

## HIGHER EDUCATION

**E**ach year, millions of Californians pursue degrees and certificates or 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 public segments:

- The University of California (UC) educates approximately 243,000 undergraduate and graduate students and is the primary institution authorized to independently award doctoral degrees and professional degrees.
- The California State University (CSU) provides undergraduate and graduate instruction to approximately 434,000 students, and primarily awards baccalaureate and masters degrees.
- The California Community Colleges (CCC) are publicly supported local educational agencies that provide open-access educational and vocational programs to approximately 2.3 million students.

In addition to providing direct support to these three segments, the state also provides financial aid to students attending public and private postsecondary California institutions through the Cal Grant program and, beginning in 2014-15, to UC and CSU students through the Middle Class Scholarship Program. More than 100,000 students received new Cal Grant awards, and more than 160,000 students received renewal awards in 2012-13.

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### **INVESTING IN HIGHER EDUCATION**

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. Despite significant increases over the past decade, California institutions continue to have some of the lowest tuition and fee levels in the country, and the state fully reimburses UC, CSU, and CCC tuition and fee costs for students with family incomes of up to \$101,000 through the Cal Grant and the CCC Board of Governors Fee Waiver programs. In 2014-15, the Middle Class Scholarship Program will begin to phase in, offsetting a percentage of tuition and fee costs at UC and CSU for students with family incomes of up to \$150,000. In total, California taxpayers provide approximately \$14.5 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 these investments, California public college and university graduates carry some of the lowest student loan debt burdens compared to graduates from other states. California students in public and non-profit colleges rank 48<sup>th</sup> in student debt levels—about half of California undergraduates have student debt, averaging \$20,300, compared to more than 70 percent of undergraduates nationally, averaging \$29,400.

The recent economic downturn and resulting shortfalls in state revenues required reductions in the state's subsidies of public higher education. In response to the significant cuts in state funding, UC and CSU almost doubled systemwide tuition and fees from 2007-08 to 2011-12, increasing by \$5,556 at UC and by \$2,700 at CSU during this period (see Figure HED-01). These rapid increases—sometimes put in place twice within a given year—often occurred with little advance notice to students and their families. Although tuition and fees have been flat since 2011-12, these higher tuition levels remain a hardship for students and their families, particularly middle-income families who do not qualify for Cal Grants, although this will be mitigated as the Middle Class Scholarship Program is implemented.

Given growth in state revenues, the 2013 Budget Act provided a \$125.1 million General Fund increase to both UC and CSU, the first installment of a four-year investment plan to provide steady and predictable state funding increases through 2016-17. These multi-year investments, however, are contingent on the segments holding tuition flat at 2011-12 levels through 2016-17: \$12,192 for UC and \$5,472 for CSU. The Administration expects the segments to use these funds to maintain affordability, decrease the time it

Figure HED-01  
**UC and CSU Expenditures and Undergraduate Tuition and Fees**  
(Dollars in Millions)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Change from 2007-08	
									Dollars	Percent
<b>UC</b>										
General Fund	\$3,257.4	\$2,418.3	\$2,591.2	\$2,910.7	\$2,272.4	\$2,377.3	\$2,642.9 <sup>4/</sup>	\$2,793.4 <sup>4/</sup>	-\$464.0	-14%
Tuition and Fee Revenue	1,593.1	1,676.8	2,054.4	2,212.7	3,022.6	3,018.8	3,090.8	3,090.8	\$1,497.7	94%
Federal Funds - ARRA <sup>1/</sup>	-	716.5	-	106.6	-	-	-	-	-	-
Total Funds <sup>2/</sup>	\$5,453.3	\$5,453.4	\$5,298.1	\$5,948.2	\$6,117.2	\$6,274.5	\$6,700.3 <sup>4/</sup>	\$6,818.6 <sup>4/</sup>	\$1,365.3	25%
Systemwide Tuition and Fees <sup>5/</sup>	\$6,636	\$7,126	\$8,373	\$10,302	\$12,192	\$12,192	\$12,192	\$12,192	\$5,556	84%
<b>CSU</b>										
General Fund <sup>3/</sup>	\$2,970.6	\$2,155.3	\$2,345.7	\$2,577.6	\$1,999.9	2,063.5	\$2,345.9	\$2,507.3 <sup>4/</sup>	-\$463.3	-16%
Tuition and Fee Revenue	1,176.3	1,406.1	1,630.6	1,681.9	2,187.0	2,219.5	2,261.0	2,311.8	\$1,135.5	97%
Federal Funds - ARRA <sup>1/</sup>	-	716.5	-	106.6	-	-	-	-	-	-
Total Funds <sup>2/ 3/</sup>	\$4,487.1	\$4,616.9	\$4,279.9	\$4,674.5	\$4,609.3	\$4,746.9	\$5,072.0	\$5,284.1 <sup>4/</sup>	\$797.0	18%
Systemwide Tuition and Fees <sup>5/</sup>	\$2,772	\$3,048	\$4,026	\$4,440	\$5,472	\$5,472	\$5,472	\$5,472	\$2,700	97%

<sup>1</sup> The 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.

<sup>2</sup> Total funds include general purpose income but exclude self-supporting functions such as auxiliary enterprises and extramural programs.

<sup>3</sup> Beginning in 2012-13, the costs of health benefits provided to CSU retired annuitants is included in CSU's main General Fund and Total Funds budget, as reflected in Figure HED-02. However, for purposes of this figure, to compare 2007-08 to 2014-15 funding, these health benefit expenditures are not included in CSU's funding levels.

<sup>4</sup> General obligation bond debt service payments are funded in UC's General Fund budget beginning in 2013-14 and in CSU's General Fund budget beginning in 2014-15. However, for purposes of this figure, to compare 2007-08 to 2014-15 funding levels, general obligation bond debt service amounts are not reflected in the segments' General Fund and Total Funds.

<sup>5</sup> Tuition and fees are in whole dollars.

takes students to complete a degree, increase the number of students who complete programs, and improve the transfer of community college students to four-year colleges and universities. Beginning in March 2014, UC and CSU will report annually on measures that allow for monitoring the progress both segments have made in meeting expectations.

Higher education continues to be a high priority for investment because widely accessible, high-quality higher education drives the innovation that fuels California's ever-evolving, dynamic economy. Nevertheless, as the state reinvests in higher education, it cannot fund the business-as-usual model of providing instruction at its higher education institutions. Both UC and CSU proposed budgets for 2014-15 that call for increases in state funding of 10 percent, compared to the 5 percent General Fund increase the Administration committed to in its long-term funding plan. The state has

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just emerged from the largest recession since the Great Depression, and its finances remain constrained. The state must continue to rebuild its universities' budgets, but only in a manner that is sustainable over the long term.

The California higher education system can, and needs, to continue to improve outcomes. Each segment faces its own unique set of challenges:

- UC has the highest cost structure and receives the highest per-student subsidy of the three segments. The University has undertaken some meaningful initiatives to reduce administrative costs; however, it needs to also implement models of delivering quality education at a lower cost and that improve student outcomes.
- CSU receives roughly half the per-student subsidy as UC and has a lower overall cost structure than UC. However, completion rates are low: only 16 percent of admitted freshmen complete their studies within 4 years. Like UC, CSU has worked to reduce administrative costs, and CSU has been actively examining and implementing strategies to provide more effective remedial programs, reduce course bottlenecks, enhance its completion rates, and simplify the transfer process. As these efforts are expanded, the system will be able to serve more students within existing resources.
- The CCCs serve far more students than either the UC or CSU and face many challenges—with low completion rates a primary concern—that were exacerbated during the tight Proposition 98 budgets in the recent economic downturn. In 2012, the system convened a Student Success Task Force, which made a number of recommendations to improve student success in various measures, such as completion of basic skills and English as a second language courses, persistence and retention, and successful transfer to four-year institutions. The colleges have started to enhance the measurement of student success, which can be used to target investment in programs that best improve student outcomes. However, the state funds numerous categorical programs that are not well coordinated.

The Administration's long-term plan moves away from funding higher education based on enrollment targets. By itself, enrollment-based funding does not encourage institutions to focus on critical outcomes—affordability, timely completion rates, and quality programs—nor does it encourage institutions to better integrate their efforts to increase productivity given the state's investment. Instead, it builds upon the existing institutional infrastructure, allowing public universities and colleges to continue to deliver education in the high-cost, traditional model. Under this old model, increased funding comes from

admitting more students, rather than ensuring students complete degrees in a timely or efficient manner.

The Budget proposes total funding of \$26.3 billion, reflecting an increase of \$1.1 billion, or 4.2 percent, above 2013-14. Within these resources, the Budget includes funding of \$14.5 billion in General Fund and Proposition 98-related sources. See Figure HED-02 for a summary of higher education funding.

Figure HED-02  
Higher Education Expenditures  
(Dollars in Millions)

	2012-13	2013-14	2014-15	Change from 2013-14	
				Dollars	Percent
University of California <sup>1/</sup>					
Total Funds <sup>2/</sup>	\$6,463.9	\$6,901.8	\$7,011.9	\$110.1	1.6%
General Fund	2,566.7	2,844.4	2,986.7	142.2	5.0%
California State University <sup>1/</sup>					
Total Funds <sup>2/ 3/</sup>	\$5,157.5	\$5,515.4	\$5,743.1	\$227.7	4.1%
General Fund <sup>3/</sup>	2,474.1	2,789.3	2,966.3	177.0	6.3%
Community Colleges <sup>1/</sup>					
Total Funds	\$10,897.9	\$11,054.9	\$11,556.3	\$501.4	4.5%
General Fund & P98 <sup>4/</sup>	6,623.2	6,744.2	7,233.6	489.4	7.3%
Student Aid Commission					
Total Funds	\$1,588.3	\$1,712.0	\$1,933.7	\$221.7	12.9%
General Fund	670.5	1,042.2	1,298.8	256.6	24.6%
Other Higher Education <sup>5/</sup>					
Total Funds	\$55.5	\$57.0	\$56.0	-\$1.0	-1.8%
General Fund	7.8	8.4	9.6	1.3	15.2%
<b>Total Funds</b>	<b>\$24,163.1</b>	<b>\$25,241.1</b>	<b>\$26,301.0</b>	<b>\$1,059.9</b>	<b>4.2%</b>
<b>General Fund</b>	<b>\$12,342.3</b>	<b>\$13,428.5</b>	<b>\$14,495.0</b>	<b>\$1,066.5</b>	<b>7.9%</b>

<sup>1/</sup> For purposes of this table, UC, CSU, and CCC General Fund and Total Funds include general obligation bond debt service to provide consistency. However, in 2012-13, GO bond debt service payments for UC and CSU were budgeted separately from the segments' support budgets. Beginning in 2013-14, UC's GO debt service costs were included in its General Fund budget; beginning in 2014-15, CSU's GO debt service costs are included in its General Fund budget.

<sup>2/</sup> Expenditures for UC and CSU have been adjusted to include general purpose income and exclude self-supporting functions, such as auxiliary enterprises and extramural programs. This adjustment provides consistency in comparing magnitudes and growth among the various segments of education.

<sup>3/</sup> Beginning in 2012-13, health benefits provided for CSU retired annuitants are reflected in CSU's budget.

<sup>4/</sup> To provide consistency in comparing magnitudes and growth with UC and CSU General Fund, CCC includes property tax revenue, which is a component of the state's obligation under Proposition 98.

<sup>5/</sup> Other Higher Education includes Hastings College of the Law, excluding Hastings' GO bond debt service, and the California Postsecondary Education Commission (which incurred minimal close-out costs in 2012-13).

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### **STABLE FUNDING SUPPORTS STUDENT SUCCESS**

The Administration continues to support the four-year investment plan started in 2013-14. The plan calls for growing General Fund support for UC and CSU by 5 percent in 2014-15 and by 4 percent in each of the subsequent two years. The continuation of the multi-year plan is predicated on the UC Regents and the CSU Board of Trustees adopting three-year sustainability plans that set targets for key measures, within resource assumptions provided by the Department of Finance. The Administration expects this requirement will foster greater transparency in the budget decisions facing the systems, as well as responsible planning within sustainable state funding. Institutions will be expected to implement reforms to improve student success and to realize institutional efficiencies. 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 universities to maintain current tuition and fee levels through 2016-17.

State funding for the CCCs will increase by 11.4 percent in 2014-15. It is expected that community colleges funding will continue to grow significantly over the next several years as Proposition 98 resources continue to rebound. The Budget focuses this increased funding to support student success and to prioritize expanded access in districts where there is the greatest unmet need in the primary missions of the CCCs: providing basic skills and remedial education, workforce development and training, and preparing students to transfer to four-year universities. The CCCs are in the process of implementing many of the recommendations of the Student Success Task Force. The Administration expects this effort to improve completion rates while closing achievement gaps and proposes additional state investment in this area. This includes expanding current services to improve student outcomes, such as: effective orientation, assessment, placement, counseling, and other education planning services. It also includes resources to mitigate disproportionate impacts on access and achievement in underrepresented student groups, aligned with each district's board-approved Student Equity Plan. Districts will be provided flexibility to reallocate up to 25 percent of select categorical programs to other federal, state, or local student support programs to better meet the needs of their underrepresented student groups.

The Budget also provides the Chancellor's Office enhanced oversight tools and resources to provide districts with focused technical assistance to support implementation of effective practices, with a focus on underperforming districts. The Chancellor's Office

will develop leading indicators of success and develop systemwide and individual district goals for student success.

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### **PROMOTE INNOVATIVE MODELS OF HIGHER EDUCATION**

To meet future demands for higher education within the reality of the state budget, the state's public higher education segments are expected to create innovative cost-effective approaches to delivering quality higher education for more students.

Many of the decisions that shape how instruction is delivered—particularly course content and credit approval—are made by administrators, faculty, and other stakeholders at individual campuses and within individual academic departments. To encourage higher education entities to take innovative and ambitious actions locally and integrate their efforts across campuses and segments, the Administration proposes to use \$50 million in one-time General Fund for the Awards for Innovation in Higher Education program. These incentive awards will recognize models of innovation in higher education that: (1) significantly increase the number of individuals in the state who earn bachelor's degrees, (2) allow students to earn bachelor's degrees that can be completed within four years of enrollment in higher education, and (3) ease transfer through the state's education system, including by recognizing learning that has occurred across the state's education segments or elsewhere.

Awards will be selected based on the extent to which an application submitted by a UC, CSU, or a community college—or a group of any of these entities—proposes an innovative model that: (1) advances the state's priorities, as noted above, (2) can have a statewide impact if expanded, and (3) is likely to be implemented effectively. The awards process is anticipated to be completed by Spring 2015 and will be managed by a committee chaired by Finance with members representing each of the public education segments and the Legislature.

The incentive awards program builds on the Administration's 2013-14 request to expand the use of technology to remove course bottlenecks and reduce the costs of education. The Administration expects that the segments will continue to implement plans to expand investments in technology that lower costs at each segment and allow students to complete their degrees sooner. The Budget also proposes to further expand opportunities for students to earn credit toward their degrees for knowledge and skills acquired outside of the classroom.

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### **CALIFORNIA COMMUNITY COLLEGES**

The CCCs are publicly supported institutions of higher education that provide basic skill, vocational training, and transfer programs and are the largest system of higher education in the world, with 72 districts, 112 campuses, and 72 educational centers. The CCCs awarded 57,745 certificates and 96,691 degrees, and transferred 88,487 students to four-year higher education institutions in 2012-13.

Significant Adjustments:

- **Implementing Statewide Performance Strategies**—The Budget provides \$1.1 million non-Proposition 98 General Fund and 9 positions for the Chancellor’s Office to develop leading indicators of student success and to monitor districts’ performance. Further, the Budget provides \$2.5 million Proposition 98 General Fund to provide local technical assistance to support implementation of effective practices across all districts, with a focus on underperforming districts.
- **Investing in Student Success**—The Budget provides \$200 million Proposition 98 General Fund to improve and expand student success programs and to strengthen efforts to assist underrepresented students. This includes \$100 million to increase orientation, assessment, placement, counseling, and other education planning services for all matriculated students. It also targets \$100 million to close achievement gaps in access and achievement in underrepresented student groups, as identified in local Student Equity Plans. This funding will allow colleges to better coordinate delivery of existing categorical programs.
- **Allocating Apportionments**—The Budget proposes an increase of \$155.2 million Proposition 98 General Fund for growth in general-purpose apportionments, which represents a 3-percent increase in enrollment. The Budget directs the Board of Governors to adopt a growth formula that gives first priority to districts identified as having the greatest unmet need in adequately serving their community’s higher educational needs. All districts will receive some additional growth funding, and over time will be fully restored to pre-recession apportionment levels.
- **Cost of Living Adjustment**—The Budget proposes an increase of \$48.5 million for a statutory cost of living adjustment of 0.86 percent.
- **Eliminating Apportionment Deferrals**—The Budget proposes \$235.6 million Proposition 98 General Fund, combined with \$356.8 million Proposition 98 General Fund provided from 2012-13 and 2013-14 funds, to eliminate all remaining



outstanding deferral debt owed to the CCCs. Inter-year deferrals for CCCs reached a high of \$961 million in the 2011-12 fiscal year. The increase will eliminate the substantial borrowing costs borne by the districts as a result of funding deferrals, and will allow those resources to instead be used in the classroom.

- **Financial Stability for Apportionments**—The Budget proposes an increase of \$38.4 million in 2013-14 and \$35.6 million in 2014-15 in Proposition 98 General Fund by shifting a portion of the redevelopment agency revenues that are scheduled to be received in the final months of the fiscal year to the following fiscal year. Proposition 98 General Fund would be used to backfill the difference between estimated total fiscal year redevelopment agency revenues and the amount the CCCs receive through April 15<sup>th</sup>. This change will allow districts to have more certainty when preparing their fiscal plans.
- **Investing in Deferred Maintenance and Instructional Equipment**—The Budget proposes a one-time increase of \$175 million Proposition 98 General Fund, split equally between deferred maintenance and instructional equipment purchases. These resources will allow districts to protect investments previously made in facilities, and improve students' experience by replenishing and investing in new instructional equipment.

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## 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, CSU is the largest and most diverse university system in the country. CSU plays a critical role in preparing the workforce of California, awarding 101,209 degrees in 2012-13; 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 more than 50 percent of California's teachers.

Significant Adjustments:

- **General Fund Increase**—As discussed above, an ongoing increase of \$142.2 million General Fund. 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.

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- Mechanism to Address Infrastructure Needs—Currently, the state separately funds general obligation and lease revenue debt service for CSU capital improvement projects. The Budget proposes to fund the costs of debt service from CSU’s main General Fund appropriation. Any new CSU capital expenditures will be subject to approval to ensure the funds are used for academic facilities to address seismic and life safety needs, enrollment growth, modernization, or deferred maintenance. Further, there will be limits on the amount of the budget that can be spent on capital expenditures. This change will require CSU to factor these costs into the University’s overall fiscal outlook and decision-making process.

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### UNIVERSITY OF CALIFORNIA

Consisting of ten campuses, UC is the primary institution authorized to independently award doctoral degrees and professional degrees in law, medicine, business, dentistry, veterinary medicine, and other programs. The University 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 almost 4 million patient visits each year.

Significant Adjustment:

- General Fund Increase—As discussed above, an ongoing increase of \$142.2 million General Fund. 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.

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### HASTINGS COLLEGE OF THE LAW

Affiliated with UC, the Hastings College of the Law is the oldest and one of the largest public law schools in the West, providing instruction to approximately 1,000 students.

Significant Adjustment:

- General Fund Increase—An ongoing increase of \$1.3 million General Fund. This funding will mitigate the need for Hastings to increase student tuition and fees and can be used by the law school to meet its most pressing needs.

## CALIFORNIA STUDENT AID COMMISSION

The California Student Aid Commission administers state financial aid to students attending California 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, the Assumption Program of Loans for Education, and the Middle Class Scholarship Program. More than 100,000 students received new Cal Grant awards, and more than 160,000 students received renewal awards in 2012-13. These programs are a key way in which the state supports public higher education to make college more affordable for 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. The Cal Grant program is one of the most generous entitlement financial aid programs in the country. Only New York has need-based student financial aid programs comparable in size to California's. Costs for the program have increased dramatically due to UC and CSU tuition and fee increases in recent years and an increased number of students participating in the program. Over a ten-year period, participation in the program and costs have increased from 176,000 students and \$644 million in 2003-04, to more than 280,000 students and \$1.6 billion estimated for 2013-14. Stable tuition and fee levels since 2011-12 at UC and CSU have slowed the rate of growth in the program in recent years.

In 2014-15, the Commission will begin implementation of the Middle Class Scholarship Program. When fully implemented, tuition and fees for students attending UCs and CSUs will be reduced by up to 40 percent for families with incomes up to \$150,000. The program will be phased in over four years, with \$107 million in 2014-15, \$152 million in 2015-16, \$228 million in 2016-17, and \$305 million in 2017-18.

Significant Adjustments:

- Middle Class Scholarship Implementation—An increase of \$107 million General Fund in 2014-15 to begin implementation of the Middle Class Scholarship Program.
- Expand Cal Grant Renewal Award Eligibility—An increase of \$14.9 million General Fund in 2014-15 to allow students who have previously been denied a Cal Grant renewal award for financial reasons (their income rose above eligibility levels) to reapply for the program no more than three academic years after

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receiving their original award (if their incomes fall below the income threshold in that timeframe).

- Cal Grant Program Growth—An increase of \$3.4 million General Fund in 2013-14 and \$103.3 million General Fund in 2014-15 to reflect increased participation in the Cal Grant program. Of the 2014-15 amount, \$5.5 million is attributable to the second year of implementation of the California Dream Act.
- Offset Cal Grant Costs with Federal Temporary Assistance for Needy Families (TANF) Reimbursements—A decrease of \$3.2 million General Fund in 2014-15 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 \$544.9 million in 2014-15.
- Offset Cal Grant Costs with Student Loan Operating Fund (SLOF)—Total SLOF funds expended on the Cal Grant program are \$60 million in 2014-15, offsetting General Fund costs on a dollar-for-dollar basis.

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### **CALIFORNIA STATE LIBRARY**

Since 1850, the California State Library has promoted innovative library services statewide, ensuring that all Californians have access via their local libraries to information and educational resources.

Significant Adjustment:

- High-Speed Internet Access—The Budget proposes \$3.3 million General Fund to provide public libraries access to high-speed Internet to better meet the demands of today's library patrons. This includes \$2.3 million to allow California's public library branches to access a statewide, high-speed Internet network, and \$1 million General Fund on a one-time basis for grants to public libraries that require equipment upgrades to connect to a high-speed network.