Commission								
Total Funds	896.1	\$924.7	\$1,111.9	\$1,398.1	\$1,574.1	\$1,364.0	-\$210.1	-13.3%
General Fund	866.7	888.3	1,043.5	1,251.0	1,481.7	567.9	-\$913.8	-61.7%
Other Higher Education ^{4/}								
Total Funds	384.3	\$452.9	\$547.4	\$536.9	\$454.2	\$55.8	-\$398.3	-87.7%
General Fund	354.7	419.3	508.2	489.1	405.8	8.8	-\$397.0	-97.8%
Total Funds	\$20,302.3	\$21,006.7	\$21,203.0	\$22,587.5	\$22,092.5	\$22,460.0	\$367.5	1.7%
General Fund	\$13,875.0	\$12,213.7	\$12,606.2	\$13,526.1	\$11,893.2	\$11,558.1	-\$335.1	-2.8%

^{1/} For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income, but exclude self-supporting functions such as auxiliary enterprises and extramural programs among others. This provides consistency in comparing magnitudes and growth among the various segments of education.

^{2/} All second round allocations of American Recovery and Reinvestment Act (ARRA) funding from the State Fiscal Stabilization Fund are shown in 2008-09 to more accurately reflect segmental expenditures between the two fiscal years and intent of federal law to backfill 2008-09 reductions.

^{3/} For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue as a component of the state's obligation under Proposition 98. CCC General Fund also includes general obligation (GO) bond debt service payments.

^{4/} The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission (CPEC), and GO bond debt service payments through 2011-12 for UC, CSU and HCL. GO bond debt service payments are included in UC, CSU, and Hastings General Fund figures for 2012-13.

Significant Adjustments:

- Eliminate Set-Asides in UC's Budget—The Budget proposes to remove various set-asides for specific programs and purposes, such as the Drew Medical Program, AIDS research, the Institutes for Science and Innovation, and the Summer School for Mathematics and Sciences. This provides UC with greater flexibility to manage its \$750 million 2011-12 budget reduction.
- Operating Budget Needs—An ongoing increase of \$90 million General Fund for base operating costs, which can be used to address costs related to retirement program contributions.

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- **Fiscal Incentives**—It is the current practice that the state separately budgets, and annually adjusts, for general obligation and lease revenue debt service for UC capital improvement projects. The Budget proposes to shift these appropriations into UC’s budget, which will require the University to factor these costs into UC’s overall fiscal outlook and decision-making process.

Ballot Trigger Reduction:

- **Unallocated Reduction**—A decrease of \$200 million in 2012-13 for an unallocated reduction. To the extent that UC chooses to increase tuition to backfill this reduction, the General Fund costs of providing Cal Grants to financially needy California students will increase and partially offset the General Fund savings of this proposal.

CALIFORNIA STATE UNIVERSITY

Drawing students from the top one-third of the state’s high school graduates, as well as transfer students who have successfully completed specified college work, the California State University (CSU) provides undergraduate and graduate instruction through master’s degrees and independently awards doctoral degrees in education, nursing practice, and physical therapy, or jointly with UC or private institutions in other fields of study. With 23 campuses and approximately 412,000 students, the CSU is the largest and most diverse university system in the country. It also is one of the most affordable. The CSU plays a critical role in preparing the workforce of California; it grants more than one-half of the state’s bachelor’s degrees and one-third of the state’s master’s degrees. The CSU prepares more graduates in business, engineering, agriculture, communications, health, and public administration than any other California institution of higher education. It also produces over 50 percent of California’s teachers.

Significant Adjustment:

- **Fiscal Incentives**—It is the current practice that the state separately budgets, and annually adjusts, for general obligation and lease revenue debt service for CSU capital improvement projects. Additionally, the state currently budgets separately for, and adjusts annually, California Public Employees’ Retirement System contributions for CSU employees. The Budget proposes to fold these appropriations into CSU’s budget, which will require the University to factor these costs into CSU’s overall fiscal outlook and decision-making process.

Ballot Trigger Reduction:

- Unallocated Reduction—A decrease of \$200 million in 2012-13 for an unallocated reduction. To the extent that CSU chooses to increase tuition to backfill this reduction, the General Fund costs of providing Cal Grants to financially needy California students would increase and partially offset the General Fund savings of this proposal.

CALIFORNIA COMMUNITY COLLEGES

The California Community Colleges (CCC) are publicly supported local educational agencies that provide educational, vocational, and transfer programs to approximately 2.6 million students. The California Community College system is the largest system of higher education in the world, with 72 districts, 112 campuses, and 71 educational centers. In addition to providing education, training, and services, the CCC contributes to continuous workforce improvement. The CCC also provides remedial instruction for hundreds of thousands of adults across the state through basic skills courses and adult non-credit instruction.

Significant Adjustments:

- Apportionments—An increase of \$218.3 million in 2012-13 to partially restore funding that had been previously deferred, contingent upon the passage of the Governor’s tax initiative. This restoration will reduce the debt burden of the state and is consistent with, and proportional to, the restoration of funding in K-12 education.
- Categorical Program Consolidations and Flexibility—Currently, colleges have many overlapping limitations on how they spend their funds and are not able to direct their scarce resources based on what is needed locally to achieve student success. They are limited as to the populations of students that they may serve and programs they may offer. The Budget proposes to consolidate nearly all categorical programs and provide flexibility to CCC to use “flexed” funds for any categorical program purpose. This proposal will improve student access and success and will provide the colleges with more local control, flexibility, and decision-making authority. The Administration will review the recommendations of the forthcoming Student Success Task Force report and explore other possibilities for expanding flexibility—including fee policy changes and loosening operational restrictions—for inclusion in the May Revision.

- **Mandate Reform**—The Budget proposes to preserve core mandatory programs and functions, to eliminate unnecessary mandates, and to create a mandates block grant incentive program. The details of this proposal are consistent with the K-12 Education mandate reform proposal discussed in the K-12 Education section.
- **Redevelopment Agency Elimination**—The Budget includes a current year Proposition 98 General Fund reduction of \$146.9 million to CCC apportionments to reflect an identical increase in offsetting property taxes resulting from the elimination of redevelopment agencies.

CALIFORNIA STUDENT AID COMMISSION

The California Student Aid Commission (CSAC) administers state financial aid to students attending all institutions of public and private postsecondary education through a variety of programs including the Cal Grant High School and Community College Transfer Entitlement programs, the Competitive Cal Grant program, and the Assumption Program of Loans for Education. Over 91,000 students received new Cal Grant awards, and over 144,000 students received renewal awards, in 2010-11.

Prior to 2001, the program offered a capped number of awards to students and award amounts were specified in the Budget. The program is now an entitlement program and has been one of the fastest growing programs in the state. Costs for the program have increased dramatically due to an increased number of students participating in the program and UC and CSU tuition increases. Over an eight-year period, the number of participants in the program and costs have increased by 79,000 students and \$915 million – from 177,000 students and \$688 million in 2004-05 to an estimated 256,000 students and \$1.6 billion in 2012-13.

Proposals to Balance the Budget:

- **Change Cal Grant Award Amount for Private, For-Profit Colleges and Universities**—A decrease of \$59.1 million in 2012-13 by lowering the award amount for students attending private, for-profit schools to \$4,000. This will affect approximately 14,900 students.
- **Change Cal Grant Award Amount for Independent, Non-Profit Colleges and Universities**—A decrease of \$111.5 million in 2012-13 by lowering the award amount for students attending independent, non-profit schools to the CSU award amount. This will affect approximately 30,800 students.

- Raise Cal Grant Program Grade Point Average (GPA) Requirements—A decrease of \$131.2 million in 2012-13 by raising the minimum GPA requirement for all applicants (e.g. Cal Grant A from 3.0 to 3.25, Cal Grant B from 2.0 to 2.75, and CCC Transfers from 2.4 to 2.75). This will focus limited financial aid resources on those students who are most likely to complete their degrees. This proposal will affect approximately 26,600 students.
- Phase Out Student Loan Assumption Programs for Teachers and Nurses—A decrease of \$6.6 million in 2012-13 as a result of eliminating all new awards while continuing to fund remaining renewal awards through 2015-16. This will affect approximately 2,600 teachers and 70 nurses.
- Offset Cal Grant Costs with Federal Temporary Assistance for Needy Families (TANF) Reimbursements—A decrease of \$736.4 million in 2012-13 to reflect TANF funds available through an interagency agreement with the Department of Social Services.

Other Significant Adjustments:

- Restrict Cal Grant Program Participation for Independent, Non-Profit and Private, For-Profit Colleges and Universities—One indicator that institutions are effectively preparing their students is that their graduates consistently pay their student loans when they enter the workforce. The student loan default rate is the percentage of an institution's students who default on their student loan payments after graduation. Beginning in 2011-12, any institution that exceeds a 25-percent default rate is excluded from Cal Grant Program participation for one academic year. Under current law, this maximum default rate would have increased to 30 percent. The Administration proposes to maintain the maximum student loan default rate at 25 percent. This proposal is consistent with state and federal efforts to ensure non-profit and for-profit colleges and universities are effectively preparing students for entrance into the workforce.
- Restore Uninterrupted Enrollment Requirement for Transfer Entitlement Awards—Currently, a CCC student is eligible for a Transfer Entitlement Award at a four-year institution only if the student is enrolled in a CCC in one academic year and then transfers to and enrolls at a four-year institution the next academic year. Recently, the CSAC relaxed this requirement by allowing prolonged enrollment breaks between the CCC and the four-year institution. It is estimated that this decision will result in \$70 million in new General Fund costs. The Administration proposes to maintain the uninterrupted CCC/four-year college enrollment requirement so as to avoid creating new costs at a time of limited General Fund resources.