



# CPEC

## Budget Perspectives and Proposed Commission Recommendations

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The Commission recognizes the severity of the state's economic problems and, in ordinary times, would support few of the funding reductions proposed in the budget. The Commission believes that the higher education systems are insufficiently funded for the outcomes they are expected to achieve. The seriousness of the economic situation demands some short-term actions that the Commission hopes will maintain the systems' core operations. As the economic situation improves, most proposed funding cuts should be restored. Further, the state and education systems should engage in a long-term review of the value of the higher education enterprise and how it is funded. The state's economic and social health — our whole quality of life — depends on improving the functionality of our higher education system, but this will take more resources than are currently available.

A key part of a healthy higher education system is that it is accessible to all who can benefit, not just those who either pay with their personal resources or who are eligible for large financial aid subsidies. Two decades of diminishing state support has moved California too far toward access at the extremes and this is a situation that we need to reverse to rebuild the Golden State.

### Governor's Proposed Budget

The Governor's proposed 2009–10 budget seeks to close a two-year deficit of nearly \$42 billion. The budget proposes \$17.4 billion in spending reductions for 2008–09 and 2009–10, and proposes \$14.3 billion in new revenues through tax and fee increases. The budget also assumes \$10 billion in external borrowing and internal fund transfers from January 2009 to June 2010.

The tables on page 2 show changes in expenditures and revenues from 2007–08 to what is projected through June 2010. In addition to the overall budget shortfall, the state is facing a worsening cash flow crisis, as current revenues are not sufficient to meet short-term funding needs. The State Controller and Pooled Money Investment Board have each taken actions to delay or defer expected payments to vendors, contractors, and others.

### Postsecondary Education

Combined State General plus local funding for higher education is expected to increase in 2009–10 from the revised, lowered funding levels in 2008–09. The budget funds the Governor's 2005 Higher Education Compact with CSU and UC, then applies unallocated reductions to these amounts — \$217 million for CSU and \$210 million for UC. It makes permanent the budget reductions of \$66.3 million for CSU and \$65.5 million for UC, as proposed during the November 2008 Special Legislative Session. For the community colleges, the budget eliminates an expected \$40 million in current-year cost-of-living adjustments, defers \$230 million of 2008–09 funding into 2009–10, and eliminates \$323 million in 2009–10 cost-of-living adjustments.

## State General Fund Revenues and Expenditures for 2007–08 through 2009–10

	2007–08 Actual	2008–09			2009–10		
		Budget Act	Revised	Change from 2007–08	Proposed	Change from Revised 2008–09	
(million \$)							
Revenues and transfers	\$101,337	\$101,991	\$93,492	-\$8,499	\$98,787	\$5,295	5.7%
<b>Expenditures</b>							
Legislative, Judicial, Executive	3,856	3,816	3,779	-37	3,740	-39	-1.0%
State & Consumer Services	581	563	566	3	577	11	1.9
Business, Trans. & Housing	1,485	1,628	1,466	-162	2,336	870	59.3
Resources, Environment	1,960	1,913	2,113	200	2,001	-112	-5.3
Health & Human Services	29,339	31,121	30,935	-186	29,996	-939	-3.0
Corrections & Rehabilitation	10,114	10,342	10,310	-32	9,615	-695	-6.7
K-12 Education	42,469	41,579	35,499	-6,080	39,721	4,222	11.9
Higher Education	11,861	12,113	11,745	-368	12,389	644	5.5
Labor & Workforce Development	103	98	102	4	104	3	2.5
General Government	1,217	228	-4,102	-4,330	-5,047	-945	23.0
<b>Total</b>	<b>102,985</b>	<b>103,401</b>	<b>92,413</b>	<b>-10,988</b>	<b>95,432</b>	<b>3,019</b>	<b>3.3</b>

Budget information assumes adoption of all budget-balancing proposals. "General Government" includes \$10.8 billion in reimbursements from other sources during the current and budget years.

Source: California Department of Finance

## Higher Education State General Funds

	2008–09		2009–10 Proposed	Changes from 2008–09	
	Budget Act	Revised		Budget Act	Revised
(thousand \$)					
CPEC	\$2,005	\$2,007	\$2,018	\$13	\$11
UC	3,250,300	3,168,085	3,240,187	-10,113	72,102
Hastings	10,631	10,229	10,470	-161	241
CSU	2,970,706	2,903,069	2,962,226	-8,480	59,157
Community colleges	6,746,200	6,115,918	6,660,698	-85,502	544,780
CSAC	837,511	900,641	730,659	-106,852	-169,982
<b>Total</b>	<b>13,817,353</b>	<b>13,099,949</b>	<b>13,606,258</b>	<b>-211,095</b>	<b>506,309</b>

The community colleges' State General Funds include local property tax revenues.

Sources: California Department of Finance, Legislative Analyst's Office

The budget proposes to raise student fees at CSU and UC but contains no fee increases for the community colleges. A 10% undergraduate fee increase at CSU would generate \$130.4 million. The 9.3% assumed fee increase at UC would generate \$166.1 million in new revenues. The budget provides the community colleges with more flexibility in the use of funds by allowing districts to transfer categorical funds into their general funds in order to maintain course offerings.

For financial aid, the budget proposes replacing \$193 million in State General Funds with Temporary Assistance for Needy Families (TANF) funds, and reductions are projected to reduce state spending by \$88 million. The changes include: (a) decentralizing the administration of Cal Grants and other financial aid to the recipient colleges and universities; (b) providing no new Cal Grant Competitive Program awards; (c) freezing Cal Grant income eligibility at 2008–09 levels; and (d) reducing the Cal Grant maximum award for students attending non-public institutions.

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## Commission Principles

The proposed changes to higher education funding and policies could significantly reduce access to colleges and universities.

The Commission realizes that economic circumstances will result in tough decisions. California must make a longer-term commitment of resources to reinvestment in higher education, one of the state's most important assets. Listed are some broad principles the Commission believes should guide funding decisions.

### *Prioritize services that help students finish*

Funding priority should be given to programs and services that directly help students' progression through the educational process. These services include direct instruction, academic and career counseling, institution-provided financial aid, and job placement for graduating students.

### *Maintain productivity*

While reductions in operations are inevitable at current funding levels, campuses should examine their processes and target resources at activities that help the educational process. This may include adding sections for bottleneck courses, providing more focused counseling and services for students having difficulty progressing toward an educational outcome, and improving services to students nearing graduation. The more efficiently students can complete their education, the greater the opportunities available for incoming students.

### *Provide flexibility, coupled with accountability*

Campuses and programs are dealing with budget cuts, enrollment levels, staffing, and cost increases. As campuses react to policymakers' decisions, they should be given flexibility, while maintaining the priorities of access and success. Flexibility at the local level should be coupled with appropriate levels of consultation, transparency in relating decisions, and assessments of how decisions affect students.

### *Minimize increases in overall student costs*

Some temporary increases in student fees and tuition charges are unavoidable. The systems should do everything in their power to lessen other costs, such as including housing, transportation, parking, food service, and educational materials.

Many services are by law self-supporting, and others are not in the direct control of the campuses. Site administrators, who are ultimately in charge of campus operations, must work with student organizations, vendors, contracted service providers, and others, to assure operations are as efficient as possible. Campus and system officials should intensify longer-term initiatives to address the well-documented cost increases in textbooks by developing methods for materials acquisition and usage.

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## Major Higher Education Proposals

The budget proposes several major changes for the current and budget year. Some reductions are expected to take effect in the remaining five months of the current fiscal year.

They include replacing all Education Lottery Funds with State General Funds as part of a broader budget-balancing proposal to securitize revenues anticipated from the State Lottery. The budget also proposes consolidating the functions of the California Postsecondary Education Commission and the California Student Aid Commission into a new Executive branch agency.

## Potential Impacts of Reductions

The serious challenges facing policymakers is evident in the difficulties the Legislature and Governor have had in developing solutions.

Actions that have been proposed and adopted during the fall 2008 legislative special sessions and in the budget are likely to harm access to higher education and impede progress of students. For example, the cash flow shortage has led the State Controller to defer making payments of Cal Grant awards.

Whatever the final budget decisions, all areas of public service will be affected by funding reductions and other budget-balancing plans.

## Proposed Funding Changes

Item	Amount
	million \$
<b>University of California</b>	
Net 2008–09 General Fund reduction	(82.3)
Unallocated base funding reduction	(65.5)
Nonprogrammatic, technical adjustments	(16.8)
Net 2009–10 General Fund augmentation	105.2
Restore one-time 2008–09 veto reduction	33.1
Nursing and medical program enrollment growth	2.5
Scheduled phase-out of UC Merced start-up funding	(5.0)
Nonprogrammatic technical adjustments (a)	74.6
Revenues generated by 9.3 % student fee increase	166.1
<b>Hastings College of the Law</b>	
Net 2009–10 General Fund augmentation	0.24
Revenues generated by 13% student fee increase	4.2
Unallocated base funding reduction	(0.4)
<b>California State University</b>	
Net 2008–09 General Fund reduction	(67.6)
Unallocated base funding reduction	(66.3)
Nonprogrammatic technical adjustments	(1.3)
Net for 2009–10 General Fund augmentation	90.5
Restore one-time 2008–09 veto reduction	31.3
Growth in nursing enrollment	3.6
Nonprogrammatic, technical adjustments	55.6
Revenues generated by 10% student fee increase	130.0
<b>California Community Colleges</b>	
Net 2008–09 General Fund reduction	269.8
Eliminate 0.68% cost-of-living adjustment	(39.8)
Defer scheduled state funding into 2009–10	(230.0)
Net 2009–10 General Fund augmentation	534.7
3% enrollment growth	185.4
Suspend all reimbursable state mandates	(4.0)
Technical adjustments (b)	353.3
<b>California Student Aid Commission</b>	
Net 2008–09 General Fund augmentation	92.6
Growth in financial aid costs	62.6
Net 2009–10 General Fund reduction	169.5
Growth in financial aid costs	87.5
Reduce and restrict Cal Grant benefits	(87.5)
Swap General Fund and federal special funds, other	(169.5)
<b>California Postsecondary Education Commission</b>	
Net 2009–10 General Fund augmentation	.01
Disseminate CPEC and CSAC functions into existing and newly proposed agencies	

a — restart employer UCRS contributions, other

b — restore deferred 2008–09 funding, lottery funds swap

Source: Legislative Analyst's Office

## Budget Proposals and Commission Recommendations

The Commission recommends prioritizing resources and policy decisions in ways that will do the least long-term damage to California's postsecondary education infrastructure. These positions are based on the Commission's most current understanding of the budget actions by policymakers and could be amended if circumstances change.

No cost-of-living adjustments for the core budgets of the community colleges, CSU, UC, and Hastings, which would have provided \$623 million in funding.

*Staff-Recommended Position — Support, for 2009–10 only*

Increases in costs are a reality of campus operations. Suspending COLAs is a standard action during budgetary downturns, and the systems and campuses have had experience dealing with this type of reduction. This type of cut also maintains campuses' flexibility in the use of their remaining funds and encourages improvements in efficiencies to offset the lack of new revenues.

Increase student fees for undergraduates, graduates, and teacher credential candidates by 10% at CSU, and 9.3% at UC. Increase fees at UC professional schools by 5% to 24%, on a program-by-program basis. Maintain community college fees at current levels.

*Staff-Recommended Position — Support, for 2009–10 only*

The Commission continues its belief that fees should be kept as low as possible to maintain and improve access. However, other budget-cutting alternatives could be even more damaging to access. The Commission acknowledges the systems' need for the \$300 million in new revenues these increases are expected to generate. The Commission believes that the financial aid offset is the key component to maintaining access for students. However, the Commission also notes that fee increases will affect access.

The Commission supports maintaining community college fees at current levels but encourages a broad-based study into the appropriate levels and roles that fee revenues should play to help maintain educational access and quality at the community colleges.

Fully fund increases in CSU and UC nursing programs — \$3.6 million to CSU for 340 slots in undergraduate nursing programs; \$1.1 million to UC for 50 new undergraduate and 42 new master's level nursing students.

*Staff-Recommended Position — Support, unless fiscal conditions worsen*

Even in these difficult times, the state must continue to build systems for training professionals to meet workforce needs. If additional reductions are required, funding increases should be a lower priority than maintaining existing operations. This would apply to this proposal and similar items such as restarting the state employer contribution to the UC Retirement System.

While both proposals are needed over the long-term — and ones the Commission supports — further cuts to the systems' core educational operations would do greater harm to students and would call into question the priority of these program expansions.

Provide the segments \$247 million in additional State General Funds to replace State Lottery revenues as part of the budget proposal to securitize the lottery.

*Staff-Recommended Position — Support*

Lottery funds account for a small portion of overall education funding and this change to General Funds is revenue-neutral to the systems. The voters will be called upon to approve the securitization proposal in a special election.

Provide no FTE funding for UC and CSU enrollment growth, which would have totaled \$128 million. Provides the community colleges with \$185.4 million to fund 3% enrollment growth (36,000 additional FTE students).

*Staff-Recommended Position — Support, for 2009–10 only*

The Commission does not believe that restricting funding for students enrolled in UC and CSU is good policy. The Commission believes that for the coming year, this action is necessary and will encourage the segments to improve their efficiency in providing educational services. The Commission encourages the segments and policymakers to reconcile “actual” and “funded” enrollment levels in the future, given recent changes in per-student budgeting.

For the community colleges, the quick turn-around nature of their educational and vocational training programs makes them an important source of economic recovery opportunities for individuals and the state as a whole. The Commission believes that investments in community college enrollment will yield immediate, positive results.

Authorize community college districts to transfer categorical funds to their general funds to maintain course offerings.

*Staff-Recommended Position — Support*

The Commission and others have long supported simplifying the categorical funding system. These categorical programs include Student Financial Aid Assistance, Extended Opportunity Programs and Services, Disabled Students Programs and Services, Matriculation, and Transfer Education and Articulation. They are very important to student success and the Commission believes they should continue. The proposal provides necessary short-term relief from specific funding-level mandates and provides community colleges with flexibility to offset other required budget cuts.

The Commission strongly supports a provision that requires districts to hold public hearings on any decisions they make to redirect categorical funding. The Commission believes that in this time of fiscal distress, this is a necessary proposal and encourages policymakers to use it as a first step toward categorical reform. The primary goal should be increasing the effectiveness of student services and reducing the administrative burden of providing and documenting these services.

Eliminate the Postsecondary Education Commission (CPEC) and the California Student Aid Commission (CSAC) and move most functions into a new executive branch department.

*Staff-Recommended Position — Oppose*

CPEC is a small public commission responsible for higher education planning and coordination, data collection and dissemination, and a full range of policy areas. This proposal would eliminate CPEC and move some of its functions to a new agency that would report to the Governor's Secretary of Education. This new agency would also have an advisory committee.

CPEC is the state's sole independent advisory entity for higher education policy. CPEC provides unbiased analysis backed by thorough research and accurate and extensive data. CPEC's functions would be splintered between this new organization, the California Community Colleges Chancellor's Office, and other policy research entities.

The Commission recommends that this proposal be rejected. This proposal does not serve the best interests of the people of California or the policymakers who rely on information and analysis done by CPEC.

Provide no new Cal Grant Competitive awards, for a savings of \$52.9 million.

*Staff-Recommended Position — Oppose*

The Commission believes these awards are critical to providing access to a unique set of students. Competitive award recipients are disproportionately from historically low college-going backgrounds, have highly competitive GPAs, and are among the most financially needy students. Many of these students might not be able to attend college without these awards. The Commission believes that the Cal Grant Competitive awards are among the most important components of the financial aid network and would prefer slightly steeper cuts in the other components of this proposal rather than eliminating these grants.

Reduce Cal Grant funding by \$34.6 million by freezing family income eligibility limits at current-year levels (\$7 million); lowering the maximum award level from \$9,708 to \$8,322 for students at non-public institutions (\$11 million); and only partially covering UC and CSU student fee increases (\$16.6 million).

*Staff-Recommended Position — Support the first two components of the proposal, for 2009–10 only, and oppose the third component*

The Commission supports the income eligibility limit and reduced maximum award components of this proposal only because less funding is available for nearly all services. While these changes will harm access, they maintain the overall value of the Cal Grant program.

The Commission opposes de-coupling Cal Grant award increases from UC and CSU fee levels. The proposal would provide grants that cover only two-thirds of the total fee increase with the expectation that institutional aid will cover the remaining one-third. Such a one-time action may be necessary but it sets a bad precedent for future financial aid decisions. There is already a great need for institutional aid and this action places more pressure on the limited pool of funds. If Cal Grants cover less of the actual costs of an education, it will result in an ever-increasing gap in financial aid.

Decentralize the administration of Cal Grants and other state-funded financial aid by removing this responsibility from the Student Aid Commission and transferring it to the higher education systems.

*Staff-Recommended Position — Support decentralization, if it is determined to be feasible*

In response to Supplemental Report Language in the 2002–03 budget, the Commission conducted a study on student aid delivery systems, aided by a task force of student financial aid stakeholders and representatives of state policymakers. The Commission recommended that the state move toward a decentralized, campus-based system for the delivery of Cal Grants similar to the federal student aid system. The Commission recognized the complexity of this task and concluded that statutory changes would be needed to implement this change.

The main goal of any changes to the financial aid system should be improving services to needy students. The Commission continues to believe that a one-stop, campus-based financial aid system is best for students. Such a change in financial aid processes should result from deliberate planning by the state, education systems and campuses. Campuses face greater budgetary challenges now than when this issue was last studied — even with the proposed funding, this initiative may hinder their ability to take on this responsibility. The Commission recommends that it convene stakeholder groups to reaffirm the ability of campuses to move to this decentralized system.

Allocate \$1.4 billion for the public higher education segments' capital construction programs, primarily with funds available from prior year General Obligation bond acts.

*Staff-Recommended Position — Support funding of highest priority projects with longer-term planning for funding needed facilities*

The Commission recognizes the limited availability of public funding for construction projects. It supports the creativity and diligence of policymakers and education system and campus officials in seeking to continue their most crucial remodeling and replacement projects by accessing unused general obligation bond funds from previously-approved voter initiatives. The Commission recognizes the role the Legislature plays in helping determine the best use of limited construction funds and encourages a full examination of proposed projects to assure their merit. The Commission strongly supports establishing a longer-term source of capital funding, possibly a new education general obligation bond issue, once the economy and national financial markets can support such a voter initiative.

## Legislative Analyst's Perspective

On January 29, the Legislative Analyst's Office released its review of the higher education portion of the proposed budget. Commission staff will present a summary of LAO's recommendations at the March 11 Commission meeting.