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. California’s system of higher education consists of three segments. Drawing from the top 12.5 percent of the state’s high school graduates, the University of California (UC) educates approximately 239,500 undergraduate and graduate students and is the primary institution authorized to independently award doctoral degrees and professional degrees. Drawing students from the top one-third of the state’s high school graduates, the California State University (CSU) provides undergraduate and graduate instruction to approximately 410,300 students. The California Community Colleges are publicly supported local educational agencies that provide open-access educational and vocational programs to approximately 2.4 million students. The state also provides financial aid to students attending all institutions of public and private postsecondary education through the Cal Grant program. Over 99,000 students received new Cal Grant awards, and over 150,000 students received renewal awards, in 2011-12.

Beginning with the Master Plan in 1960, California’s approach to higher education has been to heavily subsidize the public segments and keep costs low for university students (and even lower for community college students). California’s higher education system is relatively affordable to students because of California taxpayers’ investment in that system. California institutions have some of the lowest published tuition and fee levels in the country. In addition to providing direct support to the higher education
system, California fully reimburses all UC, CSU and community college tuition and fee costs for students with family incomes below $96,000 through the Cal Grant and the California Community Colleges Board of Governors Fee Waiver programs. In total, California taxpayers provide approximately $13 billion of annual General Fund support to California’s higher education system through a combination of general-purpose, categorical program, and Cal Grant Program funding.

As a result of the taxpayers’ investment in higher education, California public college and university graduates carry some of the lowest student loan debt burdens when compared to graduates from other states. California students in public and non-profit colleges rank 46th in student debt levels—half of California undergraduates have student debt, averaging $18,800, compared to two-thirds of graduates nationally, averaging $26,600.

The recent economic downturn and resulting shortfalls in state revenues required reductions in the state’s subsidies of public higher education. During this period of fiscal constraints, state and local public agencies throughout California reexamined their cost structures and refocused limited resources on the most essential functions. UC and CSU pursued administrative efficiencies that have yielded from the low-to-mid hundreds of millions of dollars of savings for each segment. However, from 2007-08 to 2012-13, when other public agencies were retrenching, UC expenditures increased by 15 percent and CSU expenditures increased by 3 percent. These expenditure increases were funded by approximately $1.4 billion in tuition revenue increases at UC and $1 billion at CSU, a near doubling of tuition and fees from 2007-08 to the present. Specifically, UC’s tuition and fees increased by $5,556 over that period. CSU’s tuition and fees increased by $2,700 over that same period (see Figure HED-01). These rapid tuition increases have been a significant hardship for students and their families, particularly middle-income families who do not qualify for Cal Grants.

The rising cost of higher education not only threatens affordability, it also threatens the quality of California’s system of higher education as it relies on a model that is not sustainable. Historically, California’s public higher education institutions have led the world in terms of quality, innovation, and affordability for students. However, California is beginning to lose its lead in these areas in large part because of a higher education cost structure that continually increases without necessarily adding productivity or value. While this is a problem nationwide, California’s higher education system is more expensive than other states’ systems because (1) spending is very high in UC compared to other public research universities, and (2) completion and transfer rates are very low in CSU and the community colleges, resulting in great inefficiencies.
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UC and CSU have proposed budgets that call for increases in state funding of about 12 percent and 18 percent, respectively, from the preceding year. By comparison, over the past three years, personal income growth in California has averaged slightly less than 4 percent per year. California taxpayers cannot sustain institutions whose cost growth greatly outpaces the state’s income growth. Furthermore, the rapidly growing numbers of college graduates who are unable to repay their student loans is an indication that these costs cannot be forever pushed onto students through tuition and fee increases.

Even while the California higher education system demands more funding, it produces transfer and completion rates that need improvement. Less than 30 percent of degree
Higher Education

seeking students at community colleges complete a degree, earn a certificate, or transfer within six years. For CSU, only 16 percent of students complete their degree within four years, and just 60 percent of students earn a degree in four years at UC. A significant obstacle to timely completion is the unavailability of courses. When students are turned away from courses, time to completion increases and students enroll in courses they do not need for their degree, generating excess costs to the student and the state, and crowding out other students in the process.

Until recently, the state has funded higher education based on enrollment targets. However, enrollment-based funding does not promote innovation and efficiency or improve graduation rates. It does not focus on critical outcomes—affordability, timely completion rates, and quality programs. Instead, it builds the existing institutional infrastructure, allowing public universities and colleges to continue to deliver education in the high-cost, traditional model.

Investing in Higher Education

The state must begin to reinvest to improve the quality and affordability of California’s system of higher education. This investment is critical to provide all Californians—regardless of their financial circumstance—access to high-quality post-secondary instruction, improve educational attainment, and support civic engagement and critical thinking—thereby strengthening the foundation for sustainable growth. While continued state support of the Cal Grant program will maintain access for low-income families, additional state support for UC, CSU and community colleges alone will not be sufficient to stabilize tuition and fee costs for middle-income students or maintain the quality of these institutions. The UC, CSU and community colleges need to move aggressively to implement reforms to provide high-quality instruction at lower cost, decrease the time it takes to earn a degree, and increase graduation rates, by deploying their teaching resources more effectively.

There are many immediate demands for state funding. The Budget chooses to invest new, discretionary General Fund resources in higher education because the Administration believes that maintaining a quality, affordable system is critical to the future of the state. The Budget aims to enhance the quality of California’s higher education institutions by making them more affordable, decreasing time to completion, improving overall completion rates in all higher education segments, and improving the transfer rate of community college students to four-year colleges and universities.
The Budget proposes total funding of $25.8 billion, reflecting an increase of $1.3 billion, or 5.3 percent, above 2012-13. The Budget proposes funding of $13.2 billion in General Fund and Proposition 98 related-sources reflecting an increase of $1.2 billion above 2012-13.

See Figure HED-02 for a summary comparison of individual institution funding totals reflecting the budget proposal and prior year appropriations.

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Figure HED-02

*Higher Education Expenditures*  
*(Dollars in Millions)*

<table>
<thead>
<tr>
<th></th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
<th>2012-13</th>
<th>Percent</th>
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1/ UC, CSU, and CCC General Fund and Total Funds include general obligation bond debt service.

2/ 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.

3/ Beginning in 2012-13, the health benefits provided for CSU retired annuitants are reflected in CSU’s budget, rather than in the statewide total.

4/ 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.

5/ The Other Higher Education amount includes Hastings College of the Law, including Hastings’ GO bond debt service, and the California Postsecondary Education Commission.
Multi-Year Stable Funding Plan

The state’s General Fund contribution to UC, CSU, and Hastings will increase by 5 percent per year in 2013-14 and 2014-15 and by 4 percent in each of the subsequent two years. Community colleges funding will also increase by 5 percent in 2013-14. It is expected that community colleges funding will grow significantly over the next several years. All institutions will be expected to use these increases to implement reforms that will make available the courses students need and help them progress through college efficiently, using technology to deliver quality education to greater numbers of students in high-demand courses, improving course management and planning, using faculty more effectively, and increasing use of summer sessions. With savings achieved in this way, in combination with the General Fund increases and realizing the savings of current efficiency efforts (e.g. UC’s Working Smarter Initiative and CSU’s Systemwide Administrative Efficiencies), the Administration expects the colleges and universities to maintain current tuition and fee levels over the next four years. The Administration will continue to engage UC, CSU, and community colleges administration, faculty, staff, and students in this effort to maintain the quality of education at these institutions while, at the same time, controlling costs and preventing further increases in tuition and student fees for motivated and focused students.

Expand the Delivery of Courses through Technology

The Budget provides $16.9 million to the community colleges to increase the number of courses available to matriculated undergraduates through the use of technology. The focus should be on the courses that have the highest demand, fill quickly, and are prerequisites for many different degrees. Priority will be given to development of courses that can serve greater numbers of students while providing equal or better learning experiences, but only if those courses are aimed at advanced students who are likely to succeed in these types of courses. This initiative will include three key elements: (1) the creation of a “virtual campus” to increase statewide student access to 250 new courses delivered through technology, (2) the creation of a single, common, and centralized delivery and support infrastructure for all courses delivered through technology and for all colleges, and (3) the expansion of options for students to access instruction in other environments and earn college credit for demonstrated knowledge and skills through credit by exam.

In addition, the Budget provides UC and CSU $10 million each to increase the number of courses available to matriculated undergraduates through the use of technology,
specifically those courses that have the highest demand, fill quickly, and are prerequisites for many different degrees. Priority will be given to the development of courses that can serve greater numbers of students while providing equal or better learning experiences.

**Student Success**

The plan provides annual General Fund augmentations and expects each institution to direct those funds to the achievement of the following priorities: improvements in time-to-completion, improvements in graduation and completion rates in all segments, increases in transfer students enrolled at CSU and UC, and successful credit and basic skills course completion. Not all students matriculating in higher education have the common goal to earn a degree in four years. Both CSU and community colleges have significant populations of students who are earning their degrees or certificates on a part-time basis (e.g. full-time employment and family commitments). Higher education systems should provide all students the opportunity to access the courses needed to complete their degrees or certificates within the students’ intended timelines. This applies to students whether they complete their undergraduate coursework in a traditional four-year period or over a longer timeframe.

**Student Incentives**

To shorten students’ time-to-degree, reduce costs for students and the state, and increase access to more courses for other students, the number of units students can take while receiving a state General Fund subsidy at any of the segments will be capped.

- For UC and CSU, in the first two years of the proposal, students will be allowed to accrue no more than 150 percent of the standard units needed to complete most degrees (270 quarterly units at UC and 180 semester units at CSU); in later years, students will be allowed to accrue units equivalent to no more than about one additional year of coursework (225 units at UC and 150 units at CSU). If students enroll in courses that exceed these unit caps, students will be required to pay the full cost of instruction. However, the universities may grant case-by-case waivers to students who exceed the cap due to factors beyond their control, allowing them to continue to pay the subsidized tuition level. The universities would not receive any additional state funding for these students.
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- For community colleges, students will be allowed to take no more than 90 semester credit units (150 percent of the standard 60 semester credit units required to earn an associate’s degree or credits for transfer) starting in 2013-14. If students enroll in credit courses that exceed these unit caps, students will be required to pay the full cost of instruction. Community colleges may grant case-by-case waivers to students who exceed the cap due to factors beyond their control, allowing them to continue to pay the subsidized tuition level. However, the community colleges will not receive any state funding for these students.

This policy will encourage students to identify an educational goal and reach it in a timely and efficient way, focusing on the courses necessary to complete their educational goals, while still allowing for some exploration of other subject areas.

University of California

Drawing from the top 12.5 percent of the state’s high school graduates, the University of California (UC) educates approximately 239,500 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 UC’s medical and health sciences schools that handle more than 3.9 million patient visits each year.

Significant Adjustments:

- General Fund Increase—As discussed above, an ongoing increase of $125.1 million General Fund for core instructional costs. This includes the $10 million to increase the number of courses available to matriculated undergraduates through the use of technology. This funding should obviate the need for UC to increase student tuition and fees and can be used by the university to meet its most pressing needs. This increase is in addition to the $125 million General Fund that UC will receive in 2013-14 for not increasing tuition and fees in 2012-13, as required by the 2012 Budget Act.

- Debt Service Costs—Currently, the state separately funds 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 UC to factor these costs into the university’s overall fiscal outlook and
decision-making process. Any new UC capital expenditures will be subject to approval by the Administration to ensure the funds are used for academic facilities to address seismic and life safety needs, enrollment growth, modernization, or for cogeneration and energy conservation projects. Further, there will be limits on the amount of the budget that can be spent on capital expenditures. If UC elects to restructure its debt as a result of this proposal, it is expected that it will make resources available for instruction.

**California State University**

Drawing students from the top one-third of the state’s high school graduates, 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 410,300 students, CSU is the largest and most diverse university system in the country. 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. 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 Adjustments:

- **General Fund Increase**—As discussed above, an ongoing increase of $125.1 million General Fund for core instructional costs. This includes the $10 million to increase the number of courses available to matriculated undergraduates through the use of technology. This funding should obviate the need for CSU to increase student tuition and fees and can be used by the university to meet its most pressing needs. This increase is in addition to the $125 million General Fund that CSU will receive in 2013-14 for not increasing tuition and fees in 2012-13, as required by the 2012 Budget Act.

- **Debt Service and Retirement Contribution Costs**—Currently, the state separately funds general obligation and lease revenue debt service for CSU capital improvement projects. The state also annually adjusts funding for CSU’s retirement obligations. The Budget proposes to fold debt service appropriations into CSU’s budget. Any new CSU capital expenditures will be subject to approval by
the Administration to ensure the funds are used for academic facilities to address seismic and life safety needs, enrollment growth, or modernization. Further, there will be limits on the amount of the budget that can be spent on capital expenditures. The Budget also proposes that the state continue to fund retirement contributions for CSU employees, based on the number of 2012-13 employees. If CSU chooses to add employees or increase wages beyond 2012-13 levels, CSU will be responsible for the associated costs. These two changes will require CSU to factor these costs into the university’s overall fiscal outlook and decision-making process.

- Provide CSU the Authority to Negotiate and Set Employee Health Benefit Rates with Represented and Non-Represented Employees—CSU will be provided the same statutory authority to negotiate or set employee health care benefit rates that is provided to the California Department of Human Resources for other state employees. Currently, CSU pays 100 percent of the health care premiums for its employees and 90 percent for employees’ family members. However, for most other state employees, the state pays either 80 or 85 percent of employees’ health care premiums and 80 percent for family members. This proposal will provide CSU a tool to better manage and negotiate the entirety of its personnel costs.

**California Community Colleges**

The California Community Colleges are publicly supported local educational agencies that provide educational, vocational, and transfer programs to approximately 2.4 million students. The California Community College system is the largest system of higher education in the world, with 72 districts, 112 campuses, and 70 educational centers. In addition to providing education, training, and services, the community colleges contribute to continuous workforce improvement. The community colleges also provide remedial instruction for hundreds of thousands of adults across the state through basic skills courses and adult non-credit instruction.

Significant Adjustments:

- Expand the Delivery of Courses through Technology—As discussed above, an augmentation of $16.9 million to increase the number of courses available to matriculated undergraduates through the use of technology.

- Reforms to Census Accounting Practices—Currently, community colleges are provided state funding based on the number of students enrolled at the 20-percent mark of the term. Under this construct, the fiscal incentives for
community colleges are to enroll students and not to ensure that students complete the term. When students withdraw after the 20-percent mark, the state is unnecessarily paying community colleges for students who are no longer in class. Enrollment-based funding lacks incentives for the colleges to focus on critical outcomes—affordability, timely completion rates, and quality programs. This proposal will more appropriately apportion funding by focusing on completion at the end of the term, as opposed to counting attendance at the early weeks of the term. It will be phased in over several years to help colleges adjust their policies and practices in a way that encourages appropriate student placement and good course management. This proposal will reinvest savings into higher apportionment rates for students that complete their courses and for student support services in those communities with higher non-completion rates.

- Board of Governor’s Fee Waiver Program Reform—The Board of Governor Fee Waiver program provides hundreds of millions of state financial aid dollars annually to community colleges and their students. Approximately 60 percent of all credit course fees are waived annually by the community colleges, and the state backfills this lost community college revenue source with state funds. The fee system is designed to charge fees to those who can afford to pay them and provide waivers to students who need them. The current fee waiver program provides financial aid to students with limited verification of financial need. To ensure that only financially needy students are determined eligible for the fee waiver program and to ensure program integrity, students seeking financial aid will be required to fill out a Free Application for Federal Student Aid and include both parent and student income when determining fee waiver eligibility. Any savings that result will be reinvested to further increase course offerings and student services and allow students to move through the system more quickly. Additionally, this proposal will generate additional federal financial aid resources for students and colleges.

- Adult Education Realignment—As referenced in the K Thru 12 Education Chapter, K-12 school districts and community colleges are both currently authorized to provide adult education instruction. However, there is no statewide requirement or mechanism to coordinate the efforts of these two systems. As a result, the state has an inefficient and redundant system that is not always structured in the best interest of adult learners. Further, funding for the K-12 adult education program is currently flexible and available for any educational purpose. Many districts are eliminating their programs and redirecting this funding to support their core instructional programs.
• To create a more accountable and centralized adult education learning structure, the Budget proposes $315.7 million Proposition 98 General Fund to fund a comparable K-12 adult education service delivery system. It proposes an increase of $300 million to support the program within the community colleges. It also shifts $15.7 million and the responsibility for the Apprenticeship Program from school districts to the community colleges. The proposal eliminates the current bifurcated system and places community colleges in a position to improve coordination at the regional and statewide levels. Community colleges are better positioned to address the needs of adult learners because that is their core function. However, the colleges will be encouraged to leverage the capacity and expertise currently available at the K-12 district adult schools.

• Funding for adult education will be allocated from a new block grant based on the number of students served and only for core instructional areas such as vocational education, English as a Second Language, elementary and secondary education, and citizenship. This proposal will refocus apportionments away from non-mission areas and reinvest savings for additional courses in mission areas such as basic skills and workforce training. If community colleges offer non-mission courses, students will be required to pay the full cost of instruction. The funding level will be reassessed in the future based on program participation and effectiveness.

• Clean Energy Efficiency Projects—An increase of $49.5 million Proposition 98 General Fund for community colleges to undertake clean energy efficiency projects. Like school districts, community colleges are well positioned to undertake projects that reduce their current utility requirements and expand the use of renewable energy resources. Moreover, community colleges are in the unique position to make a substantial energy efficiency imprint throughout the state in terms of their scope (112 colleges and their related facilities) and emphasis on employment training. As a result, the Budget proposes to allocate all Proposition 39, the California Clean Energy Jobs Act, funding to schools and community colleges (see the K Thru 12 Education Chapter for further details on Proposition 39). Community colleges can use the funds to expand career technical educational training and on-the-job work experience training in partnership with the California Conservation Corps and participating community conservation corps programs.

• Deferrals—At the beginning of 2011-12, the state had accumulated $961 million of deferral debt owed to community colleges. The state successfully reduced the deferral balance to $801 million in 2012-13 and the Budget will reduce that balance
to $622 million through an increase of $179 million Proposition 98 General Fund in 2013-14. This funding is consistent with, and proportional to, the payment of deferred funding in K-12 education. The increase will reduce the substantial borrowing costs borne by the community colleges as a result of funding deferrals. Every dollar that colleges must now spend on borrowing is a dollar taken out of the classroom.

- Apportionments—An increase of $196.9 million Proposition 98 General Fund to base apportionments. This represents a 3.6-percent increase to general purpose community college funding.

- Property Tax Adjustment—An increase of $133.2 million Proposition 98 General Fund in 2013-14 to reflect reduced property tax estimates. Current law intends that property taxes offset Proposition 98 General Fund costs for community college apportionments. Because property taxes are estimated to decline, General Fund costs are increased by a like amount. Additionally, the Budget includes an increase of $47.8 million Proposition 98 General Fund for 2012-13 to offset lower-than-anticipated property tax revenues from the elimination of redevelopment agencies.

- Student Fee Adjustment—A decrease of $12.6 million Proposition 98 General Fund to reflect revised estimates of student fee revenue, primarily resulting from lower-than-anticipated Board of Governors’ fee waivers. Similar to property taxes, student fees are intended to offset the costs of apportionments.

**Hastings College of the Law**

Affiliated with the University of California, the Hastings College of the Law is the oldest and one of the largest public law schools in the West, providing instruction annually to approximately 1,100 students.

Significant Adjustments:

- General Fund Increase—An ongoing increase of $392,000 General Fund for core instructional costs. This funding will mitigate the need for Hastings to increase student tuition and fees and can be used by the college to meet its most pressing needs.

- Debt Service Costs—Currently, the state separately funds general obligation debt service for Hastings. The Budget proposes to shift these appropriations into
Hastings’ budget, which will require the college to factor these costs into its overall fiscal outlook and decision-making process.

**California Student Aid Commission**

The California Student Aid Commission 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 99,000 students received new Cal Grant awards, and over 150,000 students received renewal awards in 2011-12. These programs are a key way in which the state supports the public higher education infrastructure and does so to make college more affordable to the state’s lower-income students.

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 and has been one of the fastest growing programs in the Budget. Costs for the program have increased dramatically due to an increased number of students participating in the program and UC and CSU tuition and fee increases in recent years. Over an eight-year period, participation 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 288,000 students and $1.7 billion in 2013-14. Absent tuition and fee increases at UC and CSU, the rate of growth in the program is expected to slow somewhat in future years.

The Cal Grant program is one of the most generous entitlement financial aid programs in the country. Only New York, Pennsylvania, Illinois, and Texas have need-based student financial aid programs comparable in size to California.

Significant Adjustments:

- **Offset Cal Grant Costs with Federal Temporary Assistance for Needy Families (TANF) Reimbursements**—A decrease of $139.2 million General Fund in 2013-14 to reflect increased TANF funds available through an interagency agreement with the Department of Social Services. This adjustment will bring the total TANF funds expended on the Cal Grant program to $942.9 million in 2013-14.

- **Cal Grant Program Growth**—An increase of $61 million General Fund in 2012-13 and $161.1 million General Fund in 2013-14 to reflect increased participation in the
Cal Grant program. Of the 2013-14 amount, $19.5 million is attributable to the first year of implementation of the California Dream Act.

- Offset of Cal Grant Program Costs with Student Loan Operating Fund—An increase of $60 million Student Loan Operating Fund and an offsetting decrease of $60 million General Fund to support Cal Grant program costs.