

## POSTSECONDARY EDUCATION

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### OVERVIEW

Public postsecondary education in California consists of formal instruction, research, public service, and other learning opportunities offered by educational institutions which are eligible for state fiscal support. Postsecondary education institutions primarily serve persons who have completed their secondary education or who are beyond the age of compulsory school attendance.

This section of the *Analysis* presents overview data on postsecondary education in California. It is intended to provide historical information and comparative statistics to supplement the individual budget analyses that follow.

### ORGANIZATION

California's system of public postsecondary education is the largest in the nation, and consists of 136 campuses serving approximately 1.9 million students. This system is separated into three distinct public segments—the University of California (UC) with nine campuses, the California State University (CSU) with 19 campuses, and the California Community Colleges (CCC) with 106 campuses. The state also supports the Hastings College of the Law and the California Maritime Academy (CMA).

In addition to the public system, there are approximately 385 independent colleges and universities in California which serve an estimated 200,000 students.

### ENROLLMENT AND STUDENT FEES

#### Enrollment

Table 1 compares headcount to the number of full-time equivalent (FTE) students or, in the case of the CCC, the average daily attendance (ADA) for the three public segments since 1980-81. An FTE is one student taking 15 units; three students taking five units; or any variation thereof. One ADA is equal to one student under the immediate supervision of a certificated instructor for a total of 525 hours in an academic year.

On an FTE/ADA basis, the increase in enrollment budgeted for the three segments in 1989-90 is 1.5 percent. This is attributable primarily to the budgeted increase of 2.2 percent at the community colleges.

## POSTSECONDARY EDUCATION—Continued

Table 1  
 Postsecondary Education  
 California Enrollment in Public Higher Education  
 1980-81 through 1989-90

	UC		CSU		Community Colleges		Totals	
	Headcount	FTE	Headcount	FTE	Headcount	ADA	Headcount	FTE/ADA
1980-81.....	131,591	126,119	317,503	238,646	1,383,236	725,514	1,832,330	1,090,279
1981-82.....	134,547	128,035	318,584	239,927	1,431,524	749,187	1,884,655	1,117,149
1982-83.....	134,946	129,643	317,946	241,407	1,354,982	727,305	1,807,874	1,098,355
1983-84.....	137,175	130,822	315,904	241,989	1,248,916	665,099	1,701,995	1,037,910
1984-85.....	140,643	133,705	318,528	242,752	1,176,221	645,435	1,635,392	1,021,892
1985-86.....	144,040	136,928	328,818	248,456	1,176,712	639,916	1,649,570	1,025,300
1986-87.....	148,176	141,766	338,444	252,789	1,199,759	664,919	1,686,379	1,059,484
1987-88.....	152,943	145,983	347,441	258,243	1,264,409	681,249	1,764,793	1,085,475
1988-89 (est.).....	154,092	149,116	358,699	267,771	1,308,037	704,857	1,820,828	1,121,744
1989-90 (est.).....	158,010	151,213	363,250	267,380	1,336,354	720,275	1,857,614	1,138,868
Percent Change								
1988-89 to 1989-90..	2.5%	1.4%	1.3%	-0.1%	2.2%	2.2%	2.0%	1.5%

**Ethnic Composition of Students.** Table 2 shows the latest available fall enrollment data on the racial and ethnic make-up of students within each of the three public segments from 1984 to 1987. These data, compiled by the California Postsecondary Education Commission (CPEC), reflect voluntary self-designations made by students. The data have not been verified and are not complete because many students choose not to report their racial or ethnic status to their campus.

Table 2 shows that the community colleges have the most diverse ethnic enrollment of any segment.

**Table 2**  
**Postsecondary Education**  
**Student Enrollment by Ethnicity**  
**Fall Data**  
**1984 through 1987**

	CCC				CSU				UC			
	1984	1985	1986	1987	1984	1985	1986	1987	1984	1985	1986	1987
<b>Undergraduate:</b>												
White .....	67.9%	66.4%	66.7%	66.2%	69.4%	68.6%	67.9%	66.7%	69.6%	67.7%	65.7%	63.7%
Black .....	8.4	7.7	8.0	7.7	6.3	6.1	5.8	5.8	4.3	4.4	4.6	4.7
Hispanic .....	12.6	13.4	13.6	14.0	9.8	10.1	10.4	10.9	7.1	8.0	8.6	9.4
Asian .....	9.6	11.1	10.2	10.6	13.1	14.0	14.8	15.4	18.5	19.3	20.5	21.5
American Indian .....	1.6	1.4	1.4	1.4	1.3	1.2	1.1	1.1	0.5	0.6	0.6	0.7
<b>Graduate:</b>												
White .....	—	—	—	—	77.3%	77.4%	77.8%	77.5%	78.4%	78.4%	77.9%	77.1%
Black .....	—	—	—	—	4.7	4.7	4.5	4.5	3.7	3.8	3.7	3.7
Hispanic .....	—	—	—	—	7.3	7.3	7.2	7.6	6.3	6.2	6.4	6.5
Asian .....	—	—	—	—	9.6	9.3	9.4	9.3	10.8	11.0	11.4	12.0
American Indian .....	—	—	—	—	1.1	1.2	1.1	1.1	0.7	0.6	0.6	0.7

**POSTSECONDARY EDUCATION—Continued****Student Fees**

Table 3 shows the level of state imposed fees charged to students at the public postsecondary education institutions in 1987-88 and 1988-89, and the budget proposal for 1989-90.

**Table 3**  
**Postsecondary Education**  
**Student Fees in California Public Institutions**  
**1987-88 through 1989-90**

	<i>Actual</i> 1987-88	<i>Actual</i> 1988-89	<i>Prop.</i> 1989-90	<i>Change from</i> 1988-89	
				<i>Amount</i>	<i>Percent</i>
University of California					
Systemwide fee .....	\$1,374	\$1,434	\$1,577	\$143	10.0%
California State University					
Full-time fee .....	\$630	\$684	\$750	\$66	9.6%
Part-time fee .....	366	396	438	42	10.6
Hastings College of the Law					
Mandatory fee .....	\$1,282	\$1,410	\$1,577	\$167	11.8%
California Maritime Academy					
Mandatory fee .....	\$807	\$885	\$973	\$88	9.9%
Community Colleges					
Mandatory fee .....	\$100	\$100	\$100	—	—

**EXPENDITURES**

Table 4 summarizes proposed expenditures for postsecondary education in 1989-90. Total support for all public higher education is proposed

**Table 4**  
**Postsecondary Education**  
**Summary of Proposed 1989-90 Budget**  
**By Funding Source**  
**(dollars in thousands)**

	<i>General</i> <i>Fund</i>	<i>State</i> <i>Lottery</i>	<i>Other</i> <i>State</i>	<i>Federal</i>	<i>Property</i> <i>Tax</i>	<i>Student</i> <i>Fees</i>	<i>Other</i>	<i>Totals</i>
University of California ...	\$2,053,466 <sup>a</sup>	\$23,713	\$84,452	\$2,989,589 <sup>b</sup>	—	\$438,675	\$2,609,175 <sup>c</sup>	\$8,199,070
California State University.	1,621,578 <sup>ad</sup>	38,600	5,014	82,864	—	359,787 <sup>d</sup>	446,495	2,554,338
California Community Colleges .....	1,507,113	113,642	71,718	136,600	\$697,114	66,941	564,072	3,157,200 <sup>e</sup>
Hastings College of the Law .....	13,111	217	—	295	—	2,408	4,110	20,141
California Maritime Acad- emy .....	6,629	30	—	401	—	1,810	368	9,238
Student Aid Commission ..	143,664	—	25,263	163,668	—	—	—	332,595
California Postsecondary Education Commis- sion .....	3,384	—	—	4,309	—	—	20	7,713
Totals .....	\$5,348,945	\$176,202	\$186,447	\$3,377,726	\$697,114	\$869,621	\$3,624,240	\$14,280,295 <sup>f</sup>
Percent of Totals .....	37.5%	1.2%	1.3%	23.7%	4.9%	6.1%	25.4%	100.0%

<sup>a</sup> Includes lease purchase revenue bonds of \$15 million for UC and \$2.5 million for CSU.

<sup>b</sup> Includes \$2.3 billion budgeted within UC for three Department of Energy laboratories.

<sup>c</sup> Includes \$68 million diverted from the UC retirement system in 1989-90, reimbursements, hospital fees, private contributions, sales and service, and auxiliary enterprises.

<sup>d</sup> The \$359.8 million in fee revenues are shown in the Governor's Budget as a General Fund appropriation.

<sup>e</sup> Includes expenditures not shown in the Governor's Budget.

<sup>f</sup> Excludes capital outlay.

at \$14.3 billion. Of the total, the state General Fund would provide \$5.3 billion, or 38 percent. The \$3.4 billion from the federal government is the second largest source of support for higher education; however, \$2.3 billion of this amount is allocated to the UC for support of the Department of Energy laboratories at Los Alamos, Livermore, and Berkeley.

The only segment of higher education receiving local support is the community college system, which will receive an estimated \$697 million from property tax revenues (including local debt).

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**CALIFORNIA POSTSECONDARY EDUCATION COMMISSION**

Item 6420 from the General Fund and Federal Trust Fund Budget p. E 55

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Requested 1989-90 .....	\$7,713,000
Estimated 1988-89 .....	7,926,000
Actual 1987-88 .....	6,274,000
Requested decrease (excluding amount for salary increases) \$213,000 (-2.7 percent)	
Total recommended reduction .....	None

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**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
6420-001-001—Support	General	\$3,384,000
6420-001-890—Administration	Federal	182,000
6420-101-890—Local assistance	Federal	4,127,000
Reimbursements	—	20,000
Total		\$7,713,000

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**GENERAL PROGRAM STATEMENT**

The California Postsecondary Education Commission (CPEC) is composed of 15 members. It is an advisory body to the Legislature and the Governor, and has responsibility for postsecondary education planning, evaluation, and coordination. No one who is regularly employed in any administrative, faculty, or professional position by an institution of public or private postsecondary education may be appointed to the commission. Representatives of postsecondary institutions provide advice to the commission through a special advisory committee.

The commission has 49.6 personnel-years in the current year.

**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes \$3,384,000 from the General Fund for support of CPEC in 1989-90. This is a decrease of \$99,000, or 2.8 percent, from estimated current-year expenditures.

**CALIFORNIA POSTSECONDARY EDUCATION COMMISSION—Continued**

Table 1 summarizes expenditures and funding sources for the commission in the prior, current, and budget years. As the table shows, the budget proposes a 27 percent increase in federal funds and a 98 percent decrease in reimbursements for the commission in 1989-90. This is due to (1) an estimated increase in the level of grants in the federal Mathematics, Science, and Foreign Language Grant Program, and (2) the termination of a reimbursement agreement with the State Department of Education for the same program.

**Table 1**  
**California Postsecondary Education Commission**  
**Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

<i>Programs</i>	<i>Actual</i> <i>1987-88</i>	<i>Est.</i> <i>1988-89</i>	<i>Prop.</i> <i>1989-90</i>	<i>Percent Change</i> <i>From 1988-89</i>
Executive.....	\$517	\$494	\$476	-3.6%
Research and evaluation.....	1,147	1,279	1,206	-5.7
Administration and management information services .....	<u>4,610</u>	<u>6,153</u>	<u>6,031</u>	<u>-2.0</u>
Totals.....	\$6,274	\$7,926	\$7,713	-2.7%
<b>Funding Sources</b>				
<i>General Fund</i> .....	\$3,098	\$3,483	\$3,384	-2.8%
<i>Federal funds</i> .....	2,138	3,384	4,309	27.3
<i>Reimbursements</i> .....	1,038	1,059	20	-98.1
Personnel-years.....	50.1	49.6	51.0	2.8%

Table 2 shows the factors accounting for the change in the commission's planned General Fund expenditures between the current and budget years.

**Table 2**  
**California Postsecondary Education Commission**  
**Proposed 1989-90 General Fund Budget Changes**  
**(dollars in thousands)**

1988-89 Expenditures (Revised) .....	\$3,483
<i>Baseline and Workload Adjustments</i>	
Salary annualization .....	\$111
Benefits .....	15
Nonrecurring expenditures .....	-225
1989-90 Expenditures (Proposed) .....	\$3,384
Change from 1988-89:	
Amount .....	-\$99
Percent .....	-2.8%

**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

We recommend approval of the proposed level of General Fund support for the CPEC. As Table 2 indicates, this is essentially a status quo budget which includes no new program initiatives.

In addition, we recommend approval of the following Budget Bill items:

- **Federal Trust Fund (Items 6420-001-890 and 6420-101-890)**—The budget proposes the expenditure of \$4.3 million from the Federal Trust Fund for continued support of a grant program to improve the skills of teachers and the quality of instruction in mathematics, science, critical foreign languages, and computer learning in elementary and secondary schools. This is the fourth year of federal support for this program.

**THE UNIVERSITY OF CALIFORNIA**

Item 6440 from the General Fund and various other funds

Budget p. E 60

Requested 1989-90 .....	\$8,199,070,000
Estimated 1988-89 .....	7,621,224,000
Actual 1987-88 .....	7,074,095,000
Requested increase (including amount for salary increases) \$577,846,000 (+7.6 percent)	
Total recommended reduction .....	17,200,000
Recommendation pending .....	9,200,000

**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
<b>Budget Bill Items</b>		
6440-001-001—Main support	General	\$1,934,750,000
6440-001-046—Research	Transportation	956,000
6440-001-144—Research	Water	100,000
6440-001-234—Research	Cigarette	43,896,000
6440-001-785—Asbestos clean-up	Bond Act of 1988	2,200,000
6440-001-814—Lottery revenue	Lottery	23,713,000
6440-003-001—Revenue bonds	General	4,400,000
6440-006-001—Financial aid	General	45,049,000
6440-011-001—Compensation	General	50,667,000
6440-016-001—Hospitals	General	8,000,000
6440-490—Reappropriation	General	—
6440-491—Reappropriation	General	10,600,000
Subtotal, budget bill items		(\$2,124,331,000)
<b>Non-Budget Bill Funding</b>		
Department of Energy Laboratories		\$2,277,000,000
Expenditures from other fund sources		3,797,739,000
Subtotal, non-budget bill funding		(\$6,074,739,000)
Grand total		\$8,199,070,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis page*

1. New Campus Planning. Withhold recommendation on \$500,000 requested from the General Fund for site selection plans for one or more new UC campuses pending receipt of an expenditure plan from UC. 809
2. Institute on Global Conflict and Cooperation. Recommend that during budget hearings, the Department of Finance 810

**THE UNIVERSITY OF CALIFORNIA—Continued**

- report on why it proposes to eliminate General Fund support of \$550,000 for the Institute on Global Conflict and Cooperation.
3. Teaching Hospitals. Withhold recommendation on \$8 million requested from the General Fund for the teaching hospital subsidy because updated data will be available during budget hearings. 812
  4. UCLA Disabled Student Services. Withhold recommendation on \$1.2 million requested from the General Fund for services for disabled students, pending additional information from the university on its allocation formula for the distribution of these funds. 814
  5. *Asbestos Abatement Projects. Delete Item 6440-001-785 (\$2.2 million).* Recommend deleting the \$2.2 million requested from the 1988 Higher Education Capital Outlay Fund for asbestos abatement projects, based on recommendations for state asbestos abatement programs contained in our *Perspectives and Issues*. 816
  6. *Retirement Valuation. Reduce Item 6440-001-001 by \$15 million.* Recommend a reduction of \$15 million from the General Fund to reflect the full annualized savings in the state contribution to the University of California Retirement System (UCRS) that result from the June 1988 actuarial valuation of the system. 819
  7. Reappropriation Provision. Recommend adoption of Budget Bill language, comparable to that adopted in the 1988 Budget Act, that prohibits reappropriation of the state's share of excess federal overhead income to UC and instead returns this income to the state for General Fund savings. 820
  8. Revenue Bond Payments. Recommend that during budget hearings, the Department of Finance report on why its estimates of UC revenue bond payments for the current and budget years differ from those of the State Treasurer's Office. 821

**GENERAL PROGRAM STATEMENT**

The University of California (UC) was established in 1868 as California's land grant university. It encompasses eight general campuses and one health science campus. UC has constitutional status as a public trust, and is administered under the authority of a 28-member Board of Regents.

**Admission.** Admission of first-year students to UC is limited to the top one-eighth (12.5 percent) of California's high school graduates. The university is permitted to waive this admission standard for up to 6 percent of the newly admitted undergraduates. UC plans to enroll approximately 151,000 students in 1989-90.

**Curriculum.** UC offers a broadly based undergraduate curriculum leading to the baccalaureate degree at each general campus. The university has sole authority among public institutions to award doctoral degrees in all disciplines, although it may award joint doctoral degrees with the California State University (CSU). In addition, within the public higher education system, it has exclusive jurisdiction over instruction in



the professions of law, medicine, dentistry, and veterinary medicine and primary jurisdiction over research. The university has three law schools, five medical schools, two dental schools, and one school of veterinary medicine.

**Administrative Structure.** Overall responsibility for policy development, planning, and resource allocation within the university rests with the president, who is directly responsible to the Regents. Primary responsibility for individual campuses has been delegated to the chancellor of each campus. The academic senate has been delegated the authority to determine admission and degree requirements, and to approve courses and curricula.

**Faculty and Staff.** The Legislature does not exercise position control over the university. Rather, the state appropriates funds to the university based on various workload formulas, such as one faculty member for every 17.61 undergraduate and graduate students. The university then determines how many faculty and other staff will actually be employed. Thus, review of actual and budgeted position totals is not as meaningful for the university as it is for other state agencies. In the current year, UC has a budgeted workforce totaling 59,495 personnel-years.

#### OVERVIEW OF THE BUDGET REQUEST

**Total Expenditures.** The UC budget proposes total expenditures (including salary increases) of \$8.2 billion in 1989-90. This is \$578 million (7.6 percent) above estimated current-year expenditures.

Table 1 provides a systemwide budget summary by program for the prior, current, and budget years. As the table shows, the budget has two components: (1) budgeted programs, and (2) extramural programs. No direct state appropriations are provided for extramural programs, although UC does receive some state support for extramural programs through state agency agreements.

**Table 1**  
**The University of California**  
**Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
<i>Budgeted Programs</i>					
Instruction.....	\$1,299,531	\$1,433,853	\$1,465,976	\$32,123	2.2%
Research.....	204,317	201,857	245,203	43,346	21.5
Public service.....	81,201	95,036	97,797	2,761	2.9
Academic support.....	322,172	346,945	356,474	9,529	2.7
Teaching hospitals.....	944,693	1,078,588	1,164,308	85,720	7.9
Student services.....	171,774	171,161	171,161	—	—
Institutional support.....	262,230	285,126	286,706	1,580	0.6
Operation and maintenance.....	219,840	261,212	269,115	7,903	3.0
Student financial aid.....	79,233	79,943	84,439	4,496	5.6
Auxiliary enterprises.....	210,305	270,104	297,102	26,988	10.0
Special Regents' Program.....	42,459	70,003	71,605	1,602	2.3
Unallocated adjustments.....	12,277	-36,404	113,784	150,188	— <sup>a</sup>
Subtotals, budgeted programs.....	(\$3,850,032)	(\$4,257,424)	(\$4,623,670)	(\$366,246)	(8.6%)
<i>Extramural Programs</i>					
Sponsored research and other.....	\$1,158,922	\$1,216,100	\$1,298,400	\$82,300	6.8%
Department of Energy labs.....	2,065,141	2,147,700	2,277,000	129,300	6.0
Subtotals, extramural programs.....	(\$3,224,063)	(\$3,363,800)	(\$3,575,400)	(\$211,600)	(6.3%)
Grand totals.....	\$7,074,095	\$7,621,224	\$8,199,070	\$577,846	7.6%

**THE UNIVERSITY OF CALIFORNIA—Continued**

## Funding Sources

*Budgeted Programs:*

<i>General Fund</i> .....	\$1,888,872	\$1,974,622	\$2,053,466	\$78,844	4.0%
<i>University general funds</i> .....	126,870	179,701	187,219	7,518	4.2
<i>UC Retirement System fund</i> .....	—	—	68,000	68,000	— <sup>a</sup>
<i>Special Account for Capital Outlay</i> .....	2,183	—	—	—	—
<i>State Transportation Fund</i> .....	956	956	956	—	—
<i>California Water Fund</i> .....	100	100	100	—	—
<i>Cigarette and Tobacco Products Fund</i> .....	—	—	43,896	43,896	— <sup>a</sup>
<i>Facilities Bond Act of 1988</i> .....	—	3,000	2,200	-800	-26.7
<i>Lottery Education Fund</i> .....	20,150	23,732	23,713	-19	-0.1
<i>Federal funds</i> .....	10,737	12,089	12,089	—	—
<i>University funds—restricted</i> .....	1,800,164	2,063,224	2,232,031	168,807	8.2
<i>Extramural Programs:</i>					
<i>State agency agreements</i> .....	\$35,127	\$36,200	\$37,300	\$1,100	3.0%
<i>Federal funds</i> .....	629,459	654,600	700,500	45,900	7.0
<i>Private gifts, contracts and grants</i> .....	209,947	226,700	247,100	20,400	9.0
<i>Other University funds</i> .....	284,389	298,600	313,500	14,900	5.0
<i>Department of Energy (federal)</i> .....	2,065,141	2,147,700	2,277,000	129,300	6.0
<i>Personnel-years</i> .....	59,279	59,495	60,128	633	1.1%

<sup>a</sup> Not a meaningful figure.

**General Fund Support for Budgeted Programs.** Table 1 shows that the budget proposes to expend \$2.1 billion from the General Fund for support of the UC system in 1989-90, a net increase of \$78.8 million (4 percent) above 1988-89. This increase includes \$50.7 million associated with the cost of 1989-90 salary and benefit increases.

Although Table 1 shows the university will receive a 4 percent increase in the General Fund budget for 1989-90, the actual increase in General Fund-supported programs is substantially above that. This is because these programs are also partially funded from: (1) the diversion of \$68 million from the normal General Fund contribution to the university's retirement system, and (2) a \$20.3 million increase in student fees above the normal levels. Adjusting UC's 1989-90 budget for these fees and the retirement diversion, increases the change in General Fund program expenditures to 8.5 percent.

While the major source of general (unrestricted) revenue for UC's budgeted programs is the state General Fund, UC also receives other general revenue from nonresident tuition, the state's share of overhead receipts associated with federal grants and contracts, and some minor student fees. Table 1 shows that other university "general funds" will total \$187 million in 1989-90, in comparison to the \$2.1 billion from the state General Fund. Because revenues from these various sources are combined with state General Fund support, it is not possible to identify expenditures by revenue source. Consequently, although the state's share is 92 percent of the total, the combined total of the state General Fund monies and the other general-purpose revenues available to the university is referred to in this analysis as "general funds."

UC's budgeted programs are divided into 12 classifications. In the analysis that follows, we discuss the budget request for the following six programs that, in our judgment, raise issues warranting the Legislature's

attention—Instruction, Research, Teaching Hospitals, Student Services, Operation and Maintenance, and Unallocated Adjustments.

### Expenditures by Source of Funding

Table 2 shows the source of funding for each individual program for 1989-90. For example, the table shows that general funds provide \$934 million (97 percent) of the \$960 million general campus instruction budget. In contrast, general funds provide for only \$66 million (5.7 percent) of the \$1.2 billion teaching hospitals' budget (patient charges for services provide most of the balance).

**Table 2**  
**The University of California**  
**Source of Funds by Program**  
**1989-90 Governor's Budget**  
**(dollars in thousands)**

<i>Budgeted Programs</i>	<i>General Funds</i>	<i>Federal Funds</i>	<i>Student Fees and Tuition</i>	<i>Sales and Services</i>	<i>Endowments</i>	<i>Other Sources</i>	<i>Totals</i>
<b>Instruction</b>							
General campuses .....	\$933,613	\$50	\$1,393	\$8,171	\$3,634	\$13,475	\$960,336
Health sciences .....	276,438	740	—	106,393	2,430	8,048	394,049
Summer sessions .....	—	—	16,390	—	—	99	16,489
University extension .....	—	—	95,062	40	—	—	95,102
Subtotals, instruction .....	(\$1,210,051)	(\$790)	(\$112,845)	(\$114,604)	(\$6,064)	(\$21,622)	(\$1,465,976)
Research .....	\$176,892	\$3,122	—	\$4,269	\$10,412	\$50,508	\$245,203
Public service .....	53,723	8,177	\$4,087	26,753	1,282	3,775	97,797
Academic support .....	226,039	—	4,308	103,037	1,949	21,141	356,474
Teaching hospitals .....	66,000	—	—	1,098,106	172	30	1,164,308
Student services .....	4,511	—	148,999	865	42	16,744	171,161
Institutional support .....	216,127	—	13,426	2,450	2,137	52,566	286,706
Operation and maintenance of plant .....	248,154	—	16,729	—	716	3,516	269,115
Student financial aid .....	46,266	—	29,538	—	8,512	123	84,439
Auxiliary enterprises .....	—	—	2,383	294,697	22	—	297,102
Special Regents' Programs .....	—	—	—	—	—	71,605	71,605
Unallocated adjustments .....	60,922	—	20,660	1,487	4,592	26,123	113,784
Subtotals, budgeted programs .....	(\$2,308,685)	(\$12,089)	(\$352,975)	(\$1,646,268)	(\$35,900)	(\$267,753)	(\$4,623,670)
<b>Extramural Programs</b>							
Sponsored research and other activities .....	—	\$700,500	—	—	—	\$597,900	\$1,298,400
Department of Energy Laboratories .....	—	2,277,000	—	—	—	—	2,277,000
Subtotals, extramural programs .....	—	(\$2,977,500)	—	—	—	(\$597,900)	(\$3,575,400)
Grand totals .....	\$2,308,685	\$2,989,589	\$352,975	\$1,646,268	\$35,900	\$865,653	\$8,199,070

### General Fund Budget Changes Proposed for 1989-90

The specific factors accounting for the net \$78.8 million increase in General Fund support proposed for 1989-90 are identified in Table 3. It shows that:

- **Baseline adjustments** result in a net reduction of \$16.6 million.
- **Workload changes** total \$29.7 million.
- **Program changes** total \$4.5 million.
- **Employee compensation** totals \$50.7 million.
- **Capital outlay revenue bond** payments total \$10.6 million.

Later in this analysis we discuss the details of these changes.

## THE UNIVERSITY OF CALIFORNIA—Continued

Table 3

**The University of California  
Proposed 1989-90 General Fund Budget Changes  
(dollars in thousands)**

1988-89 Expenditures (Revised) .....	\$1,974,622
<i>Baseline Adjustments</i>	
Annualization of 1988-89 salary increase .....	\$59,764
Annualization of 1988-89 benefit increase .....	7,831
Merit and promotions for faculty .....	16,318
Budgetary savings adjustment .....	14,600
UC Retirement System rate reduction .....	-15,000
UC Retirement System contribution deferral .....	-68,000
Resident student fee increase .....	-12,000
Nonresident student fee increase .....	-13,100
Application fee increase .....	-2,000
Other UC income adjustment .....	-5,000
Subtotal, baseline adjustments .....	(-\$16,587)
<i>Workload Changes</i>	
Undergraduate enrollment .....	\$17,792
Student financial aid .....	896
Social security for newly covered employees .....	2,311
Operation and maintenance of plant .....	8,703
Subtotal, workload changes .....	(\$29,702)
<i>Program Changes</i>	
Graduate enrollments .....	\$4,512
Planning for new campuses .....	500
Institute on Global Conflict and Cooperation .....	-550
Subtotal, program changes .....	(\$4,462)
<i>Salary and Benefit Increases</i>	
Faculty salary .....	\$21,564
Staff salary .....	17,707
Benefits .....	11,396
Subtotal, salary and benefit increases .....	(\$50,667)
<i>Capital Outlay Revenue Bonds</i>	
Lease payments on revenue bonds .....	\$10,600
1989-90 Expenditures (Proposed) .....	\$2,053,466
Change from 1988-89:	
Amount .....	\$78,844
Percent .....	4.0%

**ANALYSIS AND RECOMMENDATIONS**

We recommend approval of the the following changes shown in Table 3: (1) the baseline adjustments (with the exception of the UCRS rate reduction), (2) the workload changes, (3) the graduate enrollment program change, and (4) the salary and benefit increases. In addition, we recommend approval of the following Budget Bill items which are not discussed elsewhere in this analysis:

- *Student Financial Aid (Item 6440-006-001)*—\$45 million from the General Fund, an increase of \$4.5 million (11 percent) above estimated current-year expenditures, to provide sufficient funds to offset the effect of the proposed 10 percent resident student fee increase on students having demonstrated financial need.
- *California State Lottery Education Fund (Item 6440-001-814)*—\$23.7 million for instructional use of computers (\$10.6

million), instructional program inflation related needs and additional support for the arts and humanities (\$8.7 million), new instructional equipment (\$3 million), and instructional equipment replacement (\$1.4 million). These proposed expenditures are instructionally related and supplement the university's budget.

- *State Transportation Fund (Item 6440-001-046)*—\$956,000 for continued support of the Institute of Transportation Studies.
- *California Water Fund (Item 6440-001-144)*—\$100,000 for continued research on mosquito control.

### I. INSTRUCTION

The Instruction program includes: (1) general campus instruction, (2) health science instruction, (3) summer session, and (4) university extension. Table 4 displays UC's instruction budget in the prior, current, and budget years. The budget proposes expenditures of \$1.5 billion for this program in 1989-90, an increase of \$32.1 million (2.2 percent) above estimated current-year expenditures.

**Table 4**  
**The University of California**  
**Instruction Budget**  
**Summary of Expenditures and Funding**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

Elements	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
General campus.....	\$818,146	\$938,444	\$960,336	\$21,892	2.3%
Health sciences.....	383,170	388,973	394,049	5,076	1.3
Summer session.....	14,325	15,860	16,489	629	4.0
University extension.....	83,890	90,576	95,102	4,526	5.0
Totals.....	\$1,299,531	\$1,433,853	\$1,465,976	\$32,123	2.2%
Funding Sources					
General funds.....	\$1,049,111	\$1,189,160	\$1,210,051	\$20,891	1.8%
Lottery Education Fund.....	20,150	23,732	23,713	-19	-0.1
Other restricted funds.....	230,270	220,961	232,212	11,251	5.1
Personnel-years.....	20,785	21,483	21,970	487	2.3%

### A. ENROLLMENT

A full-time undergraduate student at UC takes an average of 15 units during each of the three quarters. Thus, one FTE equals one student attending full-time, two students each attending one-half time, etc. Ninety-five percent of UC students attend full-time. Table 5 shows that budgeted enrollment for 1989-90 is above budgeted enrollment for 1988-89 by 4,118 FTE (2.8 percent). (When compared to the estimated actual enrollment in the current year, however, the proposed level represents an increase of only 2,097 FTE, or 1.4 percent.)

Budgeted enrollment changes, by student category, are as follows:

- *Undergraduate*—up 3,291 FTE (3 percent).
- *Postbaccalaureate*—down 73 FTE (6.5 percent).
- *Graduate*—up 900 FTE (3.6 percent).

## THE UNIVERSITY OF CALIFORNIA—Continued

• *Health sciences*—no change from the current year.

**Table 5**  
**The University of California**  
**Full-Time Equivalent Students (FTE)**  
**1987-88 through 1989-90**

Campus	1987-88 Actual	1988-89		1989-90 Prop.	Change from Budgeted 1988-89	
		Budgeted	Est.		Number	Percent
<b>Berkeley</b>						
Undergraduate .....	20,625	20,022	20,044	20,022	—	—
Postbaccalaureate .....	75	118	57	60	-58	-49.2%
Graduate .....	7,944	7,537	7,619	7,577	40	0.5
Health sciences .....	768	757	757	757	—	—
Subtotals .....	29,412	28,434	28,477	28,416	-18	-0.1%
<b>Davis</b>						
Undergraduate .....	14,729	15,566	15,739	16,241	675	4.3%
Postbaccalaureate .....	88	113	89	87	-26	-23.0
Graduate .....	3,162	2,961	3,197	3,081	120	4.1
Health sciences .....	1,863	1,832	1,832	1,832	—	—
Subtotals .....	19,842	20,472	20,857	21,241	769	3.8%
<b>Irvine</b>						
Undergraduate .....	11,442	11,667	12,110	12,496	829	7.1%
Postbaccalaureate .....	249	250	275	260	10	4.0
Graduate .....	1,583	1,613	1,630	1,783	170	10.5
Health sciences .....	1,119	1,040	1,040	1,040	—	—
Subtotals .....	14,393	14,570	15,055	15,579	1,009	6.9%
<b>Los Angeles</b>						
Undergraduate .....	20,024	19,949	20,136	20,137	188	0.9%
Postbaccalaureate .....	58	58	60	60	2	3.4
Graduate .....	7,722	7,594	7,733	7,634	40	0.5
Health sciences .....	3,695	3,719	3,719	3,719	—	—
Subtotals .....	31,499	31,320	31,648	31,550	230	0.7%
<b>Riverside</b>						
Undergraduate .....	4,699	5,341	5,552	6,290	949	17.8%
Postbaccalaureate .....	246	270	200	220	-50	-18.5
Graduate .....	1,162	1,118	1,110	1,118	—	—
Health sciences .....	43	48	48	48	—	—
Subtotals .....	6,150	6,777	6,910	7,676	899	13.3%
<b>San Diego</b>						
Undergraduate .....	12,595	12,866	13,060	13,199	333	2.6%
Postbaccalaureate .....	79	66	66	100	34	51.5
Graduate .....	1,699	1,740	1,815	2,000	260	14.9
Health sciences .....	1,098	1,052	1,052	1,052	—	—
Subtotals .....	15,471	15,724	15,993	16,351	627	4.0%
<b>San Francisco</b>						
Health sciences .....	3,580	3,574	3,574	3,574	—	—
<b>Santa Barbara</b>						
Undergraduate .....	15,013	15,216	15,592	15,433	217	1.4%
Postbaccalaureate .....	116	133	100	133	—	—
Graduate .....	1,889	1,997	1,997	2,147	150	7.5
Subtotals .....	17,018	17,346	17,689	17,713	367	2.1%

Santa Cruz						
Undergraduate .....	7,983	8,134	8,237	8,234	100	1.2%
Postbaccalaureate .....	120	110	110	125	15	13.6
Graduate .....	515	634	566	754	120	18.9
Subtotals.....	8,618	8,878	8,913	9,113	235	2.6%
Total University						
Undergraduate .....	107,110	108,761	110,470	112,052	3,291	3.0%
Postbaccalaureate .....	1,031	1,118	957	1,045	-73	-6.5
Graduate .....	25,676	25,194	25,667	26,094	900	3.6
Health sciences.....	12,166	12,022	12,022	12,022	—	—
Totals.....	145,983	147,095	149,116	151,213	4,118	2.8%

## B. GENERAL CAMPUS INSTRUCTION

General campus instruction includes the cost of faculty, teaching assistants, and related instructional support for the eight general campuses. Expenditures and funding sources for general campus instruction in the prior, current, and budget years are shown in Table 6.

**Table 6**  
**The University of California**  
**Instruction—General Campus**  
**Summary of Expenditures and Funding**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

<i>Elements</i>	<i>Actual</i> 1987-88	<i>Est.</i> 1988-89	<i>Prop.</i> 1989-90	<i>Change from</i> 1988-89	
				<i>Amount</i>	<i>Percent</i>
Faculty.....	\$448,878	\$539,303	\$550,032	\$10,729	2.0%
Teaching assistants .....	46,984	52,586	54,224	1,638	3.1
Instructional support.....	267,760	279,370	288,895	9,525	3.4
Equipment replacement.....	31,118	36,920	36,920	—	—
Equipment: backlog reduction .....	1,425	1,425	1,425	—	—
Instructional computing .....	19,659	25,659	25,659	—	—
Technical education.....	1,156	1,156	1,156	—	—
Other .....	1,166	2,025	2,025	—	—
Totals.....	\$818,146	\$938,444	\$960,336	\$21,892	2.3%
Funding Sources					
<i>General funds</i> .....	\$793,938	\$912,722	\$933,613	\$20,891	2.3%
<i>Lottery Education Fund</i> .....	20,150	23,732	23,713	-19	-0.1
<i>Other restricted funds</i> .....	4,058	1,990	3,010	1,020	51.3
Personnel-years:					
Faculty .....	7,473	7,669	7,903	234	3.1%
Teaching assistants.....	2,143	2,472	2,547	75	3.0
Other.....	5,445	5,441	5,619	178	3.3
Totals.....	15,061	15,582	16,069	487	3.1%

As Table 6 shows, the 1989-90 budget proposes a general instruction program totaling \$960 million—\$21.9 million (2.3 percent) above estimated current-year expenditures. Of this amount, the budget proposes expenditures of \$934 million from general funds—\$20.9 million (2.3 percent) above estimated current-year expenditures.

The \$20.9 million increase is entirely from the state General Fund and consists of the following elements:

- **Undergraduate enrollment**—\$17.1 million to support the additional 3,291 FTE undergraduate students.
- **Postbaccalaureate enrollment**—a reduction of \$380,000 to reflect the decline of 73 postbaccalaureate students.

**THE UNIVERSITY OF CALIFORNIA—Continued**

- *Graduate enrollment*—\$4.2 million to support the additional 900 graduate students.

In addition, the budget proposes in the Unallocated Adjustment program, an expenditure of \$500,000 in 1989-90 for workload related to site selection for one or more new UC campuses.

We recommend approval of the funding requests related to the enrollment changes. In the following section we discuss the request for support for planning new campuses.

**1. New Long-range Enrollment Plan**

In October 1988, the university issued a new long-range general campus headcount enrollment plan for the period 1988-89 through 2005-06. This plan included a proposal to start three new campuses in the late 1990s. The following discussion highlights the major features and key assumptions of the new enrollment plan.

*Major Features of the Enrollment Plan.* The plan's major features include:

- An increase in undergraduate enrollment of 36 percent (42,206 students) between 1988-89 and 2005-06.
- An increase in graduate enrollment of 80 percent (20,580 students) over the same period.
- An increase in enrollment at the existing eight general campuses to accommodate approximately 68 percent of the combined undergraduate and graduate enrollment growth (42,630 additional students).
- An expansion of the UC system with the opening of three new campuses to accommodate the remaining 32 percent of the projected enrollment growth (20,156 additional students). The plan calls for these campuses to be opened at the rate of one per year in 1998, 1999 and 2000.

Table 7 shows the 1988-89 headcount enrollment and the headcount projected enrollment for 2005-06 if this plan is implemented as proposed for each of the eight general campuses and for the proposed three new campuses. It shows the absolute and relative changes in enrollment for undergraduate, graduate and total enrollment.

*Key Assumptions in New Plan.* As shown in Table 7, UC projects that three new general campuses are needed to accommodate 20,156 students who could not be accommodated under the projected capacity of the current campuses. We believe that the key assumptions in UC's plan relate to: (1) the enrollment capacities of the existing campuses, and (2) the plan's assumed increase in the ratio of graduate/undergraduate students from 18.7 percent to 23.4 percent. Changes in these assumptions can greatly affect UC's need for additional campuses.

Concerning enrollment capacities, UC assumes that physical capacity considerations primarily limit growth at seven of the eight campuses. At the eighth—Riverside—UC assumes that an academic constraint rather than a physical capacity constraint is the reason to limit growth. Later in our analysis of UC's capital outlay program we address the physical capacity constraints raised by UC, while in this section we address Riverside's academic growth constraint—its ability to recruit faculty.

*Riverside Capacity.* Table 7 shows that the Riverside campus is projected to enroll only 15,000 students by the year 2005-06. UC argues that the limit on growth at Riverside is due to "the availability of



**Table 7**  
**The University of California**  
**Long-range General Campus Enrollment Projections**  
**1988-89 and 2005-06**  
**(Headcount <sup>a</sup>)**

<i>Campus</i>	<i>1988-89</i>	<i>2005-06</i>	<i>Change from 1988-89</i>	
			<i>Number</i>	<i>Percent</i>
<b>Berkeley</b>				
Undergraduate.....	22,018	20,000	-2,018	-9.2%
Graduate.....	<u>7,801</u>	<u>8,700</u>	<u>899</u>	<u>11.5</u>
Subtotals.....	29,819	28,700	-1,119	-3.8%
<b>Davis</b>				
Undergraduate.....	15,933	20,000	4,067	25.5%
Graduate.....	<u>3,026</u>	<u>5,000</u>	<u>1,974</u>	<u>65.2</u>
Subtotals.....	18,959	25,000	6,041	31.9%
<b>Irvine</b>				
Undergraduate.....	12,200	20,000	7,800	63.9%
Graduate.....	<u>1,685</u>	<u>5,000</u>	<u>3,315</u>	<u>196.7</u>
Subtotals.....	13,885	25,000	11,115	80.1%
<b>Los Angeles</b>				
Undergraduate.....	22,758	22,300	-458	-2.0%
Graduate.....	<u>7,715</u>	<u>8,700</u>	<u>985</u>	<u>12.8</u>
Subtotals.....	30,473	31,000	527	1.7%
<b>Riverside</b>				
Undergraduate.....	5,852	12,000	6,148	105.1%
Graduate.....	<u>1,142</u>	<u>3,000</u>	<u>1,858</u>	<u>162.7</u>
Subtotals.....	6,994	15,000	8,006	114.5%
<b>San Diego</b>				
Undergraduate.....	13,350	20,000	6,650	49.8%
Graduate.....	<u>1,817</u>	<u>5,000</u>	<u>3,183</u>	<u>175.2</u>
Subtotals.....	15,167	25,000	9,833	64.8%
<b>Santa Barbara</b>				
Undergraduate.....	15,826	16,000	174	1.1%
Graduate.....	<u>1,998</u>	<u>4,000</u>	<u>2,002</u>	<u>100.2</u>
Subtotals.....	17,824	20,000	2,176	12.2%
<b>Santa Cruz</b>				
Undergraduate.....	8,282	12,000	3,718	44.9%
Graduate.....	<u>667</u>	<u>3,000</u>	<u>2,333</u>	<u>349.8</u>
Subtotals.....	8,949	15,000	6,051	67.6%
<b>Three New Campuses</b>				
Undergraduate.....	—	16,125	16,125	— <sup>b</sup>
Graduate.....	—	<u>4,031</u>	<u>4,031</u>	— <sup>b</sup>
Subtotals.....	—	20,156	20,156	— <sup>b</sup>
<b>Total University</b>				
Undergraduate <sup>c</sup> .....	116,219	158,425	42,206	36.3%
Graduate.....	<u>25,851</u>	<u>46,431</u>	<u>20,580</u>	<u>79.6</u>
Subtotals.....	142,070	204,856	62,786	44.2%

<sup>a</sup> Differs from FTE numbers shown in Table 5 in that headcount numbers, which are larger than FTE, are used for planning purposes.

<sup>b</sup> Not a meaningful figure.

<sup>c</sup> Undergraduate numbers include postbaccalaureate students.

**THE UNIVERSITY OF CALIFORNIA—Continued**

prospective faculty during the planning period, and the time, effort and resources required for such recruiting efforts." Consequently, UC's plan limits Riverside's growth to an annual rate of 4.6 percent between now and the year 2005-06 when it reaches a capacity of 15,000.

We do not concur with UC's assumption. We believe that the availability of faculty is no greater a problem at Riverside than at a new campus. In fact, we believe that the Riverside campus would have an advantage over any new campus with respect to the pool of available faculty during the planning period. Generally, it is easier to recruit faculty to a well established campus than it is to a brand new campus because prospective faculty confront a smaller number of unknowns in terms of the particulars demanded by the position they are applying for. The time, effort and resources required for recruiting are also much less at an established campus, where existing faculty can do the recruiting, than at a new campus that most likely will have to rely on another campus to initiate its recruiting efforts. Thus, we do not agree that the difficulty of recruiting faculty at Riverside versus recruiting at a new campus is a valid reason to limit the growth at the Riverside campus.

If Riverside's enrollment were assumed to reach 25,000 by 2005-06, the same level as the Davis and Irvine campuses, the annual average rate of growth would be 7.8 percent. This rate is less than the 9.5 percent annual rate of growth that the campus has experienced in the last four years. In fact, the projected enrollment increase for 1989-90 over 1988-89 is 10.6 percent. Thus, if a growth rate of 7.8 percent is assumed, the Riverside campus capacity would increase by 18,006 rather than 8,006 as shown in Table 7.

We note further that the Regents have also raised the question of whether Riverside's projection is too low. The university's administration is currently reevaluating the Riverside growth rate. This reevaluation should be available during budget hearings.

*Change in the Percentage of Graduate Students.* In the current year, graduate student enrollment is approximately 18.7 percent of total enrollment on the eight general campuses. In 1987 the university submitted a detailed graduate enrollment plan to the Legislature to increase this percentage to 21.3 percent by 2000-01. The Legislature approved an increase of 600 graduate students in 1988-89 based on this plan. Full funding of this 1987 plan would increase graduate student enrollment by 58 percent (15,015) over the next seventeen years. This is equal to an annual increase of approximately 900 students, the same increase that we recommend approval of for the budget year. The new October 1988 university plan now proposes a 23.4 percent graduate ratio by 2005-06. As shown in Table 7, this is an increase of 80 percent (20,580) which represents an average growth rate of approximately 1,200 students per year over the next seventeen years. This proposed change in graduate students generates a capacity demand for an additional 5,565 graduate students above the level of the 1987 plan.

In October, we requested that the university provide the Legislature with its rationale for the revision in graduate enrollment. The university is still developing a response to our request. If UC does not justify a change in the 1987 graduate enrollment plan, additional space for 5,565 undergraduates would be available on the existing campuses.

*Summary.* This discussion indicates that changes in these key academic assumptions can significantly decrease UC's projection for new campus enrollment from 20,156 to 4,591. Moreover, later in our capital outlay discussion, we note that changes in the physical capacities at the other seven existing campuses could further reduce the estimate of new campus enrollment to approximately 3,300. These considerations bring into question UC's projected need for *three* new campuses.

## **2. Site Selection Funds Proposed**

*We withhold recommendation on the requested General Fund increase of \$500,000 for site selection plans for one or more new UC campuses pending receipt of an expenditure plan from UC.*

The budget requests \$500,000 "to begin the site selection process for one or more new UC campuses to accommodate projected future enrollment growth." The budget requests initial support to start this planning. The university has indicated that these funds will be used to hire consultants to identify and evaluate specific sites. However, we have asked the university to provide a phasing plan for its planning process to insure that the process would be far enough along to warrant expenditures on consultant services in 1989-90. Pending review of this information, we withhold a recommendation on this request.

## **II. ORGANIZED RESEARCH**

The UC is California's primary state-supported agency for research. "Organized research" is the term UC uses in referring to those research activities which, unlike departmental research, are budgeted and accounted for separately. In contrast, expenditures for departmental research are funded in the Instruction program primarily through that portion of faculty salaries corresponding to the time faculty spend on research as part of their normal university duties.

Expenditures and funding sources for organized research in the prior, current, and budget years are shown in Table 8. As the table shows, the budget requests \$245 million (including \$177 million from general funds) for organized research in 1989-90—a net increase of \$43.3 million (22 percent) from estimated current-year expenditures. This net increase results entirely from the following two changes: (1) an increase of \$43.9 million for tobacco-related disease research funded from the newly created research account of the Cigarette and Tobacco Products Surtax Fund, partially offset by (2) the budget's proposed elimination of \$550,000 of state General Fund support for research conducted at the Institute on Global Conflict and Cooperation.

In addition to this funding for organized research, the university will receive an estimated \$767 million from extramural sources (primarily the federal government) for research activities in 1989-90. The university will also manage \$2.3 billion in federal research funds to operate three Department of Energy Labs. Two of these labs are located in California—at Berkeley and Livermore—while the third is located in Los Alamos, New Mexico. Consequently, total support for research is considerably larger than the amount shown in Table 8.

## THE UNIVERSITY OF CALIFORNIA—Continued

Table 8

The University of California  
Organized Research Program  
Summary of Expenditures and Funding  
1987-88 through 1989-90  
(dollars in thousands)

Elements	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
General campus.....	\$68,459	\$58,067	\$57,517	-\$550	-0.9%
Health sciences.....	29,695	25,194	25,194	—	—
Agriculture.....	95,555	98,483	98,483	—	—
Marine sciences.....	10,608	14,157	14,157	—	—
Faculty grants/travel.....	—	5,956	5,956	—	—
Tobacco-related disease.....	—	—	43,896	43,896	— <sup>a</sup>
Totals.....	\$204,317	\$201,857	\$245,203	\$43,346	21.5%
Funding Sources					
General funds.....	\$172,607	\$177,442	\$176,892	-\$550	-0.3%
Restricted funds					
Cigarette/Tobacco.....	—	—	43,896	43,896	— <sup>a</sup>
State Transportation.....	1,056	1,056	1,056	—	—
Other.....	30,654	23,359	23,359	—	—
Personnel-years.....	2,926	3,068	3,068	—	—

<sup>a</sup> Not a meaningful figure.

### 1. State Support for Global Peace Research Eliminated

*We recommend that during budget hearings, the Department of Finance report on why it proposes to eliminate General Fund support of \$550,000 for the Institute on Global Conflict and Cooperation.*

The budget proposes elimination of the entire General Fund budget of \$550,000 for the Institute on Global Conflict and Cooperation. This institute, established in 1982-83, is an interdisciplinary multicampus research unit established to enhance the university's capability to contribute to international security and cooperation through research and teaching activities.

The focus of the institutes's program is on the study of: (1) those international conflict situations which threaten to escalate into large-scale war, and (2) various institutions, policies, and mechanisms relevant to eliminating, reducing, or managing such conflicts. In the current year, the institute is providing support for 31 research studies and fellowships for 29 students.

**Budget History.** The institute was initially funded in 1982-83, at a level of \$600,000, consisting of \$330,000 from the General Fund and \$270,000 from university funds. From 1983-84 through 1985-86 the institute was supported at various funding levels. In 1986-87, the Legislature increased General Fund support to its current level of \$550,000. University support in the current year is approximately \$707,000, resulting in total program support of \$1.3 million. Thus, the budget proposal to eliminate state support reduces the institute's budget by 44 percent (\$550,000).

**No Analytical Justification for Deletion.** The Department of Finance has not provided any analytical justification for the deletion of these funds. In the absence of a program rationale, we conclude that the only reason for this proposal is to achieve a General Fund budget savings in 1989-90. We note, however, that elsewhere in the budget the university

received a General Fund augmentation of \$14.6 million to offset the effects of forced budgetary savings.

Based on the past history of consistent legislative support for this institute, we recommend that the Department of Finance report during budget hearings on why it proposes to eliminate General Fund support of \$550,000 for the Institute on Global Conflict and Cooperation.

## **2. Tobacco-related Disease Research (Item 6440-001-234)**

### *We recommend approval.*

The budget requests \$43.9 million for a new statewide program of tobacco-related disease research. The budget states that this program will be funded from the research account of the Cigarette and Tobacco Products Surtax Fund. The research account receives 5 percent of the revenue raised from the new surtax on tobacco products that was enacted by the voters with the passage of Proposition 99 in November 1988. The budget detail shows receipts into this account of \$15 million in 1988-89 and \$31.2 million in 1989-90, for a total of \$46.2 million. The budget allocates \$43.9 million to UC for expenditure in 1989-90 and retains \$2.3 million (5 percent of the total) as a reserve.

The university indicates that it will manage this research effort in a manner similar to its management of the state's AIDS research program. Under the AIDS model, other academic institutions such as Stanford and the University of Southern California; nonprofit groups such as the heart, lung and cancer societies; and relevant agencies such as the Department of Health Services would fully participate in the peer review process and be eligible to apply for and receive grants from the new program.

### **III. TEACHING HOSPITALS**

The university operates five teaching hospitals—the UCLA Medical Center, the UCSF Hospitals and Clinics, the UC San Diego Medical Center, the UC Davis Medical Center, and the UC Irvine Medical Center. These hospitals:

- support the university's clinical instruction program,
- serve as a community resource for highly specialized (tertiary) care, and
- provide the clinical setting for local community and state university students in allied health science areas.

In 1989-90, the operating costs of these hospitals will be \$1.2 billion, supported primarily by revenue from patient fees, insurance companies, Medicare, the Medi-Cal program, and other public entities.

#### **A. THE TEACHING HOSPITAL SUBSIDY**

In 1985-86, the Governor and university submitted an eight-year expenditure plan to the Legislature to address projected operating losses at the Davis, Irvine and San Diego teaching hospitals. The intent of this plan was for the state to assist the hospitals in two ways: (1) by providing funds for cost saving/revenue enhancing capital outlay projects and equipment purchase projects at the hospitals, and (2) by providing an operating subsidy for the hospitals which would decrease over a seven-year period.

In response, the Legislature provided one-year contingency funding in the 1985, 1986 and 1987 Budget Acts with no explicit commitment to a full eight-year plan. Because net operating gains at the three hospitals were positive in 1985-86 and 1986-87, no operating subsidy was needed for those

**THE UNIVERSITY OF CALIFORNIA—Continued**

years. The 1986 Budget Act provided \$9.6 million to subsidize losses incurred at Irvine in 1984-85.

Because this subsidy policy resulted in funds being reserved for a purpose which subsequently proved unnecessary, the 1988 Budget Act changed the timing of the payment for the subsidy. While prior budgets had appropriated funds based on the estimated loss in the budget year, the 1988 Budget Act appropriated funds based on the estimated loss in the prior year. The 1988 Budget Act provided \$8 million from the General Fund to offset any 1987-88 net loss at the three hospitals and expressed the Legislature's intent to provide up to \$9 million to offset any 1988-89 loss. This policy change allows for a funding decision at a time that is much closer to the end of the hospitals' fiscal year when a more accurate estimate of activity can be made.

(Capital outlay proposals for these hospitals are discussed later in this analysis with the university's other capital outlay requests.)

**B. THE GOVERNOR'S 1989 BUDGET PROPOSAL (Item 6440-016-001)****Revised Estimate Needed on 1989-90 Operating Subsidy**

*We withhold recommendation on the request for \$8 million from the General Fund for the teaching hospital subsidy because updated data will be available during budget hearings.*

The budget requests an \$8 million appropriation from the General Fund to offset any net losses in 1988-89 at the Davis, Irvine and San Diego hospitals. In addition, the budget proposes to allocate the entire \$8 million subsidy appropriated in the 1988 Budget Act to the Irvine hospital.

Table 9 shows that the Irvine hospital experienced a net loss of \$5.1 million in 1987-88 while the Davis and San Diego hospitals experienced

**Table 9**  
**The University of California**  
**Davis, Irvine, and San Diego Teaching Hospitals**  
**Summary of Net Gain and Loss**  
**1984-85 through 1988-89**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Actual</i> 1985-86	<i>Actual</i> 1986-87	<i>Actual</i> 1987-88	<i>Est.</i> 1988-89
<b>Irvine</b>					
Operating .....	-\$8,759	\$772	-\$1,052	-\$8,630	-\$13,113
Nonoperating .....	-854	2,259	1,800	3,501	2,000
Net gain/loss .....	-\$9,613	\$3,031	\$748	-\$5,129	-\$11,113
State subsidy .....	—	\$9,600	—	—	\$8,000
<b>Davis</b>					
Operating .....	-\$3,551	-\$4,444	\$786	\$3,447	\$4,722
Nonoperating .....	5,816	12,750	2,377	1,112	713
Net gain/loss .....	\$2,265	\$8,306	\$3,163	\$4,559	\$5,435
State subsidy .....	—	—	—	—	—
<b>San Diego</b>					
Operating .....	\$1,121	\$2,202	\$5,349	\$351	\$3,435
Nonoperating .....	5,428	1,452	1,788	1,526	1,000
Net gain/loss .....	\$6,549	\$3,654	\$7,137	\$1,877	\$4,435
State subsidy .....	—	—	—	—	—

gains. Thus, the budget proposes to allocate \$2.9 million more than what the university states the loss was at Irvine in 1987-88. However, Table 9 also shows that the Irvine hospital currently projects a net loss of \$11.1 million in 1988-89. As mentioned, the budget requests another \$8 million to offset 1988-89 losses or \$3.1 million less than the projected need. Thus, given these estimates, the budget provides approximately the total amount needed to offset Irvine's losses over the two-year period.

The university informs us that it will have updated net income data prior to the end of budget hearings. Consequently, we withhold recommendation at this time, to allow the Legislature to base its subsidy decision on updated information.

#### IV. STUDENT SERVICES

The Student Services program encompasses several functions, such as counseling, health services, and financial aid administration that are complementary to, but not part of, the Instruction program. The major sources of support for this program are the systemwide fees charged UC students.

Expenditures and funding sources for the Student Services program in the prior, current, and budget years are shown in Table 10. As the table shows, the budget proposes \$171.2 million for the Student Services program in 1989-90. While there are no program changes proposed, a funding change occurs due partially to a proposed increase in student fees. This increase is discussed in the following section.

**Table 10**  
**The University of California**  
**Student Services**  
**1987-88 through 1989-90**

<i>Program</i>	<i>Actual</i> 1987-88	<i>Est.</i> 1988-89	<i>Prop.</i> 1989-90	<i>Change from</i> 1988-89	
				<i>Amount</i>	<i>Percent</i>
Social/cultural activities.....	\$51,915	\$48,947	\$48,947	—	—
Educational services.....	8,345	8,456	8,456	—	—
Counseling and guidance.....	33,368	35,687	35,687	—	—
Financial aid administration.....	19,377	19,518	19,518	—	—
Student admissions/records.....	27,251	26,944	26,944	—	—
Student health services.....	31,518	31,609	31,609	—	—
Totals.....	\$171,774	\$171,161	\$171,161	—	—
<b>Funding Sources</b>					
<i>General funds</i> .....	\$9,930	\$10,511	\$4,511	-\$6,000	-57.1%
<i>Restricted funds</i> .....	161,844	160,650	166,650	6,000	3.7
Personnel-years.....	3,283	3,366	3,366	—	—

#### A. TUITION AND FEES

As shown in Table 11, the budget requests: (1) an increase of \$143 (10 percent) in the systemwide resident student fees, and (2) an increase of \$843 (17 percent) in nonresident tuition.

## THE UNIVERSITY OF CALIFORNIA—Continued

Table 11

**The University of California  
Systemwide Student Charges  
1987-88 through 1989-90**

Charges	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
Resident fee .....	\$1,374	\$1,434	\$1,577	\$143	10%
Nonresident tuition .....	4,290	4,956	5,799	843	17

**1. Resident Student Fees**

According to the methodology contained in the statutory fee policy enacted by Ch 1523/85, UC's resident student fees should increase by only 3 percent in 1989-90. The statute, however, permits an increase of up to 10 percent "in the event that state revenues and expenditures are substantially imbalanced due to factors unforeseen by the Governor and Legislature..." The budget thus presumes that such an event has occurred.

The proposed 10 percent fee level would increase General Fund revenues in 1989-90 by \$12 million beyond the amount that would be generated by a 3 percent fee increase. In order to offset the effect of the increase in fees on students having demonstrated financial need, the budget also proposes to increase student financial aid by \$2.6 million beyond the amount that would be associated with a 3 percent fee increase.

**2. Nonresident Tuition**

Using a methodology based on the marginal cost of instruction and student charges at comparable universities, the Regents proposed a 5 percent increase in nonresident tuition. The budget, however, proposes to increase nonresident tuition by 17 percent in 1989-90 which would generate an estimated \$7.3 million in revenues beyond the amount that would result from the Regents' request.

We note that Resolution Ch 162/88 (SCR 69, Morgan) directs the California Postsecondary Education Commission (CPEC) to submit, by July 1, 1989, recommendations on a nonresident student tuition policy for the state's public universities. Because of the large increases in nonresident tuitions proposed for the public universities, CPEC staff has agreed to expedite the study in an endeavor to submit the recommendations during the budget hearings.

**B. DISABLED STUDENTS****LAO Report on UCLA Disabled Services**

*We withhold recommendation on \$1.2 million requested from the General Fund for services for disabled students, pending additional information from the university on its allocation formula for the distribution of these funds.*

The budget requests \$1.2 million for services for disabled students attending UC. In hearings on the 1988 Budget Bill, the Senate augmented the UC budget by \$60,000 to provide additional staffing for services for disabled students on the UCLA campus. The Assembly did not do so, making the issue a budget Conference Committee item. The Conference



Committee did not augment the budget, but instead directed that the Legislative Analyst report in the 1989-90 *Analysis* on the adequacy of UCLA's disabled student program funding.

Based on the budget committee hearings, the objective of our study is to determine whether the university is allocating to UCLA an amount for services for disabled students that is comparable to its allocation to the other UC campuses. We met with both UCLA and Office of the President staff in September 1988 and requested the following information: (1) the number and type of disabled students served on each campus, and (2) the campus General Fund budget for these services.

The university submitted the information we requested late in December. The information, however, raised additional questions about the distribution formula. Given this situation, we have requested a more complete description of the methodology used by the university to distribute state support to the campuses. Consequently, we withhold recommendation on the budget request for \$1.2 million for services for disabled services. After a complete review of the campus data, we will submit a supplemental analysis with our recommendations.

#### V. OPERATION AND MAINTENANCE OF PLANT

Operation and maintenance of plant includes activities such as building maintenance, janitorial services, and utility purchases. Expenditures and funding sources for this program in the prior, current, and budget years are shown in Table 12.

The budget proposes total support of \$269 million—\$7.9 million (3 percent)—more than estimated current-year expenditures. This net increase results entirely from the following two changes: (1) an increase of \$8.7 million from the General Fund for workload related to 1.4 million

Table 12  
The University of California  
Operation and Maintenance of Plant  
Summary of Expenditures and Funding  
1987-88 through 1989-90  
(dollars in thousands)

<i>Elements</i>	<i>Actual</i> 1987-88	<i>Est.</i> 1988-89	<i>Prop.</i> 1989-90	<i>Change from</i> 1988-89	
				<i>Amount</i>	<i>Percent</i>
Plant administration .....	\$8,972	\$10,324	\$10,727	\$403	3.9%
Building maintenance .....	46,669	62,305	64,694	2,389	3.8
Grounds maintenance .....	14,903	15,136	15,136	—	—
Janitorial services .....	37,858	47,086	48,866	1,780	3.8
Utilities purchases .....	73,172	84,516	87,737	3,221	3.8
Utilities operations .....	12,838	17,732	18,422	690	3.9
Refuse disposal .....	2,911	3,541	3,678	137	3.9
Fire protection .....	1,973	2,639	2,722	83	3.1
Deferred maintenance .....	17,986	12,572	12,572	—	—
Special repairs .....	2,558	5,361	4,561	-800	-14.9
Totals .....	\$219,840	\$261,212	\$269,115	\$7,903	3.0%
Funding Sources					
General funds .....	\$211,827	\$249,051	\$248,154	-\$897	-0.4%
1988 Bond Fund .....	—	3,000	2,200	-800	-26.7
Restricted funds .....	8,013	9,161	18,761	9,600	104.8
Personnel-years .....	3,145	3,351	3,463	112	3.3%

**THE UNIVERSITY OF CALIFORNIA—Continued**

square feet of additional state-maintained building area, partially offset by (2) a reduction of \$800,000 in support for asbestos repair projects.

The funding source changes shown in Table 12 reflect the university's decision to use student fee revenue in 1989-90 to support space that was supported by the General Fund in 1988-89. This decision is not indicative of any shift in policy but rather is driven by the need to display student fee revenue within the budget.

We recommend approval of the proposed increase for additional state-maintained building area because it is based on workload standards that the Legislature has used in recent years. We discuss funding for special repair asbestos projects in the next section.

**Asbestos Projects (Item 6440-001-785)****Asbestos Abatement Program Should be Targeted to Demonstrated Health Risks**

*We recommend deletion of the \$2.2 million requested from the 1988 Higher Education Capital Outlay Bond Fund for asbestos abatement projects, based on recommendations for state asbestos abatement programs contained in our Perspectives and Issues. (Delete Item 6440-001-785.)*

The budget requests \$2.2 million to support an asbestos abatement repair program for UC. In our 1989-90 *Perspectives and Issues* ("State Asbestos Abatement Programs") we recommend that the Legislature fund asbestos abatement projects only when concentrations of airborne asbestos are 0.1 fibers per cubic centimeter or higher. Establishment of such a standard would enable the Legislature to set funding priorities for asbestos abatement in cases of demonstrated health risk. The President's Office has not identified any projects which exceed the 0.1 fibers per cubic centimeter standard; consequently, we recommend that this item be deleted.

**VI. UNALLOCATED ADJUSTMENTS**

The Unallocated Adjustments program serves as a temporary holding account for appropriations which eventually will be allocated by the Office of the President to the campuses, and by the campuses to the operating programs. This program, shown in Table 13, includes funds for (1) allocation to other programs during the budget year, for example, budgetary savings targets, and (2) employee compensation increases.

**Table 13**  
**The University of California**  
**Unallocated Adjustments**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

<i>Elements</i>	<i>Est.</i> <i>1987-88</i>	<i>Est.</i> <i>1988-89</i>	<i>Prop.</i> <i>1989-90</i>	<i>Change</i> <i>from</i> <i>1988-89</i>
Provisions for Allocation				
UCRS deferral payment (1983-84) .....	\$6,400	\$6,400	\$6,400	—
UC Retirement System deferral (1989-90) .....	—	—	-68,000	-\$68,000
UC Retirement System funds .....	—	—	68,000	68,000
Lease payments on revenue bonds .....	—	4,400	15,000	10,600
Budgetary savings target .....	—	-78,534	-63,934	14,600
Planning for new campuses .....	—	—	500	500
Other provisions .....	5,827	31,330	33,927	2,597
Subtotals, provisions .....	(\$12,227)	(-\$36,404)	(-\$8,107)	(\$28,297)

## Fixed Costs and Economic Factors

UC Retirement System rate reduction.....	—	—	-\$15,000	-\$15,000
Annualization of 1988-89 salary increase.....	—	—	59,764	59,764
Annualization of 1988-89 benefit increase.....	—	—	7,831	7,831
Faculty merit salary increase.....	—	—	16,318	16,318
Social security.....	—	—	2,311	2,311
Faculty salary increase for 1989-90.....	—	—	21,564	21,564
Staff salary increase for 1989-90.....	—	—	17,707	17,707
Benefit increase for 1989-90.....	—	—	11,396	11,396
Subtotals, fixed costs.....	(—)	(—)	(\$121,891)	(\$121,891)
Grand totals.....	\$12,227	-\$36,404	\$113,784	\$150,188
Funding Sources				
General funds.....	\$12,227	-\$74,087	\$60,922	\$135,009
Restricted funds.....	—	37,683	52,862	15,179

**A. FACULTY AND STAFF SALARY PROPOSALS (Item 6440-011-001)***We recommend approval.*

The budget proposes an expenditure of \$50.7 million to increase UC employee compensation in 1989-90. Of this amount, \$11.4 million is for benefits, while the balance of \$39.3 million would be used to provide the following salary increases, effective January 1, 1990: 4.7 percent for faculty (\$21.6 million), 4 percent for staff (\$14.1 million), and an additional 1 percent for "special salary and other adjustments" for staff employees (\$3.6 million).

Pursuant to SCR 51 of 1965, the California Postsecondary Education Commission (CPEC) annually submits to the Legislature an analysis comparing UC faculty salaries and fringe benefits to an agreed-upon group of prestigious universities with which UC competes for faculty. The comparison group is intended to provide a benchmark for the Legislature to use in determining what salaries UC should offer. It consists of the following eight universities:

Harvard University  
Stanford University  
Yale University  
MIT

University of Illinois-Urbana Campus  
University of Michigan-Ann Arbor  
State University of New York at Buffalo  
University of Virginia

Table 14 shows the CPEC data which indicate that while UC's all ranks average salary—\$59,469—is 1.6 percent ahead of the comparison group in 1988-89, a full year faculty salary increase of 4.7 percent would be needed in 1989-90 for UC to be at parity with this group. As mentioned, however, the budget proposes \$21.6 million for a January 1990 increase of 4.7 percent. This, in effect, would delay the achievement of parity by six months.

## THE UNIVERSITY OF CALIFORNIA—Continued

Table 14  
The University of California  
Faculty Salary Increase Required to Achieve Parity  
With Comparison Institutions  
1989-90

Academic Rank	UC Average Salaries <sup>a</sup> 1988-89	Comparison Group Salaries <sup>b</sup>		Percentage Change Required in UC Salaries	
		Actual 1988-89	Est. 1989-90	Actual 1988-89	Est. 1989-90
Full Professor .....	\$68,932	\$67,474	\$71,717	-2.1%	4.0%
Associate Professor.....	45,240	46,201	49,269	2.1	8.9
Assistant Professor .....	39,559	38,185	40,912	-3.5	3.4
All Ranks Average.....	\$59,469	\$58,497	\$62,262	-1.6%	4.7%

<sup>a</sup> The 1988-89 average UC salaries are adjusted to include a 3 percent increase effective June 1, 1989.

<sup>b</sup> Comparison group salary average by rank is an unweighted average. The all-ranks average for the comparison group is based on the following UC staffing patterns for 1988-89: full professors 64 percent (3,457), associate professors 20 percent (1,055), and assistant professors 16 percent (889).

## B. UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

**Background.** UC employees are members of the University of California Retirement System (UCRS). About 35 percent of the UC workforce is supported from State of California fund sources; the remaining portion of UC's workforce is funded primarily from federal government sources through various contracts and grants. The State of California, the federal government and other contractors provide the employer contribution to the UCRS fund by allocating the necessary funds to the Regents, who contribute them to UCRS.

State contributions to the UCRS constitute about 40 percent of the total, the remaining 60 percent is contributed by the federal government and other payers. UC employees also contribute a portion of their salaries to the fund. Benefit payments to retirees (annuitants) are made from the UCRS fund.

The principle of retirement system funding is that contributions into a retirement system should be sufficient to cover the cost of retirement payments owed to members now and in the future. In order to determine the appropriate annual contribution into the fund, assumptions must be made concerning the future performance of the economy. The three most important economic assumptions concern:

- long-term investment earnings;
- long-term average rate of salary increase; and
- long-term rate of inflation.

Another key factor is the current condition of the fund, that is, whether the fund currently has an "actuarial surplus" or an "actuarial liability."

Periodically, these factors are reviewed by independent actuaries who recommend changes in the employer contribution rate in order to maintain the fund actuarially sound. This process is referred to as the actuarial valuation. The contribution rate is expressed as a percentage of the salary base.

In the current year, UC's base budget includes \$93 million for the normal state contribution to UCRS. Based on the most recent actuarial

valuation in June 1988, the 1989-90 normal cost (prior to the proposed 1989-90 salary increase) is \$63 million, or \$30 million less than the 1988-89 cost. The 1989-90 salary increase adds \$5 million to the normal cost, consequently the total UCRS contribution required in 1989-90 is \$68 million.

*The Budget Proposal.* The budget proposes that: (1) UC retain, for unspecified purposes, \$15 million of the \$30 million savings that resulted from the June 1988 fund valuation, (2) the total \$68 million 1989-90 state contribution to UCRS be diverted to fund other UC base programs, and (3) the actuarial equivalent of the amount not paid in 1989-90, be restored through supplemental appropriations over the next 30 years. (A similar diversion proposal was approved in the 1983 Budget Act.)

### **1. UC Retention of \$15 million of the State's Retirement Contribution Savings is Unjustified**

*We recommend a reduction of \$15 million from the General Fund to reflect the full annualized savings in the state contribution to UCRS that result from the June 1988 actuarial valuation of the system. (Reduce Item 6440-001-001 by \$15 million.)*

*1988-89 Change is Not Fully Reflected in 1989-90 Budget.* As stated in our previous discussion, UC's 1988-89 budget includes \$93 million for the state contribution to UCRS. Under normal budget practice the 1989-90 base budget contribution (prior to salary increases) would be \$63 million—\$30 million lower. As mentioned, this \$30 million reduction results from the June 1988 actuarial valuation adopted by the Regents effective on January 1, 1989. Specifically, the Regents' actuarial consultant recommended an increase in the long-term earnings assumption, a decrease in the underlying long-term salary assumption and a further adjustment to recognize an increase in the UCRS actuarial surplus. (The surplus was \$718 million on June 30, 1987 but increased to \$1.6 billion by June 30, 1988.) Based on this valuation, the state's contribution rate was reduced from 8.59 percent of the salary base to 5.92 percent, for an annual General Fund savings of \$30 million.

As shown in Table 13, however, the budget reduces General Fund support by only \$15 million in 1989-90, one-half of the amount called for. This in effect allows UC to retain the balance—\$15 million—for unspecified purposes. This is contrary to past budget practice. Moreover, our analysis finds no analytical justification for UC to retain, for unspecified purposes, any savings due to the new valuation. Consequently, we recommend that the remaining \$15 million be deleted from Item 6440-001-001 to reflect the full state savings due to the June 1988 change in the UCRS valuation.

### **2. Retirement System Contribution Diverted to Fund Base Budget**

*Comments on the Diversion Proposal.* As mentioned, the budget also proposes to divert the normal \$68 million 1989-90 state contribution to UCRS to fund other UC programs in 1989-90. With a June 1988 retirement fund surplus of \$1.6 billion, the loss of the state's \$68 million contribution in 1989-90 will not weaken the fund to any great extent. If the deferral is restored over time, as indicated by the proposed Budget Bill language, there is no negative effect on the fund. Thus, the effect of the proposed deferral on the condition of the UCRS fund is not a factor of significant concern.

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The Legislature, however, should be aware of the impact of the deferral on the 1990-91 and subsequent fiscal year budgets. To restore the deferral, the 1990-91 budget would have to: (1) provide an augmentation of \$68 million to restore the base budget contribution to the retirement system, and (2) provide a supplemental appropriation of approximately \$6.2 million to begin the gradual restoration (over a 30-year period) of the 1989-90 deferred amount.

While we would not recommend this deferral under normal budget practice, we believe that the state's fiscal condition presents limited alternatives in 1989-90.

**C. REAPPROPRIATION (Item 6440-490)****Legislative Budget Language Not Included in Budget Bill**

*We recommend that the Legislature adopt Budget Bill language, comparable to that adopted in the 1988 Budget Act, that prohibits reappropriation of the state's share of excess federal overhead income to UC and instead returns this income to the state for General Fund savings.*

**Background.** The university is the state's primary research institution. Its annual research program is approximately \$900 million in the current year of which \$655 million (73 percent) is federally funded. In recognition of costs related to utilities, building amortization, grant administration and certain other indirect costs, the federal government pays the university a negotiated "overhead allowance" on each grant. In 1979, the state and the university agreed that after a specified "off-the-top" allowance for administrative costs of approximately 20 percent related to these grants, the state and university would share the balance of these overhead allowance receipts on a 55 percent/45 percent basis.

The state's 55 percent share was justified on the basis that state tax dollars paid for much of UC's physical plant and personnel (especially faculty salaries). The university's share is used by the Regents to provide support for specific programs that they identify. In 1989-90, federal contract and grant overhead is expected to total \$198 million. After allowance for administrative costs (\$37 million), the state's share is expected to total \$87 million while the university's share is expected to total \$71 million. However, it is difficult to accurately predict these receipts. Last year, for example, the budget estimated that the 1987-88 overhead receipts would total \$142. Actual overhead received was \$174 million, or \$32 million in excess of the budget estimate.

**The Budget Proposal.** Language in Item 6440-490 would reappropriate to UC in 1989-90: (1) any savings in the university's 1988-89 General Fund budget, *plus* (2) the state's share of any excess federal overhead receipts—receipts greater than that budgeted. This language in effect gives UC 100 percent of funds that would otherwise be shared under the 55/45 percent formula. This language significantly differs from that adopted by the Legislature in the 1988 Budget Act, per our recommendation, to exclude from the reappropriation the state's share of any excess federal overhead.

Based on the language adopted in the 1988 Budget Act, when actual federal overhead receipts were higher than the amount budgeted, the university retained its share of this income and \$7.8 million was returned to the state as its share. Thus, the state and the university shared in excess

overhead income in accordance with the traditional 55/45 percent formula.

We cannot identify any analytical justification for the reappropriation of the state's share of excess federal overhead receipts to UC. To do so merely provides windfall revenue to UC and serves as an incentive for UC to underestimate federal overhead income. Accordingly, we recommend that the Legislature adopt the following Budget Bill language, comparable to the 1988 Budget Act, in Item 6440-490:

The University of California shall return to the State Controller state general funds appropriated in the Budget Act of 1988 in an amount equal to the General Fund portion of federal contract and grant overhead funds in excess of the 1988-89 budgeted amount.

**D. REVENUE BOND PAYMENTS (Items 6440-003-001 and 6440-491)**

**Clarification on Estimated Payments Needed**

*We recommend that during budget hearings, the Department of Finance report on why its estimates of UC revenue bond payments for the current and budget years differ from those of the State Treasurer's Office.*

The budget requests \$4.4 million in the current year and \$15 million in the budget year from the General Fund for debt service payments required for capital construction projects and equipment lease purchase agreements at several UC campuses. These projects and equipment were approved by the Legislature in prior Budget Acts for financing by lease-purchase revenue bonds.

The State Treasurer's Office, however, estimates that \$4.7 million is needed in the current year and \$29.8 million in the budget year. We recommend that during budget hearings the Department of Finance explain why its estimates for these payments differ from the State Treasurer's Office.

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**HASTINGS COLLEGE OF THE LAW**

Item 6600 from the General  
Fund and various other funds

Budget p. E 92

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Requested 1989-90 .....	\$20,141,000
Estimated 1988-89 .....	19,848,000
Actual 1987-88 .....	18,150,000
Requested increase (including amount for salary increases) \$293,000 (+1.5 percent)	
Total recommended reduction .....	222,000

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**HASTINGS COLLEGE OF THE LAW—Continued**  
**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
6600-001-814—Lottery revenue	General	\$12,191,000
6600-006-001—Financial aid	Lottery	217,000
6600-011-001—Compensation	General	516,000
6600-490—Reappropriation	General	404,000
Subtotal, Budget Bill items		(\$13,328,000)
Non-Budget Bill Funding		
Expenditures from other fund sources		\$6,813,000
Grand total		\$20,141,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**
*Analysis  
page*

1. *Technical Adjustment. Reduce Item 6600-001-001 by \$222,000.* Recommend reduction of \$222,000 from the General Fund to reflect the full annualized savings in the state contribution to the University of California Retirement System (UCRS) that result from the June 1988 actuarial valuation of the system. 825

**GENERAL PROGRAM STATEMENT**

Hastings College of the Law was founded in 1878. It is designated by statute as a law school of the University of California, although it is governed by its own board of directors. In accordance with legislative direction approved in 1987, Hastings had planned to enroll 1,200 students by 1989-90, down from a high point of 1,500 students in 1985-86. This plan was adopted to improve the student/faculty ratio at Hastings. However, due to an unanticipated increase in the number of students who accepted Hastings' offer of admission, enrollment in 1989-90 is estimated to be 1,300.

**OVERVIEW OF THE BUDGET REQUEST**

*Total Expenditures.* The budget proposes total expenditures (including salary increases) of \$20.1 million in 1989-90. This is \$293,000 (1.5 percent) above estimated current-year expenditures.

**Table 1**  
**Hastings College of the Law**  
**Expenditures and Funding**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
<i>Budgeted Programs</i>					
Instruction.....	\$6,379	\$7,106	\$7,423	\$317	4.5%
Public services.....	105	179	179	—	—
Law libra.....	1,582	1,653	1,605	-48	-2.9
Student services.....	2,155	1,800	1,934	134	7.4
Institutional support.....	3,156	3,092	3,092	—	—
Operation and maintenance.....	1,482	2,022	1,434	-588	-29.1
Provisions for allocation.....	—	—	478	478	— <sup>a</sup>
Subtotals, budgeted programs.....	(\$14,859)	(\$15,852)	(\$16,145)	(\$293)	(1.8%)
Extramural Programs.....	\$3,291	\$3,996	\$3,996	—	—
Grand totals.....	\$18,150	\$19,848	\$20,141	\$293	1.5%



## Funding Sources

*Budgeted Programs:*

<i>General Fund</i> .....	\$11,772	\$12,276	\$13,111	\$835	6.8%
<i>Hastings' general funds</i> .....	2,588	2,771	2,817	46	1.7
<i>Lottery Education Fund</i> .....	209	217	217	—	—
<i>Federal funds</i> .....	290	—	—	—	—
<i>1988 Bond Fund</i> .....	—	588	—	-588	-100.0
<i>Extramural Programs:</i>					
<i>Federal funds</i> .....	—	295	295	—	—
<i>Private Gifts, Contracts, and Grants</i> .....	344	310	310	—	—
<i>Other Hastings' funds</i> .....	2,947	3,391	3,391	—	—
<i>Personnel-years</i> .....	218.7	211.7	211.7	—	—

<sup>a</sup> Not a meaningful figure.

Table 1 provides a budget summary by program for the prior, current, and budget years. As the table shows, the budget has two components: (1) budgeted programs, and (2) extramural programs. No state appropriations are provided for extramural programs.

**General Fund Support for Budgeted Programs.** Table 1 shows that the budget proposes to expend \$13.1 million from the General Fund for support of Hastings in 1989-90, a net increase of \$835,000 (6.8 percent) above 1988-89. This increase includes \$404,000 associated with the cost of 1989-90 salary and benefit increases.

Table 2 identifies the specific factors accounting for the net \$835,000 increase in General Fund support for 1989-90.

**Table 2**  
**Hastings College of the Law**  
**Proposed 1989-90 General Fund Budget Changes**  
**(dollars in thousands)**

1988-89 Expenditures (Revised) .....	\$12,276
<i>Baseline Adjustments</i>	
Annualization of 1988-89 salary increase .....	\$440
Annualization of 1988-89 benefit increase .....	100
Merit and promotions for faculty .....	74
Reduction for one-time augmentations .....	-137
Resident student fee increase .....	-130
Nonresident student fee increase .....	-50
Subtotal, baseline adjustments .....	(\$297)
<i>Workload Changes</i>	
Disabled student services .....	\$134
<i>Salary and Benefit Increases</i>	
Faculty salary .....	\$125
Staff salary .....	158
Benefits .....	121
Subtotal, salary and benefit increase .....	(\$404)
1989-90 Expenditures (Proposed) .....	\$13,111
Change from 1988-89:	
Amount .....	\$835
Percent .....	6.8%

**HASTINGS COLLEGE OF THE LAW—Continued**  
**ANALYSIS AND RECOMMENDATIONS**

We recommend approval of the proposed General Fund changes shown in Table 2. In addition, we recommend approval of the following Budget Bill items not discussed elsewhere in this analysis:

- *California State Lottery Education Fund (Item 6600-001-814)*—\$217,000 for instructionally related expenditures that supplement Hastings' budget.
- *General Reappropriation (Item 6600-490)*—a provision reappropriating unexpended General Fund balances from Hastings' main support item. Expenditure of the reappropriated funds is limited to instructional equipment, deferred maintenance and special repairs. A similar provision was approved by the Legislature in the 1988 Budget Act.

**A. FACULTY AND STAFF SALARY PROPOSALS (Item 6600-011-001)**

*We recommend approval.*

The budget proposes an expenditure of \$404,000 to increase Hastings' compensation in 1989-90. Of this amount, \$121,000 is for benefits, while the balance of \$283,000 would be used to provide the following salary increases, effective January 1, 1990: 4.7 percent for faculty, 4 percent for staff, and an additional 1 percent for "special salary and other adjustments" for staff employees.

The Legislature has traditionally granted Hastings' faculty the same change in salary as that granted to faculty at the University of California (UC). In our analysis of the UC faculty salary request (see Item 6440), we note that a full year faculty salary increase of 4.7 percent would be needed in 1989-90 for UC to achieve parity with its comparison group. As mentioned, however, the budget proposes a January 1990 increase of 4.7 percent. This, in effect, would delay the achievement of parity by six months. Because of the state's fiscal situation, however, the provision of full-year salary parity in 1989-90 does not appear to be feasible.

**B. TUITION AND FEES (Item 6600-006-001)**

As shown in Table 3, the budget requests: (1) an increase of \$167 (nearly 12 percent) in the resident student fees, and (2) an increase of \$1,293 (29 percent) in nonresident tuition. The proposed levels for 1989-90 are equal to those proposed for the University of California.

**Table 3**  
**Hastings College of the Law**  
**Student Charges**  
**1987-88 through 1989-90**

Charges	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
Resident fee .....	\$1,282	\$1,410	\$1,577	\$167	11.8%
Nonresident tuition .....	4,290	4,506	5,799	1,293	28.7

**1. Resident Student Fees**

According to the methodology contained in the statutory fee policy enacted by Ch 1523/85, Hastings' resident student fees should increase by 10 percent in 1989-90. As mentioned, however, the budget proposes an

increase of nearly 12 percent. This increase will bring Hastings' resident student fees to the same level as that proposed for UC. The policy of setting Hastings' resident student fees equal to UC's fees is consistent with the recommendations of the California Postsecondary Education Commission's Chapter 1523 Sunset Review Committee.

## **2. Nonresident Tuition**

Hastings' proposed 1989-90 nonresident tuition charge is equal in amount to UC's. However, Hastings did not follow UC's increase in nonresident tuition in the current year, consequently, the proposed increase for Hastings is 29 percent, rather than the 17 percent increase proposed for UC.

We also noted that Resolution Ch 162/88 (SCR 69, Morgan) directs the California Postsecondary Education Commission (CPEC) to submit, by July 1, 1989, recommendations on a nonresident student tuition policy for the state's public universities. Because of the large increases in nonresident tuitions proposed for the public universities, CPEC staff has agreed to expedite the study in an endeavor to submit the recommendations during the budget hearings.

## **C. TECHNICAL RECOMMENDATIONS**

### ***Budget Does Not Reflect Retirement Savings***

*We recommend a reduction of \$222,000 from the General Fund to reflect the full annualized savings in the state contribution to the University of California Retirement System (UCRS) that result from the June 1988 actuarial valuation of the system. (Reduce Item 6600-001-001 by \$222,000.)*

*State Retirement Contribution Overbudgeted.* Hastings' employees are members of the University of California Retirement System (UCRS). The state provides the employer contribution to the UCRS fund by allocating necessary funds to Hastings. Hastings in turn provides the contribution to the UC Regents, who contribute them to UCRS. Hastings employees also contribute a portion of their salaries to the fund.

In November 1988, the UC Regents adopted changes in the actuarial assumptions for UCRS, effective on January 1, 1989, that result in a reduction of the state contribution rate from 8.59 percent of the salary base to 5.92 percent. Based on Hastings' salary base, the annual UCRS cost to the state should be reduced by \$222,000. This reduced state cost, however, is not reflected in the 1989-90 budget. Consequently, we recommend that Hastings' main support item be reduced by \$222,000 to reflect this change.

(Earlier in this analysis, we make a similar recommendation with regard to UCRS overbudgeting within the UC budget request.)

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**CALIFORNIA STATE UNIVERSITY**

Item 6610 from the General  
Fund and various funds

Budget p. E 98

Requested 1989-90 .....	\$2,554,338,000
Estimated 1988-89 .....	2,380,544,000
Actual 1987-88 .....	2,245,579,000
Requested increase (including amount for salary increases) \$173,794,000 (+7.3 percent)	
Total recommended reduction .....	6,276,000

**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
6610-001-001—Support	General	\$1,563,431,000
6610-002-001—Support	General	969,000
6610-003-001—Support	General	2,509,000
6610-006-001—Support	General	350,000
6610-010-001—Support	General	359,787,000
6610-021-001—Support	General	3,965,000
6610-031-001—Support	General	50,354,000
6610-001-814—Support	Lottery Education	42,004,000
6610-490—Reappropriation	General	—
6610-001-785—Support	Capital Outlay Bond	5,000,000
6610-001-890	Federal Trust	82,864,000
Subtotal, Budget Bill Items		(\$2,111,233,000)
Non-Budget Bill Funding		
Reimbursements		\$32,459,000
Transfer to CSU Lottery Education Fund		—3,404,000
Expenditures from other fund sources		414,050,000
Subtotal, Non-Budget Bill Funding		(\$443,105,000)
Total		\$2,554,338,000

*Analysis  
page*

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

1. **Instructional Administration. Reduce Item 6610-001-001 by \$331,000.** Recommend elimination of three instructional dean positions, and related clerical support, because they are not justified on a workload basis and are not used as intended by the Legislature. 836
2. **San Marcos Campus.** We make no recommendation on the \$521,000 requested from the General Fund for 14 new positions for the proposed campus at San Marcos because we have no analytical basis for determining the appropriate time to establish the new campus's initial cadre of administration. 837
3. **Expendable Items. Reduce Item 6610-001-001 by \$122,000.** Recommend reducing the amount proposed for an initial complement of expendable items (supplies for new and remodeled buildings) because, due to construction delays, these funds will not be required in the budget year. 841

- 4. **Travel Expenses. Reduce Item 6610-001-001 by \$300,000.** 842  
Recommend reducing the amount proposed for travel expenses to reflect estimated savings from CSU's participation in the state's discount airfare contract program.
- 5. **Utilities. Reduce Item 6610-001-001 by \$523,000.** 843  
Recommend reducing the amount proposed for utilities to correct an overbudgeting error (\$116,000) and eliminate a contingency factor (\$407,000).
- 6. **Asbestos Abatement. Delete Item 6610-001-785 (\$5 million).** 843  
Recommend deleting all funds (\$5 million) requested from the 1988 Higher Education Capital Outlay Bond Fund for asbestos abatement, based on recommendations for state asbestos abatement programs contained in our *Perspectives and Issues*.
- 7. **Reappropriation.** 844  
Recommend amending the proposed Budget Bill language in Item 6610-490 to provide that funds reappropriated from 1988-89 unexpended balances be allocated only for special repair projects and deferred maintenance, in order to address critical repairs.

**Overview of Legislative Analyst's Recommendations**

We recommend reductions to the CSU's General Fund support budget totaling \$1,276,000. We also recommend deleting the \$5 million requested from the 1988 Higher Education Capital Outlay Bond Fund for asbestos abatement. Table 1 summarizes the fiscal impact of these recommendations.

**Table 1  
Summary of Changes to the CSU's 1989-90 Budget  
Recommended by the Legislative Analyst**

<i>Program</i>	<i>Program Changes</i>	<i>General Fund</i>	<i>Capital Outlay Bond Fund</i>
Instructional administration.....	-\$331,000	-\$331,000	
Expendable items for new buildings .....	-122,000	-122,000	
Travel expenses .....	-300,000	-300,000	
Utilities .....	-523,000	-523,000	
Asbestos abatement .....	-5,000,000		-\$5,000,000
Totals.....	-\$6,276,000	-\$1,276,000	-\$5,000,000

**GENERAL PROGRAM STATEMENT**

The California State University (CSU) system is composed of 19 campuses which provide instruction in the liberal arts and sciences as well as in applied fields which require more than two years of college education. In addition, CSU may award the doctoral degree jointly with the University of California or a private university.

**Governance.** The CSU system is governed by a 24-member Board of Trustees. The trustees appoint the Chancellor who, as the chief executive officer, assists the trustees in making policy decisions and provides for the administration of the system.

**Admission.** To be admitted to the CSU as a freshman, a student generally must graduate in the highest academic third of his or her high school class. An exemption, however, permits admission of certain students who do not meet this requirement, provided the number of such

**CALIFORNIA STATE UNIVERSITY—Continued**

students does not exceed 8 percent of the previous year's undergraduate admissions.

Transfer students may be admitted from other four-year institutions or from community colleges if they have maintained at least a 2.0 grade point or "C" average in prior academic work. To be admitted to upper division standing, the student must also have completed 56 transferable semester units of college courses. To be admitted to a CSU graduate program, the minimum requirement is a bachelor's degree from an accredited four-year institution.

The system has an estimated 267,771 full-time equivalent (FTE) students and 34,554.9 personnel-years in 1988-89.

**OVERVIEW OF THE BUDGET REQUEST**

**Total Expenditures.** The budget proposes General Fund expenditures of \$2 billion for support of the CSU system in 1989-90. This is an increase of \$157 million, or 8.6 percent, over estimated current-year General Fund expenditures. We note that the proposed General Fund expenditures include \$359.8 million in revenues, primarily from student fees. The budget projects that these appropriated fee revenues will increase by \$32.7 million in 1989-90. Consequently, fees fund 21 percent of the proposed General Fund increase of \$157 million.

Table 2 provides a budget summary for the CSU system, by program, for the prior, current, and budget years.

**Table 2**  
**The California State University**  
**Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

Programs	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
Instruction.....	\$1,046,368	\$1,128,978	\$1,191,254	\$62,276	5.5%
Public service .....	1,185	1,191	1,251	60	5.0
Academic support.....	186,576	194,393	201,670	7,277	3.7
Student services.....	222,106	237,521	253,975	16,454	6.9
Institutional support .....	434,234	453,150	467,732	14,582	3.2
Independent operations.....	62,869	74,147	69,890	-4,257	-5.7
Auxiliary organizations.....	292,241	303,931	316,088	12,157	4.0
Provisions for allocation.....	—	-12,767	2,124	14,891	— <sup>a</sup>
Unallocated salary increase.....	—	—	50,354	50,354	— <sup>a</sup>
Totals, expenditures .....	\$2,245,579	\$2,380,544	\$2,554,338	\$173,794	7.3%
Funding Sources					
General Fund .....	\$1,714,997	\$1,824,357	\$1,981,365	\$157,008	8.6%
Reimbursements.....	54,388	33,604	32,459	-1,145	-3.4
Higher Education Earthquake Account .....	-522	522	—	-522	-100.0
Continuing Education Revenue Fund.....	46,642	45,383	48,752	3,369	7.4
Dormitory Revenue Fund (Housing).....	28,786	32,236	36,956	4,720	14.6
Dormitory Revenue Fund (Parking).....	10,794	11,324	12,240	916	8.1
Higher Education Capital Outlay Bond Fund .....	—	10,600	5,000	-5,600	-52.8
Lottery Education Fund .....	20,342	38,600	38,600	—	—
Federal Trust Fund .....	77,911	79,974	82,864	2,890	3.6
Special Projects Fund.....	—	13	14	1	7.7

*Auxiliary organizations*

<i>Federal</i> .....	49,389	51,364	53,419	2,055	4.0
<i>Other</i> .....	242,852	252,567	262,669	10,102	4.0
Personnel-years.....	34,504.9	34,554.9	35,184.3	629.4	1.8%

<sup>a</sup> Not a meaningful figure.

**Expenditures by Source of Funding**

The CSU budget is divided into nine major programs, which are shown in Table 3 by funding source. In the analysis that follows, we discuss the budget proposal for (1) the four programs—Instruction, Academic Support, Student Services, and Institutional Support—that are supported with state funds, (2) provisions for allocation (used for expenditures, such as the lottery, that cannot be allocated to a program), and (3) employee compensation. The other three program elements—Public Service, Independent Operations, and Auxiliary Organizations—are not supported with state funds, and are not discussed in this analysis.

**General Fund Budget Changes Proposed for 1989-90**

As detailed in Table 4, the budget for CSU in 1989-90 reflects several offsetting increases and decreases. The table shows that:

- *Baseline adjustments* result in a net increase of \$69.7 million. These include various adjustments in personnel costs and reductions for nonrecurring expenditures.
- *Workload changes*, which include enrollment-related adjustments, result in an increase of \$35 million.
- *Program changes* result in an increase of \$1.7 million. (Each of these augmentations is discussed later in this analysis.)
- *Unallocated salary and benefit increases*, also discussed later in this analysis, total \$50.4 million.

**Table 3**  
**The California State University**  
**Expenditures by Subprogram and Funding Source**  
**1989-90**  
 (dollars in thousands)

	<i>General Fund</i>			<i>Other State Funds</i>			<i>Special Funds</i>				<i>Grand Totals</i>	
	<i>Net</i>	<i>Reimburse-ments</i>	<i>Totals</i>	<i>HECO Bond Fund</i>	<i>Special Projects</i>	<i>Lottery Education</i>	<i>Continuing Education</i>	<i>Dormitory</i>	<i>Parking</i>	<i>Federal Trust</i>		<i>Foundations and Auxiliary Organizations</i>
<b>1. Instruction</b>												
Regular instruction.....	\$1,160,323	\$2,000	\$1,162,323	—	—	—	—	—	—	—	—	\$1,162,323
Special session instruction.....	—	—	—	—	—	—	\$16,547	—	—	—	—	16,547
Extension instruction.....	—	—	—	—	—	—	12,384	—	—	—	—	12,384
Subtotals, Instruction.....	(\$1,160,323)	(\$2,000)	(\$1,162,323)	—	—	—	(\$28,931)	—	—	—	—	(\$1,191,254)
<b>2. Public Service</b>												
Campus community service.....	—	\$1,251	\$1,251	—	—	—	—	—	—	—	—	\$1,251
<b>3. Academic Support</b>												
Libraries.....	\$95,489	—	\$95,489	—	—	—	\$66	—	—	—	—	\$95,555
Audio-Visual services.....	19,669	—	19,669	—	—	—	130	—	—	—	—	19,799
Computing support.....	57,966	—	57,966	—	—	—	158	—	—	—	—	58,124
Ancillary support.....	28,192	—	28,192	—	—	—	—	—	—	—	—	28,192
Subtotals, Academic Support.....	(\$201,316)	—	(\$201,316)	—	—	—	(\$354)	—	—	—	—	(\$201,670)
<b>4. Student Services</b>												
Social and cultural development.....	\$7,440	—	\$7,440	—	—	—	\$9	—	—	—	—	\$7,449
Supplementary educational services—EOP.....	25,615	—	25,615	—	—	—	—	—	—	—	—	25,615
Counseling and career guidance.....	32,296	—	32,296	—	—	—	—	—	—	—	—	32,296
Financial aid.....	39,389	\$10,287	49,676	—	—	—	—	—	\$82,864	—	—	132,540
Student support.....	47,683	—	47,683	—	—	—	4	\$8,388	—	—	—	56,075
Subtotals, Student Services.....	(\$152,423)	(\$10,287)	(\$162,710)	—	—	—	(\$13)	(\$8,388)	—	(\$82,864)	—	(\$253,975)



5. Institutional Support												
Executive management...	\$36,605	—	\$36,605	—	—	—	\$13,018	—	—	—	—	\$49,623
Financial operations.....	36,971	—	36,971	—	—	—	1,420	\$1,756	\$1,036	—	—	41,183
General administrative services.....	85,797	—	85,797	—	—	—	633	—	—	—	—	86,430
Logistical services.....	70,186	\$933	71,119	—	—	—	2,368	5,024	6,586	—	—	85,097
Physical plant operation..	167,013	—	167,013	\$5,000	\$14	—	44	21,678	2,438	—	—	196,187
Faculty and staff services .	349	—	349	—	—	—	—	—	—	—	—	349
Community relations.....	6,963	—	6,963	—	—	—	1,900	—	—	—	—	8,863
Subtotals, Institutional Support .....	(\$403,884)	(\$933)	(\$404,817)	(\$5,000)	(\$14)	—	(\$19,383)	(\$28,458)	(\$10,060)	—	—	(\$467,732)
6. Independent Operations .	\$49,766	\$17,988	\$67,754	—	—	—	—	—	\$2,136	—	—	\$69,890
7. Auxiliary Organizations ..	—	—	—	—	—	—	—	—	—	—	\$316,088	\$316,088
8. Provisions for Allocation .	—\$36,701	—	—\$36,701	—	—	\$38,600	\$71	\$110	\$44	—	—	\$2,124
9. Employee Compensation .	<u>\$50,354</u>	<u>—</u>	<u>\$50,354</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$50,354</u>
Totals, Support Budget Expenditures .....	\$1,981,365	\$32,459	\$2,013,824	\$5,000	\$14	\$38,600	\$48,752	\$36,956	\$12,240	\$82,864	\$316,088	\$2,554,338

**CALIFORNIA STATE UNIVERSITY—Continued****Table 4****The California State University  
Proposed 1989-90 General Fund Budget Changes  
(dollars in thousands)**

1988-89 Expenditures (Revised) .....	\$1,824,357
<i>Baseline Adjustments</i>	
Merit salary adjustments .....	\$11,737
Restoration of 1988-89 reduction .....	5,106
Salary annualization .....	67,315
Positions—full-year funding .....	4,516
Faculty promotions .....	1,432
Retirement .....	-9
Dental .....	439
Unemployment compensation .....	-500
Workers' compensation .....	250
Industrial disability leaves .....	250
Impact of legislation .....	449
Nonrecurring items .....	-13,966
Miscellaneous baseline reductions .....	-7,306
Subtotal, baseline adjustments .....	(\$69,713)
<i>Workload Changes</i>	
Enrollment adjustment .....	\$21,364
Special cost factors	
Instruction .....	1,054
Public service .....	60
Academic support .....	825
Student services .....	5,636
Institutional support .....	8,566
Independent operations .....	-4,471
Reimbursements .....	1,145
Systemwide offices .....	-64
Systemwide provisions .....	851
Subtotal, workload changes .....	(\$34,966)
<i>Program Changes</i>	
Child care .....	\$730
San Marcos campus .....	521
Disabled students services .....	489
Subtotal, program changes .....	(\$1,740)
<i>Salary and Benefit Increases</i>	
Faculty salary .....	\$22,075
Staff salary .....	15,460
Benefits .....	12,819
Subtotal, salary and benefit increases .....	(\$50,354)
<i>Capital Outlay Revenue Bonds</i>	
Lease payments on revenue bonds .....	\$235
1989-90 Expenditures (Proposed) .....	\$1,981,365
Change from 1988-89:	
Amount .....	\$157,008
Percent .....	8.6%

**ANALYSIS AND RECOMMENDATIONS**

We recommend approval of all baseline and workload adjustments and the following program change proposals:

- **Child Care**—\$730,000 to augment funds allocated for campus child care services. The need for these services is documented in an independent study completed in 1988.
- **Disabled Student Services**—\$489,000 to provide additional services for learning disabled students. These students require additional diagnostic services, due to the nature of their disability.

The remaining program change proposal—pertaining to the proposed new campus at San Marcos—is discussed elsewhere in this analysis.

In addition, we recommend approval of the following Budget Bill items which are not discussed elsewhere in this analysis:

- **Fellows Program (Item 6610-002-001)**—\$969,000 for the Senate, Assembly, and Executive Fellows Programs, which are administered by CSU Sacramento. This is an increase of \$133,000 over the amount appropriated in the current year. The increase will be used to augment stipends for program participants and to pay for increases in the costs of fee waivers and program administration.
- **Revenue Bond Payments (Item 6610-003-001)**—\$2.5 million from the General Fund for debt service payments required for lease-purchase revenue bonds for capital construction projects at several CSU campuses. These projects were approved by the Legislature in prior budget acts.
- **Student Housing (Item 6610-006-001)**—\$350,000 from the General Fund to be transferred to the Affordable Student Housing Revolving Fund in 1989-90, the same amount appropriated in the current year. These funds are used to subsidize interest costs in connection with bond financing for construction of affordable student housing at the CSU Fullerton and Hayward campuses. Our analysis indicates that the amount proposed is consistent with the Legislature's intent in establishing the subsidy.
- **Appropriated Revenue (Item 6610-010-001)**—\$359.8 million in revenues—primarily from student fees—for support of CSU in 1989-90. Our analysis indicates that the estimated level of revenues is consistent with the proposed enrollment and level of student fees in the budget year.
- **Special Repairs and Deferred Maintenance (Item 6610-021-001)**—\$4 million from the General Fund for special repairs and deferred maintenance in 1989-90. These funds are needed for CSU's ongoing special repair requirements. We discuss this in greater detail in the analysis that follows.
- **Federal Funds (Item 6610-001-890)**—\$82.9 million from the Federal Trust Fund for support of CSU. This is an increase of \$2.9 million, or 3.6 percent, over estimated current-year expenditures. Our analysis indicates that the proposed use of these funds for financial aid is justified.

**CALIFORNIA STATE UNIVERSITY—Continued****I. INSTRUCTION**

The CSU Instruction program includes all major instructional programs in which students earn academic credit towards a degree. The program consists of three elements: regular instruction, special session instruction, and extension instruction.

Table 5 shows expenditures for instruction in the prior, current, and budget years. The table indicates that the budget proposes an increase of \$95.8 million, or 9 percent, in General Fund expenditures for instruction in 1989-90. This is due primarily to salary annualization costs and a projected enrollment increase.

**Table 5**  
**The California State University**  
**Instruction Program Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

Program	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
Regular instruction.....	\$1,019,068	\$1,101,260	\$1,162,323	\$61,063	5.5%
Special session instruction .....	15,139	16,993	16,547	-446	-2.6
Extension instruction.....	12,161	10,725	12,384	1,659	15.5
Totals, expenditures .....	\$1,046,368	\$1,128,978	\$1,191,254	\$62,276	5.5%
Funding Sources					
General Fund .....	\$999,654	\$1,064,484	\$1,160,323	\$95,839	9.0%
Continuing Education Revenue Fund.....	27,300	27,718	28,931	1,213	4.3
Lottery Fund .....	17,606	34,776	— <sup>a</sup>	-34,776	-100.0
Reimbursements.....	1,808	2,000	2,000	—	—
Personnel:					
Regular instruction .....	19,371.1	19,633.6	20,161.7	528.1	2.7%
Extension and special session.....	263.8	351.3	349.2	-2.1	-0.6
Totals, personnel-years .....	19,634.9	19,984.9	20,510.9	526.0	2.6%

<sup>a</sup> Lottery expenditures in 1989-90 are shown as an unallocated expenditure in a separate program. We estimate that lottery expenditures in the Instruction program in 1989-90 will be approximately the same as in the current year.

**A. ENROLLMENT**

Enrollment in the CSU is measured in terms of full-time equivalent (FTE) students. One FTE equals enrollment in 15 course units. Thus, one FTE could represent one student enrolled in 15 course units or any other student/course combination, the product of which equals 15 course units.

The budget proposes enrollment of 267,380 FTE students in 1989-90, an increase of 6,331 FTE (2.4 percent) over the budgeted level for 1988-89, and a decrease of 391 FTE (0.1 percent) from the latest estimate for the current year. We note that many of the CSU campuses exceeded their budget targets in the current year. In order to prevent this from occurring again in the budget year, some of these campuses may have to adopt a more active mode of enrollment management.

As Table 6 shows, the latest estimate of CSU enrollment in the current year (1988-89) is 267,771 FTE students. This estimate is 6,722 FTE (2.6 percent) above the enrollment budgeted for 1988-89, and 9,528 FTE (3.7 percent) above the actual 1987-88 FTE enrollment.

**Table 6**  
**The California State University**  
**Annual Full-Time Equivalent Students**  
**1987-88 through 1989-90**

Campus	1987-88	1988-89		1989-90	Change from Budgeted 1988-89	
	Actual	Budgeted	Revised Estimate	Prop.	Number	Percent
Bakersfield	3,312	3,500	3,602	3,770	270	7.7%
Chico	13,331	13,500	13,917	14,000	500	3.7
Dominguez Hills	5,093	5,855	5,935	6,100	245	4.2
Fresno	14,916	15,400	15,386	15,800	400	2.6
Fullerton	16,811	16,900	17,206	17,600	700	4.1
Hayward	9,749	9,810	9,886	10,000	190	1.9
Humboldt	5,637	5,750	6,254	6,360	610	10.6
Long Beach	24,187	23,600	24,606	23,600	—	—
Los Angeles	15,549	15,847	15,418	15,850	3	0.1
Northridge	20,843	20,900	22,082	21,100	200	1.0
Pomona	15,340	15,500	15,741	15,800	300	1.9
Sacramento	17,945	18,250	18,555	18,550	300	1.6
San Bernardino	6,095	6,700	7,178	7,500	800	11.9
San Diego	26,819	26,066	26,534	26,250	184	0.7
San Francisco	19,141	19,191	20,289	19,700	509	2.7
San Jose	19,470	20,000	20,352	20,500	500	2.5
San Luis Obispo	15,468	15,480	15,699	15,480	—	—
Sonoma	4,592	4,600	4,952	5,100	500	10.9
Stanislaus	3,541	3,750	3,759	3,900	150	4.0
International Program	404	450	420	420	-30	-6.7
Totals	258,243	261,049	267,771	267,380	6,331	2.4%

The 1988 Budget Act authorizes the CSU to seek a supplementary General Fund appropriation if actual enrollment exceeds the budgeted amount by at least 2 percent. The CSU has requested—and the budget proposes—a supplementary 1988-89 appropriation in the amount of \$3.8 million pursuant to this provision.

## B. REGULAR INSTRUCTION

### 1. Lottery Funds (Item 6610-001-814)

*We recommend approval.*

The budget estimates that CSU will spend \$38.6 million in lottery funds in the current year. Table 7 shows how the CSU intends to spend these funds, according to a report submitted to the Legislature in November 1988. The expenditure plan consists of \$31.6 million for program support, \$7 million for an endowment account, and an unexpended "reserve" of \$2 million.

**CALIFORNIA STATE UNIVERSITY—Continued****Table 7****The California State University  
Lottery Fund Expenditure Plan  
1988-89****(dollars in thousands)**

<i>Programs</i>	<i>Amount</i>
Master teacher stipends & scholarships.....	\$1,200
Instructional development and technology.....	700
Instructional equipment replacement.....	7,200
Instructional equipment.....	2,500
Computer workstations—student access.....	2,063
Engineering and Computer Science Enhancement Program.....	1,100
Forgivable Loan Program for Minorities and Women.....	1,000
Student internships—community service and outreach.....	1,312
Visiting scholars and artists.....	2,100
Fine arts initiatives.....	1,300
Educational equity (retention programs).....	2,600
Closure costs of 1987-88 programs.....	275
Campus/Chancellor's Office discretionary funds.....	7,025
Administration.....	1,200
Subtotal, program support.....	(\$31,575)
Other:	
Endowment account.....	\$7,025
Reserve.....	2,000
Subtotal, other.....	(\$9,025)
Totals.....	\$40,600
Funding:	
1988-89 revenue.....	\$27,000
Interest income.....	1,000
Carry-over from 1987-88.....	12,600

Funds allocated to the endowment will be retained in a special account for investment, from which the interest earnings will be expended for purposes determined by the CSU campuses, according to guidelines adopted by the CSU Trustees. The CSU estimates that the accumulated principal in the endowment account will amount to \$17.8 million on June 30, 1989.

The Trustees have not adopted a plan for the expenditure of endowment funds. We note, however, that these lottery revenues could be used in the budget year—pursuant to action taken by the Trustees—to augment CSU's instructional program.

The budget proposes that CSU spend \$38.6 million in lottery funds in 1989-90; shown as an unallocated expenditure. The budget also proposes language to appropriate any additional funds that CSU receives pursuant to the lottery. The Trustees will determine the manner in which these funds will be expended. Because this procedure is in accordance with current state policy, we recommend approval of this item.

**2. Administrative Positions Not Used As Intended**

*We recommend elimination of three instructional dean positions, and related clerical support, because they are not justified on a workload basis and are not used as intended by the Legislature, for a General Fund savings of \$331,000. (Reduce Item 6610-001-001 by \$331,000.)*

Five CSU campuses—Fresno, Sacramento, San Diego, San Francisco, and San Jose—receive state funds specifically to support a dean for Masters of Social Work (MSW) programs. In the *Analysis of the 1986-87 Budget Bill*, we recommended—as part of a comprehensive proposal on all instructional dean positions at the CSU—elimination of the five positions allocated for MSW programs. Our recommendation (calling for the elimination of a total of 20.3 instructional dean positions) was rejected by the Conference Committee on the Budget Bill.

We based our recommendation to delete the MSW deans primarily on the argument that the scope of the programs (in terms of enrollment and number of faculty) did not justify the allocation of a dean position as the chief administrator. We continue to believe that the scope of the MSW programs does not justify the allocation of a dean position. Because of the action of the Legislature on the 1986-87 budget, however, we directed our follow-up review toward the question of whether the positions are being used as intended.

We found that three of the five campuses—Fresno, Sacramento, and San Diego—are not using the dean position to administer the MSW program. Instead, the position, in effect, supplements the regular allocation of instructional deans which is available to all CSU campuses. These positions are used to administer the campuses' academic schools and, if a campus has more dean positions than schools, are also used for broader functional specializations such as academic planning. Because the regular allocation of deans at Fresno, Sacramento, and San Diego (ten at each campus, excluding the MSW dean) exceeds the number of schools (ranging from five to eight), elimination of the position intended for the MSW program probably would affect one of the "functional" dean positions. Insofar as the other CSU campuses do not have an additional position (beyond the regular allocation) for this purpose, we conclude that an extra position is not needed.

In summary, our analysis indicates that at three of the CSU campuses the MSW dean position is (1) unnecessary for the administration of campus programs, including the MSW program, and (2) not used as intended by the Legislature. Consequently, we recommend elimination of three instructional dean positions, and related clerical support, for a General Fund savings of \$331,000.

### **3. Positions for New Campus at San Marcos**

*We make no recommendation on the \$521,000 requested from the General Fund for 14 new positions for the proposed campus at San Marcos because we have no analytical basis for determining the appropriate time to establish the new campus's initial cadre of administration.*

**Budget Proposal.** The budget proposes \$521,000 from the General Fund to establish 14 new positions, and related operating expenses, to form the initial cadre of administration for the proposed transition of the San Marcos off-campus center (in north San Diego County) to a full service four-year campus. These positions include the campus president, two vice presidents, two academic deans, and the chief of plant operations. They would be responsible for planning the operation of the new campus. This includes such tasks as academic planning, course scheduling, admissions, and hiring new faculty.

The positions would be phased in during the budget year, from September 1989 through April 1990. Thus, the full-year cost—\$865,000 in

**CALIFORNIA STATE UNIVERSITY—Continued**

1990-91, excluding inflation adjustments or salary increases—would be significantly higher than the budget proposal.

*Background.* Currently, the off-campus center is administered by San Diego State University, and serves only upper-division and graduate students. Enrollment is 800 FTE students, and is projected to increase to 1,000 FTE in the budget year. The center, presently in rented facilities, will be relocated to a permanent state-owned site in fall 1991.

The CSU has proposed to convert the off-campus center to an independent four-year campus, which would admit its initial freshman class in the fall of 1995. Projected enrollment would increase from 2,743 FTE in 1995-96 to 13,374 FTE in 2020-21. The proposal to convert to a four-year campus was approved by the California Postsecondary Education Commission in January 1989, although the commission indicated that the enrollment projections should be considered as preliminary.

*Analysis of the Budget Proposal.* The budget request would result in a relatively long period of time—nearly six years—between the establishment of the initial cadre of administration and the conversion to a new campus. In comparison, the corresponding interval for CSU Bakersfield—the youngest member of the system—was only three years. The Chancellor's Office, however, has stressed that because of the expected rapid growth of the off-campus center, it will be beneficial to begin the process of transferring administrative control from San Diego State University as soon as possible. This would help to limit, for example, problems that might occur in the placement of faculty at the off-campus center who are not subsequently retained by the administration of the new campus.

We recognize that certain benefits will be realized from a long planning period, as proposed in the budget. This would permit a smooth transition, provide an orderly planning process, and facilitate accreditation of the campus. Because of the nature of these benefits, however, we are unable to compare them to the costs that would be incurred in order to determine if the proposal meets the test of cost-effectiveness. In addition, we are unable to determine the relative importance that should be accorded this request as compared with other legislative priorities. Consequently, we make no recommendation.

**II. ACADEMIC SUPPORT**

The Academic Support program is composed of those functions which directly aid and support the CSU's primary program of instruction. The budget identifies four elements in this program: (1) libraries, (2) audiovisual services and television services, (3) computing (EDP) support, and (4) ancillary support.

Table 8 shows expenditures for the Academic Support program in the prior, current, and budget years. The budget proposes an increase of \$9.8 million, or 5.1 percent, in General Fund expenditures for academic support in 1989-90. This is due primarily to baseline and workload adjustments.



**Table 8**  
**The California State University**  
**Academic Support Program Expenditures**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

Programs	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
Libraries.....	\$84,698	\$90,888	\$95,555	\$4,667	5.1%
Audiovisual services.....	18,022	19,481	19,799	318	1.6
Computing support.....	60,023	57,891	58,124	233	0.4
Ancillary support.....	23,833	26,133	28,192	2,059	7.9
Totals, expenditures.....	\$186,576	\$194,393	\$201,670	\$7,277	3.7%
Funding Sources					
General Fund.....	\$184,242	\$191,534	\$201,316	\$9,782	5.1%
Continuing Education Revenue Fund.....	377	235	354	119	50.6
Lottery Fund.....	1,957	2,624	— <sup>a</sup>	-2,624	-100.0
Personnel-Years:					
Libraries.....	1,582.1	1,613.5	1,646.0	32.5	2.0%
Computing support.....	746.3	720.2	742.7	22.5	-0.1
Other.....	858.7	821.5	833.0	11.5	1.4
Totals, personnel-years.....	3,187.1	3,155.2	3,221.7	66.5	2.1%

<sup>a</sup> Lottery expenditures in 1989-90 are shown as an unallocated expenditure in a separate program. We estimate that lottery expenditures in the Academic Support program in 1989-90 will be approximately the same as in the current-year.

## COMPUTING SUPPORT

### Instructional Computing

Pursuant to the *Supplemental Report of the 1984 Budget Act*, the CSU developed a new methodology for determining its needs for computing support. According to this methodology, CSU requires a total of 21,021 computer "workstations" (microcomputers or computer terminals). This represents an increase of 10,050 workstations over the current-year level. As part of a phased approach to fund the additional workstations, CSU requested \$6.4 million to acquire 640 student workstations in 1989-90.

The budget proposes to continue the current-year level of support for instructional computing. This includes funding for ongoing support, but no funds to purchase additional instructional computers.

We note that CSU has used lottery funds in past years as a source of revenue to purchase additional instructional computers. At this time, however, we do not know how the Trustees will use the lottery funds in the budget year.

## III. STUDENT SERVICES

The Student Services program includes social and cultural development, supplementary educational services, counseling and career guidance, financial aid, and student support. Table 9 shows Student Services program expenditures and personnel for the prior, current, and budget years.

The budget proposes an increase of \$12.4 million, or 8.8 percent, in General Fund expenditures for student services in 1989-90. This includes increases in financial aid, services for learning disabled students, and child care services.

**CALIFORNIA STATE UNIVERSITY—Continued**

Table 9

**The California State University  
Student Services Program Expenditures  
1987-88 through 1989-90  
(dollars in thousands)**

Programs	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
Social and cultural development .....	\$8,263	\$7,379	\$7,449	\$70	0.9%
Supplemental services—EOP .....	20,603	23,095	25,615	2,520	10.9
Counseling and career guidance .....	30,962	31,607	32,296	689	2.2
Financial aid .....	120,420	124,856	132,540	7,684	6.2
Student support .....	<u>41,858</u>	<u>50,584</u>	<u>56,075</u>	<u>5,491</u>	<u>10.9</u>
Totals, expenditures .....	\$222,106	\$237,521	\$253,975	\$16,454	6.9%
Funding Sources					
General Fund .....	\$129,051	\$140,057	\$152,423	\$12,366	8.8%
Continuing Education Revenue Fund .....	70	14	13	-1	-7.1
Dormitory Revenue Fund .....	6,257	7,267	8,388	1,121	15.4
Federal Trust Fund .....	76,652	79,974	82,864	2,890	3.6
Reimbursements .....	10,076	10,209	10,287	78	0.8
Personnel-Years:					
Social and cultural development .....	179.0	160.1	154.5	-5.6	-3.5%
Supplemental services—EOP .....	367.1	407.7	428.1	20.4	5.0
Counseling and career guidance .....	698.1	697.3	670.8	-26.5	-3.8
Financial aid .....	427.8	460.9	477.4	16.5	3.6
Student support .....	<u>998.8</u>	<u>1,009.6</u>	<u>1,168.6</u>	<u>69.0</u>	<u>6.3</u>
Totals, personnel-years .....	2,670.8	2,825.6	2,899.4	73.8	2.6%

**TUITION AND FEES**

Table 10 shows the resident student fee levels at CSU for the past and current years, and the proposed fees for the budget year.

Table 10

**The California State University  
Student Fees  
1987-88 through 1989-90**

Fee	Actual 1987-88	Actual 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
State University Fee					
Full-time .....	\$630	\$684	\$750	\$66	9.6%
Part-time .....	366	396	438	42	10.6
Nonresident tuition .....	4,410	4,680	5,670	990	21.2

**1. Resident Student Fees**

The budget proposes an increase in revenues to correspond with a 9.6 percent increase in full-time resident student fees and a 10.6 percent fee increase for part-time students at the CSU in 1989-90. This would increase the State University Fee by \$66 (from \$684 to \$750) for full-time students, and by \$42 (from \$396 to \$438) for part-time students.

According to the methodology contained in the statutory fee policy enacted by Ch 1523/85, CSU's resident student fees should increase by 3.6 percent in 1989-90. The statute, however, permits an increase of up to 10 percent "in the event that state revenues and expenditures are substan-

tially imbalanced due to factors unforeseen by the Governor and Legislature . . ." The budget thus presumes that such an event has occurred.

The budget proposal would increase General Fund revenues in 1989-90 by \$13.6 million beyond the amount that would be generated by a 3.6 percent increase in fees. In order to offset the effect of the increase in fees on students having demonstrated financial need, the budget also proposes to increase the State University Grant program by \$1.6 million beyond the amount that would be associated with a 3.6 percent fee increase.

## **2. Nonresident Tuition**

The budget proposes to increase nonresident tuition by 21 percent in 1989-90. Using a methodology based on the average cost of instruction and academic support, the CSU Trustees proposed a 5.8 percent increase. The budget proposal would generate an estimated \$4 million in revenues beyond the amount that would result from the Trustees' request.

We note that Resolution Ch 162/88 (SCR 69, Morgan) directs the California Postsecondary Education Commission (CPEC) to submit, by July 1, 1989, recommendations on a nonresident student fee policy for the state's public universities. Because of the large increases in nonresident fees proposed for the public universities, CPEC staff has agreed to expedite the study in an endeavor to submit the recommendations during the budget hearings.

## **IV. INSTITUTIONAL SUPPORT**

The Institutional Support program provides systemwide services to the other programs at CSU. The activities carried out under this program include executive management, financial operations, general administrative services, logistical services, physical plant operations, faculty and staff services, and community relations.

Table 11 shows estimated personnel and expenditures for institutional support in the prior, current, and budget years. The budget proposes an increase of \$15.8 million, or 4.1 percent, in General Fund expenditures for institutional support in 1989-90. This is due to various baseline and workload adjustments.

### **A. THE CHANCELLOR'S OFFICE**

The Chancellor is the chief executive officer of the CSU Board of Trustees and is responsible for the implementation of all policies enacted by the board. The budget proposes \$39.1 million for the office in 1989-90, a decrease of \$1.8 million, or 4.5 percent, from estimated current-year expenditures. This decrease is due to a reduction in the level of reimbursed activities (interagency agreements).

### **B. SYSTEMWIDE OPERATIONS**

#### **1. Budget Proposal for "Expendable Items" Is Premature**

*We recommend that the budget proposal for an initial complement of expendable items (supplies for new and remodeled buildings) be reduced by \$122,000 because, due to construction delays, these funds will not be required in the budget year. (Reduce Item 6610-001-001 by \$122,000.)*

**CALIFORNIA STATE UNIVERSITY—Continued**

**Table 11**  
**The California State University**  
**Institutional Support Program Expenditures**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

Programs	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
Executive management.....	\$45,871	\$47,523	\$49,623	\$2,100	4.4%
Financial operations.....	39,688	39,930	41,183	1,253	3.1
General administrative services.....	70,890	80,176	86,430	6,254	7.8
Logistical services.....	79,651	77,246	85,097	7,851	10.2
Physical plant operations.....	177,444	199,309	196,187	-3,122	-1.6
Faculty and staff services.....	10,497	349	349	—	—
Community relations.....	10,193	8,617	8,863	246	2.9
Totals, expenditures.....	\$434,234	\$453,150	\$467,732	\$14,582	3.2%
<b>Funding Sources</b>					
General Fund.....	\$383,937	\$388,090	\$403,884	\$15,794	4.1%
Higher Education Earthquake Account.....	(522)	522	—	-522	-100.0
Lottery Fund.....	779	1,200	— <sup>a</sup>	-1,200	-100.0
Continuing Education Revenue Fund.....	17,684	17,405	19,383	1,978	11.4
Dormitory Revenue Fund.....	21,785	24,922	28,458	3,536	14.2
Parking Account, Dormitory Fund.....	9,002	9,370	10,060	690	7.4
Special Projects Fund.....	—	13	14	1	7.7
Capital Outlay Bond Fund.....	—	10,600	5,000	-5,600	-52.8
Reimbursements.....	1,569	1,028	933	-95	-9.2
<b>Personnel-Years:</b>					
Executive management.....	764.5	756.5	782.3	25.8	3.4%
Financial operations.....	938.8	962.2	940.8	-21.4	-2.2
General administrative services.....	1,628.9	1,787.6	1,831.0	43.4	2.4
Logistical services.....	1,253.4	1,175.2	1,202.3	27.1	2.3
Physical plant operations.....	3,169.6	3,568.2	3,529.4	-38.8	-1.1
Community relations.....	157.3	101.7	103.4	1.7	1.7
Totals, Personnel-years.....	7,912.5	8,351.4	8,389.2	37.8	0.5%

<sup>a</sup> Lottery expenditures in 1989-90 are shown as an unallocated expenditure in a separate program. We estimate that lottery expenditures in the Institutional Support program in 1989-90 will be approximately the same as in the current year.

The budget proposes \$811,000 from the General Fund to provide an initial complement of expendable items (laboratory supplies, for example) needed for new or remodeled buildings. This includes \$122,000 for a new building at the Los Angeles campus. Because of delays in construction, however, the expendable items for this building will not be required until 1990-91. Consequently, we recommend that the budget request be reduced by \$122,000, for a corresponding General Fund savings.

## 2. Savings From Discount Airfares

*We recommend that the budget proposal for travel expenses be reduced by \$300,000 to reflect estimated savings in 1989-90 from CSU's participation in the state's discount airfare contract program. (Reduce Item 6610-001-001 by \$300,000.)*

The budget proposes \$7 million from the General Fund for travel expenses for the CSU system in 1989-90. This continues the current-year

baseline level of spending, reflecting the Governor's decision not to propose inflation adjustments to operating expenses in the budget year.

Currently, the CSU system does not participate in the state's discount airfare program. The Chancellor's Office, however, indicates that CSU intends to join the program, and estimates that the resulting savings will be from \$200,000 to \$400,000 in the budget year. Because the budget does not reflect these anticipated savings, we recommend that the request for travel expenses be reduced by \$300,000—the midpoint of the estimate.

### **3. Overbudgeting for Utilities**

*We recommend that the budget proposal for utilities be reduced by (1) \$116,000 due to overbudgeting the utility requirements for computers, and (2) \$407,000 due to inadequate justification for a contingency for unfavorable weather, resulting in a total General Fund savings of \$523,000. (Reduce Item 6610-001-001 by \$523,000.)*

The budget proposes \$44.7 million from the General Fund in 1989-90 for utilities (primarily electricity, gas, and oil) at the CSU campuses. This is an increase of \$3.6 million, or 8.7 percent, over the amount budgeted in the current year. The increase is due to workload factors. The budget does not include an allowance for inflation.

The budget proposal is based primarily on an analysis, by the Chancellor's Office, of past-year energy consumption data, adjusted for changes such as new buildings and energy-consuming equipment. Our analysis, however, indicates that the budget exceeds the projected amount required (excluding inflation) by \$523,000. This is the result of two factors: (1) an overbudgeting error in the amount proposed for utilities associated with computer energy consumption, and (2) a contingency for weather variation.

**Computer Energy Requirements.** The budget proposal includes \$116,000 for utilities (primarily electricity) associated with (1) new computers requested by the CSU Trustees but not proposed in the Governor's Budget, and (2) new computers that will replace existing ones, adding no additional energy requirements beyond the baseline amount. In order to correct this technical overbudgeting error, we recommend reducing the budget proposal by \$116,000.

**Weather Contingency.** The budget proposal includes \$407,000 as a contingency in case unusually bad weather increases CSU's energy requirements beyond the amount normally required. Our analysis indicates that the contingency is not justified, for the following reasons:

- There is no more basis for predicting that the weather will be unfavorable than there is for predicting that it will be favorable.
- If the amount budgeted for utilities proves to be inadequate, CSU can transfer funds from other areas of its budget where savings have been achieved.
- It is not state policy to allocate funds for contingencies in agency or program budgets. Contingency budgeting is, in effect, an unallocated expenditure, which amounts to setting aside funds for executive, rather than legislative, priorities.

Accordingly, we recommend deletion of the \$407,000 proposed as a weather contingency.

### **4. Asbestos Abatement (Item 6610-001-785)**

*We recommend deleting the \$5 million requested from the 1988 Higher Education Capital Outlay Bond Fund for asbestos abatement,*

**CALIFORNIA STATE UNIVERSITY—Continued**

*based on recommendations for state asbestos abatement programs contained in our Perspectives and Issues. (Delete Item 6610-001-785.)*

The budget requests \$5 million from the 1988 Higher Education Capital Outlay Bond Fund in 1989-90 for asbestos abatement projects at the CSU. In our 1989-90 *Perspectives and Issues* ("State Asbestos Abatement Programs"), however, we recommend that the Legislature fund asbestos abatement projects only when concentrations of airborne asbestos are 0.1 fibers per cubic centimeter or higher. Establishment of such a standard would enable the Legislature to set funding priorities for asbestos abatement in cases of demonstrated health risk. The CSU has not identified any projects which exceed the 0.1 fibers per cubic centimeter standard. Consequently, we recommend that this item be deleted.

**5. Reappropriation of Savings (Item 6610-490)**

*We recommend that the Legislature amend the proposed Budget Bill language in the reappropriation item (6610-490) to provide that funds reappropriated from 1988-89 unexpended balances be allocated only for special repair projects and deferred maintenance, in order to address critical repairs.*

The Budget Bill contains language reappropriating any unexpended balances from CSU's 1988 Budget Act appropriation (main support item). The language specifies that the first \$1,868,000 of reappropriated funds must be used for replacement of instructional equipment, and that remaining balances may be used for instructional equipment, special repairs and deferred maintenance, student computer workstations, On-Line Public Access Catalog projects, the concurrent enrollment program, or the California Academic Partnership Program. Typically, the unexpended balances range from \$2.5 million to \$5 million annually.

After reviewing the proposed budget allocations for each of the programs listed above, we conclude that it would be fiscally prudent to limit the distribution of reappropriated funds to special repairs and deferred maintenance. The budget proposes \$4 million for special repairs and deferred maintenance in 1989-90. The Chancellor's Office estimates that the system will need a total of \$31.9 million for repairs, including \$17.8 million in the Priority I category. This category consists of repair projects defined as "currently critical." Thus, even if \$5 million were reappropriated for this function, the total amount available (\$9 million) would be sufficient to fund only about one-half of the critical repairs.

We have found that postponing such repairs often results in disproportionately greater costs in subsequent years. This point was emphasized in the Governor's Infrastructure Review Task Force report of 1984, which characterized the growth of deferred maintenance in the state's infrastructure as a "costly and shortsighted policy."

We acknowledge that additional funding may be warranted in the other programs specified in the proposed Budget Bill language. The budget proposal for instructional equipment replacement in 1989-90, for example, is \$5.3 million below the estimated amount required to replace depreciated equipment. The budget, however, also proposes \$5.1 million for new instructional equipment. The Trustees, moreover, can allocate lottery revenues for any of the instructional programs listed previously; whereas this alternative source of funding is not available for special repairs, under the terms of the lottery statute.

We conclude, therefore, that the most cost-effective use of reappropriated funds in 1989-90 would be for special repairs and deferred maintenance. In order to ensure that priority is given to this program, we recommend that the Legislature adopt the following language in Item 6610-490:

Reappropriation, California State University. Notwithstanding any other provision of law, an amount not in excess of the balance, as reported by the California State University as of June 30, 1989, of the appropriation provided in the following citation, is hereby reappropriated for special repair projects and deferred maintenance, and shall be available for encumbrance until June 30, 1991:

001—General Fund

(1) Item 6610-001-001, Budget Act of 1988

Provisions:

1. The California State University shall report to the Department of Finance and the Joint Legislative Budget Committee the amount of the balance, on June 30, 1989, of Item 6610-001-001 of the Budget Act of 1988, by September 30, 1989, and the expenditures made pursuant to this item by September 30, 1990, and September 30, 1991.

**V. SALARY INCREASE**

**A. 1988-89 EMPLOYEE COMPENSATION**

**Collective Bargaining Agreements for the 1988-89 Fiscal Year**

Of the nine collective bargaining units representing CSU employees, only the faculty unit has signed a memorandum of understanding (MOU) for the budget year. The faculty unit MOU was adopted in 1987, and is operative through 1990-91. Under the terms of this MOU, the CSU and the faculty association agree to use the results of the comparison institution methodology (described below) as the basis for annual salary increases, subject to the availability of funds.

**B. 1989-90 CSU SALARY INCREASE PROPOSAL (Item 6610-031-001)**

*We recommend approval.*

**1. Governor's Budget Proposal**

The budget requests \$50.4 million for CSU employee compensation increases in 1989-90. Of this amount, \$12.8 million would be used to fund employee benefits, while the balance of \$37.5 million would be used to provide the following salary increases, effective January 1, 1990: 4.8 percent for faculty, 4 percent for nonfaculty, and an additional 1 percent for equity adjustments for nonfaculty employees. Table 12 summarizes the budget proposal for salary increases.

**Table 12**  
**The California State University**  
**Proposed Salary Increases**  
**1989-90**  
**(dollars in thousands)**

	<i>Amount</i>	<i>Percent</i>
Faculty.....	\$22,075	4.8% <sup>a</sup>
Staff.....	12,368	4.0 <sup>b</sup>
Staff—Special Adjustments.....	3,092	1.0 <sup>b</sup>

<sup>a</sup> Effective January 1, 1990. One percent increase would cost \$9,198,000 (annualized).

<sup>b</sup> Effective January 1, 1990. One percent increase would cost \$6,184,000 (annualized).

**CALIFORNIA STATE UNIVERSITY—Continued****2. Comparison Institution Methodology for CSU Faculty Salaries**

Pursuant to SCR 51 of 1965, each year CPEC submits an analysis of faculty salaries and fringe benefits at those higher education institutions that UC and CSU have agreed to use as a basis for comparing the adequacy of faculty salaries. The current group is listed in Table 13:

**Table 13**  
**The California State University**  
**Comparison Institutions for Faculty Salaries**  
**1989-90**

Arizona State University	North Carolina State University
University of Bridgeport	Reed College
Bucknell University	Rutgers University (Newark)
Cleveland State University	SUNY-Albany
University of Colorado (Denver)	University of Southern California
Georgia State University	University of Texas (Arlington)
Loyola University of Chicago	Tufts University
Mankato State University	Virginia Polytechnic Institute
University of Maryland (Baltimore)	Wayne State University
University of Nevada (Reno)	University of Wisconsin (Milwaukee)

**3. Faculty Salary Proposal Would Delay Parity With Comparison Institutions**

As summarized in Table 14, the comparison institution methodology (as reported by the CPEC) indicates that a *full-year* increase of 4.8

**Table 14**  
**The California State University**  
**Faculty Salary Increase Required to Achieve Parity**  
**With Comparison Institutions**  
**1989-90**

Academic Rank	CSU Average Salaries 1988-89 <sup>a</sup>	Comparison Group Salaries		Percentage Increase Required In CSU Salaries	
		Actual 1988-89	Projected 1989-90	Actual 1988-89	Projected 1989-90
Professor .....	\$55,132	\$55,910	\$59,360	1.41%	7.67%
Associate Professor .....	43,137	41,534	44,069	-3.72	2.16
Assistant Professor .....	34,947	34,693	37,020	-0.73	6.93
Instructor .....	29,145	26,902	28,549	-7.70	-2.05
All Ranks Averages					
Weighted by CSU Staffing Pattern <sup>b</sup> ....	\$49,220	\$49,303	\$52,367	0.17%	6.39%
Weighted by Comparison Institution Staffing Pattern .....	44,829	44,386	47,162	-0.99	5.20
Mean All-Ranks Average .....	\$47,026	\$46,844	\$49,764	-0.38%	5.83%
Adjustments					
Turnover and Promotions .....			-\$94		-0.20%
Effect of Law School Faculty .....			-94		-0.20
Merit Award Adjustment .....			-320		-0.64
Net Parity Salary and Percentage .....			\$49,256		4.79%

<sup>a</sup> Effective June 1, 1989. Salaries exclude merit awards.

<sup>b</sup> CSU staffing pattern (1988-89): Professor 63 percent (7,376); Associate Professor 20 percent (2,378); Assistant Professor 15 percent (1,720); Instructor 2 percent (229).



percent would be needed in 1989-90 to achieve faculty salary parity with CSU's list of comparison colleges and universities. As mentioned, the budget proposes \$22.1 million for a January 1990 increase of 4.8 percent. This, in effect, would delay the achievement of parity by six months. Because of the state's fiscal situation, however, the provision of full-year salary parity in 1989-90 does not appear to be feasible.

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## CALIFORNIA MARITIME ACADEMY

Item 6860 from the General  
Fund and various other funds

Budget p. E 123

Requested 1989-90 .....	\$9,238,000
Estimated 1988-89 .....	9,213,000
Actual 1987-88 .....	8,648,000
Requested increase (excluding amount for salary increases) \$25,000 (+0.3 percent)	
Total recommended reduction .....	None

### 1989-90 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6860-001-001—Support	General	\$6,629,000
6860-001-814—Support	CMA Trust (Lottery)	57,000
6860-001-890	Federal Trust	401,000
6860-490—Reappropriation	General	—
Reimbursements	—	2,178,000
Transfer to CMA Trust Fund	—	-27,000
Total		\$9,238,000

### GENERAL PROGRAM STATEMENT

The California Maritime Academy (CMA) was established in 1929, and is one of six institutions in the United States providing a program for students who seek to become licensed officers in the U.S. Merchant Marine. Students major in either Marine Transportation, Marine Engineering Technology, or Mechanical Engineering.

The CMA is governed by an independent seven-member board appointed by the Governor for four-year terms. The academy has 356 students and 135.5 personnel-years in the current year.

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$9.2 million for support of the CMA in 1989-90. This consists of \$6.6 million from the General Fund, \$401,000 in federal funds, \$30,000 in lottery funds, and \$2.2 million in reimbursements. The total proposed expenditure is \$25,000, or 0.3 percent, more than is estimated to be expended in the current year. The proposed expenditures from the General Fund reflect an increase of \$82,000, or 1.3 percent, over the current year.

**CALIFORNIA MARITIME ACADEMY—Continued**

Table 1 summarizes expenditures and funding sources for the academy in the prior, current, and budget years.

**Table 1**  
**California Maritime Academy**  
**Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

<i>Programs</i>	<i>Actual</i> 1987-88	<i>Est.</i> 1988-89	<i>Prop.</i> 1989-90	<i>Change from</i> 1988-89	
				<i>Amount</i>	<i>Percent</i>
Instruction.....	\$4,464	\$4,678	\$4,638	-\$40	-0.9%
Academic support.....	1,167	1,460	1,489	29	2.0
Student services.....	3,017	3,075	3,111	36	1.2
Administration (distributed).....	(2,090)	(2,283)	(2,172)	(-111)	(-4.9)
Totals, expenditures.....	\$8,648	\$9,213	\$9,238	\$25	0.3%
<b>Funding Sources</b>					
<i>General Fund</i> .....	\$6,057	\$6,547	\$6,629	\$82	1.3%
<i>Continuing Education Revenue Fund</i> .....	40	55	—	-55	-100.0
<i>CMA Trust Fund (Lottery)</i> .....	54	30	30	—	—
<i>Federal Trust Fund</i> .....	545	401	401	—	—
<i>Reimbursements</i> .....	1,952	2,180	2,178	-2	-0.1
Personnel-years.....	136	135.5	136.5	1	1.7%

Table 2 shows the factors accounting for the change in the CMA's planned General Fund expenditures between the current and budget years.

**Table 2**  
**California Maritime Academy**  
**Proposed 1989-90 General Fund Budget Changes**  
**(dollars in thousands)**

1988-89 Expenditures (Revised).....	\$6,547
<b>Baseline Adjustments and Workload Changes</b>	
Employee compensation—full-year funding.....	289
Faculty merit salary adjustment.....	39
Nonrecurring expenditures.....	-181
Student fee revenue increase.....	-32
Financial aid.....	6
Nonresident tuition revenue increase.....	-36
Subtotal.....	(\$78)
<b>Program Changes</b>	
Financial aid.....	\$4
1989-90 Expenditures (Proposed).....	\$6,629
Change from 1988-89	
Amount.....	\$82
Percent.....	1.3%

**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

As Table 2 indicates, this is essentially a status quo budget. We recommend approval of all baseline and workload adjustments. We also recommend approval of the program change proposal, which would increase state matching grants for federal financial aid programs.

In addition, we recommend approval of the following Budget Bill items not discussed elsewhere in this analysis:

- **CMA Trust Fund—Lottery Revenues (Item 6860-001-814).** The budget projects that CMA will receive \$57,000 in lottery funds in 1989-90. Of this amount, the budget proposes that the academy spend \$30,000 during the budget year. The budget allocates these funds to the academy's instruction program.
- **Federal Trust Fund (Item 6860-001-890).** The budget proposes \$401,000 from the Federal Trust Fund to provide financial aid to CMA students. Our analysis indicates that these expenditures are justified.
- **Reappropriation (Item 6860-490).** The budget proposes language reappropriating any unexpended balances from CMA's 1988 Budget Act appropriation (main support item), to be used for instructional equipment replacement, deferred maintenance, and special repairs. Our analysis indicates that reallocation of funds for these purposes would be reasonable.

**Student Fees**

Table 3 shows the student fees at the California Maritime Academy from 1986-87 through 1989-90.

**Table 3**  
**California Maritime Academy**  
**Student Fees**  
**1986-87 through 1989-90**

	1986-87	1987-88	1988-89	Proposed 1989-90	Percent Change from 1988-89
Education/student services.....	\$710	\$645	\$706	\$776	9.9%
Medical.....	178	162	179	197	10.1
Nonresident tuition.....	2,000	2,200	2,420	2,997	23.8

**Resident Student Fees**

As is the case with the UC and the CSU, the budget proposes a 10 percent increase in resident student fees at the CMA in 1989-90. This exceeds the 4.8 percent increase that would result from using the fee methodology proposed in 1985 by the California Postsecondary Education Commission (CPEC). The CMA proposed an increase consistent with this methodology.

The fee increase proposed in the budget would generate an additional \$16,000 in revenues, compared to CMA's request. In order to offset the effect of the fee increase on needy students, the budget also proposes to increase the academy's campus-based financial aid program by \$6,000.

**Nonresident Tuition**

The budget proposes a 24 percent increase in nonresident tuition, whereas the CMA proposed a 10 percent increase. The budget proposal would generate an additional \$20,000 in revenues beyond the amount that would result from CMA's requested fee increase. There is no state policy or methodology governing nonresident tuition at the CMA.

We note that Resolution Ch 162/88 (SCR 69) directs the CPEC to submit, by July 1, 1989, recommendations on a nonresident student fee policy for the state's public universities. Because of the large increases in

**CALIFORNIA MARITIME ACADEMY—Continued**

nonresident fees proposed for the public universities, CPEC staff has agreed to expedite the study in order to submit the recommendations during the budget hearings.

**CALIFORNIA COMMUNITY COLLEGES**

Item 6870 from the General  
Fund and various funds

Budget p. E 130

Requested 1989-90 .....	\$3,120,010,000
Estimated 1988-89 .....	2,892,936,000
Actual 1987-88 .....	2,680,200,000
Requested increase (excluding amount for salary increases) \$227,074,000 (+7.8 percent)	
Total recommended reduction (transfer to Proposition 98 reserve for subsequent appropriation based on legislative priorities) .....	4,429,000
Total recommended reduction (HECO Bond fund of 1988) .....	5,000,000
Total recommended reduction (General Fund) .....	1,095,000

**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
Budget Bill Items		
6870-001-001—Support	General	\$14,395,000
6870-001-165—Support	Credentials	764,000
6870-101-001—Local assistance	General	1,476,008,000
6870-101-785—Local assistance	Bond	28,000,000
6870-101-814—Local assistance	Lottery	113,642,000
6870-101-909—Local assistance	Instructional Improvement	920,000
6870-103-001—Local assistance	Lease-purchase	1,110,000
6870-198-001—Local assistance	Reserve	10,000,000
6870-490—Reappropriation	General	—
Section 22	General	6,700,000
Subtotal, Budget Bill Items		(\$1,651,539,000)
Non-Budget Bill Items		
Local revenues		\$709,413,000
Federal funds		140,900,000
Fee revenue		66,941,000
Other revenues/reimbursements		551,217,000
Subtotal, Non-Budget Bill Items		(\$1,468,471,000)
Total		\$3,120,010,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis  
page

- |  |     |
|--|-----|
| 1. <i>Asbestos Removal. Reduce Item 6870-101-785 by \$5 million and transfer \$5 million from Item 6870-101-001(o) to Section 12.31.</i> Recommend deletion and transfer because no buildings have been identified as exceeding specified air quality standards for airborne asbestos. | 862 |
| 2. <i>GAIN Staffing. Reduce Item 6870-001-001 by \$128,000.</i> Recommend reduction and corresponding Budget Bill language authorizing funding from Control Section 22 because the GAIN appropriation should support administrative staff.   | 863 |
| 3. <i>High Tech Center Staffing. Reduce Item 6870-001-001 by \$571,000 and increase Item 6870-101-001(a) by \$571,000 from Control Section 12.31.</i> Recommend reduction and corresponding funding shift in order to free-up General Fund support for other purposes.                 | 864 |
| 4. <i>Academic Senate. Reduce Item 6870-001-001 by \$196,000.</i> Recommend reduction because the amount requested has not been justified on a workload basis.   | 866 |
| 5. <i>Economic Development Resource Center. Reduce Item 6870-001-001 by \$200,000.</i> Recommend reduction because contract consultant services will not be needed in the budget year.   | 866 |

**GENERAL PROGRAM STATEMENT**

In 1989-90, the California Community Colleges will provide instruction to approximately 1.3 million students at 106 colleges operated by 70 locally-governed districts throughout the state. The community colleges are authorized to provide associate degrees, occupational certificates and credentials, remedial and basic skills instruction, citizenship instruction, and fee-supported community service instruction. Any high school graduate or citizen over the age of 18 may attend a community college.

**Governance.** The Board of Governors of the California Community Colleges serves primarily as a planning, coordinating, reporting, advising, and regulating agency for the 70 community college districts. The board is composed of 17 members appointed by the Governor for four-year terms.

The Chancellor's Office is the administrative arm of the Board of Governors, and assists the board in carrying out its statutory duties. The Chancellor's Office has 213.3 personnel-years in the current year.

**Headcount Enrollment and Average Daily Attendance.** Table 1 shows headcount enrollment and average daily attendance (ADA) in the community colleges since 1980-81. (Headcount enrollment is a count of the number of students actually in attendance on a given day. An enrollment survey is usually taken each year in the fall for this purpose. One ADA is equal to one student under the immediate supervision of a certificated instructor for a total of 525 hours in an academic year.)

**CALIFORNIA COMMUNITY COLLEGES—Continued**

**Table 1**  
**California Community Colleges**  
**Headcount Enrollment and**  
**Average Daily Attendance**  
**1980-81 through 1989-90**

	<i>Credit Courses</i>		<i>Noncredit Courses</i>		<i>Totals</i>	
	<i>Headcount</i>	<i>ADA</i>	<i>Headcount</i>	<i>ADA</i>	<i>Headcount</i>	<i>ADA</i>
1980-81 .....	1,189,976	654,421	193,260	71,093	1,383,236	725,514
1981-82 .....	1,254,360	682,671	177,164	66,516	1,431,524	749,187
1982-83 .....	1,192,920	667,072	162,062	60,233	1,354,982	727,305
1983-84 .....	1,090,857	612,026	158,059	53,073	1,248,916	665,099
1984-85 .....	1,008,995	584,349	167,226	61,086	1,176,221	645,435
1985-86 .....	1,005,143	573,533	171,569	66,383	1,176,712	639,916
1986-87 .....	1,009,662	595,228	190,097	69,691	1,199,759	664,919
1987-88 .....	1,095,361	609,741	169,048	71,508	1,264,409	681,249
1988-89 (est.) .....	1,133,918	631,204	174,119	73,653	1,308,037	704,857
1989-90 (prop.) .....	1,159,658	645,532	176,696	74,743	1,336,354	720,275
Change from 1988-89:						
Amount .....	25,740	14,328	2,577	1,090	28,317	15,418
Percent .....	2.3%	2.3%	1.5%	1.5%	2.2%	2.2%

**Headcount enrollment** is estimated to increase 28,317 (2.2 percent) between the current and budget years for a total of 1.3 million in 1989-90. While enrollment is increasing, enrollment in the budget year is still estimated to be 95,200 *lower* than the peak enrollment period of 1981-82. Headcount enrollment in credit courses is estimated to account for 87 percent of total enrollment.

**Average daily attendance (ADA)** in both credit and noncredit courses is budgeted to increase 15,418 (2.2 percent) between the current and budget years, for a total of 720,275 in 1989-90. ADA in credit courses is estimated to account for 90 percent of total ADA.

**OVERVIEW OF THE BUDGET REQUEST****Total Support for Community Colleges**

As shown in Table 2, total funding for the community colleges, including support for the Chancellor's Office, is projected at \$3.1 billion

**Table 2**  
**California Community Colleges**  
**Total Support from All Sources**  
**1987-88 through 1989-90**  
**(dollars in millions)**

	<i>Actual</i> <i>1987-88</i>	<i>Est.</i> <i>1988-89</i>	<i>Prop.</i> <i>1989-90</i>	<i>Change from</i> <i>1988-89</i>	
				<i>Amount</i>	<i>Percent</i>
<b>State Support</b>					
State operations .....	\$13.1	\$16.6	\$17.8	\$1.2	7.2%
Categorical programs .....	203.5	203.4	203.7	0.3	0.1
Apportionments .....	1,159.7	1,260.7	1,345.6	84.9	6.7
Proposition 98 .....	—	—	10.0	10.0	— <sup>a</sup>
Subtotals, state support .....	(\$1,376.3)	(\$1,480.7)	(\$1,577.1)	(\$96.4)	(6.5%)
<b>Local Support</b>					
Property taxes .....	\$604.8	\$652.1	\$697.1	\$45.0	6.9%
Local debt .....	13.6	12.9	12.3	-0.6	-4.7
Subtotals, local support .....	(\$618.4)	(\$665.0)	(\$709.4)	(\$44.4)	(6.7%)

<i>Other Support</i>					
Federal .....	\$145.0	\$145.2	\$140.9	-\$4.3	-3.0%
Lottery revenues.....	96.8	113.7	113.6	-0.1	-0.1
Enrollment fee.....	65.9	66.3	66.9	0.6	0.9
Other revenues.....	377.8	422.0	512.1	90.1	21.4
Subtotals, other support.....	(\$685.5)	(\$747.2)	(\$833.5)	(\$86.3)	(11.5%)
Totals .....	\$2,680.2	\$2,892.9	\$3,120.0	\$227.1	7.8%
<i>Funding Sources</i>					
<i>General Fund</i> .....	\$1,309.9	\$1,405.2	\$1,507.1	\$101.9	7.3%
<i>Local</i> .....	618.4	665.0	709.4	44.4	6.7
<i>Federal</i> .....	145.0	145.2	140.9	-4.3	-3.0
<i>Bond funds</i> .....	35.0	33.1	28.0	-5.1	-15.4
<i>Other state/reimbursements</i> .....	31.4	42.4	42.0	-0.4	-0.9
<i>Other/fee/lottery</i> .....	540.5	602.0	692.6	90.6	15.0

<sup>a</sup>Not a meaningful figure.

in 1989-90, an increase of \$227 million (7.8 percent) over estimated revenues in the current year. Of the total, \$1.6 billion comes from state funding sources. The remainder comes from local revenues (\$709 million), federal funds which flow directly to community colleges (\$141 million), state lottery revenues (\$114 million), the mandatory student fee (\$67 million), and other sources (\$512 million).

### Significant Program Changes

Table 3 displays, by funding source, the components of the \$227 million (7.8 percent) increase in total support for community colleges in the budget year.

As the table shows:

- **Baseline adjustments** result in a net increase of \$32 million. This increase primarily reflects (1) elimination of current-year funding for equipment replacement and library materials (\$45 million), and (2) an increase in revenues from other non-budget funding sources (state/federal grants, county income, food service revenues, etc.) (\$90 million).
- **Workload changes** result in an increase of \$145 million from the General Fund. This increase primarily reflects increases of (1) \$33 million to fund statutory and discretionary growth in community college ADA, (2) \$102 million to fund statutory and discretionary cost-of-living adjustments (COLAs) of 4.88 percent, and (3) \$9.3 million for equalization aid.
- **Program changes** result in an increase of \$51 million. The major changes include funding for (1) instructional equipment replacement (\$23 million), (2) a Proposition 98 funding reserve (\$10 million), (3) the third-year implementation phase of a management information system (\$6.8 million), and (4) asbestos abatement projects (\$8 million).

## CALIFORNIA COMMUNITY COLLEGES—Continued

Table 3  
California Community Colleges  
Proposed 1989-90 Budget Changes  
by Funding Source  
(dollars in thousands)

	General Fund	Lottery Funds	Federal Funds	Local Revenues	Bond Funds	Other Funds	Totals
1988-89 Expenditures (Revised) .....	\$1,405,201	\$113,725	\$145,200	\$664,963	\$33,138	\$530,709	\$2,892,936
<i>Baseline Adjustments</i>							
General apportionment .....	\$3,457	—	—	—	—	—	\$3,457
Local revenues .....	-45,729	—	—	\$45,051	—	\$678	—
Instructional equipment .....	-12,000	—	—	—	-\$33,138	—	-45,138
Federal funds .....	—	—	-\$4,300	—	—	-248	-4,548
Asbestos abatement .....	-5,000	-\$83	—	—	—	—	-5,083
GAIN .....	-3,300	—	—	—	—	—	-3,300
Other .....	-2,758	—	—	-600	—	89,802	86,444
Subtotals, baseline adjustments .....	(\$-65,330)	(\$-83)	(\$-4,300)	(\$-44,451)	(\$-33,138)	(\$90,232)	(\$31,832)
<i>Workload Changes</i>							
Equalization .....	\$9,300	—	—	—	—	—	\$9,300
Statutory COLA (4.88 percent) .....	97,900	—	—	—	—	—	97,900
Discretionary COLAs (4.88 percent) .....	4,075	—	—	—	—	—	4,075
Statutory growth (2.26 percent) .....	32,700	—	—	—	—	—	32,700
Disabled students growth (2.26 per- cent) .....	655	—	—	—	—	—	655
Subtotals, workload changes .....	(\$144,630)	—	—	—	—	—	(\$144,630)
<i>Program Changes</i>							
Instructional equipment .....	—	—	—	—	\$23,000	—	\$23,000
Proposition 98 reserve .....	\$10,000	—	—	—	—	—	10,000
Asbestos abatement .....	3,000	—	—	—	5,000	—	8,000
Management information system .....	6,780	—	—	—	—	—	6,780
Intersegmental articulation .....	853	—	—	—	—	—	853
Economic development center .....	308	—	—	—	—	—	308
High tech centers .....	571	—	—	—	—	—	571
Academic senate .....	262	—	—	—	—	—	262
Employer-based training .....	141	—	—	—	—	—	141
Planning and accountability .....	200	—	—	—	—	—	200
Other .....	497	—	—	—	—	—	497
Subtotals, program changes .....	(\$22,612)	—	—	—	(\$28,000)	—	(\$50,612)
1989-90 Expenditures (Proposed) .....	\$1,507,113	\$113,642	\$140,900	\$709,414	\$28,000	\$620,941	\$3,120,010
Change from 1988-89:							
Amount .....	\$101,912	-\$83	-\$4,300	-\$44,451	-\$5,138	\$90,232	\$227,074
Percent .....	7.3%	-0.1%	-3.0%	6.7%	-15.5%	17.0%	7.8%

## ANALYSIS AND RECOMMENDATIONS

We recommend approval of the baseline adjustments, workload changes and the following program changes which are not discussed elsewhere in this analysis:

- **Apportionments**—\$140 million from the General Fund for (1) a 4.88 percent statutory COLA for general education apportionments (\$98 million), (2) statutory enrollment growth of 2.26 percent (\$33 million), and (3) equalization aid (\$9.3 million).
- **Instructional Equipment**—\$23 million from the 1988 Higher Education Bond Fund for instructional equipment.
- **Management Information System**—\$6.8 million from the General Fund for the third-year implementation of a management information system.

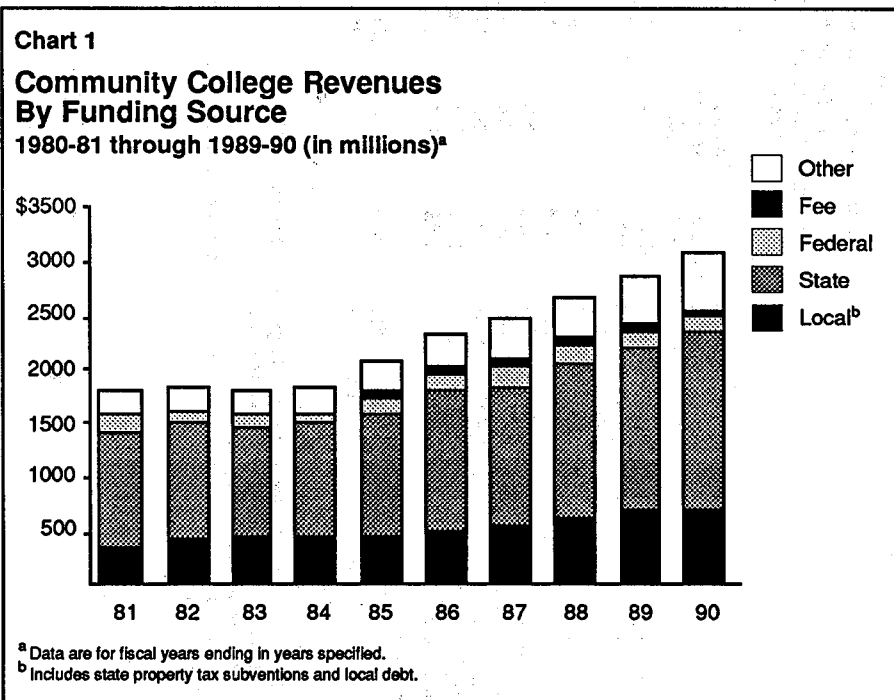


- **Categorical Programs**—\$4.7 million from the General Fund to provide a 4.88 percent COLA for categorical programs (\$4.1 million) and 2.26 percent enrollment growth in the Disabled Students Programs and Services (DSPS) program (\$655,000).
- **Hazardous Materials Plans**—\$3 million from the General Fund to reimburse districts for costs of developing plans related to dealing with hazardous materials in accordance with Ch 1585/88 (M. Waters).
- **Transfer Education and Articulation**—\$853,000 for second-year funding of two pilot “Middle Colleges” and a vocational education transfer program known as “2+2+2.”
- **Revenue Bond Payments**—\$838,000 from the General Fund for reimbursement of lease payments on revenue bonds.
- **Chancellor’s Office**—\$694,000 from the General Fund for (1) increased travel costs for the Board of Governors (\$50,000), (2) accounting staff (\$54,000), (3) automation equipment (\$49,000), (4) a study of collective bargaining (\$100,000), (5) technical adjustment to contract conversions (\$100,000), (6) planning and accountability staff (\$200,000), and (7) administrative staff for the Employer-Based Training program (\$141,000).

**I. LOCAL ASSISTANCE FOR COMMUNITY COLLEGES**

**A. Overview of Community College Revenue**

Table 4 and Chart 1 display total funding for the California Community Colleges, by funding source, for the 10 years 1980-81 to 1989-90.



**Table 4**  
**California Community Colleges**  
**Total Revenues<sup>a</sup>**  
**1980-81 through 1989-90**  
**(dollars in millions)**

	State Aid <sup>d</sup>	Local Property Tax <sup>c</sup>	Federal Aid	Mandatory Student Fee	Other <sup>e</sup>	Total Funding	Average Daily Attendance	Total Funding (actual dollars)		1980-81 Dollars <sup>b</sup> (actual dollars)	
								Per ADA	Percent Change	Per ADA	Percent Change
1980-81.....	\$1,119.5	\$347.8	\$138.3	—	\$201.4	\$1,807.0	725,514	\$2,491	—	\$2,491	—
1981-82.....	1,104.3	416.4	116.0	—	228.0	1,864.7	749,187	2,489	-0.1%	2,314	-7.1%
1982-83.....	1,086.5	418.0	104.5	—	225.9	1,834.9	727,305	2,523	1.4	2,213	-4.4
1983-84.....	1,080.9	438.9	99.8	—	243.3	1,862.9	665,009	2,801	11.0	2,349	6.2
1984-85.....	1,145.3	462.9	134.6	\$64.4	306.3	2,113.5	645,435	3,275	16.9	2,622	11.6
1985-86.....	1,302.5	517.7	152.2	68.0	316.2	2,356.6	639,916	3,683	12.5	2,840	8.3
1986-87.....	1,325.4	548.8	149.7	68.8	380.2	2,472.9	664,919	3,719	1.0	2,782	-2.0
1987-88 (est.).....	1,460.0	618.4	145.0	65.9	377.8	2,667.1	681,249	3,915	5.3	2,801	0.7
1988-89 (est.).....	1,577.9	665.0	145.2	66.3	422.0	2,876.4	704,857	4,081	4.2	2,789	-0.4
1989-90 (prop.).....	1,672.9	709.4	140.9	66.9	512.1	3,102.2	720,275	4,307	5.5	2,815	0.9
Cumulative change:											
Amount.....	\$553.4	\$361.6	\$2.6	—	\$310.7	\$1,295.2	-5,239	\$1,816	—	\$324	—
Percent.....	49.4%	104.0%	1.9%	—	154.3%	71.7%	-0.7%	72.9%	—	13.0%	—

<sup>a</sup> Excludes funding for the Chancellor's Office.

<sup>b</sup> Adjusted by the GNP deflator for state and local government purchases.

<sup>c</sup> Includes state property tax subventions and local debt.

<sup>d</sup> Includes Board Financial Assistance funds.

<sup>e</sup> Includes combined state/federal grants, county income, food service revenues, fees for community service courses, nonresident tuition revenues, lottery revenues, and other miscellaneous revenues.

**Total Community College Revenues.** As shown in Table 4 and Chart 1, total funding for the colleges increased from \$1.8 billion in 1980-81 to \$3.1 billion in 1989-90—an increase of \$1.3 billion (72 percent). Of the five revenue sources, support from “other” sources has registered the largest percentage increase, up 154 percent. This increase primarily reflects, (1) interest income earned by community colleges on invested balances, and (2) since 1985-86, revenues from the state lottery.

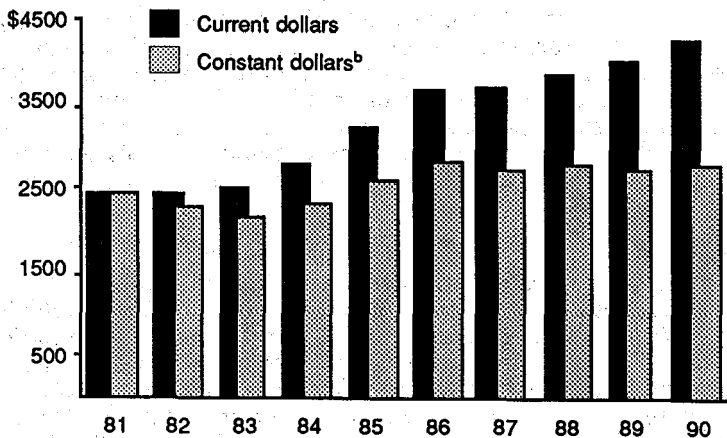
Local property tax revenue has also increased significantly, increasing 104 percent over the 10-year period. In the budget year, revenues from this source will *nearly equal* the amount of revenues derived from this source in 1977-78—the last year prior to the implementation of Proposition 13. The table further shows, that support from both local revenues and other sources have increased at a much faster pace than revenue from the state (49 percent increase), or from the federal government (1.9 percent).

Table 4 also shows that community college ADA is projected to be at roughly the same level it was 10 years ago—720,000.

Chart 2

### Community College Funding Per ADA In Current and Constant Dollars

1980-81 through 1989-90<sup>a</sup>



<sup>a</sup> Data are for fiscal years ending in years specified.

<sup>b</sup> Adjusted by the GNP deflator for state and local government purchases.

**Revenues Per ADA.** Table 4 and Chart 2 display per-ADA funding levels over the 10-year period, in both current dollars and constant dollars (that is, dollars that have been adjusted to reflect the effects of inflation on purchasing power). As shown, per-ADA funding in current dollars is projected to increase by \$1,816 (73 percent), from \$2,491 to \$4,307.

When per-ADA support is adjusted for the effects of inflation, however, the table and chart show that community college funding per ADA is only slightly greater than it was 10 years ago. For 1989-90, the proposed

**CALIFORNIA COMMUNITY COLLEGES—Continued**

per-ADA expenditure level, as measured in constant dollars is \$2,815—\$324 dollars (13 percent) above the funding level provided 10 years ago.

**B. Community College Apportionments (Items 6870-101-001(a) and 6870-101-814)**

The budget proposes \$2.1 billion for community college apportionments in 1989-90, an increase of \$131 million (6.6 percent) from the current-year amount. Combined support from the General Fund, the State School Fund, local property tax revenues, and student fees would fund the following major changes:

- Base apportionments (\$1.9 billion);
- Statutory cost-of-living adjustment of 4.88 percent (\$98 million);
- Statutory average daily attendance growth of 2.26 percent (\$33 million); and
- "Equalization II" to reduce funding disparities among districts (\$9.3 million).

The budget also proposes \$114 million for community colleges from the state lottery. This funding level is unchanged from the amount provided in the current year. Lottery funds are allocated to community college districts based on an estimated rate of \$158 per ADA.

**Community College Reform—AB 1725**

Chapter 973, Statutes of 1988 (AB 1725, Vasconcellos) establishes a long-term framework for reforming the California Community Colleges.

The act specifies reforms in seven program areas: (1) mission, (2) governance, (3) finance, (4) new programs and services, (5) affirmative action, (6) employment, and (7) accountability. Most of these reforms, however, are contingent upon community college budget augmentations totaling \$140 million which have yet to be provided. In this section, we present the major provisions of the reform measure and a discussion of the funding "trigger."

**Reform Provisions**

- **Mission.** The measure specifies that the "primary mission" of the community colleges is to provide degree and certificate curricula in lower-division arts and sciences and in vocational and occupational fields. Identified as "important and essential functions" are the provision of remedial instruction, English as a Second Language, adult noncredit instruction, and support services. Finally, the measure indicates that community service instruction is an "authorized function."

Chapter 973 also requires the Board of Governors to develop, in cooperation with the UC and the CSU, a common core curriculum that would meet the transfer requirements of the two four-year segments. The measure, however, does not specify when the common core curriculum is to be adopted by the board.

- **Governance.** Chapter 973 specifies that the role of the Board of Governors is to provide leadership and direction for the community colleges. At the same time, however, the board is directed to maintain to the maximum degree possible local authority and control for the day-to-day operations of the colleges.

Commencing on January 1, 1990, regulations adopted by the board will no longer require the approval of the Office of Administrative Law. Instead, the board will adopt regulations and submit them for review by local boards of trustees and "other interested parties." If two-thirds of the local boards vote to reject the regulations, then they are inoperative.

- **Finance.** The measure extends by two years the sunset date for the current community college finance mechanism. That measure, popularly referred to as SB 851, will expire on July 1, 1991.

The act also establishes a new procedure for allocating state funds to the community college districts. Known as Program-Based Funding, the system authorizes the board to allocate funds to community college districts based on various workload measures and funding rates.

- **New Programs and Services.** Chapter 973 also creates two new programs and increases funding for an existing program. The measure appropriated from the General Fund (1) \$5 million for a new staff development fund to support local staff development and renewal efforts, (2) \$1 million for a new staff diversity fund to increase the number and proportion of underrepresented instructors on the campuses, and (3) \$200,000 for the existing Fund for Instructional Improvement which supports innovative instructional methods.
- **Affirmative Action.** The measure requires districts to establish affirmative action plans and report progress toward meeting district goals to the board. The board is required to adopt by March 15, 1989 a systemwide plan for achieving affirmative action goals.
- **Employment.** Chapter 973 eliminates credentials for community college faculty. Instead the Board of Governors and the local boards of trustees are to establish minimum qualifications for employment.

The measure also establishes fiscal incentives to encourage districts to convert part-time faculty to full-time faculty until specified targets are achieved.

Finally, newly hired faculty are required to complete a four-year probationary assignment and hold a bachelor's degree in order to be granted tenure. Under prior law, the probationary period was two years and a bachelor's degree was not required.

- **Accountability.** The board is required to adopt a comprehensive educational and fiscal accountability system by July 1, 1990 and ensure that the system is implemented by 1994-95. Some of the elements of the accountability system are to include student transfer rates to four-year institutions, course completion rates, quantitative and qualitative data on student services, and measures of the fiscal condition of the districts.

#### **Triggering Mechanism for Reform Implementation**

Although specifying numerous reforms and new programs, this measure will, for the most part, be inoperative, unless sufficient new funds are appropriated to community college districts to pay for them. These funds must exceed the amount needed to fully fund general education apportionments as specified in current law. In other words, the majority of the reforms must be paid for with additional funding and will not be implemented within existing resources.

**CALIFORNIA COMMUNITY COLLEGES—Continued**

The act specifies that before the reforms are operative the board must certify that sufficient funding has been provided to pay for them. The measure further specifies that according to the Legislature the total costs of the reforms is \$140 million.

**C. Community College Categorical Programs (Items 6870-101-001(b-p), 6870-101-785, 6870-101-909, 6870-103-001, 6870-198-001, 6870-490, and Section 22)**

The budget for community colleges proposes \$215 million to support categorically funded programs in 1989-90. This is an increase of \$10

**Table 5**  
**California Community Colleges**  
**Support for Categorical Programs**  
**Local Assistance**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
<i>Educational Programs and Services</i>					
Vocational education projects .....	\$4,171	\$4,746	\$4,746	—	—
Vocational education allocation .....	25,526	31,883	31,883	—	—
Transfer education/articulation .....	39	685	1,485	\$800	116.8%
Instructional improvement .....	536	736	736	—	—
Subtotals .....	(\$30,272)	(\$38,050)	(\$38,850)	(\$800)	(2.1%)
<i>Student Services Programs</i>					
EOPS .....	\$28,626	\$29,973	\$31,437	\$1,464	4.9%
CARE .....	739	1,472	1,482	10	0.7
Board Financial Assistance .....	10,177	11,866	13,420	1,554	13.1
Puente Project .....	150	157	230	73	46.5
Disabled Student Program .....	27,804	28,414	31,034	2,620	9.2
Matriculation .....	20,570	20,626	21,920	1,294	6.3
GAIN .....	2,000	10,000	6,700	-3,300	-33.0
Transfer centers .....	1,477	1,903	1,996	93	4.9
Foster parent training .....	897	900	900	—	—
Subtotals .....	(\$92,440)	(\$105,311)	(\$109,119)	(\$3,808)	(3.6%)
<i>Physical Plant and Equipment</i>					
Instructional equipment .....	\$55,862	\$35,000	\$23,000	-\$12,000	-34.3%
Deferred maintenance .....	14,318	15,000	15,000	—	—
Hazardous substances removal .....	4,969	5,000	8,000	3,000	60.0
Subtotals .....	(\$75,149)	(\$55,000)	(\$46,000)	(\$-9,000)	(-16.4%)
<i>Other Programs</i>					
Proposition 98 reserve .....	—	—	\$10,000	\$10,000	—
Mandates .....	—	\$2,000	—	-2,000	-100.0%
Emergency loan repayments .....	-\$1,613	-1,100	-1,100	—	—
Academic senate .....	150	150	110	-40	-26.7
Faculty and Staff Diversity Fund .....	—	1,000	1,000	—	—
Staff Development Fund .....	—	4,900	4,900	—	—
Management information systems .....	—	—	6,400	6,400	—
Subtotals .....	(\$1,463)	(\$6,950)	(\$21,310)	(\$14,360)	(206.6%)
Totals .....	\$196,398	\$205,311	\$215,279	\$9,968	4.9%
<i>Funding Sources</i>					
General Fund .....	\$135,114	\$135,752	\$150,847	\$15,095	11.1%
Higher Education Bond Fund .....	35,000	—	—	—	—
Higher Education Bond Fund 1988 .....	—	33,138	28,000	-5,138	-15.5
Instructional Improvement Fund .....	103	162	173	11	6.8
Reimbursements .....	26,181	36,259	36,259	—	—

million (4.9 percent) from the amount available for these programs in the current year. Table 5 displays the proposed funding level for each program for the prior, current and budget years.

The major funding proposals for the categorical programs include:

- \$12 million reduction to fund the replacement of instructional equipment and the purchase of library materials;
- \$10 million increase set aside in a Proposition 98 reserve to be expended by legislation;
- \$6.4 million increase to fund the third-year implementation phase of a management information system;
- \$3.3 million reduction for the GAIN program which serves community college students receiving Aid to Families with Dependent Children (AFDC);
- \$2.6 million increase to provide a 4.88 percent COLA and a 2.26 percent increase in workload for the DSPS program which serves disabled students; and
- \$1.5 million increase to provide a 4.88 percent COLA for the EOPS program which serves disadvantaged students.

#### **I. Proposition 98 Reserve**

In compliance with the requirements of Proposition 98, the Governor's Budget proposes a total of approximately \$400 million in 1989-90 expenditures above minimum statutory requirements for K-12 and community colleges. Of this amount, \$110 million is proposed to reduce class size in selected grades in the K-12 segment. An additional \$230 million is appropriated in Control Section 12.31, "...for subsequent appropriation by the Legislature to augment the Department of Education Item 6110-198-001 (\$220,000,000) and the California Community Colleges Item 6870-198-001 (\$10,000,000) for deficiencies and other educational purposes."

Elsewhere in the K-12 section of this *Analysis*, we point out that while it is fiscally prudent to set aside a portion of Proposition 98 funds as a reserve against deficiencies in K-12 education, a similar reserve is not necessary for the community colleges. Current law specifies the level of state-funded enrollment to which each community college district is entitled and provides a method for adjusting the district's total revenue in the event of a revenue shortfall.

Moreover, based on our review of past deficiencies in the K-12 segment, the \$220 million reserve proposed by the Governor far exceeds the likely maximum deficiency in 1989-90. We believe that a reserve of \$100 million would be entirely sufficient. In Item 6110-198-001, we recommend that the Legislature leave \$100 million of the Proposition 98 reserve in Control Section 12.31 to fund any K-12 deficiency and that the balance be appropriated for legislative priorities in K-14 education. As it relates to community colleges, these purposes may include reforms under AB 1725 (Ch 973/88), deferred maintenance, and matriculation.

**CALIFORNIA COMMUNITY COLLEGES—Continued****2. Asbestos Abatement Program Should be Targeted to Demonstrated Health Risks**

*We recommend a reduction of \$5 million in Item 6870-101-785, the Higher Education Bond Fund of 1988 and a transfer of \$5 million from Item 6870-101-001(o) to Section 12.31, based on recommendations for state asbestos abatement programs contained in our Perspectives and Issues.*

The budget requests \$10 million to support an asbestos abatement program for buildings on community college campuses. In our *1989-90 Budget: Perspectives and Issues* ("State Asbestos Abatement Programs"), however, we recommend that the Legislature fund asbestos abatement projects only when concentrations of airborne asbestos are 0.1 fibers per cubic centimeter or higher. Establishment of such a standard would enable the Legislature to set funding priorities for asbestos abatement in cases of demonstrated health risks. The Chancellor's Office has not identified any projects which exceed the 0.1 fibers per cubic centimeter standard.

Accordingly, we recommend that funding provided from the 1988 Higher Education Bond Fund be deleted and that funding provided from the General Fund be transferred to Section 12.31—the Proposition 98 reserve. (Funds transferred to the reserve can be appropriated for any K-12 or community college educational program.)

**II. COMMUNITY COLLEGE STATE OPERATIONS****Chancellor's Office (Items 6870-001-001 and 6870-001-165)**

The Chancellor's Office is the administrative arm of the Board of Governors of the California Community Colleges. The office is managed by the Chancellor who is responsible for carrying out the board's directives and implementing statutes enacted by the Legislature.

**Table 6**  
**California Community Colleges**  
**State Operations Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

	<i>Actual</i> 1987-88	<i>Est.</i> 1988-89	<i>Prop.</i> 1989-90	<i>Change from</i> 1988-89	
				<i>Amount</i>	<i>Percent</i>
<i>Academic Affairs</i>					
Vocational education.....	\$1,277	\$2,156	\$3,376	\$1,220	56.6%
JTPA-employment training.....	538	562	669	107	19.0
Transfer education.....	581	753	727	-26	-3.5
Academic standards/evaluation.....	1,396	1,953	1,317	-636	-32.6
Academic affairs administration.....	435	393	449	56	14.2
Economic development center.....	—	—	120	120	—
Planning and accountability.....	—	—	200	200	—
Subtotals.....	(\$4,227)	(\$5,817)	(\$6,858)	(\$1,041)	(17.9%)
<i>Student Services and Special Program</i>					
EOPS.....	\$1,346	\$1,819	\$1,152	-\$667	-36.7%
Disabled Students Program.....	667	305	926	621	203.6
Transfer centers.....	170	160	147	-13	-8.1
Foster parent training.....	100	196	172	-24	-12.2
Matriculation.....	330	728	493	-235	-32.3



Student services administration .....	788	810	942	132	16.3
Special programs .....	802	1,001	1,001	—	—
Management information systems .....	—	—	380	380	—
Academic senate .....	—	—	275	275	—
Planning and special projects .....	603	1,075	1,344	269	25.0
Subtotals .....	(\$4,806)	(\$6,094)	(\$6,832)	(\$738)	(12.1%)
<i>Administration and Finance</i>					
Apportionments .....	\$1,986	\$2,439	\$2,183	-\$256	-10.5%
Credentials .....	1,011	976	879	-97	-9.9
Facilities .....	1,048	1,266	1,028	-238	-18.8
Subtotals .....	(\$4,045)	(\$4,681)	(\$4,090)	(-\$591)	(-12.6%)
<i>Distributed Administration</i>					
Board of Governors .....	(\$107)	(\$110)	(\$160)	(\$50)	(45.5%)
Chancellor's Office .....	(4,704)	(5,664)	(5,908)	(244)	(4.3)
Subtotals .....	(\$4,811)	(\$5,774)	(\$6,068)	(\$294)	(5.1%)
Totals .....	\$13,078	\$16,592	\$17,780	\$1,188	7.2%
<i>Funding Sources</i>					
General Fund .....	\$9,779	\$13,016	\$14,395	\$1,379	10.6%
Credentials Fund .....	872	707	764	57	8.1
Special Deposit Fund .....	304	383	383	—	—
Reimbursements .....	2,123	2,486	2,238	-248	-10.0
Personnel-Years .....	144.6	213.3	237.4	24.1	11.3%

Table 6 displays state operations funding for the Chancellor's Office in the prior, current and budget years. As the table shows, the budget proposes \$17.8 million to support the Chancellor's Office in 1989-90—a net increase of \$1.2 million (7.2 percent) from the amount available in the current year. This net increase is due to (1) an increase of \$1 million in the Academic Affairs Unit, (2) an increase of \$738,000 in the Student Services and Special Programs Unit, and (3) a reduction of \$591,000 in the Administration and Finance Unit.

### 1. GAIN Appropriation Should Support State Administration

*We recommend deletion of \$128,000 requested from the General Fund to support GAIN administrative staff in the Chancellor's Office. We further recommend adoption of Budget Bill language authorizing a transfer of funds from Control Section 22 to Item 6870-001-001 to support administrative staff. (Reduce Item 6870-001-001 by \$128,000 and amend Control Section 22.)*

The Greater Avenues for Independence (GAIN) program, established by Ch 1025/85, is a comprehensive statewide employment and training program for recipients of AFDC. The program is designed to help participants find unsubsidized employment and become financially independent through job training, education, counseling, and job placement assistance.

The budget requests \$128,000 from the General Fund to support the conversion of contract staff assigned to the GAIN program to permanent positions within the Chancellor's Office. The staff would be responsible for maintaining a fiscal and programmatic information system for GAIN and for providing technical assistance to the community colleges.

Our review confirms the need to convert the contract staff to permanent positions within the Chancellor's Office. However, a General Fund augmentation for this purpose is not needed. Control Section 22 of the 1989 Budget Bill contains \$6.7 million to support GAIN programs in the community colleges in the budget year. In 1987-88, the most recent

**CALIFORNIA COMMUNITY COLLEGES—Continued**

year for which data are available, local claims for the GAIN program totaled only \$1.5 million. Because of delays in the start-up of programs in Los Angeles and Sacramento Counties, current-year claims are not expected to be significantly higher. Even with Los Angeles and Sacramento coming on line, our review finds that the \$6.7 million scheduled in Control Section 22 for 1989-90 should be sufficient to support all anticipated district claims and the cost of the contract conversion.

In order to implement this recommendation, the Legislature should adopt the following Budget Bill language in Control Section 22:

(f) Of the amount scheduled in (c) (1) of this section, \$128,000 shall be transferred to Item 6870-001-001 to support GAIN administrative staff of the Chancellor's Office of the California Community Colleges.

**2. Fund High Tech Centers from Proposition 98 Reserve**

*We recommend that the Legislature (1) delete \$571,000 requested from the General Fund and instead use federal funds to support administrative staff within the Chancellor's Office for High Tech Centers, and (2) augment support for High Tech Centers on local community college campuses by \$571,000 from the Proposition 98 reserve. (Reduce Item 6870-001-001 by \$571,000; increase Item 6870-101-001 (a) by \$571,000; and reduce the amount available in Control Section 12.31 by \$571,000.)*

*In addition, we recommend that the Legislature adopt supplemental report language in Item 5160-001-001 directing the Department of Rehabilitation to provide "establishment grants" to fund High Tech Centers to the maximum amount authorized.*

**Background.** In 1986-87 the Department of Rehabilitation (DOR) awarded the first of three "establishment grants" totaling \$3.3 million to the California Community College Foundation for the establishment of "High Tech Centers" in the community colleges. The grant also supports a staff of 10 located in the Chancellor's Office and employed by the California Community College Foundation to provide technical assistance and training to High Tech Center staff in the colleges.

The High Tech Centers, now operating on 51 community college campuses, provide disabled students with "instruction in the use of state-of-the-art computer access technologies." Through the use of special software packages, personal computers are modified to allow disabled students to see the computer screen or use the keyboard. For example, computer screens are modified to display larger characters for the visually impaired. For those who are blind, the computer can be equipped with a voice simulator to provide audio feedback. Similarly, keyboards can be modified to allow those with physical handicaps to more easily enter keystrokes.

**Funding Provisions.** The High Tech Centers currently receive no direct state support. Instead, the centers are funded by (1) a federal grant administered by the DOR, and (2) local matching funds provided by the participating community colleges. The California Community College Foundation acts as the fiscal agent for the community colleges.

Under the terms of the federal program, grant funding is gradually reduced and the recipient agencies are expected to substitute local or state funding to maintain the program. Thus, the establishment grant acts as "seed money" to get the programs started. In 1989-90, the establish-

ment grant is scheduled to be reduced by \$549,000. This reduction can be applied to *either* the state-level staff housed in the Chancellor's Office or the local district staff.

**Budget Proposal.** The budget proposes to apply the reduction in federal funds against the state staff and as an offset, requests an augmentation of \$571,000 from the General Fund in 1989-90 to fund the state-level staff. Funding to support the local staff in the community college centers would continue to be provided from the federal establishment grants.

Our review confirms the need for the state staff. The staff provide specialized training for local instructors, conduct research on programs serving the disabled, and disseminate information on technical developments and refinements in software programs. The funding proposal, however, can be achieved in a different manner which concurrently frees up \$571,000 for other General Fund priorities.

**Proposition 98 Funding Interaction.** Provisions of Proposition 98 require that a certain percentage of the General Fund budget be allocated to support the activities of K-12 schools and the community colleges, excluding the administrative costs of the Superintendent of Public Instruction and the Chancellor of the California Community Colleges. The Governor's Budget sets aside an unallocated \$230 million reserve to meet these requirements.

As mentioned, the budget directs the reduction in the federal establishment grant to the state-level staff and proposes to offset the reduction through a General Fund augmentation. The proposal, however, overlooks the opportunity to replace the lost federal funds from the Proposition 98 reserve. This could be done by reducing federal support from the *local* centers rather than from the activities of the Chancellor's Office. The reduced federal support could be replaced by a General Fund allocation from the Proposition 98 reserve and the activities of the state-level staff could continue to be funded through the federal establishment grant. The net result would be a state General Fund savings of \$571,000.

**Analyst's Recommendation.** In order to fully fund both the state and the local operations of the High Tech Centers while freeing up state resources, we recommend that the Legislature (1) delete \$571,000 requested from the General Fund and instead use federal funds from the DOR establishment grant to support High Tech Center staff within the Chancellor's Office (reduce Item 6870-001-001 by \$571,000), and (2) augment funding for the local community colleges centers by \$571,000 from the Proposition 98 reserve (increase Item 6870-101-001(a) by \$571,000 and reduce the amount in Control Section 12.31 by \$571,000).

In addition, the Legislature should adopt the following Budget Bill language in Item 6870-101-001 to implement this recommendation:

Of the amount appropriated in schedule (a), \$571,000 shall be allocated to community college districts operating High Tech Centers in accordance with the provisions of establishment grants #13424, #13688, and #13244 awarded by the Department of Rehabilitation.

The Budget Act does not control the allocation of DOR establishment grants. Instead, these grants are administered by the DOR which has the authority to make the awards. We therefore recommend that the Legislature adopt the following supplemental report language in Item 5160-001-001 directing the Department of Rehabilitation to award the maximum establishment grant permitted under federal regulations to

**CALIFORNIA COMMUNITY COLLEGES—Continued**

fund the operations of the High Tech Center staff in the Chancellor's Office before funding the local operations:

It is the intent of the Legislature that the Department of Rehabilitation award establishment grants in 1989-90 to the maximum amount authorized under federal regulations to support the High Tech Centers serving disabled students in the California Community Colleges. Grant funds should be first made available to support state activities before funding is provided for centers located on the community college campuses.

**3. Significant Funding Increase for Academic Senate Not Justified**

*We recommend a reduction of \$196,000 for the Academic Senate because the amount requested exceeds the amount needed to fund ongoing operations. (Reduce Item 6870-001-001 by \$196,000.)*

The state Academic Senate, formally recognized by the Board of Governors in 1978, represents the faculty senates of the California Community Colleges. The senate makes recommendations and provides advice to the board, the Chancellor, and the Legislature on academic and professional matters. In 1987-88, the most recent year for which data are available, income to support senate activities totaled \$215,000, of which \$122,000 was provided by the state General Fund. The balance was provided from member dues, conferences fees, reimbursements, and interest income.

The budget requests \$412,000 from the General Fund to provide state support for the Academic Senate in 1989-90. This is an increase of \$262,000, or 174 percent, from the \$150,000 provided in the current year. The additional amount would fund clerical support (\$50,000), publication costs (\$75,000), travel and related expenses for senate members (\$62,000), and reimbursements to local districts for the costs of replacing faculty performing senate duties (\$75,000).

Our review finds that the amount requested for additional clerical support is justified; however, the amount requested for the other elements far exceeds the ongoing operating costs of the senate. Specifically, the budget indicates that additional funding is needed to reimburse districts for the costs of replacing faculty who are absent from class performing senate duties. In 1987-88, however, "reassign time" costs totaled only \$33,000. Similarly, publication costs totaled \$7,000 and officer expenses totaled \$4,000.

We can find no analytical basis for providing an increase of \$262,000 based on these costs. On this basis, after adjusting for inflation and workload increases, we estimate that \$66,000 of the amount requested is warranted. This increase would fully fund the increase in clerical workload, double the amount provided for publication expenses, and provide adequate COLA and workload increases for reassign time and travel expenses. Accordingly, we recommend that the remaining \$196,000 be deleted from this activity.

**4. Contract Services Not Warranted**

*We recommend deletion of \$200,000 requested for contract services for an Economic Development Resource Center in the Chancellor's Office because the services will not be needed in the budget year. (Reduce Item 6870-001-001 by \$200,000.)*

The Chancellor's Office administers several programs that promote job training and vocational education in the community colleges. The office

administers the state Employer-Based Training Program, a \$3.9 million grant program which promotes worksite-based training and high technology skill development. The office also administers the federal Job Training Partnership Act (JTPA) and the Vocational Education program. These two programs also provide job training and skill development, with the JTPA program targeted to economically disadvantaged and unskilled workers. The JTPA program will provide up to \$3 million and the Vocational Education program will provide approximately \$35 million to community college districts in the current year.

**Budget Proposal.** The budget requests an augmentation of \$308,000 from the General Fund to staff a new Economic Development Resource Center in 1989-90. The center would (1) coordinate educational and training services between community colleges and employers, (2) develop training and technical assistance for small business development, and (3) serve as a technology training and information exchange network. The amount requested would fund 1.4 personnel-years (\$108,000) and consulting services (\$200,000).

We recommend approval of the \$108,000 requested for the permanent staff within the Chancellor's Office. The staff would coordinate statewide efforts to promote local economic development by compiling information on local training programs and act as an information clearing house for businesses seeking community college training programs.

**Consulting Services Unnecessary.** Our analysis indicates, however, that \$200,000 requested for consulting services will not be needed in the budget year. As proposed, a contract consultant would provide in-service training to community colleges staff, technical assistance to develop programs serving technology transfer, and a program evaluation.

We note that funding for staff development and in-service training is already provided in Ch 973/88 (AB 1725, Vasconcellos). That measure appropriated \$5 million in the current year for staff development and in-service training and the budget proposes to continue the funding at the same level in 1989-90. A Chancellor's advisory indicates that these funds may support, among other areas, "in-service training for vocational education and employment preparation programs."

In addition, consulting services to provide technical assistance to community colleges will not be needed. As originally conceived, these services were to be provided in conjunction with grants to community colleges totaling \$760,000. District staff, with the assistance of the consultants, were to develop and coordinate economic development services for local businesses. The budget, however, provides no funding for local assistance grants in 1989-90.

Finally, we note that funding for a program evaluation will not be required in 1989-90 because this will be the first year of the center's operation.

For these reasons we recommend deletion of the \$200,000 requested for consulting services in 1989-90.

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**STUDENT AID COMMISSION**

Item 7980 from the General  
Fund and various funds

Budget p. E 152

Requested 1989-90 .....	\$319,792,000
Estimated 1988-89 .....	323,544,000
Actual 1987-88 .....	250,383,000
Requested decrease (excluding amount for salary increases) — \$3,752,000 (—1.2 percent)	
Total recommended reduction .....	None

**1989-90 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
7980-001-001—Support	General	\$6,827,000
7980-001-951—Guaranteed Loan Program	State Guaranteed Loan Reserve	18,483,000
7980-011-890—Purchase of defaulted loans	Federal Trust	(146,318,000)
7980-011-951—Purchase of defaulted loans	State Guaranteed Loan Reserve	155,000,000
7980-101-001—Awards	General	126,251,000
7980-101-890—Awards	Federal Trust	13,231,000
Total		\$319,792,000

**GENERAL PROGRAM STATEMENT**

The Student Aid Commission (SAC) is composed of 15 members, 11 of whom are appointed by the Governor and confirmed by the Senate, two appointed by the Senate Rules Committee, and two appointed by the Speaker of the Assembly.

The commission administers:

- Seven student grant programs;
- A program which guarantees federally-insured loans to students;
- An outreach program (known as Cal-SOAP) designed to promote access to postsecondary education to disadvantaged and underrepresented students;
- A state-funded work-study program; and
- A state-funded loan assumption program (known as APLE) designed to encourage students to pursue a teaching career.

The commission is also responsible for collecting and analyzing information on student financial aid, evaluating commission programs, assessing the statewide need for financial aid, and disseminating information on financial aid to students, parents, and California educational institutions.

The commission has 208.8 personnel-years in the current year.

**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes total expenditures by the Student Aid Commission (SAC) of \$320 million in 1989-90. This is a decrease of \$3.8 million (—1.2 percent) from the current-year level. Table 1 shows funding levels for the commission's programs in the prior, current, and budget years.

**Table 1**  
**Student Aid Commission**  
**Budget Summary**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

	<i>Actual</i> 1987-88	<i>Est.</i> 1988-89	<i>Prop.</i> 1989-90	<i>Change from</i> 1988-89	
				<i>Amount</i>	<i>Percent</i>
Grant programs .....	\$125,173	\$141,174	\$140,265	-\$909	-0.6%
Student loans guaranteed .....	(945,884)	(970,000)	(985,000)	(15,000)	(1.5)
Purchase of defaulted loans .....	73,029	160,000	155,000	-5,000	-3.1
Contractor costs .....	24,661	—	—	—	—
State operations .....	27,643	23,177	25,358	2,181	9.4
Subtotals, expenditures .....	<u>(\$250,497)</u>	<u>(\$324,351)</u>	<u>(\$320,623)</u>	<u>(-\$3,728)</u>	<u>(-1.1%)</u>
Less reimbursements .....	-\$114	-807	-831	-24	3.0
Totals, expenditures .....	\$250,383	\$323,544	\$319,792	-\$3,752	-1.2%
<b>Funding Sources</b>					
<i>General Fund</i> .....	\$118,146	\$134,125	\$133,078	-\$1,047	-0.8%
<i>Guaranteed Loan Reserve Fund</i> .....	51,946	25,250	27,165	1,915	7.6
<i>Federal Trust Fund</i> .....	80,291	164,169	159,549	-4,620	-2.8
Personnel-years .....	197.7	208.8	225.3	16.5	7.9%

### Program Changes

Table 2 displays, by funding source, the components of the \$3.8 million reduction in total expenditures for the commission in 1989-90. The table shows that:

- **Baseline adjustments** account for a reduction of \$3.9 million consisting of a reduction for pro rata adjustments (\$1.7 million), one-time reductions (\$1.1 million), and other changes.

**Table 2**  
**Student Aid Commission**  
**Proposed 1989-90 Budget Changes**  
**By Funding Source**  
**(dollars in thousands)**

	<i>Funding Sources</i>			<i>Totals</i>
	<i>General Fund</i>	<i>Guaranteed Loan Reserve Fund</i>	<i>Federal Trust Fund</i>	
1988-89 Expenditures (Revised) .....	\$134,125	\$25,250	\$164,169	\$323,544
<b>Baseline Adjustments</b>				
Pro rata adjustments .....	—	-\$1,735	—	-\$1,735
Employee compensation .....	\$276	239	—	515
Inflation allowance .....	—	185	—	185
Indirect cost adjustment .....	—	-98	—	-98
One-time reductions .....	-633	-1,111	—	-1,744
Awards .....	-914	—	\$5	-909
Other (Calstars & rate reduction) .....	-38	-28	—	-66
Subtotals, baseline adjustments .....	<u>(-\$1,309)</u>	<u>(-\$2,548)</u>	<u>(\$5)</u>	<u>(-\$3,852)</u>
<b>Program Changes</b>				
Information system—third year .....	\$262	\$4,684	—	\$4,946
Loan program staff .....	—	154	—	154
Purchase of defaulted loans .....	—	-375	-\$4,625	-5,000
Subtotals, program changes .....	<u>(\$262)</u>	<u>(\$4,463)</u>	<u>(-\$4,625)</u>	<u>(\$100)</u>
1989-90 Expenditures (Proposed) .....	\$133,078	\$27,165	\$159,549	\$319,792
<b>Change from 1988-89:</b>				
Amount .....	-\$1,047	\$1,915	-\$4,620	-\$3,752
Percent .....	-0.8%	7.6%	-2.8%	-1.2%

**STUDENT AID COMMISSION—Continued**

- *Program changes* account for a net increase of \$100,000 resulting from third-year implementation of the financial aid processing system (\$4.7 million) and an offsetting reduction for loan defaults (\$4.6 million).

**ANALYSIS AND RECOMMENDATIONS**

We recommend approval of the baseline adjustments as shown in Table 2 and the following program changes which are not discussed elsewhere in this analysis:

- *Third-year Automation*—an increase of \$4.9 million—\$262,000 from the General Fund and \$4.7 million from the Loan Fund—and 84 positions (24 new positions, and 60 redirected positions) to support the third-year implementation of the automated Financial Aid Processing System (FAPS);
- *Investigations Staff*—an increase of \$154,000 from the Loan Fund for two additional positions in the Audits and Investigations Unit of the Loan Program to strengthen fraud and abuse prevention;
- *Budget Staff*—an increase of \$38,000 from the General Fund for an additional budget officer in the Budget Office; and
- *Defaulted Loans*—a decrease of \$5 million from the Loan Fund for the purchase of defaulted student loans.

**A. STUDENT FINANCIAL AID IN CALIFORNIA**

Student financial aid awards primarily consist of three basic types of aid—grants, loans, and work study. *Grants* are awards that do not have to be repaid by the recipient. These awards are provided to students based on their financial need and academic achievement. *Loans*, on the other hand, must be repaid by the recipient. Generally, student loans carry a lower interest rate and a longer term than commercial loans. The third type of award—*work study*—involves some program of subsidized compensation in which a student's wages are supported by financial aid and employer funding. A student's financial aid "package" may consist of all three types of aid.

The Student Aid Commission administers most of the state-supported financial aid programs. Students attending postsecondary institutions in California, however, receive financial assistance from many sources other than the state.

The commission estimates that \$2.1 billion in financial aid will be provided to students attending postsecondary institutions in California in 1988-89. This amount is approximately \$265 million (14 percent) more than the amount estimated to have been available in 1987-88. The California Educational Loan Program accounts for \$166 million, or nearly 65 percent, of this increase.

Data provided by SAC indicate that:

- State-supported financial aid programs provide \$187 million, or just under 9 percent of the total;
- Postsecondary institutions provide \$431 million, or 21 percent of the total;



- The California Educational Loan Programs provide \$976 million, or 46 percent, of the total; and
- Federal programs, excluding the Educational Loan Programs, provide \$481 million, or 23 percent of all student financial aid.

### B. LOCAL ASSISTANCE PROGRAMS (Items 7980-101-001 and 7980-101-890)

*We recommend approval.*

Table 3 displays the funding levels for all the commission's local assistance programs for the prior, current, and budget years.

**Table 3**  
**Student Aid Commission**  
**Local Assistance Programs**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
<i>Grant Programs</i>					
Cal Grant A (Scholarship) .....	\$79,243	\$88,431	\$84,704	-\$3,727	-4.2%
Cal Grant B (College Opportunity) .....	36,146	41,394	43,836	2,442	5.9
Cal Grant C (Occupational) .....	3,120	3,120	3,069	-51	-1.6
Graduate Fellowship .....	3,025	2,969	2,969	—	—
Law Enforcement Personnel					
Dependents .....	2	14	14	—	—
Bilingual Teacher Development .....	774	541	260	-281	-51.9
Byrd Scholarship Program .....	—	783	783	—	—
Paul Douglas Teacher Scholarships .....	1,607	2,004	2,009	5	0.2
Subtotals, grant programs .....	(\$123,917)	(\$139,256)	(\$137,644)	(\$-1,612)	(-1.2%)
<i>Other Programs</i>					
Assumption Program of Loans for Education (APLE) .....	\$92	\$591	\$1,294	\$703	119.0%
Work Study Program .....	667	750	750	—	—
Cal-SOAP .....	497	577	577	—	—
Reimbursements .....	—	-783	-783	—	—
Subtotals, other programs .....	(\$1,256)	(\$1,135)	(\$1,838)	(\$703)	(61.9%)
Grand totals .....	\$125,173	\$140,391	\$139,482	-\$909	-0.6%
<i>Funding Sources</i>					
General Fund .....	\$111,868	\$127,165	\$126,251	-\$914	-0.7%
Federal Trust Fund .....	13,305	13,226	13,231	5	—

Table 3 shows that the budget proposes total funding of \$139 million in 1989-90—an decrease of \$909,000 (-0.6 percent) from the amount available in the current year. General Fund support for these programs is proposed at \$126 million, a decrease of \$914,000 (-0.7 percent) from the current-year level. Federal support is proposed at \$13 million, an increase of \$5,000 from the current-year level. These changes reflect baseline funding adjustments related to a greater proportion of grant winners attending the less expensive public institutions.

Table 4 shows the maximum grant level and the total number of awards proposed by the budget for each of the local assistance *grant* programs in 1988-89 and 1989-90. The budget proposes neither an increase in the maximum grant nor an increase in the total number of awards for any of the commission's grant programs. The increase in the number of Cal Grant B awards is due to an increase in the rate of award renewals.

**STUDENT AID COMMISSION—Continued**

Table 4

**Student Aid Commission  
Maximum Award Levels and Number of Awards  
1988-89 and 1989-90**

Program	Maximum Award Level			Total Number of Awards <sup>a</sup>		
	1988-89	1989-90	Percent Change	1988-89	1989-90	Percent Change
Cal Grant A (Scholarship) .....	\$4,710	\$4,710	—	43,860	43,883	0.1%
Cal Grant B (Opportunity) .....	4,710	4,710	—	27,226	29,085	6.8
Cal Grant C (Occupational) .....	2,360	2,360	—	2,361	2,361	—
Graduate Fellowship .....	6,490	6,490	—	885	885	—
Law Enforcement Personnel Dependents.....	1,500	1,500	—	10	10	—
Bilingual Teacher Development .....	4,045	4,045	—	122	87	-28.7
Paul Douglas Teacher Scholarship....	5,000	5,000	—	398	400	0.5
Totals.....	N/A <sup>b</sup>	N/A <sup>b</sup>	N/A <sup>b</sup>	74,862	76,711	2.5%

<sup>a</sup> Includes new and renewal awards.

<sup>b</sup> N/A: Not Applicable.

**Grant Coverage at UC and CSU**

The Student Aid Commission administers two grant programs targeted to students attending postsecondary education institutions.

The Cal Grant A program provides grants to needy, academically able students to assist them in completing a four-year degree program at a California college or university of their *choice*. The grant award covers tuition and fees only.

The Cal Grant B program is designed to promote *access* to higher education, with grant awards covering both subsistence and fees. This program differs from the Cal Grant A program in that the selection of grant winners is based not only on the student's grade point average and family income, but also on the level of parental education, family size, and the student's career and life goals.

**Legislative Action on Cal Grant Maximum Award.** The 1988 Governor's Budget proposed, among other things, to increase the maximum Cal Grant award at the state's public higher education institutions. The maximum grant for UC was proposed at \$1,125, a 5.1 percent increase and \$355 for CSU, an 8.9 percent increase. The 1988 Budget Act eventually provided for a maximum grant at UC of \$1,080 and a maximum grant at CSU of \$329. These maximum grants were only slightly greater than the maximums provided in 1987-88—\$1,070 at UC and \$326 at CSU.

In last year's *Analysis*, we recommended increasing the maximum grant awards at the state's public higher education institutions to cover systemwide mandatory fees. We proposed to accomplish this by transferring a total of \$7.1 million from the budgets of UC and CSU to the SAC in order to augment the amount available for the Cal Grant awards.

The Legislature instead adopted supplemental report language which specified the following:

- That it is the intent of the Legislature that Cal Grant A and Cal Grant B recipients at UC and CSU receive awards that cover the full mandatory fees required by each segment; and
- That the SAC, in cooperation with UC, CSU, the California Postsecondary Education Commission (CPEC), the Department of Finance,

the Legislative Analyst, and student representatives (1) identify the total amount necessary to provide full fee coverage at UC and CSU through the Cal Grant programs, (2) determine what portion of the budgets of UC and CSU should be transferred to the SAC to meet the funding requirements, and (3) identify the amount which should be provided through a General Fund augmentation.

In compliance with the supplemental report, the SAC submitted its report to the Legislature by the September 1, 1988 deadline.

**SAC Findings.** The commission's report presented the following findings:

- The total amount needed to provide full coverage of mandatory fees, including campus-based fees, at UC and CSU is **\$15,970,000** based on 1988-89 fee levels. (This estimate does not reflect the cost of covering the 10 percent increase in student fees proposed in the Governor's Budget for 1989-90.)
- The amount available for transfer from the segments' budgets totals **\$7,574,000**, with \$3,317,000 identified in the UC budget and \$4,257,000 in the CSU budget.
- The augmentation required from the General Fund to provide full coverage of systemwide and campus-based fees, after adjusting for the amount currently available in the SAC's budget and the transfer from the UC and the CSU, is **\$8,396,000**.

The commission's report also presented two options for implementing the policy of full-fee coverage by the Cal Grant awards.

**Option One.** The first option requires (1) the transfer of \$3.3 million from the UC budget and \$4.3 million from the CSU budget to the SAC, and (2) a net General Fund augmentation of \$8.4 million for the SAC's Cal Grant A and Cal Grant B programs in 1989-90. These actions would provide the full amount needed to increase the Cal Grant awards at the two public four-year segments to cover systemwide and campus-based fees.

**Option Two.** The report acknowledges that a General Fund augmentation of \$8.4 million for the Cal Grant programs may not be available in any one year. Thus, a phased implementation of the proposal outlined in option one may be appropriate.

The report specifies that an alternate method for increasing the Cal Grant awards to cover full fees at UC and CSU would be to require a transfer of funds from the two segments' budgets *proportionate* to the amount of the General Fund augmentation. For example, if one-half of the total General Fund augmentation were provided—\$4.2 million based on the report's findings—then one-half of the amount available in the segments' budgets—\$3.8 million—should also be transferred. The implementation period could be set for any period and could be suspended if no General Fund augmentation were available.

**The Governor's Budget.** The budget does not propose a General Fund augmentation for the Cal Grant programs, nor does it propose a transfer of funds from UC and CSU to the SAC. Rather, the budget proposes to *increase* systemwide fees for both UC and CSU students by 10 percent and provides sufficient funds within each segment's budget to offset the cost of the fee increase for financially needy, eligible students, including Cal Grant winners.

**Legislative Analyst's Comments.** Our review finds that the two options proposed by the commission have merit. Both achieve the policy

**STUDENT AID COMMISSION—Continued**

goal of increasing the coverage of Cal Grant awards to meet the full cost of UC and CSU mandatory fees. Option two, the phased implementation of the funding transfer and General Fund augmentation, provides the Legislature more flexibility in allocating General Fund support. In the event that General Fund revenues fall below projections, the increase in the General Fund share can be suspended.

There are, however, other policy options that the Legislature may wish to consider. Below we present an additional option not included in the commission's report.

*Systemwide versus Campus-based Fees.* The commission's report recommended that the Cal Grant A and Cal Grant B award cover the full cost of systemwide and campus-based fees. The report notes that students are required to pay both systemwide and campus-based fees and that prior to 1981-82, Cal Grant awards were funded sufficiently to cover both fees.

In the 1988 *Analysis*, we recommended that Cal Grant awards cover only systemwide fees. We noted that the Legislature must establish the systemwide fees. The Legislature, however, does not control the level of campus-based fees. These fees are a local option set by each campus (often through a vote of the student body) and vary among the campuses. For the current year, the systemwide fee for UC is \$1,434 and the campus-based fee, on average, is an additional \$111. For the CSU, the systemwide fee is \$684 and the average campus-based fee is an additional \$131.

Our analysis indicates that the additional cost of covering campus-based fees through the Cal Grant program is approximately \$4.4 million in the current year. If the Legislature chooses to implement a full fee funding policy which recognizes systemwide fees only, then the amount required from the General Fund for the Cal Grant programs is reduced from \$8.4 million to \$4 million. We note that the *Supplemental Report of the 1988 Budget Act* specified that "It is the intent of the Legislature that Cal Grant A and Cal Grant B recipients at UC and CSU receive awards that cover the full mandatory fees *required by each segment.*" (Emphasis added.)

**Maximum Cal Grant Policy**

The Governor's Budget for 1988-89 proposed, among other things, to increase the maximum award for the Cal Grant A and Cal Grant B at *independent* institutions from \$4,370 to \$5,400. The 1988 Budget Act provided sufficient funds to increase the maximum award to \$4,710. Because there was no statutory requirement for setting the maximum Cal Grant award and because the SAC did not have a specific policy for requesting an adjustment to the maximum award at independent institutions, the grant maximum was set based on the amount of funding available.

The Legislature attempted to address the ad hoc nature of the decisionmaking process by adopting supplemental report language directing the CPEC and the SAC to convene a policy advisory committee to:

- Consider and make recommendations about state policy on the role of the state in meeting the educational costs of students with

financial need that choose to attend independent postsecondary educational institutions and proprietary schools;

- Develop alternative policies for setting maximum grant levels; and
- Identify the appropriate award levels for the alternative policies developed.

The committee's report was due to the Legislature on February 1, 1989. On behalf of the committee, the director of the SAC, however, requested that the deadline for submission be extended to March 15, 1989. We will be prepared to comment on the committee's report during budget hearings.

### **Work-Study Evaluation**

The California State Work-Study Program, established by Ch 1196/86, provides eligible college students subsidized employment to help defray their educational costs. The work experience is supposed to be related to the student's career goals or course of study. The primary emphasis of the program is to place students in positions with off-campus, private profit-making employers. For these positions the state subsidizes up to 50 percent of the student's wages.

The pilot program first received funding for work-study awards in the 1987 Budget Act. In that year \$750,000 was appropriated from the General Fund to support approximately 500 students at 15 institutions. The budget proposes \$750,000 from the General Fund in 1989-90 to continue the pilot program.

Chapter 1196 also provided for an evaluation of the work-study program by an independent firm. The 1988 Budget Act appropriated \$50,000 to the Legislative Analyst to fund the evaluation. An RFP (Request For Proposals) committee was convened and a contract was awarded on a competitive bid basis to MPR Associates, Inc. of Berkeley, California. The contractor is scheduled to deliver its preliminary report to the Legislature by April 15, 1989. We will be prepared to comment on the report's findings during budget hearings.

### **C. CALIFORNIA STUDENT LOAN PROGRAM (Items 7980-011-890 and 7980-011-951)**

#### *We recommend approval.*

The California Educational Loan Program assists students in meeting postsecondary educational expenses through federally reinsured, educational loans which are made available to students or their parents through conventional lenders at no cost to the state. The California Educational Loan Program includes, (1) the Guaranteed Student Loan (GSL) program, (2) the Supplemental Loans for Students (SLS), (3) the Parent Loan Program (PLUS), and (4) the Consolidated Loan Program. Table 5 displays the total number of loans and the dollar volume for the combined loan programs.

The 36 percent increase in the dollar volume of loans guaranteed between 1986-87 and 1987-88 can be attributed to (1) an additional 50,000 new loans guaranteed, and (2) an increase in the maximum loan (from \$2,500 to \$4,000 per year for undergraduates and from \$5,000 to \$7,500 per year for graduate students).

**STUDENT AID COMMISSION—Continued**

**Table 5**  
**Student Aid Commission**  
**California Educational Loan Programs**  
**Volume of Loans Guaranteed**  
**1982-83 through 1988-89**  
**(dollars in millions)**

	<i>Number of Loans</i>	<i>Dollar Volume</i>	<i>Annual Dollar Change</i>	
			<i>Amount</i>	<i>Percent</i>
1982-83.....	231,700	\$617.6	—	—
1983-84.....	258,300	687.9	\$70.3	11.4%
1984-85.....	281,800	756.2	68.3	9.9
1985-86.....	258,300	699.0	-57.2	-7.6
1986-87.....	257,500	698.0	-1.0	-0.1
1987-88.....	306,900	945.9	247.9	35.5
1988-89 (est.).....	320,000	980.0	34.1	3.6

The GSL program provides interest-subsidized loans to students that demonstrate financial need (the federal government subsidizes the interest payments). The other three programs do not provide interest subsidies and are available to any student (or parent of a student, under the PLUS program) that wishes to borrow funds.

**Table 6**  
**Student Aid Commission**  
**Default Rates for the Guaranteed Student Loan Program**  
**By Segment**  
**1985-86 through 1988-89**

<i>Segment</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>
California Community Colleges.....	31.2%	31.7%	32.4%	32.6%
California State University.....	12.5	12.8	13.0	13.2
University of California.....	7.5	7.6	7.5	7.5
Private institutions, two-year.....	17.8	18.5	18.3	18.3
Private institutions, four-year.....	10.4	10.5	10.4	10.4
Proprietary schools.....	<u>32.2</u>	<u>33.9</u>	<u>32.8</u>	<u>32.6</u>
Statewide averages.....	16.9%	17.4%	17.3%	17.5%

**Default Rate Stabilizes**

Table 6 displays the default rate on GSL loans since 1985-86. The table shows that the statewide average default rate for all educational segments has been stable for the last three years at approximately 17 percent. Although the rates vary considerably among the educational segments, the data reflect a leveling of the rate for each. This contrasts sharply with the trend during the early years of this decade when the statewide average default rate climbed from 10.1 percent in 1983-84 to 17 percent in 1985-86.

In large measure, the reason for the stabilization of the default rate is the growing maturity of the SAC's loan portfolio. During the early 1980s, the number of defaulted loans was growing more quickly than the number of loans in repayment status. This in turn caused the default rate to increase. As the loan portfolio matures, defaulted loans and loans for which payment is being made grow at roughly equal rates and the overall default rate begins to stabilize.

Actions by the commission to strengthen administration of the program and to terminate participation of educational institutions that do not

adhere to program guidelines are intended to reduce the default rate in the future.

#### D. STATE OPERATIONS (Items 7980-001-001 and 7980-001-951)

*We recommend approval.*

The SAC administration provides the services necessary to support the commission's programs. Table 7 shows the commission's proposed administrative expenditures by program unit for the prior, current, and budget years.

**Table 7**  
**Student Aid Commission**  
**State Operations**  
**1987-88 through 1989-90**  
**(dollars in thousands)**

Program	Actual 1987-88	Est. 1988-89	Prop. 1989-90	Change from 1988-89	
				Amount	Percent
Cal Grant A (Scholarship).....	\$2,799	\$2,993	\$2,830	-\$163	-5.4%
Cal Grant B (Opportunity).....	1,971	2,064	2,067	3	0.1
Cal Grant C (Occupational).....	432	511	498	-13	-2.5
Graduate Fellowship.....	367	430	383	-47	-10.9
Law Enforcement Personnel Dependents ..	1	2	2	—	—
Specialized programs <sup>a</sup> .....	724	978	1,089	111	11.3
California Educational Loan Programs.....	21,339	16,193	18,483	2,290	14.1
Cal-SOAP.....	1	6	6	—	—
Reimbursements.....	-114	-24	-48	-24	100.0
Administrative and support services.....	(4,715)	(5,615)	(6,721)	(1,106)	(19.7)
Totals.....	\$27,250	\$23,153	\$25,310	\$2,157	9.3%
Funding Sources					
General Fund.....	\$6,278	\$6,960	\$6,827	-\$133	-1.9%
Guaranteed Loan Reserve Fund.....	21,242	16,193	18,483	2,290	14.1

<sup>a</sup> Includes administrative costs for the following programs: Bilingual Teacher Development Grant, Paul Douglas Teacher Scholarship, Assumption Program of Loans for Education (APLE), and Work Study.

The budget proposes total support of \$25 million for the commission in 1989-90, a 9.3 percent increase (\$2.2 million) from the current-year level. This increase is due primarily to the third-year implementation of the Financial Aid Processing System (FAPS) (\$4.6 million from the Loan Fund), offset by administrative savings and staff redirections from other units within the commission. Of the total support for the administrative operations of the commission, the General Fund would provide \$6.8 million or 27 percent of the total, and the Loan Fund would provide \$18.5 million, or 73 percent.