

HIGHER EDUCATION

California's approach to higher education has long been guided by principles articulated in the 1960 Master Plan for Higher Education. Those principles—such as standards for access and attainment, differentiation of functions across institutions, the need to support students who transfer with prior experiences, and the expectation of affordability for students—remain relevant today. Even so, California's needs have changed: the state's population has become more diverse, but educational attainment across income levels and racial and ethnic groups varies. Further, many students do not enter traditional institutions immediately after high school, and many are seeking to balance education and training with work. Changes in technology can provide the benefits of higher education more equitably and at reduced costs.

As described in the Introduction, the state is facing budget constraints due to lower-than-expected revenue growth. Despite this backdrop, the Budget increases funding for higher education. However, these increases are contingent on the systems' continued progress in implementing more sustainable practices that recognize both the principles of the Master Plan and the necessity for strong fiscal stewardship.

THE STATE’S CONTINUED INVESTMENT IN HIGHER EDUCATION

The Budget proposes total funding of \$31.9 billion (\$17.5 billion General Fund and local property tax and \$14.4 billion other funds) for higher education. This total reflects both direct funding to the public segments and costs of financial aid students may use at eligible institutions. Figure HED-01 displays additional detail about funding for higher education.

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

	2015-16	2016-17	2017-18	Change from 2016-17	
				Dollars	Percent
University of California					
Total Funds ^{1/}	\$7,702.8	\$8,278.9	\$8,425.6	\$146.7	1.8%
Ongoing General Fund	3,137.0	3,279.0	3,362.1	83.1	2.5%
One-Time General Fund	122.0	261.6	169.0	-	-
California State University					
Total Funds ^{1/}	\$6,356.7	\$6,606.9	\$6,683.3	\$76.3	1.2%
General Fund	3,271.0	3,478.9	3,663.8	184.9	5.3%
One-Time General Fund	4.9	109.6	1.0	-	-
California Community Colleges					
Total Funds	\$14,084.4	\$14,622.7	\$14,646.3	\$23.6	0.2%
General Fund & Property Taxes	8,576.3	9,002.3	9,123.5	121.2	1.3%
California Student Aid Commission					
Total Funds	\$2,014.5	\$2,073.9	\$2,096.2	\$22.3	1.1%
General Fund ^{2/}	1,479.0	1,130.1	1,152.8	22.8	2.0%
Other Higher Education ^{3/}					
Total Funds	\$55.2	\$89.6	\$64.8	-\$24.8	-27.7%
General Fund	12.1	40.3	13.7	-26.6	-65.9%
Total Funds	\$30,213.6	\$31,672.1	\$31,916.2	\$244.2	0.8%
General Fund	\$16,602.2	\$17,301.8	\$17,486.1	\$184.3	1.1%

^{1/} These totals include tuition and fee revenues and other funds the universities report as discretionary.

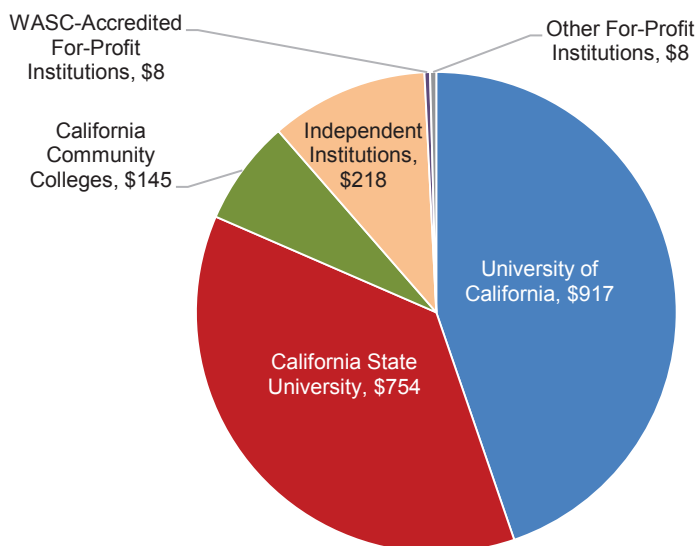
^{2/} General Fund expenditures for the Cal Grant program are offset by reimbursements, including federal Temporary Assistance for Needy Families (TANF) funds received through an agreement with the Department of Social Services. TANF reimbursements are \$520.9 million in 2015-16 and \$925.7 million in 2016-17 and 2017-18.

^{3/} This category includes expenditures for the Hastings College of the Law and the Awards for Innovation in Higher Education.

Since the passage of Proposition 30 in 2012, the state has made steady new investments in higher education. With the increase the Administration proposes in 2017-18, funding for University of California (UC) will have grown by \$817.8 million since 2012-13 and funding for California State University (CSU) will have grown by about \$1.1 billion. Likewise, California Community Colleges (CCC) Proposition 98 funding, excluding funding for Adult Education, has grown a total of \$1.8 billion since 2012-13.

The Cal Grant Program, the state’s primary financial aid program, is administered by the California Student Aid Commission. The program is an entitlement for students who meet eligibility criteria, with students who are ineligible for the entitlement program still able to compete for additional grants. Since 2012-13, funding for the Cal Grant Program will have grown by \$442 million, a 29-percent increase. As shown in Figure HED-02, 82 percent of the total financial aid funds are used to further subsidize costs at UC and CSU.

Figure HED-02
Distribution of Financial Aid by Institution Type, 2017-18
 (Dollars in Millions)



Includes the Cal Grant and Middle Class Scholarship programs.
 "WASC" is the Western Association of Schools and Colleges, a regional accrediting agency recognized by the U.S. Department of Education.

THE NEED TO MAKE HIGHER EDUCATION SUSTAINABLE

In the midst of fiscal constraints, the Administration supports continued investment in higher education with the expectation that colleges and universities will work together and implement new and creative practices that consider the cost of instruction, better support student success and completion, and expand access to higher education for more California students.

CCC STUDENT SUCCESS

The CCCs provide basic skills, vocational, and undergraduate transfer education with 72 districts, 113 campuses, and 78 educational centers. Approximately 2.1 million students attend community colleges. In 2015-16, the community colleges awarded over 74,000 certificates and 130,000 degrees and transferred over 103,000 students to four-year institutions.

The CCC system is one of the most cost-effective higher education systems in the nation, with colleges and learning centers available to students across all populated regions of the state and online. With enrollment fees of \$46 per unit, a student can complete the 60 units necessary to obtain an associate degree or transfer to a four-year institution for less than \$3,000 in tuition. Further, 65 percent of all enrollment fees are waived, providing a tuition-free education to about 50 percent of students enrolled in the community colleges. While a qualifying student may choose to attend a UC or CSU directly out of high school, first attending a CCC and then transferring to a UC or CSU could reduce a student's cost to obtain a four-year degree by thousands of dollars. Many California residents already take advantage of this option, with approximately 74,000 community college students transferring to a UC or CSU campus in 2015-16.

Providing students access to higher education through CCCs requires more focus on timely completion and student success—not only to make room for incoming students but to improve outcomes for these students. The Budget continues to provide \$285 million for the Student Success and Support Program, \$155 million for Student Equity Plans, \$50 million for the Student Services for Basic Skills Students Program, and funding for numerous other student support programs. These resources expand current services provided to students to improve outcomes, close gaps in access and achievement between underrepresented student groups and their peers, and implement practices that increase students' transition to college-level courses. Additionally, community colleges are investing in tutoring services, coordinating with

local educational agencies to improve the success of students transitioning from high schools, and redesigning their remedial education courses and assessment and placement activities.

Despite these efforts, most CCC degree, certificate, and transfer programs expect students to determine their educational goals from myriad programs, courses and support services offered by their community college. Without the necessary advising and targeted student support services, most students struggle to complete their program in a timely manner. In recent years, state policies—such as stronger guarantees through California Promise programs, streamlined transfer pathways, and concurrent enrollment across systems, all supported through budget actions—help to address these challenges.

The Budget proposes additional investment in student success. Specifically, the Budget includes \$150 million one-time Proposition 98 General Fund for grants to support community colleges' efforts to develop and implement "guided pathways" programs. A guided pathway program is an integrated, institution-wide approach focused on improving student success. Participating community colleges can use these grants for activities including the design of academic roadmaps and transfer pathways that explicitly detail the courses students must take to complete a credential or degree on time. Colleges can also use these grants to provide targeted advising and support services; redesign assessment, placement, and remedial education policies and courses; and redesign or refresh courses and programs to better align learning outcomes with the requirements for successful employment. Guided pathway programs have been implemented in higher education institutions in other states with positive results. The expectation is to improve completion rates, reduce time-to-degree, increase California students' employment opportunities, and reduce student debt.

The Chancellor's Office will play a critical role in supporting the colleges' efforts to improve student success, address equity disparities, and develop the guided pathways program. By establishing state expectations, providing technical assistance, and holding colleges accountable, the Chancellor's Office will help the colleges achieve these goals.

AMBITIOUS GOALS IN THE CSU GRADUATION INITIATIVE

The CSU provides undergraduate and graduate instruction generally through the master's degree. Its 23 campuses enroll approximately 400,000 students. In 2015-16,

the CSU awarded 113,000 degrees. An additional 22,000 students are enrolled in programs leading to degrees, credentials, or certificates through continuing education.

The 2016 Budget called on the CSU to increase four-year graduation rates and two-year transfer graduation rates, with specific emphasis on closing achievement gaps for low-income students, first-generation students, and students from underrepresented minority groups. The CSU Graduation Initiative 2025 adopted by the Board of Trustees in September commits the University to ambitious goals—increasing the four-year graduation rate to at least 40 percent, increasing the two-year transfer graduation rate to at least 45 percent, and closing gaps in outcomes between the targeted students and their peers. The system’s plan focuses on increasing the average number of courses students take each term, including during summer and winter terms, and reducing the number of courses taken unnecessarily or repeated. To jumpstart this effort, the 2016 Budget included \$35 million in one-time funding, which is now assisting campuses in making immediate changes.

The CSU Graduation Initiative 2025 can only be successful if education leaders across the system are clear about what a CSU education entails—both upon entry and at graduation. For example, more than 40 percent of CSU freshmen are still identified as unprepared for college-level courses based on their performance on a sequence of tests. Evidence from other contexts, including California community colleges, suggests that many of these students are prepared for those college courses and that other measures—like high school grades—are better indicators of preparation. The CSU Academic Senate Quantitative Reasoning Task Force released a set of recommendations that define student proficiency before entering CSU and at graduation.

PROGRESS ON THE UC AGREEMENT

The UC offers formal undergraduate and graduate education. The UC is the public segment authorized to independently award doctoral degrees and is designated as the state’s primary academic agency for research. Its 10 campuses enroll approximately 265,000 students. In 2015-16, the UC awarded 69,000 degrees. An additional 400,000 students participate in continuing education programs through the University extensions.

In 2015, the Governor and the UC President agreed on several initiatives that would be implemented to reduce the cost structure of the University. Their framework, which was ultimately adopted by the Board of Regents, recognizes that lowering the cost structure while maintaining quality requires the University to reevaluate how students’ prior

academic experiences are recognized as part of UC degree programs, how academic programs are structured, and how instruction is delivered.

The University has demonstrated progress in all of the areas of the agreement, and the work is still underway. Notably, the UC has begun pilots at three campuses—Davis, Merced, and Riverside—on “activity-based costing,” a method of calculating the amount spent on individual courses based on the way those courses are delivered. These calculations provide rich data for University leaders to better plan enrollment and determine which, and how, courses should be offered by understanding costs coupled with student outcomes. The Administration will continue to monitor the University’s experience in using the information.

The UC has made significant progress in improving access for students transferring from the community colleges and those students’ experiences when they arrive at the UC. Specifically, the UC is admitting more transfer students. Under the Governor’s agreement, the UC is committed to increasing the number of transfer students its campuses enroll so that, by 2017-18, at least one new transfer student is enrolled for every two new freshmen. Further, the University has created specific pathways for students to transfer into 21 majors from the community colleges.

TUITION AND FEES AT THE PUBLIC SEGMENTS

Fees at the community colleges will remain flat in 2017-18—a clear signal that the colleges will remain an accessible pathway to postsecondary education. At UC and CSU, fees have remained flat for five years. However, the UC Office of the President has indicated that it will present a 2.5-percent tuition increase to the Board of Regents later in January, and the CSU Chancellor’s Office has indicated that the Chancellor will present a 5-percent tuition increase to the Board of Trustees in March. These tuition increases would grow Cal Grant costs for UC students by \$17.7 million and for CSU students by \$24.9 million in 2017-18 beyond the costs reflected in the Budget.

Any tuition increases must be viewed in the context of reducing the overall cost structure at UC and improving the graduation rates at CSU. Tuition increases without these improvements would only burden families with the cost of an inefficient system.

PHASE-OUT OF THE MIDDLE CLASS SCHOLARSHIP PROGRAM

Given the state's overall financial condition, to continue the Administration's support for long-term stable growth in funding for the UC and the CSU, and to maintain the broad Cal Grant entitlement for the state's neediest students, the Budget proposes a phase-out of the Middle Class Scholarship Program. Beginning in 2017-18, awards will be renewed only for the approximately 37,000 students who received awards in 2016-17, with no new awards for the program. By 2020-21, this proposal will reduce annual General Fund costs by \$115.8 million.

For 2016-17, the Administration is committed to funding scholarships that already have been awarded to students. As estimates for the total cost of awards become more certain in the spring, the May Revision will include any additional funds necessary to ensure existing award amounts are not reduced for those students.

INVESTING IN CALIFORNIA'S WORKFORCE

Over the past few years, the state has made significant progress toward linking the efforts of K-12 schools, adult schools, community colleges, universities, local workforce investment boards, libraries, social services agencies, public safety agencies, and employers to better provide educational and workforce training opportunities for students. Information on particular workforce investments can be found in the Investing in California's Workforce Chapter.

SIGNIFICANT ADJUSTMENTS

The following is a listing of significant adjustments proposed in the Budget.

CALIFORNIA COMMUNITY COLLEGES

- Chancellor's Office State Operations—An increase of \$378,000 General Fund and two Vice Chancellor positions to assist the Chancellor's Office's efforts to improve student success, address equity disparities, and develop the Guided Pathways Program. Throughout the spring of 2017, the Department of Finance will collaborate with the Chancellor's Office to develop an organizational framework for the office that will better enable the Chancellor's Office to achieve the goals and priorities set forth by the new system Chancellor and Board of Governors.

- Guided Pathways—An increase of \$150 million one-time Proposition 98 General Fund for grants to community colleges to develop an integrated, institution-wide approach to student success.
- Deferred Maintenance and Instructional Equipment—A one-time increase of \$43.7 million from Proposition 98 settle-up that community colleges can use for deferred maintenance, instructional equipment, and specified water conservation projects. No matching funds are required.
- CCC Apportionments—A decrease of \$27.1 million Proposition 98 General Fund which is reflective of the following adjustments:
 - An increase of \$94.1 million for a 1.48-percent cost-of-living adjustment.
 - An increase of \$79.3 million available for enrollment growth.
 - An increase of \$3.8 million as a result of decreased offsetting student enrollment fee revenues.
 - A decrease of \$56.6 million to reflect unused growth provided in 2015-16.
 - A decrease of \$147.7 million as a result of increased offsetting local property tax revenues.
- Increased Operating Expenses—An increase of \$23.6 million Proposition 98 General Fund to support increased community college operating expenses in areas such as employee benefits, facilities, professional development, and other general expenses.
- Innovation Awards—An increase of \$20 million one-time Proposition 98 General Fund to provide innovation grants to incent the development and implementation of innovative practices in various functional areas as determined by the Chancellor.
- Online Education Initiative—An increase of \$10 million Proposition 98 General Fund to provide system-wide access to the Initiative’s learning management system.
- Integrated Library System—An increase of \$6 million one-time Proposition 98 General Fund to facilitate the development of an integrated library system that, once operational, will allow California community college students access to a cloud-based library system.

- Proposition 39—An increase of \$3 million Clean Energy Job Creation Fund for California Community College energy efficiency projects, consistent with the provisions of Proposition 39. As a result, total program funding is \$52.3 million Clean Energy Job Creation Fund for 2017-18.

CALIFORNIA STATE UNIVERSITY

- Augmentations for University Operations—An increase of \$161.2 million General Fund that was determined as follows:
 - \$131.2 million representing the amount provided to the UC.
 - \$26 million representing the final installment of funds committed when the state made changes to the Middle Class Scholarship Program in 2015.
 - \$5 million representing the final installment of funds committed when the state made changes to the way in which capital outlay for the CSU is funded.

UNIVERSITY OF CALIFORNIA

- Augmentation for University Operations—An increase of \$131.2 million General Fund representing a 4-percent increase in funds consistent with the existing agreement between the Governor and the UC President.
- Proposition 2 Debt Funds—\$169 million Proposition 2 funds one-time for the unfunded liability of the UC Retirement Plan. The amount represents the final installment of a total of \$436 million in one-time funds provided over a three-year period.

HASTINGS COLLEGE OF THE LAW

- Augmentation for Colleges Operations—An increase of \$1.1 million General Fund consistent with the approach taken with the universities.

CALIFORNIA STUDENT AID COMMISSION

- Phase-Out of Middle Class Scholarship Program—Adjustments to reflect an estimated cost of the program of \$74 million in 2017-18. The phase-out of the program would renew scholarships only to students who received scholarships in the 2016-17 academic year.

- Adjustments for Cal Grant Program—A decrease of \$52.4 million General Fund in 2016-17 and \$24.5 million General Fund in 2017-18 to reflect estimated costs.