

EDUCATION

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 138 campuses serving approximately 2 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 20 campuses, and the California Community Colleges (CCC) with 107 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 331 independent colleges and universities in California which serve an estimated 193,000 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 1981-82. 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 1990-91 is 2.5 percent. The community colleges are projected to experience an increase of 2.7 percent while CSU and UC are projected to increase by 2.7 percent and 1.2 percent, respectively.

POSTSECONDARY EDUCATION—Continued

Table 1
 Postsecondary Education
 California Enrollment in Public Higher Education
 1981-82 through 1990-91

	UC		CSU		Community Colleges		Totals	
	Head-count	FTE	Head-count	FTE	Head-count	ADA	Head-count	FTE/ADA
1981-82.....	134,547	128,035	318,584	239,927	1,431,524	768,886	1,884,655	1,136,848
1982-83.....	134,946	129,643	317,946	241,407	1,354,982	743,689	1,807,874	1,114,739
1983-84.....	137,175	130,822	315,904	241,989	1,248,916	680,745	1,701,995	1,053,556
1984-85.....	140,643	133,705	318,528	242,752	1,176,221	661,834	1,635,392	1,038,291
1985-86.....	144,040	136,928	328,818	248,456	1,176,712	656,421	1,649,570	1,041,805
1986-87.....	148,176	141,766	338,444	252,789	1,199,759	681,525	1,686,379	1,076,090
1987-88.....	152,943	145,983	347,441	258,243	1,264,409	698,588	1,764,793	1,102,814
1988-89.....	157,319	150,440	361,593	267,771	1,334,029	734,391	1,852,941	1,152,282
1989-90 (Est.)..	159,072	152,213	363,250	267,380	1,395,348	764,664	1,917,670	1,184,257
1990-91 (Est.)..	161,095	154,101	372,495	274,500	1,440,041	785,290	1,973,631	1,213,891
Change from 1989-90:								
Number.....	2,023	1,888	9,245	7,120	44,693	20,626	55,961	29,634
Percent.....	1.3%	1.2%	2.5%	2.7%	3.2%	2.7%	2.9%	2.5%

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 1985 to 1988.

Table 2 shows that the community colleges have the most diverse ethnic enrollment of any segment. It also shows a rather static situation for Black enrollment and a slight increase in Hispanic enrollment.

Table 2
Postsecondary Education ^a
Student Enrollment by Ethnicity
Fall Data
1985 through 1988

	CCC				CSU				UC			
	1985	1986	1987	1988	1985	1986	1987	1988	1985	1986	1987	1988
Undergraduate:												
White	66.4%	66.7%	66.2%	64.0%	68.6%	67.9%	66.7%	65.6%	67.7%	65.7%	63.7%	61.6%
Black	7.8	8.0	7.7	7.3	6.1	5.8	5.8	5.8	4.4	4.6	4.7	4.9
Hispanic	13.4	13.6	14.0	15.9	10.1	10.4	10.9	11.5	8.0	8.6	9.4	10.3
Asian	11.1	10.2	10.6	11.4	14.0	14.8	15.4	15.9	19.3	20.5	21.5	22.4
American Indian	1.4	1.4	1.4	1.4	1.2	1.1	1.1	1.0	0.6	0.6	0.7	0.9
Graduate:												
White	—	—	—	—	77.4%	77.8%	77.5%	77.4%	78.4%	77.9%	77.1%	75.6%
Black	—	—	—	—	4.7	4.5	4.5	4.4	3.8	3.7	3.7	3.7
Hispanic	—	—	—	—	7.3	7.2	7.6	7.9	6.2	6.4	6.5	6.9
Asian	—	—	—	—	9.3	9.4	9.3	9.2	11.0	11.4	12.0	13.1
American Indian	—	—	—	—	1.2	1.1	1.1	1.0	0.6	0.6	0.7	0.6

^a 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.

POSTSECONDARY EDUCATION—Continued**Student Fees**

Table 3 shows the level of state imposed fees charged to students at the public postsecondary education institutions in 1988-89 and 1989-90, and the budget proposal for 1990-91.

Table 3
Postsecondary Education
Student Fees in California Public Institutions
1988-89 through 1990-91

	<i>Actual</i> 1988-89	<i>Actual</i> 1989-90	<i>Prop.</i> 1990-91	<i>Change from</i> 1989-90	
				<i>Amount</i>	<i>Percent</i>
University of California					
Systemwide fee	\$1,434	\$1,476	\$1,545	\$69	4.7%
California State University					
Full-time fee	\$684	\$708	\$744	\$36	5.1%
Part-time fee	396	408	426	18	4.4
Hastings College of the Law					
Mandatory fee	\$1,410	\$1,476	\$1,545	\$69	4.7%
California Maritime Academy					
Mandatory fee	\$706	\$740	\$773	\$33	4.5%
Community Colleges					
Mandatory fee	\$100	\$100	\$100	—	—

EXPENDITURES

Table 4 summarizes proposed expenditures for postsecondary education in 1990-91. Total support for all public higher education is proposed at \$15.5 billion. Of the total, the state General Fund would provide \$5.8 billion, or 38 percent. The \$3.7 billion from the federal government is the second largest source of support for higher education; however, \$2.4 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 \$778 million from property tax revenues (including local debt).

Table 4
Postsecondary Education
Summary of Estimated 1990-91 Budget
By Funding Source
(dollars in thousands)

	<i>General Fund</i>	<i>State Lottery</i>	<i>Other State</i>	<i>Federal</i>	<i>Property Tax</i>	<i>Student Fees</i>	<i>Other</i>	<i>Totals</i>
University of California.....	\$2,203,843 ^a	\$26,006	\$71,805	\$3,222,314 ^b	—	\$456,676	\$2,921,692 ^c	\$8,902,336
California State University.....	1,740,479 ^{a,d}	46,234	14,100	97,392	—	341,782 ^d	541,779	2,781,766
California Community Colleges.....	1,688,168	127,051	71,487	157,615	\$778,084	65,676	432,249	3,320,330 ^e
Hastings College of the Law.....	14,424	236	—	210	—	2,709	3,147	20,726
California Maritime Academy.....	7,017	30	33	401	—	582	1,634	9,697
Student Aid Commission.....	162,695	—	25,081	238,157	—	—	831	426,764
California Postsecondary Education Commission.	3,646	—	—	4,309	—	—	145	8,100
Council for Private Postsecondary and Vocational Education.....	—	—	1,452	627	—	—	—	2,079 ^f
Totals.....	\$5,820,272	\$199,557	\$183,958	\$3,721,025	\$778,084	\$867,425	\$3,901,477	\$15,471,798 ^g
Percent of Totals.	37.6%	1.3%	1.2%	24.1%	5.0%	5.6%	25.2%	100.0%

^a Includes lease purchase revenue bonds of \$24.5 million for UC and \$7.7 million for CSU.

^b Includes \$2.4 billion budgeted within UC for three Department of Energy laboratories.

^c Includes reimbursements, hospital fees, private contributions, sales and service, and auxiliary enterprises.

^d The \$341.8 million in fee revenues are shown in the Governor's Budget as a General Fund appropriation.

^e Includes expenditures not shown in the Governor's Budget.

^f Funding for the newly-created council is for half year operations (January 1, 1991 to June 30, 1991).

^g Excludes capital outlay.

Table 5 compares the average annual rate of growth for the past 10 years (1) in the state General Fund support per FTE student for UC and CSU and (2) in state and local support per ADA student for the CCC. These data show that expenditures per student in the UC, CSU, and CCC have increased at a slightly higher annual rate than the state and local government price index—1.2 percent, 0.6 percent, and 0.8 percent, respectively.

Table 5
Postsecondary Education
General Fund and Local Support per Student for UC, CSU and CCC
1981-82 through 1990-91

	UC				CSU				CCC			
	General Fund ^a	Students (FTE)	Per FTE		General Fund ^{a,c}	Students (FTE)	Per FTE		General Fund and Local Support ^a	Students (ADA)	Per ADA	
			Current Dollars	1981-82 Dollars ^b			Current Dollars	1981-82 Dollars ^b			Current Dollars	1981-82 Dollars ^b
1981-82.....	\$1,097,293	128,035	\$8,570	\$8,570	\$955,683	239,927	\$3,983	\$3,983	\$1,520,700	768,886	\$1,978	\$1,978
1982-83.....	1,125,425	129,643	8,681	8,190	907,338	241,407	3,759	3,546	1,504,500	743,689	2,023	1,909
1983-84.....	1,110,012	130,822	8,485	7,655	949,984	241,989	3,926	3,542	1,519,800	680,745	2,233	2,014
1984-85.....	1,457,144	133,705	10,898	9,385	1,142,928	242,752	4,708	4,055	1,608,200	661,834	2,430	2,093
1985-86.....	1,641,741	136,928	11,990	9,945	1,258,500	248,456	5,065	4,202	1,820,200	656,421	2,773	2,300
1986-87.....	1,788,304	141,776	12,614	10,133	1,354,673	252,789	5,359	4,305	1,874,200	681,525	2,750	2,209
1987-88.....	1,888,872	145,983	12,939	9,940	1,428,147	258,243	5,530	4,249	2,058,800	698,588	2,947	2,264
1988-89.....	1,970,047	150,440	13,095	9,610	1,489,260	267,451	5,568	4,087	2,180,900	734,391	2,970	2,180
1989-90 (est.).....	2,089,475	152,213	13,727	9,615	1,646,821	267,380	6,159	4,314	2,331,000	764,664	3,048	2,135
1990-91 (est.).....	2,203,843	154,101	14,301	9,508	1,740,479	274,500	6,341	4,215	2,518,100	785,290	3,207	2,132
Percent Change												
1981-82 to 1990-91.....	100.8%	20.4%	66.9%	10.9%	82.1%	14.4%	59.2%	5.8%	65.6%	2.1%	62.1%	7.8%
Annual Rate of Change.	8.1	2.1	5.9	1.2	6.9	1.5	5.3	0.6	5.8	0.2	5.5	0.8

^a Dollars in thousands.

^b Change in prices measured by the implicit price deflator for purchases of goods and services by state and local government.

^c Excludes appropriated fee revenue.

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

Item 6420 from the General
Fund and Federal Trust Fund

Budget p. E 55

Requested 1990-91	\$8,100,000
Estimated 1989-90	7,928,000
Actual 1988-89	7,718,000
Requested increase (excluding amount for salary increases) \$172,000 (+2.2 percent)	
Total recommended reduction	None

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6420-001-001—Support	General	\$3,631,000
6420-001-890—Administration	Federal	182,000
6420-011-001—Administration	General	15,000
6420-101-890—Local assistance	Federal	<u>4,127,000</u>
Subtotal, budget bill items		(\$7,955,000)
Non-Budget Bill Funding		
Special Deposit Fund	—	\$125,000
Reimbursements	—	<u>20,000</u>
Subtotal, non-budget bill funding		<u>(\$145,000)</u>
Grand total		\$8,100,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis
page*

1. Administrator Salaries. Recommend that the California Postsecondary Education Commission's Annual Report on Administrative Salaries reflect the comparability of CSU and UC central-office administrator's salaries with those of such employees in similar institutions.

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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 52 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes \$3.6 million from the General Fund for support of CPEC in 1990-91. This is an increase of \$144,000, or 4.1 percent, from estimated current-year expenditures. Table 1 summarizes expenditures and funding sources for the commission in the prior, current, and budget years.

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION—Continued

Table 1
California Postsecondary Education Commission
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

<i>Programs</i>	<i>Actual</i> 1988-89	<i>Est.</i> 1989-90	<i>Prop.</i> 1990-91	<i>Change from</i> 1989-90	
				<i>Amount</i>	<i>Percent</i>
Executive.....	\$559	\$714	\$812	\$98	13.7%
Research and evaluation.....	1,182	1,421	1,465	44	3.1
Information services.....	583	565	565	—	—
Administration/other.....	<u>5,394</u>	<u>5,228</u>	<u>5,258</u>	<u>30</u>	<u>0.6</u>
Totals.....	\$7,718	\$7,928	\$8,100	\$172	2.2%
Funding Sources					
<i>General Fund</i>	\$3,347	\$3,502	\$3,646	\$144	4.1%
<i>Federal funds</i>	3,233	4,309	4,309	—	—
<i>Special Deposit Fund</i>	—	50	125	75	150.0
<i>Reimbursements</i>	1,138	67	20	-47	-70.1
Personnel-years.....	49.9	52.0	53.0	1	1.9%

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 1990-91 General Fund Budget Changes
(dollars in thousands)

1989-90 Expenditures (Revised).....	\$3,502
<i>Baseline Adjustments</i>	
Annualization of 1989-90 compensation increase.....	\$41
One-time expenditures.....	-47
Subtotal, baseline adjustments.....	(-\$6)
<i>Program Changes</i>	
Eligibility/student flow project.....	<u>\$150</u>
1990-91 Expenditures (Proposed).....	\$3,646
Change from 1989-90:	
Amount.....	\$144
Percent.....	4.1%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the proposed level of General Fund support for the CPEC. As Table 2 indicates, the only major budget change is a request for \$150,000 on an ongoing basis to develop and maintain information on California high school graduates' eligibility for UC and CSU and student flow through public postsecondary education in California. This effort will include (1) an eligibility study every four years and (2) routine reports on the flow of students through public postsecondary education. Prior reports on these matters have provided useful policy information to the Legislature concerning the operation of the state's Master Plan for Higher Education. Consequently, we recommend approval.

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 fifth year of federal support for this program.

Surge in Administrative Salaries

We recommend that the California Postsecondary Education Commission's Annual Report on Administrative Salaries reflect the comparability of CSU and UC central-office administrator's salaries with those of such employees in similar institutions.

CPEC Report on Administrator's Salaries. To assist legislative oversight, supplemental report language in the 1978, 1979, and 1981 Budget Acts directed the CPEC to prepare an annual report on top level administrator's salaries at the CSU and UC. These employees are not represented by any collective bargaining agent; rather, their salaries and benefits are set directly by their governing boards—either the Trustees of the CSU or the Regents of the UC.

The annual CPEC report contains salary data for both campus-based and central-office administrators. Comparative data with other states, however, is only shown for campus-based administrators, not central-office administrators.

Dramatic Increase in CSU Central-Office Salaries. In the current year, the CSU Trustees acted to significantly increase the salaries of their top central-office administrators as follows:

- The chancellor's salary was increased by \$58,756 (43 percent) from \$136,244 to \$195,000;
- The executive vice chancellor's salary was increased by \$31,026 (26 percent) from \$118,974 to \$150,000; and
- The five vice chancellor's salaries were increased by \$27,705 (24 percent) from \$117,295 to \$145,000.

UC Increases. The Regents granted less dramatic current-year increases to their similar top central-office administrators as follows:

- The president's salary was increased by \$16,100 (7.5 percent) from \$214,500 to \$230,600;
- The two senior vice president's salaries were increased by \$21,600 (16 percent) from \$139,300 to \$160,900; and
- The three vice president's salaries were raised by an average of \$20,100 (16 percent) from a range of \$121,400 to \$125,100 to a range of \$140,900 to \$145,200.

Recommendation. Both the Trustees and the Regents assert that their action on central-office administrator's salaries were needed to remain competitive with salaries at similar institutions. Because CPEC does not

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION—Continued

report such salaries, however, the Legislature does not have a basis to independently verify the data. Such verification is possible in CPEC's other reports on faculty and campus-based administrator salaries. Given this situation, we recommend that CPEC also include central office comparison institution data in its annual report to the Legislature. Consequently, we recommend that the Legislature adopt the following Supplemental Report language in Item 6420-001-001:

It is the intent of the Legislature that CPEC include in its annual report to the Legislature on administrator salaries UC and CSU central office salary data in comparison to salaries paid by other states in their systemwide offices.

THE UNIVERSITY OF CALIFORNIA

Item 6440 from the General

Fund and various other funds

Budget p. E 60

Requested 1990-91	\$8,902,336,000
Estimated 1989-90	8,412,987,000
Actual 1988-89	7,682,375,000
Requested increase (including amount for salary increases) \$489,349,000 (+5.8 percent)	
Total recommended reduction	None

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
Budget Bill Items		
6440-001-001—Main support	General	\$2,126,183,000
6440-001-046—Research	Transportation	956,000
6440-001-144—Research	Water	100,000
6440-001-234—Research	Cigarette	31,949,000
6440-001-791—Asbestos clean-up	Bond Act of 1990	3,000,000
6440-001-814—Lottery revenue	Lottery	26,006,000
6440-003-001—Revenue bonds	General	24,500,000
6440-011-001—Faculty salaries	General	22,585,000
6440-012-001—Staff salaries	General	14,645,000
6440-013-001—Benefits	General	15,930,000
6440-490—Reappropriation	General	—
6440-491—Reappropriation	General	—
Subtotal, budget bill items		(\$2,265,854,000)
Non-Budget Bill Funding		
Department of Energy Laboratories		\$2,414,000,000
Expenditures from other fund sources		4,222,482,000
Subtotal, non-budget bill funding		<u>(\$6,636,482,000)</u>
Grand total		\$8,902,336,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS*Analysis
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| 1. New Campuses. Recommend the adoption of supplemental report language requesting UC to: (1) expedite the planning for one new campus with the intent to open this campus as early as possible before the current planning date of 1998, (2) reassess the enrollment assumptions associated with a second new campus, and (3) suspend planning for a third new campus. | 983 |
| 2. University of California Retirement Plan (UCRP). Withhold recommendation on the budget's proposal to appropriate the 1990-91 University of California Retirement Plan (UCRP) contribution of \$55.6 million in the first three months of 1991-92, pending legal clarification of the proposal. | 986 |
| 3. Revenue Bond Payments. The budget includes \$35.1 million for revenue bond payments in 1990-91 which is \$5.2 million less than the estimated amount required. While this shortfall will not delay the construction or occupancy of capital outlay projects, we find that the state's financing cost of this delay will be an additional \$1.3 million over the 20-year life of the bond. | 987 |

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 154,000 students in 1990-91.

Curriculum. The university offers a broadly based undergraduate curriculum leading to the baccalaureate degree at each general campus. UC 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, UC 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

THE UNIVERSITY OF CALIFORNIA—Continued

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 57,715 personnel-years.

MAJOR ISSUES

- UC should expedite the development of one new campus, reassess the enrollment assumptions associated with a second new campus and suspend planning for a third new campus.
- \$55.6 million UC retirement plan payment deferred until 1991-92.
- \$5.2 million deferral in revenue bond payments until 1991-92 will cost the General Fund \$1.3 million over the 20-year life of the bond.
- Budget funds enrollment increase of 1,888 undergraduate students.

OVERVIEW OF THE BUDGET REQUEST

Total Expenditures. The UC budget proposes total expenditures (including salary increases) of \$8.9 billion in 1990-91. This is \$489 million (5.8 percent) above estimated current-year expenditures. Of this amount, \$114.4 million is from the General Fund. In our companion document *The 1990-91 Budget: Perspectives and Issues* we point out that the proposed funding level for higher education, including UC, is below the level needed to fully sustain the current service level. The proposed funding level, however, is sufficient to fund UC's undergraduate enrollment growth.

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
1988-89 through 1990-91
(dollars in thousands)

<i>Budgeted Programs</i>	<i>Actual</i> 1988-89	<i>Est.</i> 1989-90	<i>Prop.</i> 1990-91	<i>Change from</i> 1988-89	
				<i>Amount</i>	<i>Percent</i>
Instruction.....	\$1,372,336	\$1,575,325	\$1,601,734	\$26,409	1.7%
Research.....	212,396	257,172	248,198	-8,974	-3.5
Public service.....	82,548	88,829	89,303	474	0.5
Academic support.....	338,575	362,785	370,068	7,283	2.0
Teaching hospitals.....	1,066,971	1,251,116	1,338,469	87,353	7.0
Student services.....	183,308	178,125	178,125	—	—
Institutional support.....	287,993	318,508	320,942	2,434	0.8
Operation and maintenance.....	241,340	275,707	284,467	8,760	3.2
Student financial aid.....	88,562	79,297	81,926	2,629	3.3
Auxiliary enterprises.....	274,440	316,225	335,028	18,803	5.9
Special Regents' Program.....	43,603	81,283	76,295	-4,988	-6.1
Unallocated adjustments.....	12,154	-10,785	112,081	122,866	— ^a
Subtotals, budgeted programs.....	(\$4,204,226)	(\$4,773,587)	(\$5,036,636)	(\$263,049)	(5.5%)
<i>Extramural Programs</i>					
Sponsored research and other.....	\$1,245,770	\$1,349,400	\$1,451,700	\$102,300	7.6%
Department of Energy labs.....	2,232,379	2,290,000	2,414,000	124,000	5.4
Subtotals, extramural programs.....	(\$3,478,149)	(\$3,639,400)	(\$3,865,700)	(\$226,300)	(6.2%)
Grand Totals.....	\$7,682,375	\$8,412,987	\$8,902,336	\$489,349	5.8%
<i>Funding Sources</i>					
<i>Budgeted Programs:</i>					
<i>General Fund</i>	\$1,970,047	\$2,089,475	\$2,203,843	\$114,368	5.5%
<i>University general funds</i>	160,524	196,753	201,659	4,906	2.5
<i>UC Retirement System fund</i>	—	57,200	55,629	-1,571	-2.7
<i>State Transportation Fund</i>	956	956	956	—	—
<i>California Water Fund</i>	100	100	100	—	—
<i>Cigarette and Tobacco Products Fund</i>	—	40,923	31,949	-8,974	-21.9
<i>Facilities Bond Fund (1988)</i>	3,000	2,200	—	-2,200	— ^a
<i>Capital Outlay Bond Fund (1990)</i>	—	—	3,000	3,000	— ^a
<i>Lottery Education Fund</i>	25,984	26,006	26,006	—	—
<i>Federal funds</i>	12,724	12,640	13,114	474	3.8
<i>University funds—restricted</i>	2,030,891	2,347,334	2,500,380	153,046	6.5
<i>Extramural Programs:</i>					
<i>State agency agreements</i>	\$34,402	\$35,100	\$35,800	\$700	2.0%
<i>Federal funds</i>	694,567	743,200	795,200	52,000	7.0
<i>Private gifts, contracts and grants</i>	235,764	257,000	277,500	20,500	8.0
<i>Other University funds</i>	281,037	314,100	343,200	29,100	9.3
<i>Department of Energy (federal)</i>	2,232,379	2,290,000	2,414,000	124,000	5.4
Personnel-years.....	57,589	57,715	58,064	349	0.6%

^a Not a meaningful figure.

General Fund Support for Budgeted Programs. Table 1 shows that the budget proposes to expend \$2.2 billion from the General Fund for support of the UC system in 1990-91, a net increase of \$114.4 million (5.5

THE UNIVERSITY OF CALIFORNIA—Continued

percent) above 1989-90. This increase includes \$53.2 million associated with the cost of 1990-91 salary and benefit increases.

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 \$202 million in 1990-91, in comparison to the \$2.2 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."

Expenditures by Source of Funding

Table 2 shows the source of funding for each individual program for 1990-91. For example, the table shows that general funds provide almost all (96 percent) of the \$1 billion general campus instruction budget. In contrast, general funds account for only \$64 million (4.8 percent) of the \$1.3 billion teaching hospitals' budget (patient charges for services provide most of the balance).

General Fund Budget Changes Proposed for 1990-91

The specific factors accounting for the net \$114.4 million increase in General Fund support proposed for 1990-91 are identified in Table 3. It shows that:

- *Baseline adjustments* result in a net increase of \$48.2 million.
- *Workload changes* total \$19.1 million.
- *Program changes* result in a reduction of \$5 million, which is due to a proposed reduction of the teaching hospital special subsidy from \$8 million to \$3 million.
- *Employee compensation* increases by \$53.2 million.
- *Capital outlay revenue bond* payments are reduced by \$1.1 million, from \$25.6 million to \$24.5 million. (It is expected, however, that \$10.6 million of the current-year amount will be reappropriated to provide a total of \$35.1 million for payments in the budget year.)

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval of all of the changes shown in Table 3 with the exception of the revenue bond proposal which 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:

- *State Transportation Fund (Item 6440-001-046)*—\$956,000 for continued support of the Institute of Transportation Studies.

Table 2
The University of California
Source of Funds by Program
1990-91 Governor's Budget
(dollars in thousands)

Budgeted Programs	General Funds	Federal Funds	Student		Endow- ments	Other Sources	Totals
			Fees and Tuition	Sales and Services			
Instruction							
General campuses	\$1,006,462	\$50	\$1,740	\$8,398	\$3,844	\$23,995	\$1,044,489
Health sciences	292,674	764	—	124,870	2,567	10,251	431,126
Summer sessions	—	—	17,414	—	—	98	17,512
University extension	—	—	108,567	40	—	—	108,607
Subtotals, instruction	(\$1,299,136)	(\$814)	(\$127,721)	(\$133,308)	(\$6,411)	(\$34,344)	(\$1,601,734)
Research	\$189,886	\$3,364	—	\$4,468	\$11,081	\$39,399	\$248,198
Public service	57,253	8,936	\$4,417	16,415	1,347	935	89,303
Academic support	241,357	—	4,844	100,756	2,220	20,891	370,068
Teaching hospitals	64,115	—	—	1,274,135	190	29	1,338,469
Student services	10,664	—	146,802	645	48	19,966	178,125
Institutional support	233,823	—	17,034	1,095	2,183	66,807	320,942
Operation and maintenance	272,108	—	7,292	—	738	4,329	284,467
Student financial aid	42,725	—	29,580	25	9,421	175	81,926
Auxiliary enterprises	—	—	2,486	332,188	24	330	335,028
Special Regents' Programs	—	—	—	—	—	76,295	76,295
Unallocated adjustments	50,064	—	28,400	15,836	7,041	10,740	112,081
Subtotals, budgeted pro- grams	(\$2,461,131)	(\$13,114)	(\$368,576)	(\$1,878,871)	(\$40,704)	(\$274,240)	(\$5,036,636)
Extramural Programs							
Sponsored research and other activities	—	\$795,200	—	—	—	\$656,500	\$1,451,700
Department of Energy Labo- ratories	—	2,414,000	—	—	—	—	2,414,000
Subtotals, extramural pro- grams	—	(\$3,209,200)	—	—	—	(\$656,500)	(\$3,865,700)
Grand totals	\$2,461,131	\$3,222,314	\$368,576	\$1,878,871	\$40,704	\$930,740	\$8,902,336

- **California Water Fund (Item 6440-001-144)**—\$100,000 for continued research on mosquito control.
- **Research Account, Cigarette and Tobacco Products Surtax Fund (Item 6440-001-234)**—\$31.9 million for a statewide program of tobacco-related disease research. This research account receives 5 percent of the revenue raised from the surtax on tobacco products that was enacted by the voters with the passage of Proposition 99 in November 1988. The current-year budget also includes revenue from the last six months of 1988-89, when the measure first went into effect. This inclusion of prior year revenue in 1989-90 accounts for the budget-year reduction of \$9 million in this account displayed in Table 1.

THE UNIVERSITY OF CALIFORNIA—Continued

Table 3

The University of California
Proposed 1990-91 General Fund Budget Changes
(dollars in thousands)

1989-90 Expenditures (Revised)	\$2,089,475
<i>Baseline Adjustments</i>	
Annualization of 1989-90 compensation increase	\$45,892
Merit and promotions for faculty	16,517
Energy projects savings	-28
UC income adjustment	<u>-14,140</u>
Subtotal, baseline adjustments	(\$48,241)
<i>Workload Changes</i>	
Undergraduate enrollment	\$9,991
Library staff related to new undergraduates	634
Financial aid for new undergraduates	482
Operation and maintenance of plant (new space)	<u>7,960</u>
Subtotal, workload changes	(\$19,067)
<i>Program Changes</i>	
Hospital subsidy (reduced from \$8 million)	<u>-\$5,000</u>
Subtotal, program changes	(-\$5,000)
<i>Salary and Benefit Increases</i>	
Faculty salary	\$22,585
Staff salary	14,645
Benefits	<u>15,930</u>
Subtotal, salary and benefit increases	(\$53,160)
<i>Capital Outlay Revenue Bonds</i>	
Payments (reduced from \$25.6 million)	<u>(-\$1,100)</u>
1990-91 Expenditures (Proposed)	\$2,203,843
Change from 1989-90:	
Amount	\$114,368
Percent	5.5%

- **1990 Higher Education Capital Outlay Bond Fund Appropriations (Item 6440-001-791)**—\$3 million for asbestos abatement projects. This is an increase of \$800,000 (36 percent) above the current year. The university has identified at least \$75 million of asbestos abatement projects and has developed a plan to identify the highest priority among these projects.
- **California State Lottery Education Fund (Item 6440-001-814)**—\$26 million for the following instructionally related items—computers (\$9 million), instructional program inflation related needs and additional support for the arts and humanities (\$13 million), new instructional equipment (\$3 million), and instructional equipment replacement (\$1 million). These expenditures supplement the university's budget.
- **General Reappropriation (Item 6440-490)**—a provision reappropriating unexpended General Fund balances, exclusive of specified federal overhead receipts, from UC's 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 1989 Budget Act.

Student Fee Increases Proposed for 1990-91.

As shown in Table 4, the budget requests: (1) an increase of \$69 (4.7 percent) in the systemwide resident student fees, and (2) an increase of \$186 (2.6 percent) in nonresident student fees and tuition. The resident student fee increase is in accordance with the methodology contained in the statutory fee policy enacted by Ch 1523/85 (SB 195, Maddy). There is no statutory fee policy on nonresident tuition.

Table 4
The University of California
Systemwide Student Charges^a
1988-89 through 1990-91

<i>Charges</i>	<i>Actual</i> 1988-89	<i>Est.</i> 1989-90	<i>Prop.</i> 1990-91	<i>Change from</i> 1989-90	
				<i>Amount</i>	<i>Percent</i>
Resident Students					
Systemwide Fees.....	\$1,434	\$1,476	\$1,545	\$69	4.7%
Nonresident Students					
Systemwide Fees.....	\$1,434	\$1,476	\$1,545	\$69	4.7%
Tuition	4,806	5,799	5,916	117	2.0
Totals, nonresidents	\$6,240	\$7,275	\$7,461	\$186	2.6%

^a In addition to systemwide charges, students also pay campus-based fees. In the current year these campus-based fees average \$158 per undergraduate student and \$222 per graduate student.

I. INSTRUCTION

The Instruction program includes: (1) general campus instruction, (2) health science instruction, (3) summer session, and (4) university extension. Table 5 displays UC's instruction budget in the prior, current, and budget years. The budget proposes expenditures of \$1.6 billion for this program in 1990-91, an increase of \$26.4 million (1.7 percent) above estimated current-year expenditures.

Table 5
The University of California
Instruction Budget
Summary of Expenditures and Funding
1988-89 through 1990-91
(dollars in thousands)

<i>Elements</i>	<i>Actual</i> 1988-89	<i>Est.</i> 1989-90	<i>Prop.</i> 1990-91	<i>Change from</i> 1989-90	
				<i>Amount</i>	<i>Percent</i>
General campus.....	\$869,680	\$1,032,136	\$1,044,489	\$12,353	1.2%
Health sciences.....	391,373	426,402	431,126	4,724	1.1
Summer session	15,276	16,222	17,512	1,290	8.0
University extension	96,007	100,565	108,607	8,042	8.0
Totals.....	\$1,372,336	\$1,575,325	\$1,601,734	\$26,409	1.7%
Funding Sources					
General funds	\$1,106,231	\$1,289,145	\$1,299,136	\$9,991	0.8%
Lottery Education Fund.....	25,984	26,006	26,006	—	—
Other restricted funds.....	240,121	260,174	276,592	16,418	6.3
Personnel-years.....	21,091	21,977	22,205	228	1.0%

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Table 6
The University of California
Full-Time Equivalent Students (FTE)
1988-89 through 1990-91

Campus	1988-89 Actual	1989-90		1990-91 Prop.	Change from Budgeted 1989-90	
		Budgeted	Est.		Number	Percent
Berkeley						
Undergraduate	20,503	20,172	20,128	20,125	-47	-0.2%
Postbaccalaureate	55	60	60	60	—	—
Graduate	7,665	7,577	7,774	7,577	—	—
Health sciences	794	757	757	757	—	—
Subtotals	29,017	28,566	28,719	28,519	-47	-0.2%
Davis						
Undergraduate	15,710	16,341	16,194	16,812	471	2.9%
Postbaccalaureate	87	87	100	87	—	—
Graduate	3,173	3,081	3,237	3,081	—	—
Health sciences	1,853	1,832	1,832	1,832	—	—
Subtotals	20,823	21,341	21,363	21,812	471	2.2%
Irvine						
Undergraduate	12,124	12,646	12,458	12,892	246	1.9%
Postbaccalaureate	244	260	220	260	—	—
Graduate	1,655	1,783	1,759	1,783	—	—
Health sciences	1,104	1,040	1,040	1,040	—	—
Subtotals	15,127	15,729	15,477	15,975	246	1.6%
Los Angeles						
Undergraduate	20,320	20,387	20,527	20,636	249	1.2%
Postbaccalaureate	52	60	45	60	—	—
Graduate	7,725	7,634	7,813	7,634	—	—
Health sciences	3,736	3,719	3,719	3,719	—	—
Subtotals	31,833	31,800	32,104	32,049	249	0.8%
Riverside						
Undergraduate	5,622	6,440	6,423	6,876	436	6.8%
Postbaccalaureate	181	220	210	220	—	—
Graduate	1,113	1,118	1,153	1,118	—	—
Health sciences	45	48	48	48	—	—
Subtotals	6,961	7,826	7,834	8,262	436	5.6%
San Diego						
Undergraduate	13,234	13,299	13,391	13,554	255	1.9%
Postbaccalaureate	58	100	75	100	—	—
Graduate	1,830	2,000	1,971	2,000	—	—
Health sciences	1,156	1,052	1,052	1,052	—	—
Subtotals	16,278	16,451	16,489	16,706	255	1.6%
San Francisco						
Health sciences	3,699	3,574	3,574	3,574	—	—
Santa Barbara						
Undergraduate	15,555	15,533	15,625	15,491	-42	-0.3%
Postbaccalaureate	104	133	110	133	—	—
Graduate	1,960	2,147	2,129	2,147	—	—
Subtotals	17,619	17,813	17,864	17,771	-42	-0.2%

Santa Cruz						
Undergraduate	8,448	8,234	8,510	8,554	320	3.9%
Postbaccalaureate	80	125	125	125	—	—
Graduate	555	754	678	754	—	—
Subtotals	9,083	9,113	9,313	9,433	320	3.5%
Total University						
Undergraduate	111,516	113,052	113,256	114,940	1,888	1.7%
Postbaccalaureate	861	1,045	945	1,045	—	—
Graduate	25,676	26,094	26,514	26,094	—	—
Health sciences	12,387	12,022	12,022	12,022	—	—
Totals	150,440	152,213	152,737	154,101	1,888	1.2%

ENROLLMENT

The \$9.9 million general funds increase shown in Table 5 is entirely from the state General Fund and is requested to support an additional 1,888 undergraduate students in the budget year.

Table 6 shows the projected student enrollment increases at each campus. The budget proposes increases at only the undergraduate level where enrollments are projected to increase by 1,888 FTE (1.7 percent) in 1990-91.

UC's Long-range Enrollment Plan

We recommend that the Legislature adopt supplemental report language requesting UC to: (1) expedite the planning for one new campus with the intent to open this campus as early as possible before the current planning date of 1998; (2) reassess the enrollment assumptions associated with a second new campus, and (3) suspend planning for a third new campus.

The 1989 Budget Act appropriated \$500,000 to the university for new campus planning. The budget includes \$500,000 for the university to continue its efforts on the site selection process for one or more new UC campuses to accommodate projected enrollment growth. In the *Supplemental Report of the 1989 Budget Act* the Legislature directed the university to report during hearings on the 1990-91 budget on the uses of the \$500,000 provided in the current-year budget for new campus planning. We will review and comment on this report and on the proposed budget-year expenditure of \$500,000 for continued planning at that time.

In our companion document *The 1990-91 Budget: Perspectives and Issues* ("Capital Outlay for Postsecondary Education") we provide an analysis of UC's plan to develop three new campuses by 2005-06. We conclude that based on UC's undergraduate enrollment projections and its 1987 graduate enrollment plan, coupled with more students being accommodated on the Riverside campus, there is a demonstrated need for only one new campus at this time. We also find that UC should (1) develop this campus on a faster track than currently proposed, (2) reassess the enrollment assumptions associated with a second new campus, and (3) suspend planning efforts for a third new campus.

Based on this analysis, we recommend that the Legislature adopt the following supplemental report language in Item 6440-001-001:

THE UNIVERSITY OF CALIFORNIA—Continued

It is the intent of the Legislature that the University of California do the following with regard to new campus planning: (1) expedite the planning for one new campus with the intent to open this campus as early as possible before the current planning date of 1998 (2) reassess the enrollment assumptions associated with a second new campus, and (3) suspend planning for a third new campus. The UC shall provide a status report to the Legislature on its actions with regard to this request by December 1, 1990.

Five-Year Capital Outlay Plan. We found further that UC's five-year capital outlay plan does not adequately inform the Legislature on how needs related to projected enrollment growth are to be met and that a significant portion of the plan's proposed expenditures do not address enrollment-related needs.

In our analysis of UC's capital outlay program we recommend additional supplemental report language requesting UC to include in its five-year capital outlay plan for 1991-92 to 1995-96 those activities associated with planning/establishing the first campus that will take place in the plan's time-frame.

Table 7
The University of California
Unallocated Adjustments
1988-89 through 1990-91
(dollars in thousands)

<i>Elements</i>	<i>Est.</i> <i>1988-89</i>	<i>Est.</i> <i>1989-90</i>	<i>Prop.</i> <i>1990-91</i>	<i>Change</i> <i>From</i> <i>1989-90</i>
Provisions for Allocation				
University of California Retirement Plan				
(UCRP) deferral payment (1983-84)	\$6,400	\$6,400	\$6,400	—
UCRP deferral payment (1989-90)	—	—	-5,305	-\$5,305
UCRP baseline contribution (1990-91)	—	—	-50,324	-50,324
UCRP funds	—	57,200	55,629	-1,571
Lease payments on revenue bonds	—	25,600	24,500	-1,100
Budgetary savings target	—	-85,850	-85,850	—
Other provisions	5,754	-14,135	51,462	65,597
Subtotals, provisions	(\$12,154)	(\$-10,785)	(\$-3,488)	(\$7,297)
Fixed Costs and Economic Factors				
Annualization of 1989-90 compensation	—	—	\$45,892	\$45,892
Faculty merit salary increase	—	—	16,517	16,517
Faculty salary increase for 1990-91	—	—	22,585	22,585
Staff salary increase for 1990-91	—	—	14,645	14,645
Benefit increase for 1990-91	—	—	15,930	15,930
Subtotals, fixed costs	(—)	(—)	(\$115,569)	(\$115,569)
Grand totals	\$12,154	-\$10,785	\$112,081	\$122,866
Funding Sources				
General funds	\$12,154	-\$51,425	\$50,064	\$101,489
Restricted funds	—	40,640	62,017	21,377

II. 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 7, includes funds for

(1) allocation to other programs during the budget year, for example, budgetary savings targets, and (2) employee compensation increases.

A. FACULTY SALARIES AT PARITY IN JANUARY 1991 (Items 6440-011-001, 6440-012-001 and 6440-013-001)

We recommend approval.

The budget proposes an expenditure of \$53.2 million to increase UC employee compensation in 1990-91. Of this amount, \$15.9 million is for benefits, while the balance of \$37.3 million would be used to provide the following salary increases, effective January 1, 1991: 4.8 percent for faculty (\$22.6 million) and 3.9 percent for staff (\$14.6 million).

Pursuant to Res Ch 223/65 (SCR 51, Miller), the California Postsecondary Education Commission (CPEC) annually submits to the Legislature an analysis comparing UC faculty salaries 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 8 shows the CPEC data which indicate that while UC's all ranks average salary—\$62,546—is 1.4 percent ahead of the comparison group in 1989-90, a full year faculty salary increase of 4.8 percent would be needed on July 1, 1990 for UC to be at parity with this group for all of 1990-91. As mentioned, however, the budget proposes \$22.6 million for a January 1991 increase of 4.8 percent. This, in effect, delays the achievement of parity by six months.

Table 8
The University of California
Faculty Salary Increase Required to Achieve Parity
With Comparison Institutions
1990-91

Academic Rank	UC Average Salaries ^b 1989-90	Comparison Group Salaries ^a		Percentage Change Required in UC Salaries	
		Actual 1989-90	Est. 1990-91	Actual 1989-90	Est. 1990-91
Full Professor.....	\$73,132	\$71,546	\$75,916	-2.2%	3.8%
Associate Professor.....	47,250	48,907	52,056	3.5	10.2
Assistant Professor.....	41,341	40,402	43,129	-2.3	4.3
All Ranks Average.....	\$62,546	\$61,695	\$65,540	-1.4%	4.8%

^a 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 1989-90: full professors 63 percent (3,554), associate professors 19 percent (1,076), and assistant professors 18 percent (998).

^b The following are the 1989-90 salary ranges for the various UC academic ranks: full professors \$48,500 to \$87,700; associate professors \$40,400 to \$53,100; assistant professors \$33,900 to \$42,700.

THE UNIVERSITY OF CALIFORNIA—Continued**B. UNIVERSITY OF CALIFORNIA RETIREMENT PLAN (UCRP)****Legal Clarification Needed on Proposed Separate Legislation for UCRP Contribution**

We withhold recommendation on the budget's proposal for separate legislation to provide the 1990-91 UCRP contribution of \$55.6 million in the first three months of 1991-92, pending legal clarification of the proposal.

Background. UC employees are members of the University of California Retirement Plan (UCRP) and contribute a portion of their salaries to the plan. The State of California, the federal government and other contractors provide the employer contribution to the UCRP. The state's contributions to the UCRP constitute about 40 percent of the total employer contribution.

The basic principle of retirement plan funding is that contributions into the plan should be sufficient to cover the cost of retirement payments owed to members now and in the future. If they are sufficient, the fund is "actuarially sound." In order to determine the appropriate employer contribution into the fund, assumptions are 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.

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 review is referred to as an actuarial valuation.

Actions Taken in 1989-90

The 1989 Budget Act did not appropriate the state's contribution to the UCRP which, in June 1989, was estimated to be \$68 million. Instead, this amount was deferred and the 1989 Budget Act expressed legislative intent to provide an annual supplemental appropriation of \$6.2 million over the next 30 years to pay back the actuarial equivalent of the amount deferred.

An actuarial valuation of the UCRP this fall resulted in the following changes: (1) the estimated amount deferred in the current year was reduced from \$68 million to \$57.2 million and (2) the amount needed in the supplemental appropriation was reduced from \$6.2 million to \$5.3 million.

1990-91 Budget Proposal

Based on the fall 1989 actuarial assumptions, the 1990-91 budget (after adjustments for salary increases) should include \$55.6 million for the state's contribution for UCRP consisting of (1) \$50.3 million for the normal contribution and (2) \$5.3 million for the first supplemental payment.

The 1990-91 budget, however, includes neither of these contributions for the UCRP. Instead, it states that "a 1990-91 appropriation to fund UCRP retirement costs will be proposed in separate legislation with a provision that funds will be made available to the University over the period July 1, 1991 to September 30, 1991." Thus, the budget proposes the unusual financing device of the state accruing this employee benefit in 1990-91 and paying for it in 1991-92.

We are concerned about the possibility that there may be legal responsibilities related to the timing of the payment of retirement benefits that would not allow the state to pay this benefit in arrears. We have requested that the Legislative Counsel review this proposal and advise the Legislature on its legal implications. Consequently, we withhold recommendation at this time.

C. REVENUE BOND LEASE PAYMENTS (Items 6440-003-001 and 6440-491)

Budget Delay of Payments Will Cost State An Additional \$1.3 million

We find that the budget includes \$35.1 million for revenue bond payments in 1990-91 which is \$5.2 million less than the estimated need. While this shortfall will not delay the construction or occupancy of capital outlay projects, we find that the state's financing cost of this delay will cost an additional \$63,000 per year for the 20-year life of the bond.

The magnitude of postsecondary education facility needs in recent years has caused the state to rely heavily on bond financing. There are two basic forms of bond financing that the state has used—general obligation bonds and lease-purchase revenue bonds. In both cases, the *General Fund* provides the revenues for making principal and interest payments on the bonds. In the case of revenue bond financing, buildings are funded during their construction through a loan from the state's Pooled Money Investment Account (PMIA). Shortly after the building is completed and occupied the State Treasurer issues revenue bonds to pay back the principal and associated interest on the PMIA loan.

Proposal to Delay Payment. The UC budget contains \$25.6 million in the current year and requests \$24.5 million in the budget year for a total of \$50.1 million from the General Fund for debt service payments related to those capital construction projects which have been financed by lease purchase revenue bonds. Based on information from the State Treasurer's office, we estimate, however, that \$55.3 million is needed over the two-year period—\$15 million in the current year and \$40.3 million in the budget year. Based on these estimates, the budget for lease payments is underfunded by \$5.2 million (the budget proposes a reappropriation of an estimated \$10.6 million balance from the current year).

Because of this underfunding, the PMIA loan will not be repaid as early as it otherwise would be. The additional interest of this extended PMIA loan will be added to the cost of the revenue bond and be repaid with interest. We estimate that this added expense will increase the *yearly* cost of the revenue bond payment by \$63,000 over the 20-year life of the bond. Put another way, the state will pay an additional \$1.3 million in interest payments over the entire period.

THE UNIVERSITY OF CALIFORNIA—Continued

Options. The Legislature could provide an appropriation of \$5.2 million in 1990-91 (rather than later) to avoid this additional financing charge. Not appropriating the \$5.2 million until later and thereby paying the additional future financing cost, however, allows the \$5.2 million in 1990-91 to be used for other purposes. The Governor's Budget proposal chooses the latter—to pay the additional future financing costs and use the \$5.2 million for other purposes. We believe that the trade-off between the additional financing cost and the use of the \$5.2 million for other purposes in the budget year is a question of legislative priorities. We caution, however, that deferral of current costs to future years sets a poor precedent and carries the risk of reducing budgetary choices in the future.

Capital Outlay

The Governor's Budget proposes several appropriations beginning with Item 6440-301-660 for capital outlay expenditures in Higher Education. Please see our analysis of the proposed Higher Education Capital Outlay Program in the capital outlay section of the *Analysis* which is in the back of this document. The University of California capital outlay analysis begins with Item 6440-301-660.

HASTINGS COLLEGE OF THE LAW

Item 6600 from the General

Fund and various other funds

Budget p. E 94

Requested 1990-91	\$20,726,000
Estimated 1989-90	19,832,000
Actual 1988-89	18,896,000
Requested increase (including amount for salary increases) \$894,000 (+4.5 percent)	
Total recommended reduction	None

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6600-001-001—Main support	General	\$13,474,000
6600-001-791—Asbestos clean-up	1990 Bond	70,000
6600-001-814—Lottery revenue	Lottery	236,000
6600-006-001—Financial aid	General	568,000
6600-011-001—Faculty salaries	General	175,000
6600-012-001—Staff salaries	General	101,000
6600-013-001—Benefit increases	General	106,000
6600-490—Reappropriation	General	—
Subtotal, Budget Bill items		(\$14,730,000)
Non-Budget Bill Funding		
Expenditures from other fund sources		\$5,996,000
Grand total		\$20,726,000

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. Enrollment in 1990-91 is projected to total 1,340 students the same level as the current-year.

OVERVIEW OF THE BUDGET REQUEST

Total Expenditures. The budget proposes total expenditures (including salary increases) of \$20.7 million in 1990-91. This is \$894,000 (4.5 percent) above estimated current-year expenditures.

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.

Table 1
Hastings College of the Law
Expenditures and Funding
1988-89 through 1990-91
(dollars in thousands)

	<i>Actual</i> 1988-89	<i>Est.</i> 1989-90	<i>Prop.</i> 1990-91	<i>Change from</i> 1989-90	
				<i>Amount</i>	<i>Percent</i>
<i>Budgeted Programs</i>					
Instruction.....	\$6,718	\$7,502	\$8,454	\$952	12.7%
Public services.....	163	203	203	—	—
Law library.....	1,781	1,780	1,780	—	—
Student services.....	1,854	1,913	1,907	-6	-0.3
Institutional support.....	3,585	3,628	3,628	—	—
Operation and maintenance.....	1,915	1,784	1,622	-162	-9.1
Provisions for allocation.....	—	—	342	342	— ^a
Subtotals, budgeted programs.....	(\$16,016)	(\$16,810)	(\$17,936)	(\$1,126)	(6.7%)
<i>Extramural Programs</i>	\$2,880	\$3,022	\$2,790	-\$232	-7.7%
Grand totals.....	\$18,896	\$19,832	\$20,726	\$894	4.5%
<i>Funding Sources</i>					
<i>Budgeted Programs:</i>					
<i>General Fund</i>	\$12,276	\$13,272	\$14,424	\$1,152	8.7%
<i>Hastings' general funds</i>	2,916	3,070	3,206	136	4.4
<i>Lottery Education Fund</i>	236	236	236	—	—
<i>Facilities Bond Fund (1988)</i>	588	232	—	-232	-100.0
<i>Capital Outlay Bond Fund (1990)</i>	—	—	70	70	— ^a
<i>Extramural Programs:</i>					
<i>Federal funds</i>	\$228	\$242	\$210	-\$32	-13.2%
<i>Private gifts, contracts and grants</i>	404	363	222	-141	-38.8
<i>Other Hastings' funds</i>	2,248	2,417	2,358	-59	-2.4
<i>Personnel-years</i>	218.7	212.7	215.7	3.0	1.4%

^a Not a meaningful figure.

General Fund Support for Budgeted Programs. Table 1 shows that the budget proposes to expend \$14.4 million from the General Fund for support of Hastings in 1990-91, a net increase of \$1.2 million (8.7 percent) above 1989-90. This increase includes \$382,000 associated with the cost of 1990-91 salary and benefit increases.

HASTINGS COLLEGE OF THE LAW—Continued

Table 2 identifies the specific factors accounting for the net \$1.2 million increase in General Fund support for 1990-91.

Table 2
Hastings College of the Law
Proposed 1990-91 General Fund Budget Changes
(dollars in thousands)

1989-90 Expenditures (Revised)	\$13,272
<i>Baseline Adjustments</i>	
Annualization of 1989-90 compensation increase	\$388
Merit and promotions for faculty	111
Instructional equipment replacement	87
Financial aid increase	30
Reduction for one-time augmentations	-43
UC Retirement plan rate reduction	-151
Subtotal, baseline adjustments	(\$422)
<i>Workload Changes</i>	
Clinical program improvement (Phase 2)	\$348
<i>Salary and Benefit Increases</i>	
Faculty salary	\$175
Staff salary	101
Benefits	106
Subtotal, salary and benefit increase	(\$382)
1990-91 Expenditures (Proposed)	\$14,424
Change from 1989-90:	
Amount	\$1,152
Percent	8.7%

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

We recommend approval of the proposed General Fund changes shown in Table 2. As Table 2 indicates, the only major budget change is a request for \$348,000 for the second phase of a proposed three-year plan for improvements in Hastings' clinical skills program offerings. The Legislature approved \$251,000 in the 1989 Budget Act for support of the first phase. Hastings' anticipates a request for an additional \$361,000 for phase three in 1991-92.

Among the objectives of these improvements are to (1) increase the number of law office and trial skills course offerings at Hastings and (2) improve the supervision of law office student placements. The phase two improvements include the addition of two full-time professors in the clinical area. The American Bar Association's (ABA) accreditation standards now require law schools to offer skills training programs comparable to the Hastings' plan.

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

- **1990 Higher Education Capital Outlay Bond Fund Appropriations (Item 6600-001-791)**—\$70,000 for completion of an asbestos abatement project at Hastings' 198 McAllister Street Building. The 1988 and 1989 Budget Acts provided \$588,000 and \$232,000, respectively, to fund the major costs associated with this project.

- *California State Lottery Education Fund (Item 6600-001-814)*—\$236,000 for instructionally related expenditures that supplement Hastings' budget.
- *Student Financial Aid (Item 6600-006-001)*—\$568,000 from the General Fund, an increase of \$30,000 (5.6 percent) above estimated current-year expenditures, to provide sufficient funds to offset the effect of the proposed student fee increase. The budget requests: (1) an increase of \$69 (4.7 percent)—from \$1,476 to \$1,545—in resident student fees, and (2) an increase of \$186 (2.6 percent)—from \$7,275 to \$7,461—in nonresident student fees and tuition. The proposed levels are equal to those proposed for students at the University of California.
- *Faculty and Staff Salary Proposals (Items 6600-011-001, 6600-012-001, and 6600-013-001)*—\$382,000 to increase Hastings' compensation in 1990-91. Of this amount, \$106,000 is for benefits, while the balance of \$276,000 would be used to provide a 4.8 percent salary increase for faculty and a 3.9 percent salary increase for staff, effective January 1, 1991. The proposed increases are equal to those proposed for the employees of the University of California.
- *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 1989 Budget Act.

CALIFORNIA STATE UNIVERSITY

Item 6610 from the General
Fund and various funds

Budget p. E 101

Requested 1990-91	\$2,781,766,000
Estimated 1989-90	2,637,202,000
Actual 1988-89	2,406,759,000
Requested increase (including amount for salary increases) \$144,564,000 (+5.5 percent)	
Total recommended reduction	162,000

CALIFORNIA STATE UNIVERSITY—Continued
1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6610-001-001—Support	General	\$1,670,191,000
6610-001-791—Support	Capital Outlay Bond	10,600,000
6610-001-814—Support	Lottery Education	46,234,000
6610-001-890—Support	Federal Trust	97,392,000
6610-002-001—Support	General	1,308,000
6610-003-001—Support	General	7,655,000
6610-006-001—Support	General	350,000
6610-010-001—Support	General	341,782,000
6610-021-001—Support	General	3,218,000
6610-021-036—Support	Special Account for Capital Outlay	3,500,000
6610-032-001—Support	General	24,108,000
6610-034-001—Support	General	13,313,000
6610-036-001—Support	General	20,336,000
6610-490—Reappropriation	General	—
6610-495—Reversion	General	—
Subtotal, Budget Bill Items		(\$2,239,987,000)
Non-Budget Bill Funding		
Reimbursements		\$62,370,000
Expenditures from other fund sources		479,409,000
Subtotal, Non-Budget Bill Funding		(\$541,779,000)
Total		\$2,781,766,000

Analysis
page

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

1. New campus planning. Recommend adoption of supplemental report language directing the CSU to suspend planning for new campuses, because there is no current need for any new campuses by 2005 based on (a) statewide enrollment trends and (b) the various options available to meet regional enrollment needs. Further recommend that the CSU redirect its staff efforts on new campus planning to specified other efforts related to the projection of enrollment growth and the implementation of educational equity goals. 1004
2. Year-round operations. Recommend adoption of supplemental report language directing the CSU to complete a detailed analysis of the costs and benefits of accommodating enrollment growth through year-round operations. 1006
3. Teacher Education/Graduate Equity Fellowships. Recommend that the California State University and the Department of Finance report at budget hearings on the reasons why they propose to terminate the Teacher Education program in order to almost double the funding for Graduate Equity Fellowships. 1010
4. Unallocated savings. Recommend that the CSU report at budget hearings on how it will achieve \$14.5 million in unallocated savings. 1015
5. Revenue Bond Lease Payments. The budget includes \$7.7 million for revenue bond lease payments in 1990-91, which is 1015

\$2.6 million less than the amount required. While this shortfall will not delay the construction or occupancy of capital outlay projects, the state's costs of financing this delay will be an additional \$959,000 over the 20-year life of the bond (or \$48,000 per year).

6. **Revenue Bond Insurance Payments. Reduce Item 6610-003-001 by \$162,000.** Recommend deletion of \$162,000 in insurance costs related to the proposed delay in the sale of certain lease payment revenue bonds, if the Legislature adopts the revenue bond budget as proposed. 1015
7. **Salary increases.** Recommend that the Legislature clarify the extent to which the CSU can differentiate cost-of-living adjustment (COLA) salary increases within the average increase that is authorized in the annual Budget Act. We find that salary increases provided by the CSU to its executive, management, and supervisory employees vary significantly in the current year—from 3.7 percent to 43.0 percent. 1016

GENERAL PROGRAM STATEMENT

The California State University (CSU) system is composed of 20 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 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 272,081 full-time equivalent (FTE) students and 35,550.3 personnel-years in 1989-90.

CALIFORNIA STATE UNIVERSITY—Continued**MAJOR ISSUES**

- There currently is no demonstrated need for any new CSU campuses by 2005.
- In 1989-90, the CSU has provided its executive employees with significant COLA salary increases ranging from 15 to 43 percent.
- Budget requires the CSU to achieve \$14.5 million in unallocated savings.
- Budget proposes to delay \$2.6 million in revenue bond payments at a General Fund cost of \$959,000 over the next 20 years.
- Budget proposes to terminate the Teacher Education program in order to double the funding for Graduate Equity Fellowships.

OVERVIEW OF THE BUDGET REQUEST

General Fund Expenditures. The budget proposes General Fund expenditures of \$2.1 billion for support of the CSU system in 1990-91. This is an increase of \$113.6 million (5.8 percent) over estimated current-year General Fund expenditures. We note that the proposed General Fund expenditures include \$341.8 million in revenues, primarily from student fees. The budget projects that these appropriated fee revenues will increase by \$20.0 million (6.2 percent) in 1990-91. Consequently, fees fund 17.6 percent of the proposed \$113.6 million General Fund increase.

Total Expenditures. Table 1 provides a budget summary for the CSU system, by program, for the prior, current, and budget years.

Table 1
The California State University
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Programs	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Change from 1989-90	
				Amount	Percent
Instruction.....	\$1,113,175	\$1,262,004	\$1,282,749	\$20,745	1.6%
Public service	1,130	1,251	1,251	—	—
Academic support.....	188,443	213,143	217,960	4,817	2.3
Student services.....	244,715	251,198	281,367	30,169	12.0
Institutional support	454,116	504,242	516,499	12,257	2.4
Independent operations.....	71,399	70,755	74,689	3,934	5.6
Auxiliary organizations.....	333,768	354,092	375,762	21,670	6.1
Provisions for allocation.....	13	-19,483	-26,268	-6,785	34.8 ^a
Unallocated salary increase.....	—	—	57,757	57,757	— ^a
Totals, expenditures.....	\$2,406,759	\$2,637,202	\$2,781,766	\$144,564	5.5%
Funding Sources					
General Fund.....	\$1,793,864	\$1,968,633	\$2,082,261	\$113,628	5.8%
Special Account for Capital Outlay.....	—	3,500	3,500	—	—
Reimbursements.....	55,905	57,729	62,370	4,641	8.0
Higher Education Earthquake Account.....	341	181	—	-181	-100.0
Continuing Education Revenue Fund.....	47,247	51,592	51,824	232	0.4
Dormitory Revenue Fund.....	30,499	36,522	38,654	2,132	5.8
Parking Revenue Fund.....	11,420	12,368	13,153	785	6.3
1988 Higher Education Capital Outlay					
Bond Fund.....	1,696	13,904	—	-13,904	-100.0
1990 Higher Education Capital Outlay					
Bond Fund.....	—	—	10,600	10,600	— ^a
Lottery Education Fund.....	37,044	55,803	46,234	-9,569	-17.1
Federal Trust Fund.....	94,975	82,864	97,392	14,528	17.5
Special Projects Fund.....	—	14	16	2	14.3
Auxiliary organizations					
Federal.....	56,407	59,842	63,504	3,662	6.1
Other.....	277,361	294,250	312,258	18,008	6.1
Personnel-years.....	35,465.7	35,550.3	36,474.7	924	2.6%

^a Not a meaningful figure.

Expenditures by Source of Funding

The CSU budget is divided into nine major programs, which are shown in Table 2 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.

Counseling and career guidance	36,473	-	36,473	-	-	-	-	\$45	-	-	-	-	36,518
Financial aid	41,297	10,393	51,690	-	-	-	-	-	-	-	\$97,392	-	149,082
Student support	51,380	-	51,380	-	-	-	-	4	\$7,902	-	-	-	59,286
Totals, Student Services	(\$165,631)	(\$10,393)	(\$176,024)	-	-	-	-	(\$49)	(\$7,902)	-	(\$97,392)	-	(\$281,367)
5. Institutional Support													
Executive management ..	\$40,862	-	\$40,862	-	-	-	-	\$13,427	-	-	-	-	\$54,289
Financial operations	40,107	\$50	40,157	-	-	-	-	1,438	\$1,968	\$1,095	-	-	44,658
General administrative services	93,503	-	93,503	-	-	-	-	652	-	-	-	-	94,155
Logistical services	74,809	1,090	75,899	-	-	-	-	2,591	5,336	7,179	-	-	91,005
Physical plant operation ..	182,507	-	182,507	\$3,500	\$10,600	\$16	-	39	23,200	2,476	-	-	222,338
Faculty and staff services.	349	-	349	-	-	-	-	-	-	3	-	-	352
Community relations	7,703	-	7,703	-	-	-	-	1,999	-	-	-	-	9,702
Totals, Institutional Support	(\$439,840)	(\$1,140)	(\$440,980)	(\$3,500)	(\$10,600)	(\$16)	-	(\$20,146)	(\$30,504)	(\$10,753)	-	-	(\$516,499)
6. Independent Operations .	\$26,773	\$45,586	\$72,359	-	-	-	-	-	-	\$2,330	-	-	\$74,689
7. Auxiliary Organizations ..	-	-	-	-	-	-	-	-	-	-	-	\$375,762	\$375,762
8. Provisions for Allocation .	-\$73,043	-	-\$73,043	-	-	-	\$46,234	\$223	\$248	\$70	-	-	-\$26,268
9. Employee Compensation.	\$57,757	-	\$57,757	-	-	-	-	-	-	-	-	-	\$57,757
Totals, Support Budget Expenditures	\$2,082,261	\$62,370	\$2,144,631	\$3,500	\$10,600	\$16	\$46,234	\$51,824	\$38,654	\$13,153	\$97,392	\$375,762	\$2,781,766

CALIFORNIA STATE UNIVERSITY—Continued**General Fund Budget Changes Proposed for 1990-91**

As detailed in Table 3, the budget for CSU in 1990-91 reflects several offsetting increases and decreases. The table shows that:

- *Baseline adjustments* result in a net increase of \$25.3 million. These include various adjustments in personnel costs, reductions for non-recurring expenditures, and reductions in instructional equipment and deferred maintenance “due to constraints on General Fund resources.”
- *Workload changes*, which include enrollment-related adjustments, result in an increase of \$38.9 million.
- *Program changes* result in an increase of \$6.5 million. (Each of these augmentations is discussed later in this analysis.)
- *Salary and benefit increases*, discussed later in this analysis, total \$57.8 million.
- *Lease payments on revenue bonds*, which are also discussed later in this analysis, result in an increase of \$4.8 million.
- *Unallocated savings requirements*, which the Governor’s Budget identifies as being “due to constraints on General Fund resources”, total \$19.7 million. Of this amount, \$5.2 is to be funded through a reappropriation of a like amount from the 1989 Budget Act. Thus, the net unallocated savings requirement is \$14.5 million. These savings requirements are discussed later in this analysis.

Table 3
The California State University
Proposed 1990-91 General Fund Budget Changes
(dollars in thousands)

1989-90 Expenditures (Revised)	\$1,968,633
<i>Baseline Adjustments</i>	
Salary annualization	\$38,296
Merit salary adjustments/faculty promotions.....	3,283
Positions—full-year funding.....	4,179
Staff benefits.....	505
Nonrecurring items	-18,472
Instructional equipment replacement reduction.....	-1,491
Deferred maintenance reduction.....	-747
Miscellaneous baseline reductions	-252
Subtotal, baseline adjustments.....	(\$25,301)
<i>Workload Changes</i>	
Enrollment adjustment.....	\$23,808
Special cost factors	
Instruction.....	1,273
Academic support.....	631
Student services.....	8,976
Institutional support.....	10,514
Independent operations.....	3,694
Reimbursements	-2,641
Systemwide offices	107
Systemwide provisions	-7,453
Subtotal, workload changes.....	(\$38,909)

<i>Program Changes</i>	
CSU, San Marcos	\$8,336
Reimbursements for CSU, San Marcos	-2,000
Redirection from Teacher Education to Graduate Equity Fellowships	(419)
Risk management positions	180
Subtotal, program changes	(\$6,516)
<i>Salary and Benefit Increases</i>	
Faculty salary	\$24,108
Staff salary	13,313
Benefits	20,336
Subtotal, salary and benefit increases	(\$57,757)
<i>Capital Outlay Revenue Bonds</i>	
Lease payments on revenue bonds	\$4,811
<i>Unallocated savings requirement</i>	-\$19,666 ^a
1990-91 Expenditures (Proposed)	\$2,082,261
Change from 1989-90:	
Amount	\$113,628
Percent	5.8%

^a Of the \$19,666,000 in unallocated required savings, \$5,199,000 is to be funded from a reappropriation of 1989 Budget Act funds, as specified in Item 6610-490. This results in a net unallocated savings requirement of \$14,467,000.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of all baseline and workload adjustments and the following program change proposals, which are justified on a workload basis:

- **Risk Management**—\$180,000 from the General Fund and three positions in the Chancellor's Office to develop a coordinated approach for risk management, in the areas of environmental and property hazards, fire safety, emergency preparedness, and worker's accidents.
- **CSU, San Marcos**—\$8,336,000 from the General Fund (of which \$2.0 million is from reimbursements to be funded from lottery funds) and 124.2 positions for the first year of operations for the new San Marcos campus in northern San Diego county. The campus will serve 250 FTE students in 1990-91.

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

- **Asbestos Abatement (Item 6610-001-791)**—\$10.6 million from the 1990 Higher Education Capital Outlay Bond Fund, for asbestos abatement activities. These funds are proposed to be allocated in the same manner that was specified in the 1989 Budget Act. The funds will be subject to voter approval.
- **Federal Funds (Item 6610-001-890)**—\$97.4 million from the Federal Trust Fund for support of CSU. Our analysis indicates that the proposed use of these funds for financial aid is justified.
- **Fellows Program (Item 6610-002-001)**—\$1.3 million from the General Fund for the Senate, Assembly, and Executive Fellows Programs, which are administered by CSU, Sacramento. This is the same amount that is provided in the current year.

CALIFORNIA STATE UNIVERSITY—Continued

- *Student Housing (Item 6610-006-001)*—\$350,000 from the General Fund to be transferred to the Affordable Student Housing Revolving Fund in 1990-91. 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)*—\$341.8 million in revenues—primarily from student fees—for support of CSU in 1990-91. 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 (Items 6610-021-001 and 6610-021-036)*—\$3.2 million from the General Fund and \$3.5 million from the Special Account for Capital Outlay—for a total of \$6.7 million—for special repairs and deferred maintenance in 1990-91. According to the Governor's Budget, this amount reflects a decrease in funding of \$747,000 from the current year "due to General Fund budget constraints." These funds are needed for CSU's ongoing special repair requirements.
- *Reappropriations (Item 6610-490)*—The Budget Bill contains language reappropriating any unexpended balances from CSU's 1989 Budget Act appropriation (main support item). The language specifies that the first \$5,199,000 of reappropriated funds shall be used to partially offset \$19,666,000 in unallocated reductions proposed for CSU in 1990-91. This would leave a balance of \$14,467,000 in unallocated reductions. The language further specifies that any remaining funds shall be available for (1) other unallocated reductions, (2) an interagency agreement with the State Controller to correct Schedule 8 computer programs, (3) replacement of instructional equipment, (4) deferred maintenance and special repair projects, and (5) the California Academic Partnership Program (CAPP). Our analysis indicates that this language is generally consistent with the Legislature's previous actions on the uses of reappropriated funds for the CSU.
- *Reversion (Item 6610-495)*—The Budget Bill contains language reverting \$5,766,000 of the unencumbered balance of Chapter 1, First Extraordinary Session, Statutes of 1987, Section 2 to the Special Fund for Economic Uncertainties as of June 30, 1990. These funds were appropriated for expenses related to the 1987 Whittier earthquake. Our analysis indicates that this reversion is justified.

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 4 shows expenditures for instruction in the prior, current, and budget years. The table indicates that the budget proposes an increase of \$71.3 million, or 6.1 percent, in General Fund expenditures for instruction in 1990-91. This is due primarily to salary annualization costs and a projected enrollment increase.

Table 4
The California State University
Instruction Program Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Program	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Change from 1989-90	
				Amount	Percent
Regular instruction.....	\$1,084,826	\$1,229,631	\$1,251,701	\$22,070	1.8%
Special session instruction.....	16,924	19,116	18,763	-353	-1.8
Extension instruction.....	11,425	13,257	12,285	-972	-7.3
Totals, expenditures.....	\$1,113,175	\$1,262,004	\$1,282,749	\$20,745	1.6%
Funding Sources					
General Fund.....	\$1,050,306	\$1,176,372	\$1,247,701	\$71,329	6.1%
Continuing Education Revenue Fund.....	28,349	32,373	31,048	-1,325	-4.1
Lottery Fund.....	32,735	51,259	^a -	-51,259	-100.0
Reimbursements.....	1,785	2,000	4,000	2,000	100.0
Personnel:					
Regular instruction.....	20,001.7	20,203.0	20,815.4	612.4	3.0%
Extension and special session.....	254.9	349.2	350.4	1.2	0.3
Totals, personnel-years.....	20,256.6	20,552.2	21,165.8	613.6	3.0%

^a Lottery expenditures in 1990-91 are shown as an unallocated expenditure in a separate program. We estimate that lottery expenditures in the Instruction program in 1990-91 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 274,500 FTE students in 1990-91, an increase of 7,120 FTE (2.7 percent) over the *budgeted* level for 1989-90, and an increase of 2,419 FTE (0.9 percent) from the *latest estimate* for the current year. We note that 14 of the CSU campuses exceeded their budget targets in the current year.

As Table 5 shows, the latest estimate of CSU enrollment in the current year (1989-90) is 272,081 FTE students. This estimate is 4,701 FTE (1.8 percent) above the enrollment budgeted for 1989-90.

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Table 5
The California State University
Annual Full-Time Equivalent Students
1988-89 through 1990-91

Campus	1988-89	1989-90		1990-91	Change from Budgeted 1989-90	
	Actual	Budgeted	Revised Estimate	Prop.	Number	Percent
Bakersfield.....	3,602	3,770	3,812	4,000	230	6.1%
Chico.....	13,881	14,000	14,387	14,000	—	—
Dominguez Hills.....	5,930	6,100	6,626	6,900	800	13.1
Fresno.....	15,306	15,800	15,575	15,800	—	—
Fullerton.....	17,208	17,600	17,563	17,800	200	1.1
Hayward.....	9,903	10,000	10,129	10,320	320	3.2
Humboldt.....	6,300	6,360	6,796	6,860	500	7.9
Long Beach.....	24,167	23,600	22,754	23,600	—	—
Los Angeles.....	15,650	15,850	15,498	15,800	-50	-0.3
Northridge.....	21,763	21,100	21,285	21,350	250	1.2
Pomona.....	15,830	15,800	16,394	16,150	350	2.2
Sacramento.....	18,589	18,550	18,975	19,150	600	3.2
San Bernardino.....	7,099	7,500	7,368	8,100	600	8.0
San Diego.....	26,621	26,250	26,366	26,000	-250	-1.0
San Francisco.....	20,207	19,700	20,750	20,080	380	1.9
San Jose.....	20,484	20,500	21,325	21,900	1,400	6.8
San Luis Obispo.....	15,752	15,480	16,680	16,250	770	5.0
San Marcos.....	—	—	—	250	250	— ^a
Sonoma.....	4,987	5,100	5,400	5,600	500	9.8
Stanislaus.....	3,750	3,900	3,978	4,100	200	5.1
International Program.....	422	420	420	490	70	16.7
Totals.....	267,451	267,380	272,081	274,500	7,120	2.7%

^a Not a meaningful figure.

Results of CSU Student Survey

In September 1989, the CSU issued its third Student Needs and Priorities (SNAPS) survey. Similar studies were conducted in 1981 and 1984. Approximately 15,600 students from 18 campuses participated in the 1989 study. The CSU indicates that the sample of students was "broadly representative of the more than 350,000 students in the CSU system."

The major survey results follow:

Types of Students

- Approximately 86 percent of CSU students are from California. Roughly 30 percent of the *undergraduate* students (and 40 percent of *all* students) enroll part-time—for fewer than 12 units per term. The median age of full-time students is 22, and the median age of part-time students is 28.
- Thirty-two percent of CSU students are non-white; the percentage ranges from 70 percent at the Los Angeles campus to 11 percent at the Humboldt and Chico campuses.
- Convenience, low costs, and academic reputation were the most important factors in student decisions to attend a CSU campus.

Seventy-eight percent chose their campus, at least in part, because it was close to their home or workplace.

Satisfaction Level

- Of the students surveyed, 73 percent were satisfied with their overall campus experience, 9 percent were dissatisfied, and 18 percent were undecided.
- Instructional quality was rated as excellent or good by 76 percent of the students. This represents a 6 percent increase over the previous surveys.
- Libraries and computing resources were among the most highly rated academic support services.

Student-Suggested Reforms

- The two most popular CSU reforms picked by students were "offer summer courses at regular fees", and "improve the parking situation."
- Advising and class scheduling were among the lowest rated academic support services.

The CSU indicates that it will use the survey results in future planning efforts. The system further notes that it is continuing to study how the survey results vary by (1) type of student (such as older versus younger students) and (2) by campus.

B. REGULAR INSTRUCTION

Lottery Funds (Item 6610-001-814)

We recommend approval.

The budget estimates that CSU will spend \$55.8 million in lottery funds in the current year. Table 6 shows how the CSU intends to spend these funds. The expenditure plan consists of \$46 million for program support, \$10 million for an endowment account, and an unexpended "reserve" of \$2 million.

According to guidelines adopted by the CSU Trustees, the funds allocated to the endowment will be retained permanently in a special account for investment, while the interest earnings will be expended for purposes determined by the CSU campuses. The CSU indicates that some campuses choose to reinvest their interest earnings in the permanent account to increase the total size of their account (and thereby increase *future* interest earnings). The CSU estimates that the accumulated principal in the endowment account will amount to \$27.7 million on June 30, 1990.

The budget proposes that CSU spend \$46.2 million in lottery funds in 1990-91. This amount is \$11.6 million less than the amount shown in the expenditure plan for the current year, because the amount of lottery funds carried over from previous years is expected to decrease by a similar amount.

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

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procedure is in accordance with current state policy, we recommend approval of this item.

Table 6
The California State University
Lottery Fund Expenditure Plan
1989-90
(in thousands)

<i>Programs</i>	<i>Amount</i>
Instructional equipment.....	\$15,000
Campus/Chancellor's Office discretionary funds.....	9,925
Educational equity (retention programs).....	4,050
Faculty computer workstations.....	3,000
Distinguished Visiting Scholars/Artists.....	2,200
Forgivable loan/doctoral incentive program for minorities and women.....	2,000
Fine arts initiatives.....	1,800
CSU, San Marcos.....	1,500
Instructional development and technology.....	1,200
Teacher diversity.....	1,100
On-Line Public Access Catalog (OLPAC) system for libraries.....	1,100
Student internships—community service and outreach.....	1,000
California Pre-Doctoral Program.....	500
Administration/implementation costs.....	<u>1,500</u>
Subtotal, program support.....	(\$45,875)
Other:	
Endowment account.....	\$9,925
Reserve.....	2,000
Subtotal, other.....	<u>(\$11,925)</u>
Totals.....	\$57,800
<i>Funding:</i>	
1989-90 revenue.....	\$38,000
Interest income.....	1,200
Carry-over from 1988-89.....	18,600

CSU's Long-range Enrollment Plan

We recommend that the Legislature adopt supplemental report language in Item 6610-001-001 directing the CSU to suspend planning for any new campuses. Our analysis identifies no current need for new CSU campuses by 2005-06 based on statewide enrollment trends and the variety of options available to meet regional enrollment needs.

We further recommend that the Legislature request the CSU to redirect its staff efforts on new campus planning to specified other efforts related to the projection of enrollment growth and the implementation of educational equity goals.

In our 1990-91 *Perspectives and Issues* ("Capital Outlay for Postsecondary Education"), we provide an analysis of CSU's plan to develop five new campuses and five new off-campus centers by 2005-06. We conclude that there is no current need to plan for any new CSU campuses, based on statewide enrollment data and the various options that are available to meet regional enrollment demands.

We further note that, although the need for new off-campus centers is not justified on the basis of statewide enrollment projections, we reserve

judgment on CSU's proposal for five new off-campus centers pending additional information from CSU on the regional basis of these centers. Finally, we suggest that the CSU develop a new enrollment projection through the year 2005-06 that could serve capital outlay planning purposes.

Our recommendations are based on a comparison of CSU's enrollment projections and projections based on observable demographic trends. In contrast to the University of California, the CSU assumes in its enrollment projections that it will reach the state's goal of educational equity by 2005—that is, the current low participation rates of students from underrepresented ethnic groups will increase to rates comparable to those of whites. While reaching the goal is an important priority, CSU cannot accomplish this objective as an institution acting alone. The state's K-12 system must graduate qualified students in sufficient numbers to put the policy goal within reach.

While we find that participation rates of underrepresented groups have been increasing over the last several years, there is no evidence that we know of which suggests that equal participation rates can be achieved within the next 15 years. If, hopefully, participation rate experience in the future indicates that the CSU is more rapidly attaining this goal, the enrollment projection *can* and *should* be revised upward.

Redirection of CSU Staff Efforts Needed. Based on our analysis presented above (and in much more detail in the *Perspectives and Issues*), we find that the CSU staff efforts that are currently used for new campus planning should be redirected to other activities, in order to provide the Legislature with the information it needs on enrollment growth at the CSU and to further pursue the Legislature's and the CSU's educational equity goals.

Specifically, we recommend that staff efforts be redirected to (1) the development of a new enrollment projection that can be used for capital outlay planning and (2) activities that would increase the participation rates of underrepresented groups in the future. (We recommend later in our analysis that CSU complete a cost-benefit analysis of year-round operations; if the Legislature adopts this recommendation, it may also wish to redirect staff efforts to this activity.)

Based on this analysis, we recommend that the Legislature adopt the following supplemental report language in Item 6610-001-001:

It is the intent of the Legislature that the California State University suspend planning for any new campuses until demographic enrollment trends demonstrate that new campuses may be needed and all other options (including off-campus centers, year-round operations, accelerated growth at existing campuses and increases in master plan ceilings of existing campuses) that could accommodate the expected growth have been considered to the Legislature's satisfaction and the Legislature directs the state university to resume planning. It is further the Legislature's intent that the CSU redirect its staff efforts related to planning for new campuses to (1) the development of a new enrollment projection through the year 2005-06 that could serve capital outlay planning purposes and (2) activities that would increase the participation rates of underrepresented groups of students in the future. The Legislature recog-

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nizes that the enrollment projection is a flexible, working projection and that it should be revised to the extent that participation rate experience in the future indicates that the CSU is increasingly meeting its educational equity goals. The California State University shall provide a status report to the Legislature on its actions with regard to this request by December 1, 1990.

Cost-Benefit Analysis of Year-round Operations Needed

We recommend that the Legislature adopt supplemental report language in Item 6610-001-001 directing the California State University to develop a detailed analysis of the costs and benefits of accommodating enrollment growth through year-round operations.

Four CSU campuses (Hayward, Los Angeles, Pomona, and San Luis Obispo) have been successfully operating state-funded summer quarters for a number of years. Each of these programs serves roughly 10 percent to 20 percent of the FTE students enrolled during the regular academic year.

In our 1990-91 *Perspectives and Issues*, we note that year-round operation (YRO) can reduce future needs for—and costs of—additional campuses and off-campus centers, because more students can be served in existing facilities.

Additional reasons for implementing YRO include:

- Students can accelerate their studies, thereby graduating earlier; and
- Many students are interested in the YRO option—in a recent CSU Student Needs and Priorities (SNAPS) survey, 40 percent of the students polled wanted campuses to offer a summer program at regular fees.

Savings and Costs. While YRO yields *capital outlay savings*, it also creates additional ongoing *support costs*. These costs generally fall into four categories: (1) incremental faculty costs caused by potentially lower faculty-student ratios due to smaller class sizes in the summer quarter compared with the academic year, (2) additional costs (such as utility and maintenance costs) associated with operating a campus year round rather than for nine or 10 months, and (3) planning costs.

For campuses operating on a semester system that choose to convert to a quarter system to operate YRO, there may also be “cycling” costs—defined as the additional costs (primarily in the admissions and records area) of operating a campus for three quarters rather than two semesters. (Of those campuses that do not currently offer a state-funded summer quarter, only three are on the quarter system.)

There may also be some cost *shifts* associated with YRO. Specifically, to the extent that a state-funded summer quarter displaces instruction currently provided through self-supported summer sessions, the state may pay for instruction that otherwise would have been paid for by the summer session students.

CSU Growth Report. The CSU growth plan discusses year-round operations as an option that might reduce the need for new campuses. The discussion concludes, however, that “while it would appear that the

long-run benefits of year-round operation could outweigh the short-run costs, a definitive answer requires study and, more important, actual experience with state supported summer term on semester campuses.” (We note that, while all four existing YRO campuses operate on the quarter system, San Francisco State—which operates on the semester system—is currently planning to implement a state-supported summer term.)

CPEC Report. A recent CPEC report on growth in higher education is less favorable towards YRO. The report finds that “unless students could be mandated to attend class in the summer, so as to equalize the costs, potentially significant operating cost increases occur for summer-quarter instruction. Although some capital outlay savings may accompany year-round operations, these savings are not at a level to decrease capital requirements and are not available to offset the operating budget increase.”

While we find that additional information on the operating costs of YRO is needed, we do not concur with CPEC’s dismissal of potential capital outlay savings. The CSU’s growth plan projects that 10,900 annual FTE students will be accommodated in 2005 in summer quarters on just four campuses. If these FTE students were to be accommodated during the regular academic terms, capacity would have to be built either on existing campuses or on a new campus. This additional capacity would require major—probably multi-million dollar—capital outlay expenditures.

The CPEC report also suggests that year-round operation tends to work best at urban, commuter-oriented campuses that serve a high percentage of older and part-time students. We find that, while this may be true, campuses that serve younger, primarily-residential students may also benefit from YRO. For example, the San Luis Obispo campus (a primarily-residential campus serving younger students) serves approximately 3,600 FTE in its summer quarter. Thus, we find no inherent reason why YRO might not be a success at any particular type of CSU campus.

Detailed YRO Analysis Needed. While CPEC’s analysis was based on the costs and benefits of year-round operation, it was not designed as a comprehensive evaluation of the value of YRO compared to the costs of establishing *new* campuses. Specifically, we find that the analysis did not:

- Review the *actual* costs of YRO at the four campuses with state-funded summer quarters;
 - Assess the potential impact of alternative financial assumptions, such as varying interest rates or capital outlay cost projections, and the relationship of summer session fees to state support costs; and
 - Compare explicitly the costs and benefits of YRO with the costs of establishing *new* campuses and off-campus centers, rather than adding facilities at *existing* campuses.
- **Recommendation.** We find that the Legislature needs additional information to determine whether the state should pursue the implementation of YRO at additional CSU campuses. Accordingly,

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we recommend that the Legislature adopt the following supplemental report language in Item 6610-001-001:

The California State University shall report to the California Postsecondary Education Commission, the Joint Legislative Budget Committee, the Department of Finance, and the legislative fiscal committees by November 15, 1991 regarding the costs and benefits of year-round operations. This report shall use the most recent actual cost data available from the four campuses currently operating state-funded summer quarters. The report shall also explore the impact of varying financial assumptions, such as interest rates and capital outlay cost projections, and of varying summer session cost shifting assumptions. The report shall specifically address the costs and benefits of YRO compared to the costs and benefits of establishing new campuses or off-campus centers.

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 7 shows expenditures for the Academic Support program in the prior, current, and budget years. The budget proposes an increase of \$7.8 million, or 3.7 percent, in General Fund expenditures for academic support in 1990-91. This is due primarily to baseline and workload adjustments.

Table 7
The California State University
Academic Support Program Expenditures
1988-89 through 1990-91
(dollars in thousands)

<i>Programs</i>	<i>Actual</i> <i>1988-89</i>	<i>Est.</i> <i>1989-90</i>	<i>Prop.</i> <i>1990-91</i>	<i>Change from</i> <i>1989-90</i>	
				<i>Amount</i>	<i>Percent</i>
Libraries.....	\$84,956	\$96,467	\$101,418	\$4,951	5.1%
Audiovisual services.....	18,255	21,221	21,806	585	2.8
Computing Support.....	60,315	65,981	64,531	-1,450	-2.2
Ancillary support.....	24,917	29,474	30,205	731	2.5
Totals, expenditures.....	\$188,443	\$213,143	\$217,960	\$4,817	2.3%
Funding Sources					
<i>General Fund</i>	\$184,572	\$209,756	\$217,602	\$7,846	3.7%
<i>Continuing Education Revenue Fund</i>	447	343	358	15	4.4
<i>Lottery Fund</i>	3,424	3,044	— ^a	-3,044	-100.0
Personnel-Years:					
Libraries.....	1,592.2	1,647.0	1,693.7	46.7	2.8%
Computing support.....	813.9	754.2	759.9	5.7	0.8
Other.....	873.2	847.6	863.7	16.1	1.9
Totals, personnel-years.....	3,279.3	3,248.8	3,317.3	68.5	2.1%

^a Lottery expenditures in 1990-91 are shown as an unallocated expenditure in a separate program. We estimate that lottery expenditures in the Academic Support program in 1990-91 will be approximately the same as in the current-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 8 shows Student Services program expenditures and personnel for the prior, current, and budget years.

The budget proposes an increase of \$15.1 million, or 10.0 percent, in General Fund expenditures for student services in 1990-91. This includes increases in financial aid, the Educational Opportunity Program (EOP), and services for learning disabled students.

Table 8
The California State University
Student Services Program Expenditures
1988-89 through 1990-91
(dollars in thousands)

Programs	1988-89	1989-90	1990-91	Change from 1989-90	
				Amount	Percent
Social and cultural development	\$8,694	\$8,101	\$8,443	\$342	4.2%
Supplemental services—EOP	22,080	26,048	28,038	1,990	7.6
Counseling and career guidance	30,271	34,534	36,518	1,984	5.7
Financial aid	139,445	126,378	149,082	22,704	18.0
Student support	44,225	56,137	59,286	3,149	5.6
Totals, expenditures	\$244,715	\$251,198	\$281,367	\$30,169	12.0%
Funding Sources					
General Fund	\$134,564	\$150,542	\$165,631	\$15,089	10.0%
Continuing Education Revenue Fund	12	13	49	36	276.9
Dormitory Revenue Fund	7,097	7,493	7,902	409	5.5
Federal Trust Fund	93,142	82,864	97,392	14,528	17.5
Reimbursements	9,900	10,286	10,393	107	1.0
Personnel-Years:					
Social and cultural development	187.4	162.7	169.1	6.4	3.9%
Supplemental services—EOP	362.9	428.1	446.7	18.6	4.3
Counseling and career guidance	699.0	707.9	730.6	22.7	3.2
Financial aid	438.7	477.4	536.3	58.9	12.3
Student support	1,060.6	1,170.8	1,209.2	38.4	3.3
Totals, personnel-years	2,748.6	2,946.9	3,091.9	145.0	4.9%

TUITION AND FEES

Table 9 shows the resident student fee levels at CSU for the past and current years, and the proposed fees for the budget year.

Resident Student Fees

The budget proposes an increase in revenues to correspond with a 5.1 percent increase in full-time resident student fees and a 4.4 percent fee increase for part-time students at the CSU in 1990-91. This would increase the State University Fee by \$36 (from \$708 to \$744) for full-time students, and by \$18 (from \$408 to \$426) for part-time students.

The proposed fee increase is consistent with the statutory fee policy enacted by Ch 1523/85 (SB 195, Maddy) which calls for an average 4.8 percent increase. (While the *average* increase is 4.8 percent, the proposed

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increase for part-time students is somewhat lower and the proposed increase for full-time students is somewhat higher.)

Table 9
The California State University
Student Fees
1988-89 through 1990-91

Fee	Actual 1988-89	Actual 1989-90	Prop. 1990-91	Change from 1989-90	
				Amount	Percent
State University Fee					
Full-time	\$684	\$708	\$744	\$36	5.1%
Part-time	396	408	426	18	4.4
Nonresident tuition	\$4,680	\$5,670	\$5,670	—	—

The higher fees would increase General Fund revenues in 1990-91 by \$17.2 million. In order to offset the effect of the fee increase on students having demonstrated financial need, the budget also proposes to increase the amount budgeted for CSU's financial aid program by \$1.4 million.

Termination of Teacher Education Program to Fund Graduate Equity Fellowships is Proposed

We recommend that the California State University and the Department of Finance report at budget hearings on the reasons why they propose to terminate the Teacher Education program in order to almost double the funding for Graduate Equity Fellowships.

The budget proposes to *eliminate* the Teacher Education program, which is budgeted \$419,000 from the General Fund in 1989-90, and transfer the program's funding support to the Graduate Equity Fellowship program. This proposal would have the effect of *almost doubling the funding* for the fellowships program—from \$523,000 to \$942,000. Because these are both worthy programs, the budget proposal creates a difficult dilemma for the Legislature. We describe each of these programs, and comment on the proposal and on the Legislature's options below.

Teacher Education Program. The Teacher Education program, established in the 1985 Budget Act, has two components which try to (1) improve the frequency and quality of supervision that student teachers receive and (2) increase the quality and professional commitment of beginning teachers. The program is currently funded at \$419,000 from the General Fund—(1) \$356,000 is for staffing and supplies related to clinical supervision training for Master Teachers, and (2) \$63,000 is for the support of clinical practitioners. These components are described in more detail below:

- **Clinical Supervision Training for Master Teachers.** The 1989-90 budgeted amount (\$356,000) is used to provide staffing and materials needed to conduct 15-hour instruction sessions for Master Teachers that focus on specific techniques that can be used to improve the teaching success of student teachers. (From 1985-86 through 1988-89, the CSU had also annually used lottery funds to provide \$225 stipends to approximately 3,000 Master Teachers as an incentive for the

teachers to attend the sessions. In the current year, the CSU deleted this funding based on its policy that lottery funds not be used to support ongoing programs indefinitely.)

- **Clinical Practitioners.** The 1989-90 budgeted amount (\$63,000) is used to support the activities of campus professors who work at selected public schools. The schools are predominantly in urban districts and serve ethnically-diverse student populations. The professors teach at the schools, and conduct staff development training activities for student teachers, other teaching faculty, and site administrators. This component of the teacher education program is consistent with the intent of Ch 498/83 (SB 813, Hart), which requires CSU professors who teach methodology courses to participate in public school classroom instruction on a periodic basis.

In June 1988, an independent evaluation concluded that the clinical supervision training for Master Teachers was successfully implemented and that the workshops were "very popular" among participating teachers and "were consistently well reviewed" by them. The evaluation also found preliminary evidence that student teachers prepared by those who participated in the workshops and related activities were "successful and confident beginning teachers." While the evaluation did not specifically focus on the relative success of the clinical practitioner component, it noted that the experience of teaching and working in schools enabled professors to tailor their preservice training programs "to focus on skills, attitudes and values needed for student teachers to succeed in the teaching profession."

Graduate Equity Fellowships. Since its establishment in 1985, the program's objectives have been to increase (1) the number of students from underrepresented groups completing graduate programs and (2) the pool of such students completing doctoral programs who will ultimately seek professional positions in postsecondary education. The program provides average awards of \$1,500 to approximately 333 financially-needy students seeking Master's degrees at the CSU.

Eligible students come from the following groups: underrepresented ethnic minorities, women in fields where they are underrepresented, and disabled students. The individual campuses also provide academic support to the fellowship recipients in the form of research assistantships and a faculty mentoring component. The CSU plans to use the \$419,000 proposed to be transferred from the Teacher Education program in the budget year to provide approximately 280 additional equity fellowships at the current average award amount of \$1,500.

The CSU indicates (and we concur) that it would be difficult to determine how many students have pursued graduate training since 1985 solely because of the availability of these fellowships. The CSU indicates, however, that the fellowships assist graduate students in enrolling full-time in Master's programs, and that the program is an important component of its graduate recruitment programs. The State University also indicates that the demand for the fellowships is high—many campuses are able to fund only about half the eligible fellowship applicants.

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Rationale for the Transfer. The CSU indicates that General Fund support of the teacher education program is not sufficient to fund the program at its previous level (when lottery funds were used to provide stipends to Master Teachers). The State University further notes that it has requested General Fund support in the past to replace lottery funding, based on the program's successful evaluation, but that these funds have not been included in the Governor's Budget. Finally, the CSU notes that the Joint Committee for Review of the Master Plan in Higher Education has recommended that the number of Graduate Equity Fellowships be doubled by 1990. For these reasons, it suggests that the \$419,000 in funds for Teacher Education could be better used if they are transferred to the fellowship program.

Legislative Analyst's Comments. As indicated previously, an independent evaluation found that the Teacher Education program is generally successful. Our analysis also indicates that the program could be continued without funding for stipends—while the availability of stipends almost certainly increases program participation, the program's evaluation stated that some teachers "found the workshops so valuable that they attended them more than once and without stipend support."

We also find that there is a high demand for Graduate Equity Fellowships at the CSU campuses, and that the Legislature has historically supported this and other efforts to increase the participation of underrepresented students in graduate programs. Given the state's fiscal situation, the Legislature is faced with a set of policy options (or "trade-offs"), which we discuss below.

Options for Funding. Our analysis indicates that the Legislature has three major options on this matter:

- The Legislature could retain the \$419,000 in funds for the Teacher Education program.
- The Legislature could adopt the proposed budget, which would transfer the Teacher Education program funding to the Graduate Equity Fellowship program. (We note that the Legislature could also choose to transfer the funding to the Graduate Fellowship program administered by the Student Aid Commission (SAC). We discuss that program later, in Item 7980 of our *Analysis*.)
- The Legislature could use the \$419,000 to fund its own priorities.

Questions Should be Addressed in Budget Hearings. As detailed above, while there is unmet demand for the Graduate Equity Fellowships program, we have several concerns about the proposal to terminate the successful Teacher Education program in order to fund additional fellowships. Accordingly, we recommend that the CSU and the DOF report during budget hearings on why they propose to terminate the Teacher Education program in order to almost double funding for the Graduate Equity Fellowships program.

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 10 shows estimated personnel and expenditures for institutional support in the prior, current, and budget years. The budget proposes an increase of \$13.5 million, or 3.2 percent, in General Fund expenditures for institutional support in 1990-91. This is due primarily to various baseline and workload adjustments.

Table 10
The California State University
Institutional Support Program Expenditures
1988-89 through 1990-91
(dollars in thousands)

Programs	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Change from 1989-90	
				Amount	Percent
Executive management.....	\$46,657	\$52,125	\$54,289	\$2,164	4.2%
Financial operations.....	40,301	44,602	44,658	56	0.1
General administrative services.....	74,606	89,410	94,155	4,745	5.3
Logistical services.....	86,044	86,757	91,005	4,248	4.9
Physical plant operations.....	185,981	220,979	222,338	1,359	0.6
Faculty and staff services.....	9,861	218	352	134	61.5
Community relations.....	10,666	9,151	9,702	551	6.0
1989 earthquake relief.....	—	1,000	—	-1,000	-100.0
Totals, expenditures.....	\$454,116	\$504,242	\$516,499	\$12,257	2.4%
Funding Sources					
General Fund.....	\$400,524	\$426,372	\$439,840	\$13,468	3.2%
Special Account for Capital Outlay.....	—	3,500	3,500	—	—
Higher Education Earthquake Account.....	341	181	—	-181	-100.0
Lottery Fund.....	885	1,500	— ^a	-1,500	-100.0
Continuing Education Revenue Fund.....	16,867	18,742	20,146	1,404	7.5
Dormitory Revenue Fund.....	22,830	28,871	30,504	1,633	5.7
Parking Revenue Fund.....	9,550	10,225	10,753	528	5.2
Special Projects Fund.....	—	14	16	2	14.3
1988 Capital Outlay Bond Fund.....	1,696	13,904	—	-13,904	-100.0
1990 Capital Outlay Bond Fund.....	—	—	10,600	10,600	— ^b
Reimbursements.....	1,423	933	1,140	207	22.2
Personnel-Years:					
Executive management.....	770.4	789.2	804.8	15.6	2.0%
Financial operations.....	945.1	948.5	947.8	-0.7	-0.1
General administrative services.....	1,719.4	1,837.9	1,862.9	25.0	1.4
Logistical services.....	1,298.5	1,227.8	1,252.2	24.4	2.0
Physical plant operations.....	3,188.0	3,528.4	3,544.7	16.3	0.5
Community relations.....	167.9	106.3	109.0	2.7	2.5
Totals, personnel-years.....	8,089.3	8,438.1	8,521.4	83.3	1.0%

^a Lottery expenditures in 1990-91 are shown as an unallocated expenditure in a separate program. We estimate that lottery expenditures in the Institutional Support program in 1990-91 will be approximately the same as in the current year.

^b Not a meaningful figure.

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. Table 11 shows the major divisions in the Chancellor's

CALIFORNIA STATE UNIVERSITY—Continued

Office, and the expenditures for these divisions in the current and budget years. The budget proposes \$35.7 million for the office in 1990-91, an increase of \$1.4 million, or 4.2 percent, from estimated current-year expenditures. Of this amount, \$180,000 is for three new risk-management positions (for which we recommended approval earlier in this analysis). The remainder of the increase is due to annualization of salary increases and other baseline adjustments.

Table 11
The California State University
Chancellor's Office Expenditures
1989-90 and 1990-91
(dollars in thousands)

	<i>Est.</i> 1989-90		<i>Prop.</i> 1990-91		<i>Change</i>		
	<i>Positions</i>	<i>Amount</i>	<i>Positions</i>	<i>Amount</i>	<i>Positions</i>	<i>Amount</i>	<i>Percent</i>
<i>Chancellor's Office</i>							
Executive Office	5.0	\$426	5.0	\$496	—	\$70	16.4%
Administration	43.1	1,960	43.1	2,024	—	64	3.3
Academic Affairs	48.6	3,174	48.6	3,205	—	31	1.0
University Affairs	54.8	3,009	55.8	3,107	1.0	98	3.3
Business Affairs	113.9	6,211	115.9	6,595	2.0	384	6.2
Faculty and Staff Relations	40.4	2,543	43.4	2,744	3.0	201	7.9
Legal Services	21.5	1,474	21.5	1,488	—	14	0.9
Provisions for allocation	—	738	—	1,243	—	505	68.4
Salary savings	-9.1	-598	-9.1	-662	—	-64	10.7
Independent operations reimbursements	-90.0	-5,613	-93.0	-7,186	-3.0	-1,573	28.0
Operating expense and equipment	—	4,843	—	6,196	—	1,353	27.9
Subtotals, Chancellor's Office	(228.2)	(\$18,167)	(231.2)	(\$19,250)	(3.0)	(\$1,083)	(6.0%)
<i>Trustees Audit</i>							
Personal services	10.6	\$712	10.6	\$721	—	\$9	1.3%
Operating expense and equipment	—	170	—	170	—	—	—
Subtotals, Trustees Audit	(10.6)	(\$882)	(10.6)	(\$891)	(—)	(\$9)	(1.0%)
<i>Computing and Communication Resources</i>							
Personal services	131.6	\$7,357	131.6	\$7,693	—	\$336	4.6%
Operating expense and equipment	—	7,873	—	7,873	—	—	—
Subtotals, Computing and Communication Resources	(131.6)	(\$15,230)	(131.6)	(\$15,566)	(—)	(\$336)	(2.2%)
<i>Special Funds</i>							
Operating expense and equipment	—	\$20	—	\$20	—	—	—
Subtotals, Special Funds	(—)	\$20	(—)	\$20	(—)	(—)	(—)
Grand Totals	370.4	\$34,299	373.4	\$35,727	3.0	\$1,428	4.2%

B. SYSTEMWIDE OPERATIONS**Budget Contains a \$14.5 Million Unallocated Reduction for CSU**

We recommend that the California State University report at budget hearings on how it will achieve the \$14.5 million in savings required in the Governor's Budget.

The budget proposes that the CSU achieve an unallocated General Fund savings of \$14.5 million, "due to constraints on General Fund resources." The Department of Finance and the CSU have not provided the Legislature with either (1) an analytical rationale for the reduction, other than funding constraints or (2) any information on how the savings will be achieved, including their impact on current service levels.

Given the Legislature's oversight responsibilities and its historic interest in ensuring that current service levels in particular programs—such as instruction and affirmative action programs—are maintained, we recommend that the CSU report at budget hearings on how it will achieve the \$14.5 million in unallocated savings required by the proposed budget.

C. REVENUE BOND LEASE PAYMENTS (Items 6610-003-001 and 6610-490)**Budget Delay of Payments will Cost State an Additional \$959,000**

We find that the budget includes \$7.7 million for revenue bond lease payments in 1990-91, which is \$2.6 million less than the estimated need. While this shortfall will not delay the construction or occupancy of capital outlay projects, we find that the state's cost of financing this delay will be an additional \$47,950 per year for the 20-year life of the bond.

We recommend that if the Legislature adopts the Governor's Budget proposal to delay the sale of certain lease payment revenue bonds, it delete \$162,000 in related insurance costs, because the insurance will not be needed until the bonds are sold. (Reduce Item 6610-003-001 by \$162,000.)

The magnitude of postsecondary education facility needs in recent years has caused the state to rely heavily on bond financing. There are two basic forms of bond financing that the state has used—general obligation bonds and lease-purchase revenue bonds. In both cases, the *General Fund* provides the revenues for making principal and interest payments on the bonds. In the case of revenue bond financing, buildings are funded during their construction through a loan from the state's Pooled Money Investment Account (PMIA). Shortly after the building is completed and occupied the State Treasurer issues revenue bonds to pay back the principal and associated interest on the PMIA loan.

Proposal to Delay Payment. The CSU budget contains \$2.8 million in the current year and requests \$7.7 million in the budget year for a total of \$10.5 million from the General Fund for debt service and insurance payments related to those capital construction projects which have been financed by lease purchase revenue bonds.

Based on information from the State Treasurer's office, we estimate, however, that \$13.1 million is needed over the two-year period—\$2.2

CALIFORNIA STATE UNIVERSITY—Continued

million in the current year and \$10.9 million in the budget year. Based on these estimates, the budget for lease payments is underfunded by \$2.6 million (this includes a reappropriation of the estimated \$595,000 balance from the current year).

Because of this underfunding, the PMIA loan will not be repaid as early as it otherwise would be. The additional interest of this extended PMIA loan will be added to the costs of the revenue bond and be repaid with interest. We estimate that this added interest expense will increase the yearly costs of the revenue bond payment by \$47,950 over the 20-year life of the bond. Put another way, the state will pay an additional \$959,000 in interest payments over the entire period.

Options. The Legislature could provide an appropriation of \$2.6 million in 1990-91 (rather than later) to avoid this additional financing charge. Not appropriating the \$2.6 million until later and thereby paying the additional future financing costs, however, allows the \$2.6 million to be used in 1990-91 for other purposes.

The Governor's Budget proposal chooses the latter—to pay the additional future financing costs and use the \$2.6 million for other purposes. We believe that the trade-off between the additional financing cost and the use of the \$2.6 million for other purposes in the budget year is a question of legislative priorities. We caution, however, that deferral of current costs to future years sets a poor precedent and carries the risk of reducing budget choices in the future.

Delete \$162,000 for Insurance, if Budget Proposal is Adopted. We find that, although the Governor's Budget proposes to delay the sale of \$2.6 million in lease payment revenue bonds, it does not propose to delay payment of the related insurance costs. Our analysis indicates that this amount—\$162,000—will not be needed until the bonds are actually sold. Accordingly, we recommend that the Legislature delete the \$162,000 for insurance costs contained in Item 6610-003-001, if it adopts the Governor's Budget proposal to delay the sale of \$2.6 million in lease payment revenue bonds.

V. SALARY INCREASE**A. 1989-90 EMPLOYEE COMPENSATION****1. Salaries**

We recommend that the Legislature clarify the extent to which the CSU can differentiate cost-of-living adjustment (COLA) salary increases within the average increase that is authorized in the annual Budget Act.

We find that the salary increases provided by the CSU to its executive, management, and supervisory employees vary significantly in the current year—from 3.7 percent to 43.0 percent.

The 1989 Budget Act appropriated \$52.9 million for benefits and cost-of-living adjustment (COLA) salary increases for CSU faculty and staff, effective January 1, 1990. Allocations, however, totaled \$52.7 million

for this purpose. Thus, \$215,000 will revert to the General Fund at the end of the current year. Table 12 shows the details of the allocations for 1989-90.

Table 12
The California State University
1989-90 Employee Compensation Program

	<i>Number of Positions</i>	<i>Faculty (4.8%)^a</i>	<i>Non- Faculty (4.0%)^a</i>	<i>Equity Adjust- ments^a</i>	<i>Health Increase^b</i>	<i>Grand Totals</i>
MOU Agreements						
Unit 1 - Physicians	143.6	—	\$218,096	—	\$101,608	\$319,704
Unit 2 - Health care ..	332.5	—	237,703	\$107,441	109,646	454,790
Unit 3 - Faculty	16,485.1	\$21,786,310	—	—	7,029,152	28,815,462
Unit 4 - Academic support	1,791.8	—	1,344,546	—	681,442	2,025,988
Unit 5 - Operations support	1,705.7	—	858,760	224,950	516,693	1,600,403
Unit 6 - Crafts	937.8	—	666,137	1,285,185 ^c	395,288	2,346,610
Unit 7 - Clericals	5,812.1	—	3,128,574	2,068,873	1,486,613	6,684,060
Unit 8 - Public safety .	266.4	—	217,189	—	130,739	347,928
Unit 9 - Technical support	3,957.9	—	2,334,059	23,374	1,004,940	3,662,373
Subtotals	(30,532.9)	(\$21,786,310)	(\$9,005,064)	(\$4,009,823)	(\$11,456,121)	(\$46,257,318)
Nonrepresented Em- ployees						
Executives	27.0	—	\$307,059 ^d	—	\$39,634	\$346,693
Management and su- pervisory	2,403.4	—	2,786,520 ^d	—	1,370,576	4,157,096
Confidential classes ...	6.5	—	4,364	—	1,655	6,019
Excluded and unclas- sified	532.4	—	242,625	—	92,135	334,760
Subtotals	(2,969.3)	(—)	(\$3,340,568)	(—)	(\$1,504,000)	(\$4,844,568)
Unallocated and OASDI Contributions						
	—	—	—	\$32,177 ^e	\$1,551,879 ^f	\$1,584,056
Total allocated	33,502.2	\$21,786,310	\$12,345,632	\$4,042,000	\$14,512,000	\$52,685,942
Total appropriated		21,979,000	12,368,000	4,042,000	14,512,000	52,901,000
Remaining balance		\$192,690	\$22,368	—	—	\$215,058

^a Effective January 1, 1990.

^b Effective July 1, 1989. This distribution indicates the estimated share of each unit of the total cost to maintain existing health benefits.

^c Includes \$62,316 for asbestos/water treatment allowances, \$12,771 for increase in shift differential, and \$11,141 for life insurance.

^d The range of increases for these groups is 3.7 percent to 43 percent.

^e Yet to be allocated to nonfaculty employees pending Board of Trustees action.

^f Employer contributions for OASDI for all faculty and nonfaculty employees.

Faculty. The current Memorandum of Understanding (MOU) between the CSU and its faculty covers the years from 1987-88 through 1990-91. The MOU agrees to use the results of the comparison institution methodology as the basis for annual salary increases for each year covered by the MOU, subject to the availability of funds. In accordance with the funds appropriated in the 1989 Budget Act, the faculty was provided an average 4.8 percent salary increase, effective on January 1, 1990.

CALIFORNIA STATE UNIVERSITY—Continued

Staff. Other represented staff, such as clerks, police and health providers, received increases that were similar to other state employees—COLAs averaging 4 percent effective January 1, 1990.

Executive, Management and Supervisory Employees. The nonrepresented executive, management and supervisory personnel received an average 4 percent COLA salary increase, effective January 1, 1990, based on the average increase granted to represented staff employees. This average increase, however, masks a wide range of actual increases provided to this group.

Specifically, the CSU Trustees acted in the current year to increase significantly the salaries of their top central-office administrators and campus presidents (the group called “executive employees”) as follows:

- The chancellors’s salary was increased by \$58,756 (43 percent) from \$136,244 to \$195,000;
- The executive vice chancellor’s salary was increased by \$31,026 (26 percent) from \$118,974 to \$150,000;
- The five vice chancellor’s salaries were increased by \$27,705 (24 percent) from \$117,295 to \$145,000; and
- The 20 campus president’s salaries were increased by up to \$28,876 (29 percent) from the previous range of \$101,124 to \$113,376 to a new flat amount of \$130,000. (Based on the average president’s salary (\$110,783), this resulted in an average salary increase of \$19,217 (17 percent).

To fund these increases in 1989-90 (\$307,000 for one-half year costs) for the 27 executive employees, the Trustees reduced the COLA amount provided to other management employees from 4 percent to 3.7 percent.

The Trustees state that their action to increase executive employee salaries was needed to remain competitive in the marketplace for such employees. The Legislature, however, does not have a basis to independently verify the data on central office salaries at other institutions. Accordingly, we recommend earlier in our analysis of the CPEC budget (Item 6420) that the commission’s *Annual Report on Administrative Salaries* reflect the comparability of CSU (and UC) central-office administrator’s salaries with those of employees in similar institutions.

Clarification Needed. The Legislature has historically granted the CSU some latitude to vary COLA salary increases as might be reasonably justified, subject to the amount of funds provided in the annual budget. As far as we know, however, the variation in 1989 salary increases—from 3.7 percent up to 43 percent—is unprecedented. Given the CSU’s recent actions, the Legislature should clarify the extent to which the CSU may vary the range of COLA salary increases beyond the average specified in the annual Budget Act.

2. Benefits**CSU Provides Automobiles as Benefits from Employee Compensation Funds**

In 1989-90, the Trustees instituted a new benefit for CSU vice-chancellors—cars. The six cars cost \$99,999 and were purchased from

employee compensation funds (General Fund). They are insured by the state, and gasoline, service, repairs (and, eventually, replacement) are a state expense.

Use of the state-owned cars is restricted to official CSU business except for commuting to and from the vice-chancellors' homes where they are stored at night. We bring this action to the Legislature's attention since it is a precedent. To our knowledge, CSU is the only state agency that has purchased cars from employee compensation funds.

B. 1990-91 CSU SALARY INCREASE PROPOSAL (Items 6610-032-001, 6610-034-001, and 6610-036-001)

We recommend approval.

1. Governor's Budget Proposal

The budget proposes \$57.8 million for CSU employee compensation increases in 1990-91. Of this amount, \$20.3 million would be used to fund employee benefits, while the balance of \$37.5 million would be used to provide the following average salary increases, effective January 1, 1990: 4.9 percent for faculty, and 3.9 percent for nonfaculty. Table 13 summarizes the budget proposal for salary increases.

Table 13
The California State University
Proposed Salary Increases
1990-91
(dollars in thousands)

	<i>Amount</i>	<i>Percent</i>
Faculty.....	\$24,108	4.9% ^a
Staff.....	13,313	3.9 ^b

^a Effective January 1, 1991. One percent increase would cost \$9,840,000 (annualized).

^b Effective January 1, 1991. One percent increase would cost \$6,827,000 (annualized).

2. Comparison Institution Methodology for CSU Faculty Salaries

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 CSU comparison group is listed in Table 14:

Table 14
The California State University
Comparison Institutions for Faculty Salaries
1990-91

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)

CALIFORNIA STATE UNIVERSITY—Continued**3. Faculty Salary Proposal Would Delay Parity With Comparison Institutions**

As summarized in Table 15, the comparison institution methodology (as reported by the CPEC) indicates that a *full-year* increase of 4.9 percent would be needed in 1990-91 to achieve faculty salary parity with CSU's list of comparison colleges and universities. As mentioned, the budget proposes \$24.1 million for a January 1, 1991 increase of 4.9 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 1990-91 does not appear to be feasible.

Table 15
The California State University
Faculty Salary Increase Required to Achieve Parity
With Comparison Institutions
1990-91

	CSU Final Salaries 1989-90 ^a	Comparison Group Average Salaries		Percentage Increase Required In CSU Salaries	
		Actual 1989-90	Projected 1990-91	Actual 1989-90	Projected 1990-91
<i>Academic Rank</i>					
Professor.....	\$57,836 ^b	\$59,139	\$62,680	2.25%	8.38%
Associate Professor.....	45,730 ^b	43,781	46,375	-4.26	1.41
Assistant Professor.....	37,413 ^b	36,806	39,165	-1.62	4.68
Instructor.....	30,957 ^b	28,315	30,015	-8.54	-3.04
<i>All Ranks Averages</i>					
Weighted by CSU Staffing Pat- tern ^c	\$51,684	\$51,972	\$55,104	0.56%	6.62%
Weighted by Comparison Insti- tution Staffing Pattern.....	<u>47,579</u>	<u>47,131</u>	<u>49,984</u>	<u>-94</u>	<u>5.06</u>
Mean All-Ranks Average.....	\$49,631	\$49,552	\$52,544	-0.16%	5.87%
<i>Adjustments</i>					
Turnover and Promotions.....			-\$99		-0.20%
Effect of Law School Faculty ..			-99		-0.20
Merit Award Adjustment.....			<u>-337</u>		<u>-0.59</u>
Net Parity Salary and Percent- age.....			\$52,009		4.88%

^a Effective January 1, 1990. Salaries exclude merit awards.

^b Salary ranges are (Final, 1989-90): Professor (\$48,168 to \$53,116); Associate Professor (\$38,112 to \$52,896); Assistant Professor (\$30,276 to \$41,844); Instructor (\$27,708 to \$33,192). Those in designated market disciplines have separate, higher salary ranges.

^c CSU staffing pattern (1989-90): Professor 63 percent (7,512); Associate Professor 19 percent (2,332); Assistant Professor 16 percent (1,939); Instructor 2 percent (225).

Capital Outlay

The Governor's Budget proposes several appropriations beginning with Item 6440-301-660 for capital outlay expenditures in higher education. Please see our analysis of the proposed Higher Education Capital Outlay Program in the capital outlay section of the *Analysis* which is in the back of this document. The CSU capital outlay analysis begins with Item 6610-301-660.

CALIFORNIA MARITIME ACADEMY

Item 6860 from the General

Fund and various other funds

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Requested 1990-91	\$9,697,000
Estimated 1989-90	9,523,000
Actual 1988-89	8,976,000
Requested increase (excluding amount for salary increases) \$174,000 (+1.8 percent)	
Total recommended reduction	None

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6860-001-001—Support	General	\$7,017,000
6860-001-519—Support	CMA Continuing Education Revenue	33,000
6860-001-814—Support	CMA Trust (Lottery)	71,000
6860-001-890—Support	Federal Trust	401,000
6860-490—Reappropriation	General	—
Reimbursements	—	2,216,000
Transfer to CMA Trust Fund	—	-41,000
Total		\$9,697,000

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 390 students and 136.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$9.7 million for support of the CMA in 1990-91. This consists of \$7.0 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 \$174,000, or 1.8 percent, more than is estimated to be expended in the current year. The proposed expenditures from the General Fund reflect an increase of \$87,000, or 1.3 percent, over the current year.

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

CALIFORNIA MARITIME ACADEMY—Continued

Table 1
California Maritime Academy
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

Programs	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Change from 1989-90	
				Amount	Percent
Instruction.....	\$4,701	\$4,921	\$5,052	\$131	2.7%
Academic support.....	1,222	1,452	1,455	3	0.2
Student services.....	3,053	3,150	3,190	40	1.3
Administration (distributed).....	(2,168)	(2,285)	(2,302)	(17)	(0.7)
Totals, expenditures.....	\$8,976	\$9,523	\$9,697	\$174	1.8%
Funding Sources					
General Fund.....	\$6,420	\$6,930	\$7,017	\$87	1.3%
Continuing Education Revenue Fund.....	22	—	33	33	— ^a
CMA Trust Fund (Lottery).....	25	30	30	—	—
Federal Trust Fund.....	377	401	401	—	—
Reimbursements.....	2,132	2,162	2,216	54	2.5
Personnel-years.....	126.6	136.5	136.5	—	—

^a Not a meaningful figure.

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 1990-91 General Fund Budget Changes
(dollars in thousands)

1989-90 Expenditures (Revised).....	\$6,930
<i>Baseline Adjustments and Workload Changes</i>	
Employee compensation—full-year funding.....	134
Faculty merit salary adjustment.....	44
Nonrecurring expenditures.....	-115
Student fee revenue increase.....	-26
Financial aid.....	5
Nonresident tuition revenue increase.....	-15
Subtotal.....	(\$27)
<i>Program Changes</i>	
Special repair—roof replacement.....	\$60
1990-91 Expenditures (Proposed).....	\$7,017
Change from 1989-90	
Amount.....	\$87
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 provide \$60,000 to replace the roof on the CMA's residence hall. The total

cost of the project is estimated to be \$100,000, with \$40,000 to be provided through a one-time redirection of funds from within CMA's existing resources.

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

- **CMA Continuing Education Revenue Fund (Item 6860-001-519).** The budget proposes \$33,000 from the Continuing Education Revenue Fund, and \$161,000 in reimbursements, to support the academy's continuing maritime education program in 1990-91. This program, which is fully self-supported, offers fee-funded courses for adult education in maritime vocational education and technical training.
- **CMA Trust Fund—Lottery Revenues (Item 6860-001-814).** The budget projects that CMA will receive \$71,000 in lottery funds in 1990-91. 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 1989 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 1987-88 through 1990-91.

Table 3
California Maritime Academy
Student Fees
1987-88 through 1990-91

	1987-88	1988-89	1989-90	Proposed 1990-91	Percent Change From 1989-90
Education/student services.....	\$645	\$706	\$740	\$773	4.5%
Medical.....	162	179	188	196	4.3
Nonresident tuition.....	2,200	2,420	2,977	2,977	—

The budget proposes a 4.5 percent increase in the education/student services fee in 1990-91, based on the fee methodology proposed in 1985 by the California Postsecondary Education Commission (CPEC). The budget also proposes a 4.3 percent increase in the medical fee, and proposes no increase in nonresident tuition.

Legislative Oversight: Future of the CMA

In January 1990, we submitted a report to the Legislature, *California Maritime Academy: Options for the Legislature* (report #90-1), which

CALIFORNIA MARITIME ACADEMY—Continued

analyzes the costs and benefits of the academy and considers alternative ways to carry out the academy's mission.

In our report, we conduct a cost-benefit analysis of (1) eliminating support of the academy and (2) reducing the state's cost of supporting the academy through specified alternatives. We find that the decision to maintain or eliminate support of the CMA could rest on the degree to which maritime industry impact is assessed according to two criteria: (1) the need to meet a documented labor market demand, or (2) the quality of the training as reflected, in part, by the job placement success of the academy.

If the Legislature chooses to apply the statutory criterion for community college vocational education programs—which requires both of the foregoing criteria to be met—the academy would be in serious jeopardy, based on labor market projections. If, on the other hand, the Legislature chooses to apply only the job placement criterion—as it has done for law and business programs at the University of California—continuation of state support for the academy might be justified.

In the report, we identify three options for the Legislature in its consideration of the future of the CMA:

(1) Eliminate state support of the CMA on the basis that the academy is not necessary to meet *projected labor market demand* for licensed deck and engineering officers, and thus is not cost-effective.

(2) Continue the existing level of state support of the CMA on the basis that its *job placement success* reflects superior productivity—in terms of the performance of its graduates once employed—thereby indicating that the academy is cost-effective.

(3) Continue to provide merchant marine officer training, but reduce the state's costs for such training by (a) increasing the level of CMA support provided by students and the industry, or (b) replacing the CMA with a comparable program at a CSU campus or a financial assistance program for California students attending out-of-state maritime academies.

Because the Legislature will need additional information to fully explore which course of action to pursue, we recommend that the Legislature conduct an oversight hearing to review options for continuation, modification, or elimination of state support for the CMA.

Capital Outlay

The Governor's Budget proposes an appropriation of \$60,000 in Item 6860-301-791 for capital outlay expenditure at the CMA. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

CALIFORNIA COMMUNITY COLLEGES

Item 6870 from the General
Fund and various funds

Budget p. E 134

Requested 1990-91	\$3,320,330,000
Estimated 1989-90	3,128,576,000
Actual 1988-89	2,995,200,000
Requested increase (excluding amount for salary increases) \$191,754,000 (+6.1 percent)	
Total recommended reduction (transfer to Proposition 98 reserve for subsequent appropriation based on legislative priorities)	5,000,000

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
Budget Bill Items		
6870-001-001—Support	General	\$14,781,000
6870-011-001—Support	General	150,000
6870-101-001—Local assistance	General	1,656,196,000
6870-101-791—Local assistance	Bond	28,000,000
6870-101-814—Local assistance	Lottery	127,051,000
6870-101-909—Local assistance	Instructional Improvement	920,000
6870-103-001—Local assistance	Lease-purchase	1,741,000
6870-111-001—Local assistance	General	—
6870-490—Reappropriation	General	—
Section 12.31	Reserve	10,000,000
Section 22.00	General	5,300,000
Subtotal, Budget Bill Items		(\$1,844,139,000)
Non-Budget Bill Items		
Local revenues		\$778,084,000
Federal funds		157,615,000
Fee revenue		65,676,000
Other revenues/reimbursements		474,816,000
Subtotal, Non-Budget Bill Items		(\$1,476,191,000)
Total		\$3,320,330,000

*Analysis
page*

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

1. Unspent Proposition 98 funding from 1988-89. Recommend the Legislature enact urgency legislation to appropriate \$5.5 million in unspent funds, in order to fund legislative priorities. 1036
2. *“Over the Cap” ADA Growth. Delete \$5 million in Item 6870-101-001 (a) and augment Proposition 98 reserve, Section 12.31 by \$5 million.* Recommend that \$5 million proposed for “over the cap” ADA growth be transferred to Proposition 98 reserve, for subsequent allocation based on legislative priorities. 1039
3. Long-range Community Colleges Enrollment Projections. Our analysis indicates the enrollment projections developed 1042

CALIFORNIA COMMUNITY COLLEGES—Continued

by DOF appear to be reasonable. Alternative enrollment projections are being developed, which will be available for review this spring.

GENERAL PROGRAM STATEMENT

In 1990-91, the California Community Colleges will provide instruction to approximately 1.4 million students at 107 colleges operated by 71 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 resident 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 71 community college districts. The board is composed of 14 members appointed by the Governor for six-year terms and two faculty members appointed for two-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 243 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 1981-82. (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.)

Headcount enrollment is estimated to increase 44,693 (3.2 percent) between the current and budget years for a total of 1.4 million in 1990-91. Enrollment in the budget year is estimated to be 8,500 *higher* than the peak enrollment period of 1981-82. Headcount enrollment in credit courses is estimated to account for 85 percent of total enrollment.

Average daily attendance (ADA) in both credit and noncredit courses is estimated to increase 20,626 (2.7 percent) between the current and budget years, for a total of 785,290 in 1990-91. This ADA represents all ADA served by the colleges whether funded by the state or not. ADA in credit courses is estimated to account for 89 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 \$3.3 billion in 1990-91, an increase of \$192 million (6.1 percent) over estimated revenues in the current year. Of the total, \$1.8 billion comes from state funding sources. The remainder comes from local revenues (\$778 million), federal funds which flow directly to community colleges (\$158 million), state lottery revenues (\$127 million), the mandatory student fee (\$66 million), and other sources (\$432 million).

Table 1
California Community Colleges
Headcount Enrollment and
Average Daily Attendance ^a
1981-82 through 1990-91

	<i>Credit Courses</i>		<i>Noncredit Courses</i>		<i>Totals</i>	
	<i>Head-count</i>	<i>ADA</i>	<i>Head-count</i>	<i>ADA</i>	<i>Head-count</i>	<i>ADA</i>
1981-82	1,254,360	701,473	177,164	67,413	1,431,524	768,886
1982-83	1,192,920	683,250	162,062	60,439	1,354,982	743,689
1983-84	1,090,857	627,470	158,059	53,275	1,248,916	680,745
1984-85	1,008,995	600,682	167,226	61,152	1,176,221	661,834
1985-86	1,005,143	589,953	171,569	66,468	1,176,712	656,421
1986-87	1,009,662	611,734	190,097	69,791	1,199,759	681,525
1987-88	1,095,361	626,947	169,048	71,641	1,264,409	698,588
1988-89	1,130,505	651,980	203,524	82,411	1,334,029	734,391
1989-90 (est.)	1,188,161	678,190	207,187	86,474	1,395,348	764,664
1990-91 (prop.)	1,229,746	697,726	210,295	87,564	1,440,041	785,290
Change from 1989-90:						
Amount	41,585	19,536	3,108	1,090	44,693	20,626
Percent	3.5%	2.9%	1.5%	1.3%	3.2%	2.7%

^a ADA totals include nonresident students.

MAJOR ISSUES

- Budget provides funding for a 5.2 percent COLA (\$121 million) and 2.15 percent growth (\$36 million).
- No funds proposed for the second phase of community college reform.
- The Legislature should allocate proposed \$5 million for "over the cap" ADA growth according to its priorities.
- The Legislature may wish to enact urgency legislation to target \$5.5 million in unspent 1988-89 funds according to its priorities.

CALIFORNIA COMMUNITY COLLEGES—Continued

Table 2
California Community Colleges
Total Support from All Sources
1988-89 through 1990-91
(dollars in millions)

	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Change from 1989-90	
				Amount	Percent
State Support					
State operations.....	\$14.3	\$21.0	\$19.6	-\$1.4	-6.7%
Categorical programs.....	212.2	224.3	227.8	3.5	1.6
Apportionments.....	1,305.4	1,393.8	1,502.2	108.4	7.8
Proposition 98.....	—	—	10.0	10.0	— ^a
Subtotals, state support.....	(\$1,531.9)	(\$1,639.1)	(\$1,759.6)	(\$120.5)	(7.4%)
Local Support					
Property taxes.....	\$665.0	\$705.2	\$770.9	\$65.7	9.3%
Local debt.....	8.3	7.7	7.2	-0.5	-6.5
Subtotals, local support.....	(\$663.3)	(\$712.9)	(\$778.1)	(\$65.2)	(9.1%)
Other Support					
Federal.....	\$190.4	\$157.6	\$157.6	—	—
Lottery revenues.....	125.2	121.2	127.1	\$5.9	4.9%
Enrollment fee.....	65.2	65.0	65.7	0.7	1.1
Other revenues.....	419.2	432.8	432.2	-0.6	-0.1
Subtotals, other support.....	(\$800.0)	(\$776.6)	(\$782.6)	(\$6.0)	(0.8%)
Totals.....	\$2,995.2	\$3,128.6	\$3,320.3	\$191.7	6.1%
Funding Sources					
General Fund.....	\$1,450.8	\$1,563.9	\$1,688.2	\$124.3	7.9%
Local.....	663.3	712.9	778.1	65.2	9.1
Federal.....	190.4	157.6	157.6	—	—
Bond funds.....	33.1	28.0	28.0	—	—
Other state/reimbursements.....	49.6	47.2	43.4	-3.8	-8.1
Other/fee/lottery.....	608.0	619.0	625.0	6.0	1.0

^a Not a meaningful figure.

Significant Program Changes

Table 3 displays, by funding source, the components of the \$192 million (6.1 percent) increase in total support for community colleges in the budget year. As the table shows:

- **Baseline adjustments** result in a net decrease of \$22 million. This decrease primarily reflects elimination of current year funding for (1) equipment replacement and library materials (\$23 million) and (2) asbestos abatement (\$5 million).
- **Workload changes** result in an increase of \$168 million from the General Fund. This increase primarily reflects increases of (1) \$36 million to fund statutory and discretionary growth of 2.15 percent in community college ADA, (2) \$121 million to fund statutory and discretionary cost-of-living adjustments (COLAs) of 5.2 percent, and (3) \$11 million for equalization aid.
- **Program changes** result in an increase of \$46 million. The major changes include funding for (1) instructional equipment replace-

ment (\$23 million), (2) a Proposition 98 funding reserve (\$10 million), (3) "over the cap" ADA growth (\$5 million), and (4) asbestos abatement projects (\$5 million).

Table 3
California Community Colleges
Proposed 1990-91 Budget Changes
by Funding Source
(dollars in thousands)

	<i>General Fund</i>	<i>Lottery Funds</i>	<i>Federal Funds</i>	<i>Local Revenues</i>	<i>Bond Funds</i>	<i>Other Funds</i>	<i>Totals</i>
1989-90 Expenditures (Revised)	\$1,563,907	\$121,190	\$157,615	\$712,862	\$28,000	\$545,002	\$3,128,576
<i>Baseline Adjustments</i>							
General apportionment..	\$15,851	—	—	—	—	—	\$15,851
Local revenues.....	-67,775	—	—	\$67,613	—	\$162	—
Instructional equipment ..	—	—	—	—	-\$23,000	—	-23,000
Management information system.....	-7,083	—	—	—	—	—	-7,083
Asbestos abatement.....	—	—	—	—	-5,000	—	-5,000
GAIN.....	-2,600	—	—	—	—	—	-2,600
Other.....	-791	\$5,861	—	-2,391	—	-2,702	-23
Subtotals, baseline adjustments.....	(\$62,398)	(\$5,861)	(—)	(\$65,222)	(\$28,000)	(\$2,540)	(\$21,855)
<i>Workload Changes</i>							
Equalization.....	\$10,926	—	—	—	—	—	\$10,926
Statutory COLA (5.2 percent)	115,412	—	—	—	—	—	115,412
Discretionary COLAs (5.2 percent)	5,456	—	—	—	—	—	5,456
Statutory growth (2.15 percent)	34,637	—	—	—	—	—	34,637
Disabled students growth (2.15 percent)	666	—	—	—	—	—	666
Matriculation growth (2.15 percent)	771	—	—	—	—	—	771
Subtotals, workload changes	(\$167,868)	—	—	—	—	—	(\$167,868)
<i>Program Changes</i>							
Instructional equipment ..	—	—	—	—	\$23,000	—	\$23,000
Proposition 98 reserve ...	\$10,000	—	—	—	—	—	10,000
Asbestos abatement.....	—	—	—	—	5,000	—	5,000
Credentials.....	150	—	—	—	—	-\$1,050	-900
Economic development center.....	1,129	—	—	—	—	—	1,129
Faculty and staff diversity	1,000	—	—	—	—	—	1,000
Accountability pilot—Ch 973/88.....	375	—	—	—	—	—	375
Recording for the blind—Ch 1311/89....	150	—	—	—	—	—	150
Lease purchase payments	631	—	—	—	—	—	631
Supplemental growth ADA.....	5,000	—	—	—	—	—	5,000

CALIFORNIA COMMUNITY COLLEGES—Continued

Table 3—Continued
California Community Colleges
Proposed 1990-91 Budget Changes
by Funding Source
(dollars in thousands)

	<i>General Fund</i>	<i>Lottery Funds</i>	<i>Federal Funds</i>	<i>Local Revenues</i>	<i>Bond Funds</i>	<i>Other Funds</i>	<i>Totals</i>
Apprenticeship base adjustment	306	—	—	—	—	—	306
Teacher assistant grants—Ch 1345/89...	50	—	—	—	—	—	50
Subtotals, program changes	<u>(\$18,791)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(\$28,000)</u>	<u>(-\$1,050)</u>	<u>(\$45,741)</u>
1990-91 Expenditures (Proposed).....	\$1,688,168	\$127,051	\$157,615	\$778,084	\$28,000	\$541,412	\$3,320,330
Change from 1989-90:							
Amount.....	\$124,261	\$5,861	—	\$65,222	—	-\$3,590	\$191,754
Percent.....	7.9%	4.8%	—	9.1%	—	-0.7%	6.1%

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**—\$161.4 million from the General Fund for (1) a 5.2 percent statutory COLA for general education apportionments (\$115.4 million), (2) statutory enrollment growth of 2.15 percent (\$35 million), and (3) equalization aid (\$11 million).
- **Instructional equipment**—\$23 million from the 1990 Higher Education Bond Fund for instructional equipment.
- **Control of hazardous substances**—\$5 million from the 1990 Higher Education Bond Fund for asbestos abatement.
- **Categorical programs**—\$6.9 million from the General Fund to provide a 5.2 percent COLA for categorical programs (\$5.5 million) and 2.15 percent enrollment growth in the Disabled Students Programs and Services (DSPS) program (\$666,000) and matriculation program (\$771,000).
- **Economic development center**—\$1.1 million from the General Fund in order to enhance economic development in various areas, such as applied competitive technology and small business development.
- **Faculty and staff diversity**—\$1 million to assist local districts adopt and maintain affirmative action programs of high quality.
- **Revenue bond payments**—\$631,000 from the General Fund for reimbursement of lease payments on revenue bonds.
- **Apprenticeship base adjustment**—\$306,000 from the General Fund to adjust the apprenticeship program hourly rate commensurate with the K-12 education hourly rate.
- **Other program changes**—\$425,000 from the General Fund for (1) start-up of the accountability pilot project to conform with require-

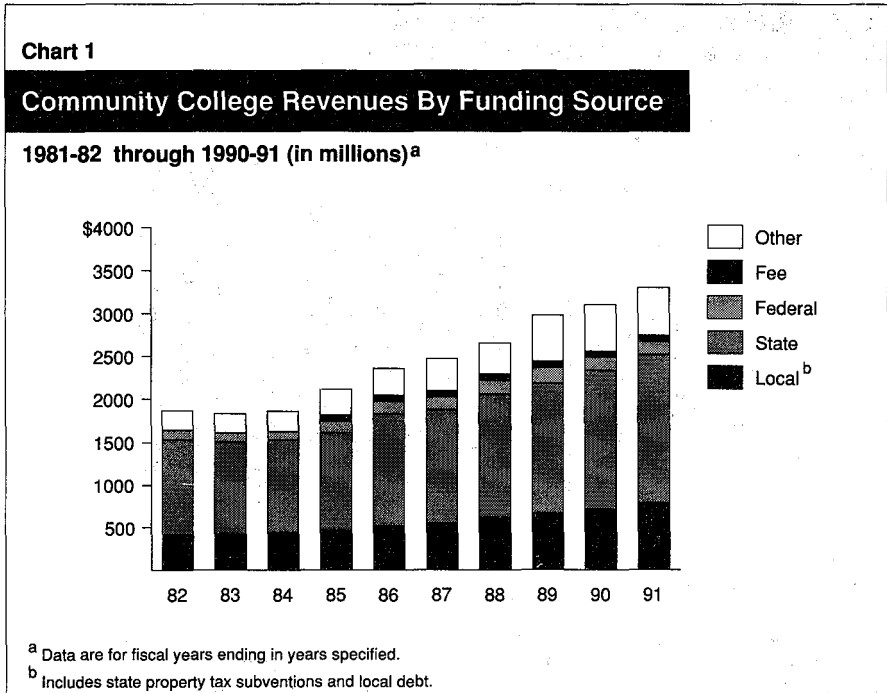
ments of Ch 973/88 (AB 1725, Vasconcellos) (\$375,000) and (2) the pilot Teacher Assistant program in two community college districts to conform with Ch 1345/89 (SB 156, Leroy Greene) (\$50,000).

- **Chancellor's Office**—\$300,000 from the General Fund for (1) partial year funding for costs incurred as a result of decentralization of the credential program (\$150,000), (2) to contract with "Recording for the Blind" in order to loan taped educational books to blind, visually impaired, and learning disabled students (\$150,000), and (3) authorization for seven personnel years (with no additional funding).
- **General Reappropriation (Item 6870-490)**—a provision reappropriating unexpended federal fund balances from the community colleges main local assistance item, schedules (k) and (l) of the 1989 Budget Act. Expenditure of the reappropriated funds is limited to local assistance vocational education allocations and vocational education special projects.

I. LOCAL ASSISTANCE FOR COMMUNITY COLLEGES

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 1981-82 to 1990-91.

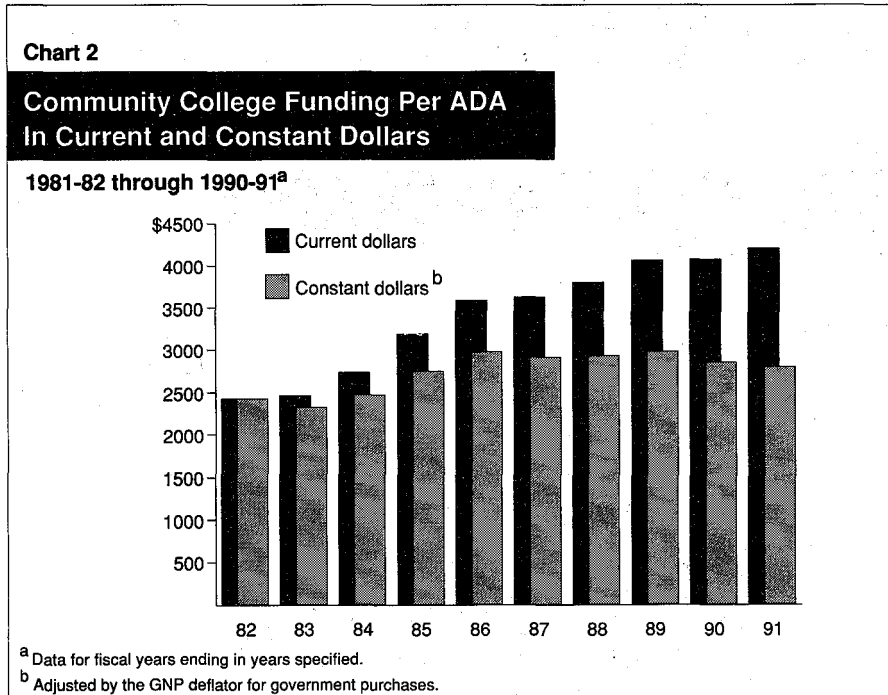


CALIFORNIA COMMUNITY COLLEGES—Continued

Total Community College Revenues. As shown in Table 4 and Chart 1, total funding for the colleges increased from \$1.9 billion in 1981-82 to a projected \$3.3 billion in 1990-91—an increase of \$1.4 billion (77 percent). Of the five revenue sources, support from “other” sources has registered the largest percentage increase, up 145 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 87 percent over the 10-year period. The table further shows that support from both local revenues and other sources has increased at a much faster pace than revenue from either the state (58 percent increase) or the federal government (36 percent).

Table 4 also shows that total community college ADA is projected to be 785,290 in 1990-91. This represents an increase of approximately 2 percent (16,400 ADA) over the peak year of 1981-82.



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 \$1,778 (73 percent), from \$2,425 to \$4,203 over the period.

When per-ADA support is adjusted for the effects of inflation, the proposed per-ADA expenditure level, as measured in constant dollars is

Table 4
California Community Colleges
Total Revenues^a
1981-82 through 1990-91
(dollars in millions)

	State Aid ^c	Local Property Tax ^d	Federal Aid	Manda- tory Student Fee	Other ^e	Total Funding	Average Daily Atten- dance	Current Dollars		1981-82 Dollars ^b	
								Per ADA	Percent Change	Per ADA	Percent Change
1981-82.....	\$1,104.3	\$416.4	\$116.0	—	\$228.0	\$1,864.7	768,886	\$2,425	—	\$2,425	—
1982-83.....	1,086.5	418.0	104.5	—	225.9	1,834.9	743,689	2,467	1.7%	2,328	-4.0%
1983-84.....	1,080.9	438.9	99.8	—	243.3	1,862.9	680,745	2,737	10.9	2,469	6.1
1984-85.....	1,145.3	462.9	134.6	\$64.4	306.3	2,113.5	661,834	3,193	16.7	2,750	11.4
1985-86.....	1,302.5	517.7	152.2	68.0	316.2	2,356.6	656,421	3,590	12.4	2,978	8.3
1986-87.....	1,325.4	548.8	149.7	68.8	380.2	2,472.9	681,525	3,628	1.1	2,914	-2.1
1987-88.....	1,442.5	616.3	158.9	68.3	368.4	2,654.4	698,588	3,800	4.7	2,919	0.2
1988-89 (est.).....	1,517.9	663.3	190.4	65.2	544.4	2,980.9	734,391	4,059	6.8	2,979	2.0
1989-90 (est.).....	1,618.1	712.9	157.6	65.0	554.0	3,107.6	764,664	4,064	0.1	2,847	-4.4
1990-91 (prop.).....	1,740.0	778.1	157.6	65.7	559.3	3,300.7	785,290	4,203	3.4	2,794	-1.8
Cumulative change:											
Amount.....	\$635.7	\$361.7	\$41.6	—	\$331.3	\$1,436.0	16,404	\$1,778	—	\$369	—
Percent.....	57.6%	86.9%	35.9	—	145.3%	77.0%	2.1%	73.3%	—	15.2%	—

^a Excludes funding for the Chancellor's Office.

^b Adjusted by the GNP deflator for state and local government purchases.

^c Includes Board Financial Assistance funds.

^d Includes state property tax subventions and local debt.

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

CALIFORNIA COMMUNITY COLLEGES—Continued

\$2,794—\$369 dollars (15 percent) above the funding level provided 10 years ago. For 1990-91, however, the table and chart show that community college funding per-ADA in constant dollars is actually less than it was in 1989-90—a decrease of 1.8 percent.

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

The budget proposes \$2.3 billion for community college apportionments in 1990-91, an increase of \$167 million (7.3 percent) from the current-year amount. Combined support from the General Fund, the State School Fund, local property tax revenues, and student fees fund the following major changes:

- Statutory cost-of-living adjustment of 5.2 percent (\$115 million);
- Statutory average daily attendance growth of 2.15 percent (\$35 million); and
- "Equalization II" to reduce funding disparities among districts (\$11 million).

The budget also proposes \$127 million for community colleges from the state lottery. This funding level is an increase of \$6 million, or 4.8 percent, over the estimated current amount. Lottery funds are allocated to community college districts based on an estimated rate of \$162 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.

Because broad reforms cannot be effectively implemented in a short period of time, Chapter 973 provides that the reform process consists of two phases. Phase I focuses on improving community college programs in order to prepare an appropriate environment for the subsequent "professionalization of faculty." Phase II follows the initial program improvement and faculty professionalization phase, and implements program-based funding as the new funding allocation methodology along with other reforms.

In addition, the act specifies that, before either phase of reform becomes operative, the Board of Governors must certify that sufficient funding has been provided to pay for them. The measure further specifies that the total costs of the reforms is \$140 million—\$70 million for each phase. In this section we discuss the status and funding of the reform phases.

Proposition 98 Implementing Legislation Provides Phase I Funding. Proposition 98 implementing legislation, Chapters 82 and 83, Statutes of 1989 (SB 98, Hart and AB 198, O'Connell) appropriated \$70 million in the current year for the first phase of reforms. In the fall of 1989, the board certified that, at the end of the current fiscal year, "adequate funding" will have been provided to community college districts for Phase I, and that these reforms will become mandatory ongoing administrative functions of community college districts.

As a prerequisite to obtaining the funds, each district must submit to the Chancellor's Office a detailed plan specifying the use of program

improvement funds. At present, the Chancellor's Office is in the process of reviewing the plans to ensure that these funds are expended on activities authorized under Chapter 973.

Phase I, for the most part, requires either community college districts or the board to establish and implement various employment-related activities. Some of these reforms include:

- Repeal of the existing credential process for community colleges;
- Adoption, by the board, of regulations that establish minimum qualifications for faculty and administrators;
- Implementation of new requirements regarding evaluation of employees;
- Implementation of new layoff provisions; and
- Development by the board, in consultation with the Academic Senate, of a process for reviewing minimum qualifications.

In addition to funding the various program reforms required under Phase I, the measure allows community college districts to fund other purposes where program improvement may be necessary, such as:

- Augmenting budgets for college libraries and learning resources;
- Adding new courses or programs to serve community needs;
- Making progress toward affirmative action goals and timetables established by the district; and
- Augmenting budgets for student services in the areas of greatest need.

From our discussions with the Chancellor's Office and site visits to various community college districts, we find that the reforms under Phase I are in the process of being implemented in accordance with Chapter 973.

Governor's Budget Does Not Fund Phase II. The Governor's Budget does not include funding for implementation of the second phase of reforms, which would require:

- Implementation of program-based funding (PBF) the year subsequent to full-funding of the second phase. (PBF is the method authorized by Chapter 973 for allocating state funds to the community college districts. Under PBF, the system authorizes the board to allocate funds to community college districts based on various workload measures and funding rates);
- Implementation of provisions regarding faculty tenure reforms; and
- Full and ongoing compliance with Phase I reforms.

The Department of Finance indicates that there are two interacting reasons for not funding the second phase. First, there is a limited amount of available funding for community colleges under the Proposition 98 funding formula (the budget proposes to provide the community colleges the same proportion of Proposition 98 funding as in the current year, approximately 9.9 percent). Second, the Chancellor's Office established full funding of both community college growth and COLAs as its primary funding priorities in the budget year.

CALIFORNIA COMMUNITY COLLEGES—Continued

Proposition 98 Reserve may Provide the Legislature An Option. The Legislature may wish to provide full or partial funding of Phase II from the available Proposition 98 reserve (\$10 million) discussed later in this analysis. However, the Chancellor's Office indicates that it would not recommend that the board certify adequate funding of Phase II, unless the full \$70 million is provided. Thus, full implementation of Chapter 973 would be delayed until the full \$140 million for both phases is funded.

Unspent Proposition 98 Funding Available from 1988-89

We recommend the enactment of urgency legislation to appropriate an estimated \$5.5 million in unspent community colleges appropriations from 1988-89, in order to allow the Legislature to allocate these funds according to its priorities among community college programs, rather than on a per-ADA basis.

The Governor's Budget (Schedule 1) indicates that \$23.7 million appropriated for specific education programs in 1988-89, and counting towards meeting Proposition 98 minimum funding requirements, will not be spent as appropriated. Of this amount, \$5.5 million was appropriated for the community colleges, and \$18.2 million was appropriated for K-12 education.

Under current law (Chapters 82 and 83, Statutes of 1989 — SB 98, Hart and AB 198, O'Connell), the Chancellor of the community colleges and the Director of Finance are required to jointly certify, by March 31, 1990, the remaining amount owed to the community colleges (including unspent appropriations) for 1988-89.

Current law further provides that this amount shall be set aside by the Controller and, if not appropriated to college districts by the Legislature within 90 days, the Controller shall allocate these funds to districts on an equal per-ADA basis. Thus, in order to avoid this allocation by the Controller, the Legislature must appropriate these funds to college districts during the 1989-90 fiscal year, prior to the end of the 90-day period.

In order to allow the Legislature to spend these funds for community college programs according to its priorities, we recommend the enactment of urgency legislation to reappropriate the unspent 1988-89 appropriations for specific community college program priorities. (A similar recommendation is made in our *Analysis* of K-12 education.)

Proposition 98 Funding in 1989-90

Proposition 98 implementing legislation, Chapters 82 and 83, appropriated a total of \$135.5 million in additional funding to the community colleges. In order to comply with requirements of Proposition 98, \$51.5 million of this amount was counted as a 1988-89 appropriation. However, because these measures were chaptered on June 30, 1989, community college districts received the entire \$135.5 million in 1989-90.

Funds Used for Various Legislative Priorities. The Legislature earmarked the additional Proposition 98 funds as follows:

- \$70 million, as discussed earlier, for the first-phase implementation of Ch 973/88 (AB 1725, Vasconcellos), the long-term framework for California Community Colleges reform.

\$14 million for implementation of community college matriculation, as required by Ch 1487/86 (AB 3, Campbell). The additional funding, coupled with existing state support, totaled approximately \$35 million and is considered full funding for the program. The funds are distributed on a formula-driven basis that takes into account the number of new and continuing students in a district.

\$45 million in one-time only funds to the districts. The funds were allocated to the districts based on 1988-89 ADA. Each district received approximately \$63 per ADA. The additional funds are considered general purpose funds that may be used for any authorized purpose as determined by the district.

\$6.5 million for allocation to districts, based upon each district's proportionate share of 1988-89 unfunded ADA. The implementing legislation specified that the funds are to be considered an adjustment to each district's base revenue.

Community College Categorical Programs (Items 6870-101-001(b-q), 6870-101-791, 6870-101-909, 6870-103-001, 6870-111-001, 6870-490, and Control Section 22.00)

The budget for community colleges proposes \$238 million to support categorically funded programs in 1990-91. This is an increase of \$13.5 million (6.0 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.

Table 5
California Community Colleges
Support for Categorical Programs
Local Assistance
1988-89 through 1990-91
(dollars in thousands)

	<i>Actual</i> 1988-89	<i>Est.</i> 1989-90	<i>Prop.</i> 1990-91	<i>Change from</i> 1989-90	
				<i>Amount</i>	<i>Percent</i>
<i>Educational Programs and Services</i>					
Vocational education projects	\$4,768	\$3,818	\$3,616	-\$202	-5.3%
Vocational education allocation.....	31,029	30,753	30,955	202	0.7
Transfer education/articulation.....	658	1,485	1,485	—	—
Instructional improvement	841	909	736	-173	-19.0
Economic development.....	—	—	5,256	5,256	— ^a
Academic standards/evaluation.....	—	—	50	50	— ^a
Subtotals.....	(\$37,296)	(\$36,965)	(\$42,098)	(\$5,133)	(13.9%)
<i>Student Services Programs</i>					
EOPS	\$29,623	\$31,365	\$32,996	\$1,631	5.2%
CARE.....	1,472	1,542	1,622	80	5.2
Board Financial Assistance.....	11,054	13,420	13,420	—	—
Puente Project	157	166	175	9	5.4
Disabled Student Program.....	27,514	30,055	32,278	2,223	7.4
Matriculation	20,626	35,870	38,506	2,636	7.3
GAIN	10,000	7,900	5,300	-2,600	-32.9
Transfer centers.....	1,902	1,991	2,095	104	5.2
Foster parent training	898	900	900	—	—
Subtotals.....	(\$103,246)	(\$123,209)	(\$127,292)	(\$4,083)	(3.3%)

CALIFORNIA COMMUNITY COLLEGES—Continued

Table 5—Continued

<i>Physical Plant and Equipment</i>					
Instructional equipment	\$35,000	\$23,000	\$23,000	—	—
Deferred maintenance	15,261	15,421	15,000	-\$421	-2.7%
Hazardous substances removal	14,999	13,000	13,000	—	—
Earthquake repairs	336	263	—	-263	-100.0
Subtotals	(\$65,596)	(\$51,684)	(\$51,000)	(-\$684)	(-1.3%)
<i>Other Programs</i>					
Proposition 98 reserve	—	—	\$10,000	\$10,000	— ^a
Emergency loan repayments	-\$1,100	—	—	—	—
Academic senate	150	\$150	150	—	—
Faculty and Staff Diversity Fund	1,000	1,000	2,000	1,000	100.0%
Staff Development Fund	4,900	4,900	4,900	—	—
Management information systems	—	6,400	375	-6,025	94.1
Subtotals	(\$6,050)	(\$12,450)	(\$17,425)	(\$4,975)	(40.0%)
Totals	\$212,188	\$224,308	\$237,815	\$13,507	6.0%
<i>Funding Sources</i>					
General Fund	\$144,128	\$162,795	\$176,341	\$13,546	8.3%
1988 Higher Education Bond Fund	33,138	28,000	—	-28,000	-100.0
1990 Higher Education Bond Fund	—	—	28,000	28,000	— ^a
Instructional Improvement Fund	105	173	173	—	—
Higher Education Earthquake Account	290	39	—	-39	-100.0
Reimbursements	34,527	33,301	33,301	—	—

^a Not a meaningful figure.

The major funding proposals for the categorical programs include:

- \$10 million increase set aside in a Proposition 98 reserve to be expended by legislation;
- \$1.1 million increase to fund economic development projects. (The remaining \$4.3 million indicated in the table is being transferred from general apportionments);
- \$2.6 million reduction for the GAIN program, which serves community college students receiving Aid to Families with Dependent Children (AFDC) due to the availability of federal funds;
- \$2.2 million increase to provide a 5.2 percent COLA and a 2.15 percent increase in workload for the DSPS program, which serves disabled students;
- \$2.6 million increase to provide a 5.2 percent COLA and a 2.15 percent increase in workload for community college matriculation programs; and
- \$1.6 million increase to provide a 5.2 percent COLA for the EOPS program, which serves disadvantaged students.

Proposition 98 Reserve for Community Colleges

Background. In compliance with the requirements of Proposition 98, the Governor's Budget proposes a total of approximately \$1.7 billion in General Fund appropriations for community colleges which count toward meeting Proposition 98 minimum funding requirements. The proposed total represents an increase of \$124.2 million (7.9 percent) over estimated current-year funding levels. Of this amount, \$10 million is appropriated as a Proposition 98 reserve for California Community Colleges in Control Section 12.31. (The Control Section 12.31 reserve also

contains an additional \$210 million for K-12 education programs.) The budget proposes that the reserve funds be "...for subsequent appropriation by the Legislature for deficiencies and other educational purposes in program areas which are funded under provisions of Proposition 98."

Use of a CCC Reserve. Elsewhere in the K-12 section (Item 6110) 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. Consequently, we believe that the Legislature could appropriate the CCC portion of the reserve for designated high-priority purposes such as reforms under Ch 973/88 (AB 1725, Vasconcellos), deferred maintenance, or hazardous substances removal.

Should the State Fund "Over the Cap" ADA?

We recommend that the Legislature transfer the \$5 million proposed for "over the cap" ADA growth to the Proposition 98 reserve, in order to allow the Legislature to allocate these funds according to its priorities. (Delete \$5 million in Item 6870-101-001 (a) and amend Control Section 12.31 to provide for an equivalent increase in the Proposition 98 reserve.)

The Governor's Budget requests \$35 million to fund a 2.15 percent increase in community college ADA—approximately 15,284 ADA over the estimated state-funded current-year level of 710,882.

Under current law, there is a fixed "cap" on state-funded average daily attendance (ADA) growth. Increases in ADA are based on the annual rate of growth of the state's adult population. This cap assures the state will not have to fund ADA that exceeds the rate of growth for the adult population. The primary purpose of the cap is to limit the state's financial liability towards community college funding. Without it, the state would experience significant uncertainty in its budget estimates, because community college enrollment can be readily increased by local initiative if funding were open-ended. In addition, the cap has provided districts some certainty in determining the minimum level of funds available to manage their course offerings.

The cap does not, however, limit the growth in actual ADA. District growth can still exceed the state-funded rate of ADA growth, provided the districts are able to finance the excess ADA growth from their reserves. (Most districts, when developing their budgets, set aside a portion of funds as a reserve for contingencies — a typical reserve would be between 2 percent and 5 percent of their expected total budget.) If funded locally, such ADA are referred to as "over the cap" ADA.

Budget Proposes to Fund ADA Beyond Statutory Limit. The budget proposes an additional \$5 million from the General Fund to reimburse districts for "over the cap" ADA growth beyond the statutory growth

CALIFORNIA COMMUNITY COLLEGES—Continued

limit of 2.15 percent. The Department of Finance estimates the increase would switch an additional 2,216 ADA in the budget year from local funding to state funding.

Budget Proposal Limits Legislative Flexibility. The administration's proposal of having the state fund "over the cap" growth is in response to requests from those districts who have consciously chosen to use local resources to serve additional ADA. These districts want the state to "make them whole" by reimbursing them for an expansion that they had already funded. The state's reimbursement for already paid-for ADA, in effect, becomes unrestricted income to the districts to use for whatever purpose they want. Thus, the administration's policy limits the flexibility of the Legislature by allowing the community college districts to determine their own high-priority uses for these funds.

We believe that the amount to appropriate for this purpose, if any, should be determined in the context of other legislative priorities for community colleges. Accordingly, we recommend that the Legislature transfer the \$5 million proposed for funding "over the cap" ADA to the Proposition 98 reserve specified in Control Section 12.31, where it may then be appropriated for designated education expenditures based on the Legislature's priorities for the use of these funds.

II. COMMUNITY COLLEGE STATE OPERATIONS**Chancellor's Office (Items 6870-001-001 and 6870-011-001)**

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 displays state operations funding for the Chancellor's Office in the prior, current, and budget years. As the table shows, the budget proposes \$19.6 million to support the Chancellor's Office in 1990-91—a net decrease of \$1.4 million (6.8 percent) from the amount available in the current year. This net decrease primarily occurs in the Administration and Finance Unit and reflects the decentralization of the credential process responsibility from the Chancellor's Office to community college districts, as specified under Ch 973/88 (AB 1725, Vasconcellos).

California Community Colleges Long-Range Facilities Plan

In September 1989, the Chancellor's Office issued a preliminary long-range facilities plan that indicates the need for 16 additional community colleges, based on projected enrollment growth between 1988-89 and 2005-06. To do this, the Chancellor's Office developed a simulation model which projects the development of new campuses and the remodeling and altering of existing facilities for each of the 71 community college districts through the year 2005-06. The following discussion highlights (1) the major features of the preliminary plan, (2) the key enrollment assumption of the plan, and (3) our comments on it.

Table 6
California Community Colleges
State Operations Budget Summary
1988-89 through 1990-91
(dollars in thousands)

	<i>Actual</i> 1988-89	<i>Est.</i> 1989-90	<i>Prop.</i> 1990-91	<i>Change from</i> 1989-90	
				<i>Amount</i>	<i>Percent</i>
<i>Academic Affairs</i>					
Vocational education.....	\$2,950	\$4,337	\$4,206	-\$131	-3.0%
JTPA-employment training.....	892	619	648	29	4.7
Transfer education.....	633	810	821	11	1.4
Academic standards/evaluation.....	1,131	1,349	1,368	19	1.4
Academic affairs administration.....	201	207	229	22	10.6
Instructional improvement.....	—	66	66	—	—
Faculty and staff development.....	100	100	100	—	—
Subtotals.....	(\$5,907)	(\$7,488)	(\$7,438)	(-\$50)	(-0.7%)
<i>Student Services and Special Programs</i>					
EOPS.....	\$476	\$125	\$125	—	—
Disabled Students Program.....	707	2,571	2,368	-\$203	-7.9%
Transfer centers.....	184	—	—	—	—
Foster parent training.....	116	156	158	2	1.3
Matriculation.....	429	589	608	19	3.2
Student services administration.....	419	528	528	—	—
Special programs.....	505	1,424	1,572	148	10.4
Management information systems.....	—	589	601	12	2.0
Academic senate.....	—	281	284	3	1.1
Faculty and staff diversity.....	1,041	1,471	1,481	10	0.7
Student financial aid.....	581	501	503	2	0.4
Subtotals.....	(\$4,458)	(\$8,235)	(\$8,228)	(\$7)	(-0.1%)
<i>Administration and Finance</i>					
Apportionments.....	\$1,967	\$2,296	\$2,033	-\$263	-11.5%
Credentials.....	822	1,050	150	-900	-85.7
Facilities.....	1,127	1,953	1,748	-205	-10.5
Subtotals.....	(\$3,916)	(\$5,299)	(\$3,931)	(-\$1,368)	(-25.8%)
<i>Distributed Administration</i>					
Board of Governors.....	(\$168)	(\$318)	(\$336)	(\$18)	(5.7%)
Chancellor's Office.....	(4,169)	(5,859)	(3,873)	(-1,986)	(-33.9)
Subtotals.....	(\$4,337)	(\$6,177)	(\$4,209)	(-\$1,968)	(-31.9%)
Totals.....	\$14,281	\$21,022	\$19,597	-\$1,425	-6.8%
<i>Funding Sources</i>					
General Fund.....	\$12,346	\$15,204	\$14,931	-\$273	-1.8%
Credentials Fund.....	673	1,050	—	-1,050	-100.0
Special Deposit Fund.....	203	383	383	—	—
Reimbursements.....	1,059	4,385	4,283	-102	-2.3
Personnel-Years.....	176.5	243.0	234.6	-8.4	-3.5%

Major Features of the Preliminary Plan. The major features of the plan include:

- An increase in enrollment (credit and noncredit) of approximately 31 percent (400,000 students) between 1988-89 and 2005-06. This reflects growth from approximately 1.3 million enrolled students to approximately 1.7 million enrolled students over the period.

CALIFORNIA COMMUNITY COLLEGES—Continued

- An increase in enrollment at the existing 107 community colleges to accommodate approximately two-thirds of the enrollment growth (267,000 students).
- An expansion of the community college system by 16 campuses to accommodate the remaining 33 percent (133,000 students) of the projected enrollment growth. This assumes that each new campus would have a developed enrollment of approximately 8,000 by the year 2005-06. (Included in this estimate is the eventual expansion of some current off-campus centers to full-service campuses.)

Comments. In our 1990-91 *Perspectives and Issues* ("Capital Outlay for Postsecondary Education") we provide an analysis of the community colleges plan for campus expansion. We conclude that the community colleges' current simulation model has shortcomings which make it unreliable as an accurate predictor of the system's future capital outlay needs. As a result, we are unable at this time to advise the Legislature as to either the necessary expansion of existing community college campuses or the number of new campuses needed. We further find that, in contrast to the other higher education segments, the community colleges five-year capital outlay plan does not have a systemwide focus and systemwide planning for enrollment growth is inadequate.

Long-Range California Community Colleges Enrollment Projections

Our analysis indicates that the 1989 enrollment projections developed by the Department of Finance (DOF) for the long-range planning of the California Community Colleges appear to be reasonable. The Chancellor's Office and the DOF are considering alternative enrollment projections which will be available for review in Spring 1990.

By statute, long-term enrollment projections for use by the community colleges are prepared by the DOF. In the DOF model, enrollment projections are formulated by applying expected participation rates to projections of future population groups, categorized according to age and gender. The expected participation rates are based on past trends, input from local districts (through an annual enrollment survey), and a qualitative assessment of each district's situation by DOF staff.

The key assumption underlying the Chancellor's Office growth plan relates to the 1988 DOF enrollment projection. In 1988, the DOF projected enrollment growth in the community college system of approximately 400,000 students between 1988-89 and 2005-06. Given more recent data, however, the 1988 projection was too low.

Higher 1989 DOF Estimates. The 1989 DOF enrollment projections now estimate 540,009 additional community college students by 2005-06 — an increase of 140,000 over the prior-year's long-range estimate. The DOF indicates that the 1989 projection series is higher because it reflects "an additional year of actual data, the survey results, and revised high school graduate projections. This series places greater emphasis on recent enrollment growth trends and on graduating high school students in the projection of community college students age 19 and under." This methodology appears reasonable.

Table 7 shows the 1988-89 headcount enrollment and the headcount projected enrollment for 2005-06 using 1989 DOF enrollment projection series data. Even though the Chancellor's Office has not run its simulation model based on the 1989 DOF enrollment projections, it estimates that existing campuses could accommodate approximately 80 percent of the projected 540,009 new community college students.

Table 7
California Community Colleges
Projected Enrollment Growth
1988-89 and 2005-06
(Headcount)

	<i>Enrollment</i>	<i>Projected Growth</i>	<i>Percent Change</i>
1988-89.....	1,333,191	—	—
2005-06.....	1,873,200	540,009	40.5%

Source: Department of Finance

Consideration of Alternative Projections. At present, the Chancellor's Office is examining the DOF projection methodology to determine if other external factors that are known to have an impact on enrollment can be isolated so that potentially valid alternatives can be developed.

In addition, the DOF, at the request of the California Postsecondary Education Commission, is calculating an alternative projection based on achieving equal access (participation rates of underrepresented groups equaling the current rate of white students). The development of an alternative projection based on equal access would be useful to examine because, unlike the other segments of higher education, the California Community Colleges have in place a policy of open enrollment. Simply stated, there are no minimum criteria or standards that must be met in order for a person to enroll into any of the community colleges. Therefore, the possibility of the community colleges achieving equal access within the timeframe of the projections merits examination. The results of both agencies' efforts should be available for review in Spring 1990.

Summary. The 1989 long-range California Community Colleges enrollment projections developed by the DOF are reasonable. As planning moves forward, it will be important to consider the underlying assumptions and policies associated with projected enrollment growth, and how varying the assumptions could alter the need for future expansion. In any case, community college enrollment is expected to increase by at least 540,009 new students between 1988-89 and 2005-06.

Capital Outlay

The Governor's Budget proposes several appropriations, beginning with Item 6440-301-660, for capital outlay expenditures in Higher Education. Please see our analysis of the proposed Higher Education Capital Outlay Program in the capital outlay section of this *Analysis*, which is in

CALIFORNIA COMMUNITY COLLEGES—Continued

the back of this document. The California Community Colleges capital outlay analysis begins with Item 6870-301-660.

COUNCIL FOR PRIVATE POSTSECONDARY AND VOCATIONAL EDUCATION

Item 6880 from the Private
Postsecondary and Vocational
Education Administration
Fund and various funds

Budget p. E 157

Requested 1990-91	\$2,079,000
Estimated 1989-90	—
Actual 1988-89	—
Requested increase (excluding amount for salary increases) \$2,079,000	
Total recommended reduction	None

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6880-001-305—Support	Private Postsecondary and Vocational Education Administration	\$1,382,000
6880-001-890—Support Reimbursements	Federal Trust	627,000
—Student tuition recovery	Student Tuition Recovery	70,000
Total		\$2,079,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Status of Newly-Created Council. Recommend supplemental report language requiring the council to provide a status report on its operations. 1045

GENERAL PROGRAM STATEMENT

Effective January 1, 1991, a newly-created Council for Private Postsecondary and Vocational Education (CPPVE) will regulate private schools in the state. (As discussed below, the council will assume these duties from the State Department of Education's Private Postsecondary Education Division (PPED—Item 6110-001-305). The council will be self-supporting and will derive its revenues from (1) federal reimbursements, (2) fees charged to private schools seeking state licensure, and (3) charges assessed to the Student Tuition Recovery Fund. (This fund partially reimburses students when private postsecondary institutions close before students have completed their instructional programs.)

Two recently-enacted statutes—Ch 1239/89 (AB 1402, M. Waters) and Ch 1307/89 (SB 190, Morgan)—implemented numerous reforms to improve the licensing and regulation of private postsecondary institutions. Specifically, they establish new minimum standards for such

institutions and allow for an increase in the fees charged to these institutions for authorization, approval, and licensure.

Chapter 1307 further specifies that from July 1, 1990 until January 1, 1991, the council will elect a chairperson, develop goals and policies, and complete other tasks as specified. During this period, the PPED will continue to remain responsible for oversight of private postsecondary institutions and provide certain administrative support to the new council. On January 1, 1991, the PPED's responsibility for oversight and administration of private postsecondary institutions, as well as state staff and funding resources, will be transferred from the SDE to the new council.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes \$2.1 million to support the council's operations from January 1, 1991 to June 30, 1991. Of this amount, \$1.4 million is from the Private Postsecondary and Vocational Education Fund, \$627,000 is from federal funds, and \$70,000 is from the Student Tuition Recovery Fund. The budget also proposes 30.4 personnel-years to support the six months of the council's operations.

As discussed earlier in our analysis of Item 6110-001-305, the budget also proposes to provide \$2.1 million (and 32.0 personnel-years) to support the PPED's operations from July 1, 1990 to December 31, 1990.

Thus, the *total* amount of funding related to the regulation of private postsecondary institutions proposed for 1990-91—\$4.2 million—is \$1.1 million (37 percent) above the current-year amount. The *total* number of personnel-years provided—62.4—is 18.7 personnel-years (43 percent) above the current-year amount.

Given the workload and revenue information currently available, our analysis indicates that the council's proposed budget is reasonable. We further note that Chapter 1307 requires the California Postsecondary Education Commission (CPEC) to make recommendations on the council's budget needs by October 1990. The CPEC staff indicate that some preliminary information on the new council may be available prior to the end of budget hearings. We will be prepared to report at budget hearings should such information become available.

ANALYSIS AND RECOMMENDATIONS

In our analysis of the PPED budget, we find that the Legislature, in its oversight capacity, will need—in addition to the budget information to be analyzed by CPEC—other *administrative* information to assess how well Chapters 1239 and 1307 are being implemented. We further recommend that the Legislature adopt supplemental report language directing the PPED to provide the administrative information by December 31, 1990. (This issue is discussed in greater detail in Item 6110-001-305.)

We find that, by the end of the budget year, the council will be able to provide *updated* information on the specified administrative issues, which will be useful in providing a *complete* picture of how well Chapters 1239 and 1307 are being implemented. We also note that the council will be able to report on the personnel hiring decisions that have occurred during the budget year and on its decisions about where the council should be housed. Accordingly, we recommend that the Legislature

COUNCIL FOR PRIVATE POSTSECONDARY AND VOCATIONAL EDUCATION—Continued

adopt the following supplemental report language in Item 6880-001-305 requiring the council to provide updated information by June 30, 1991:

It is the intent of the Legislature that the Council for Private Postsecondary and Vocational Education provide an updated report to the legislative fiscal committees, the Joint Legislative Budget Committee, the Department of Finance, the California Postsecondary Education Commission, and the Student Aid Commission on the status of the issues specified in Item 6110-001-305 regarding private postsecondary education by June 30, 1991. The update shall also specifically include a status report on the personnel hired during 1990-91, and on decisions about where the council is to be housed.

STUDENT AID COMMISSION

Item 7980 from the General
Fund and various funds

Budget p. E 160

Requested 1990-91	\$425,933,000
Estimated 1989-90	347,903,000
Actual 1988-89	345,040,000
Requested increase (excluding amount for salary increases) \$78,030,000 (22.4 percent)	
Total recommended reduction	None

1990-91 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
7980-001-001—Support	General	\$3,795,000
7980-001-305—Support	Private Postsecondary and Vocational Education Administration	104,000
7980-001-951—Guaranteed Loan Program	State Guaranteed Loan Reserve	19,903,000
7980-011-890—Purchase of defaulted loans	Federal Trust	(224,926,000)
7980-011-951—Purchase of defaulted loans	State Guaranteed Loan Reserve	230,000,000
7980-021-951—Guaranteed Loan Program	State Guaranteed Loan Reserve	(—)
7980-101-001—Awards	General	158,900,000
7980-101-890—Awards	Federal Trust	13,231,000
Total		\$425,933,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

- | | <i>Analysis
page</i> |
|--|--------------------------|
| 1. Increase in Annual Default Claims. We find that the amount of loan default claims will rise at least temporarily in 1990-91 and 1991-92. | 1056 |
| 2. General Fund Administration Costs Cut by 40 Percent. We find that the Student Aid Commission will have reduced its General Fund costs for administration by \$2.5 million (40 percent) from 1987-88 to 1990-91, due to internal reorganization measures and final implementation of an in-house Financial Aid Processing System (FAPS). | 1059 |

3. Assessment of Auditor Benefits Needed. Recommend the adoption of supplemental report language requiring the SAC to develop a system for determining the incremental costs and benefits of hiring additional auditors and related staff. 1061

GENERAL PROGRAM STATEMENT

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

The commission administers:

- Eight 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 for 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 225.3 personnel-years in the current year.

MAJOR ISSUES

- Reorganization and implementation of the in-house Financial Aid Processing System (FAPS) cut the SAC's General Fund administration costs by 40 percent between 1987-88 and 1990-91.
- The budget proposes no increase in the Cal Grant maximum award amount or in the number of awards.
- Cal Grant budget increased by \$2.2 million to fund systemwide fees at UC and CSU.
- The budget provides no funding for the Willie L. Brown, Jr. Community Service Scholarship Program.
- SAC's authority to purchase defaulted loans increases by \$75 million.

STUDENT AID COMMISSION—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures by the SAC of \$425.9 million in 1990-91. This is an increase of \$78.0 million (22 percent) from the current-year level. This increase is due *primarily* to the net effect of (1) proposed increases of \$78.5 million (49 percent) in federal funds and \$2.2 million (1.4 percent) from the General Fund and (2) a proposed decrease of \$2.8 million (10 percent) from the Guaranteed Loan Reserve Fund.

Table 1 shows funding levels for the commission's programs in the prior, current, and budget years.

Table 1
Student Aid Commission
Budget Summary
1988-89 through 1990-91
(dollars in thousands)

	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Change from 1989-90	
				Amount	Percent
<i>Programs</i>					
Grant programs	\$136,484	\$167,661	\$172,914	\$5,253	3.1%
Student loans guaranteed	(1,150,111)	(1,299,967)	(1,313,715)	(13,748)	(1.1)
Purchase of defaulted loans	142,064	155,000	230,000	75,000	48.4
Contractor costs	44,737	—	—	—	— ^a
State operations	22,585	26,088	23,850	-2,238	-8.6
Subtotals, expenditures	\$345,870	\$348,749	\$426,764	\$78,015	22.4%
Less reimbursements	-830	-846	-831	\$15	-1.8%
Totals, expenditures	\$345,040	\$347,903	\$425,933	\$78,030	22.4%
<i>Funding Sources</i>					
General Fund	\$129,211	\$160,496	\$162,695	\$2,199	1.4%
Guaranteed Loan Reserve Fund	60,784	27,769	24,977	-2,792	-10.1
Federal Trust Fund	155,045	159,638	238,157	78,519	49.2
Private Postsecondary and Vocational Education Administration	—	—	104	104	— ^a
Personnel-years	203.6	225.3	263.1	37.8	16.8%

^a Not a meaningful figure.

Program Changes

Table 2 displays, by funding source, the components of the \$78 million increase in total expenditures for the commission in 1990-91. The table shows that:

- **Baseline adjustments** account for a net increase of \$1.6 million consisting of (1) \$5.3 million for grant awards, (2) \$2.0 million for the full-year costs of 1989-90 program changes, and (3) \$1.0 million for various other changes. These increases are partially offset by (1) \$3.3 million for nonrecurring expenditures, (2) \$3.1 million in savings due primarily to the termination of contractor services that will be replaced with the in-house Financial Aid Processing System (FAPS), and (3) \$0.2 million in reductions related to various other baseline adjustments.

- **Program changes** account for a net increase of \$76.4 million consisting of (1) \$75 million in net increased purchasing authority for loan defaults, (2) \$654,000 for the final-year implementation of FAPS, (3) \$327,000 for outreach and technical assistance activities of loan program staff, (4) \$204,000 for auditing activities of loan program staff, (5) \$104,000 for first-year implementation of two private postsecondary education statutes—Ch 1239/89 (AB 1402, M. Waters) and Ch 1307/89 (SB 190, Morgan), and (6) \$134,000 for administration program staff.

Table 2
Student Aid Commission
Proposed 1990-91 Budget Changes
By Funding Source
(dollars in thousands)

	<i>Funding Sources</i>				<i>Totals</i>
	<i>General Fund</i>	<i>State Guaranteed Loan Reserve Fund</i>	<i>Federal Trust Fund</i>	<i>PPVEA Fund^a</i>	
1989-90 Expenditures (Revised)	\$160,496	\$27,769	\$159,638	—	\$347,903
<i>Baseline Adjustments</i>					
Pro rata adjustments	—	\$387	—	—	\$387
Employee compensation	-\$44	222	—	—	178
Inflation allowance	—	257	—	—	257
Nonrecurring expenditures	-867	-2,438	—	—	-3,305
Full-year costs of 1989-90 program changes	-600	2,647	—	—	2,047
Reorganization	-1,541	1,640	—	—	99
Awards	5,357	—	-\$89	—	5,268
Contract terminations	—	-3,143	—	—	-3,143
Other base adjustments	-106	-75	—	—	-181
Subtotals, baseline adjustments	(\$2,199)	(-\$503)	(-\$89)	(—)	(\$1,607)
<i>Program Changes</i>					
Information system—final year	—	\$654	—	—	\$654
Loan program staff—outreach and assistance	—	327	—	—	327
Loan program staff—audits	—	204	—	—	204
Private postsecondary education audits (SB 190/AB 1402)	—	—	—	\$104	104
Administrative program staff	—	134	—	—	134
Purchase of defaulted loans	—	-3,608	\$78,608	—	75,000
Subtotals, program changes	(—)	(-\$2,289)	(\$78,608)	\$104	(\$76,423)
1990-91 Expenditures (Proposed)	\$162,695	\$24,977	\$238,157	\$104	\$425,933
<i>Change from 1989-90:</i>					
Amount	\$2,199	-\$2,792	\$78,519	\$104	\$78,030
Percent	1.4%	-10.1%	49.2%	— ^b	22.4%

^a Private Postsecondary and Vocational Education Administration Fund.

^b Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the baseline adjustments as shown in Table 2 and the following program changes, which our analysis indicates are justified on a workload basis, and which are not discussed elsewhere in this analysis:

STUDENT AID COMMISSION—Continued

- *Final-year Automation*—an increase of \$654,000 from the State Guaranteed Loan Reserve Fund (the Loan Fund) and 11 new positions to support the final year of FAPS implementation.
- *Loan Staff*—an increase of \$327,000 from the Loan Fund and nine new positions for outreach and technical assistance to students, schools, and lenders.
- *Administrative Staff*—an increase of \$134,000 from the Loan Fund, consisting of (1) \$40,000 and one position to meet workload increases in the personnel office, (2) \$48,000 and one position for data processing, and (3) \$46,000 and one position in the legislative unit to improve the SAC's ability to address federal student aid legislation issues.

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 \$2.4 billion in financial aid will be provided to students attending postsecondary institutions in California in 1989-90. This amount is approximately \$188 million (8 percent) more than the amount estimated to have been made available in 1988-89.

Data provided by SAC indicate that:

- State-supported financial aid programs provide \$217 million, or 9 percent of the total;
- Postsecondary institutions provide \$471 million, or 20 percent of the total;
- The California Educational Loan Programs provide \$1.2 billion, or 48 percent, of the total; and
- Federal programs, excluding the California Educational Loan Programs, provide \$548 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
1988-89 through 1990-91
(dollars in thousands)

	<i>Actual</i> 1988-89	<i>Est.</i> 1989-90	<i>Prop.</i> 1990-91	<i>Change from</i> 1989-90	
				<i>Amount</i>	<i>Percent</i>
<i>Grant Programs</i>					
Cal Grant A (Scholarship)	\$85,231	\$105,137	\$105,189	\$52	0.1%
Cal Grant B (College Opportunity)	40,112	50,695	55,677	4,982	9.8
Cal Grant C (Occupational)	3,721	3,069	3,161	92	3.0
Graduate Fellowship.....	2,781	2,969	2,969	—	—
Law Enforcement Personnel Depen- dents	7	14	14	—	—
Bilingual Teacher Development	326	260	25	-235	-90.4
Byrd Scholarship Program.....	778	798	783	-15	-1.9
Paul Douglas Teacher Scholarships	1,876	2,098	2,009	-89	-4.2
Subtotals, grant programs	(\$134,832)	(\$165,040)	(\$169,827)	(\$4,787)	(2.9%)
<i>Other Programs</i>					
Assumption Program of Loans for Educa- tion (APLE)	\$356	\$1,294	\$1,700	\$406	31.4%
Work Study Program	703	750	810 ^a	60	8.0
Cal-SOAP.....	593	577	577	—	—
Reimbursements	-778	-798	-783	15	1.9
Subtotals, other programs	(\$874)	(\$1,823)	(\$2,304)	(\$481)	(26.4%)
Grand totals.....	\$135,706	\$166,863	\$172,131	\$5,268	3.2%
<i>Funding Sources</i>					
<i>General Fund</i>	\$122,639	\$153,543	\$158,900	\$5,357	3.5%
<i>Federal Trust Fund</i>	13,067	13,320	13,231	-89	-0.7

^a Reflects \$60,000 administrative allowance transferred from state administration to local assistance in 1990-91.

Table 3 shows that the budget proposes total local assistance funding of \$172.1 million in 1990-91—an increase of \$5.3 million (3.2 percent) from the amount available in the current year. General Fund support for these programs is proposed at \$158.9 million, an increase of \$5.4 million (3.5 percent) from the current-year level. Federal support is proposed at \$13.2 million, a decrease of \$89,000 from the current-year level. These changes reflect (1) \$3.1 million in net baseline funding adjustments, primarily to reflect the second year costs of the 1,500 additional Cal Grant B awards provided in the current year, and (2) \$2.2 million in increased Cal Grant A and B funding to cover proposed 1990-91 fee increases at the University of California (UC) and the California State University (CSU).

Number and Level of Grant Awards

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 1989-90 and 1990-91. The budget proposes neither an increase in the maximum grant nor an increase in the total number of *new* awards for any of the commission's grant programs. As mentioned, the increase in the number of Cal Grant B awards is due to the second year effect of the 1,500 additional Cal Grant B awards provided in 1989-90. The decrease in

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the Cal Grant A awards is due to a decrease in the grant renewal rate. The decrease in the Bilingual Teacher Development Grant program reflects its statutorily-required gradual elimination by January 1992.

Table 4
Student Aid Commission
Maximum Award Levels and Number of Awards
1989-90 and 1990-91

Programs	Maximum Award Level			Total Number of Awards ^a		
	1989-90	1990-91	Percent Change	1989-90	1990-91	Percent Change
Cal Grant A (Scholarship)	\$5,250	\$5,250	—	45,505	44,906	-1.3%
Cal Grant B (Opportunity)				31,167	32,633	4.7
Tuition and Fees	4,710	4,710	—			
Subsistence Payments	1,410	1,410	—			
Cal Grant C (Occupational)				2,369	2,361	-0.3
Tuition and Fees	2,360	2,360	—			
Books and Supplies	530	530	—			
Graduate Fellowship	6,490	6,490	—	802	802	—
Law Enforcement Personnel Depen- dents	1,500	1,500	—	9	9	—
Bilingual Teacher Development	4,045	4,045	—	34	7	-79.4
Paul Douglas Teacher Scholarship	5,000	5,000	—	521	521	—
Totals	N/A ^b	N/A ^b	N/A ^b	80,407	81,239	1.0%

^a Includes new and renewal awards.

^b 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.

Cal Grant Maximum Award. The *Supplemental Report of the 1988 Budget Act* specified 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. Our analysis indicates that the proposed budget provides sufficient funding to accomplish this intent. Specifically, the budget proposes a General Fund increase for the Cal Grant programs of \$2.2 million, which covers the proposed systemwide fee increases of 4.7 percent for UC and 4.8 percent for CSU.

Progress Report on Work-Study Evaluation

The California State Work-Study Program, established by Ch 1196/86 (SB 417, Hart), 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 561 students at 15 institutions. The budget proposes \$810,000 from the General Fund in 1990-91 to continue the pilot program. This amount reflects a \$60,000 (8 percent) increase, due to the transfer of a like amount from the program's state administration budget to local assistance.

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 contract, on a competitive bid basis, for the evaluation. The firm of MPR Associates was chosen to conduct the evaluation, and submitted its preliminary report to the Legislature in April 1989.

The report found that:

- In 1987-88, the program helped 561 students to attend a postsecondary institution. The vast majority obtained jobs that were related to their educational or career goals.
- Over 80 percent of the students surveyed said either that they would not have been able to attend school without the job, or that having a job made it more likely that they would stay in school.
- The participating students came from low-income families. The average family income was \$18,200 for dependent students and \$7,795 for independent students.
- While there is "room for improvement in terms of meeting (statutory) priorities for private sector and school district placements, the results were about as good as could be expected for the first year of the program...no major changes in the Work-Study Program are necessary...The major implementation problems [such as slow start-up at some institutions] either have been or will be resolved without requiring change to the legislation or regulations."

The report concluded that the program "would be a valuable addition to the State's financial aid programs. It is needed, it has helped students to go to school and to stay in school, and many students prefer work to loans."

MPR Associates will submit its final report to the Legislature by April 15, 1990. We will be prepared to comment on the report's findings during budget hearings.

Graduate Fellowship Program

The Graduate Fellowship program is proposed to be budgeted at \$3.0 million in 1990-91—the same level as in the current year. It provides

STUDENT AID COMMISSION—Continued

grants to graduate and professional students, with special consideration for students who are from disadvantaged backgrounds or who have academic goals that would address manpower shortages (primarily in technical fields). Recently, staff of the SAC conducted an in-house evaluation of the program. The evaluation concluded that:

- The Fellowship Program's "modest level of funding does not enable it to function as a general access program for California's graduate and professional students or even to permit it to meet its legislatively mandated goals."
- The program's award-selection process is "far more complicated than those of the undergraduate Cal Grant programs, which administer about fifty times the amount of funds."
- "To be more effective, the program must identify a function broad enough to command public attention as well as political support, but narrow enough to enable the program to have a clear focus."
- "Unless sufficient numbers of quality faculty are trained and recruited, burgeoning undergraduate enrollment and anticipated wholesale faculty turnover at California institutions during the next 15 years threaten the quality of the State's postsecondary education."

The report recommended that the existing law for the Graduate Fellowship Program be amended to limit eligibility for new awards to students intending to become university or college teachers. It further recommended that special emphasis be given to facilitating access and degree completion by students from underrepresented groups and disadvantaged backgrounds.

At its January 1990 meeting, the SAC adopted the staff recommendations, and decided to seek appropriate implementing legislation during the coming year. (We note that the budget for the California State University (CSU) proposes to transfer \$419,000 in 1990-91 from teacher education programs to the existing CSU Graduate Equity Fellowship program. In our analysis of CSU's budget (Item 6610), we propose several options to the Legislature for using these funds, including a transfer of the funds to the SAC's Graduate Fellowship Program. The CSU analysis appears earlier in this document.)

Legislative Oversight: Community Service Program

Chapter 1188, Statutes of 1989 (AB 400, W. Brown) establishes the Willie L. Brown, Jr. Community Service Scholarship program, to be administered by the SAC. The statute provides that community service scholarship committees at participating public high schools are to award college scholarships to high school seniors for outstanding community service. To receive the award, pupils are required to attend a college in California in the subsequent year, and maintain a specified course load.

We estimate annual General Fund costs of \$1.6 million to fund the scholarship program and \$76,000 for the SAC to administer the program, depending upon legislative appropriation. The estimated cost of the scholarship program is based on the minimum number of scholarships in

the statute's allocation formula (1,056 awards) and the minimum award amount (\$1,500). The budget proposes no funding for this program in 1990-91.

C. CALIFORNIA STUDENT LOAN PROGRAM (Items 7980-011-890, 7980-011-951, and 7980-021-951)

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 Stafford Loan program—formerly 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 86 percent increase in the dollar volume of loans guaranteed between 1986-87 and 1989-90 can be attributed primarily to (1) an additional 182,200 new loans guaranteed, and (2) an increase between 1986-87 and 1987-88 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).

Table 5
Student Aid Commission
California Educational Loan Programs
Volume of Loans Guaranteed
1986-87 through 1989-90
(dollars in millions)

	Number of Loans	Dollar Volume	Annual Dollar Change	
			Amount	Percent
1986-87.....	257,600	\$698.0	—	—
1987-88.....	302,200	877.8	\$179.8	25.8%
1988-89.....	401,900	1,150.1	272.3	31.0
1989-90 (est.).....	439,800	1,300.0	149.9	13.0
Change from 1986-87				
Amount.....	182,200	\$602.0		
Percent.....	70.7%	86.2%		

The Stafford Loan program provides interest-subsidized loans to students that demonstrate financial need (the federal government subsidizes the interest payments). The other three loan 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.

STUDENT AID COMMISSION—Continued
Stafford Loan Historic Default Rate Stabilizes

Table 6 displays the default rate on Stafford loans since 1986-87.

Table 6
Student Aid Commission
Default Rates for the Stafford Loan Program
By Segment
1986-87 through 1989-90

<i>Segments</i>	<i>Actual</i> 1986-87	<i>Actual</i> 1987-88	<i>Actual</i> 1988-89	<i>Est.</i> 1989-90
California Community Colleges	31.7%	32.4%	33.9%	34.3%
Proprietary schools.....	33.9	32.8	31.3	29.2
Private institutions, two-year	18.5	18.3	20.4	20.3
California State University.....	12.8	13.0	13.6	13.5
Private institutions, four-year.....	10.5	10.4	10.7	10.4
University of California.....	<u>7.6</u>	<u>7.5</u>	<u>7.9</u>	<u>7.7</u>
Statewide averages	17.4%	17.3%	17.7%	17.1%

The table shows that the statewide average default rate for all educational segments has been stable—at approximately 17 percent—during this time period. Although the rates vary considerably among the six educational segments (ranging from a 1989-90 high of 34.3 percent at the community colleges to a low of 7.7 percent at the University of California), the data reflect a general 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 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*—the ratio of defaulted loans to loans in repayment status—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.

Increase in Annual Default Rate

We find that the amount of loan default claims will rise at least temporarily in 1990-91 and 1991-92.

While Table 6 shows that the overall default *rate* has remained steady over the past four years, the SAC projects that the total value of default claims will rise at least temporarily in 1990-91 and 1991-92. Accordingly, the budget proposes to increase the commission's authority to purchase defaulted loans by \$75 million—from \$155 million in 1989-90 to \$230

million in 1990-91. The SAC also indicates that it will seek this spring to raise its purchasing authority *in the current year* from \$155 million to \$195 million.

The SAC is required by federal statutes to pay defaulted loan claims. The U.S. Department of Education then repays the SAC for the vast majority of defaulted loans, pursuant to its reinsurance contract with the commission.

According to SAC staff, the major reasons for the projected increase in default claims include (1) the rapid growth in the total dollar volume of loans guaranteed, as shown previously in Table 5, and (2) an increase in the number of defaults in the Supplemental Loans for Students (SLS) program, particularly by students attending vocational schools. In a December 1989 *Issue Brief*, the SAC noted that "the explosive rate of borrowing with more loans to high-risk students attending trade and technical schools is producing a sharp increase in default claims paid even though the default rate remains stable."

The SAC staff indicate that the increase in default claims will result in a loss to the Loan Fund of an estimated \$1.6 million in 1990-91 and \$1.8 million in 1991-92. This is because—for the first time in many years—the increase in default claims will trigger a reduction in the federal reinsurance rate from 100 percent of defaulted loan claims to 90 percent, probably in early 1990-91.

Future Actions. The SAC staff indicate that the following actions will help control default claims increases and their impacts on the Loan Fund:

- The commission indicates that it may raise its guarantee fee to borrowers from the current 0.75 percent level to a higher level to recover any losses to the Loan Fund. The guarantee fee level is calculated as a percentage of the amount of funds borrowed. (We note that the level had been 1.0 percent earlier in this decade.)
- Two recently-enacted bills—Ch 1307/89 (SB 190, Morgan) and Ch 1239/89 (AB 1402, M. Waters)—will help California monitor vocational schools more closely in order to reduce future default rates. (These bills are discussed in more detail in the next section of our analysis.)
- The SAC plans to continue existing successful administrative efforts to reduce default rates and prevent institutional loan abuses. These efforts include monthly monitoring of schools or lenders that have not met certain financial aid performance standards, and initiating legal actions to limit, suspend, or terminate schools or lenders from administering financial aid programs when they have seriously violated state or federal financial aid laws.
- The U.S. Department of Education has recently established new default regulations that are based, in part, on the successful SAC measures discussed above. Additional federal legislation and budget actions are expected to restrict some "high risk" institutions' and students' eligibility for SLS loans, thereby reducing the SLS program default claims. These steps, however, are not likely to reduce default claims before 1991-92. This is because many of the loans that are

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already guaranteed will continue to become delinquent and default in the next two years.

New Loan Amnesty Program

Chapter 574, Statutes of 1989 (AB 2095, Lempert) provides \$75,000 in 1989-90 from the Loan Fund for the SAC to implement a guaranteed student loan amnesty program. Specifically, the law requires the SAC to allow borrowers in default—and who would ordinarily be required to repay immediately the entire loan balance—to negotiate a repayment plan with the appropriate lending institution. The program would provide an amnesty period of not more than 180 days, and would terminate on January 1, 1992. The bill further requires the SAC to implement an extensive outreach program to inform borrowers and the general public of the availability of the program.

The SAC indicates that it plans to implement the loan amnesty program after it determines “what type of amnesty provisions are in the federal budget.” (The bill provides that its provisions shall be coordinated with any applicable federal provisions.)

D. STATE OPERATIONS (Items 7980-001-001, 7980-001-305, 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
1988-89 through 1990-91
(dollars in thousands)

Programs	Actual 1988-89	Est. 1989-90	Prop. 1990-91	Change from 1989-90	
				Amount	Percent
Financial aid grants program.....	\$6,624	\$7,001	\$3,843	-\$3,158	45.1%
California Educational Loan Program.....	15,961	19,087	19,903	816	4.3
Private postsecondary education audits.....	—	—	104	104	— ^a
Administrative and support services.....	(5,334)	(6,894)	(6,723)	(-171)	(-2.5)
Subtotals, support.....	(\$22,585)	(\$26,088)	(\$23,850)	(-\$2,238)	-8.6%
Less reimbursements.....	-52	-48	-48	—	—
Totals, support.....	\$22,533	\$26,040	\$23,802	-\$2,238	-8.6%
Funding Sources					
General Fund.....	\$6,572	\$6,953	\$3,795	-\$3,158	-45.4%
Guaranteed Loan Reserve Fund.....	15,961	19,087	19,903	816	4.3
PPVEA Fund ^a	—	—	104	104	— ^b

^a Private Postsecondary and Vocational Education Administration Fund.

^b Not a meaningful figure.

The budget proposes total support of \$23.8 million for the commission in 1990-91, an 8.6 percent net decrease (\$2.2 million) from the current-year level. This net decrease is due to (1) \$3.1 million in savings from the termination of contractor services that will be replaced with the in-house Financial Aid Processing System (FAPS), (2) \$3.3 million in nonrecurring expenditures, and (3) \$0.2 million in other baseline reductions. These reductions are partially offset by (1) \$2.0 million for the full-year costs of 1989-90 program changes, (2) \$0.9 million for miscellaneous baseline increases, (3) \$0.7 million for final-year implementation of FAPS, and (4) \$0.8 million for increased loan program staff and other administrative costs. Of the total support for the administrative operations of the commission, the General Fund would provide \$3.8 million or 16 percent of the total, the Loan Fund would provide \$19.9 million or almost 84 percent, and the PPVEA Fund would provide \$104,000, or less than 1 percent.

General Fund Administration Costs Cut by 40 Percent

We find that the Student Aid Commission will have reduced its General Fund costs for administration by \$2.5 million (40 percent) between 1987-88 and 1990-91, due to internal reorganization measures and final implementation of an in-house Financial Aid Processing System (FAPS).

Since 1987-88, the SAC has been implementing the automated in-house FAPS system. Once it is fully implemented in 1990-91, the system will provide the commission with greater control over its financial aid activities and eliminate the need to hire outside consultants for various accounting, billing, and loan collection activities. Overall, the FAPS system will allow the SAC to more efficiently handle its financial aid activities.

The SAC has also recently reorganized its activities along a functional (rather than program-by-program) basis. This has allowed the commission to charge the appropriate fund—either the General Fund or the Loan Fund—for particular types of administrative activities. In general, the reorganization and the implementation of FAPS have resulted in a reduced need for General Fund support.

Table 8 shows the SAC's total state operations funding, by type of fund, since the initial year of FAPS implementation in 1987-88.

As the table shows, the commission's automation and reorganization efforts will have had the effect between 1987-88 and 1990-91 of cutting General Fund support for administration by \$2.5 million (39.6 percent). The table also shows that total funding has decreased by 12.7 percent since 1987-88, although it has varied from year to year. (These variations primarily reflect one-time costs and savings related to FAPS.)

STUDENT AID COMMISSION—Continued

Table 8
Student Aid Commission
State Operations Funding
By Type of Fund
1987-88 through 1990-91
(dollars in thousands)

	<i>General Fund</i>	<i>Loan Fund^a</i>	<i>PPVEA Fund^b</i>	<i>Total</i>
1987-88.....	\$6,278	\$21,242	—	\$27,250
1988-89.....	6,572	15,961	—	22,533
1989-90.....	6,953	19,087	—	26,040
1990-91.....	3,795	19,903	\$104	23,802
Change from 1987-88:				
Amount.....	-\$2,483	-\$1,338	\$104	-\$3,448
Percent.....	-39.6%	-6.3%	— ^c	-12.7%

^a State Guaranteed Loan Reserve Fund.

^b Private Postsecondary and Vocational Education Administration Fund.

^c Not a meaningful figure.

Private Postsecondary Education Reform

Two recently-enacted statutes—Ch 1239/89 (AB 1402, M. Waters) and Ch 1307/89 (SB 190, Morgan)—implement numerous reforms in the licensing and regulation of private postsecondary institutions. These statutes give the SAC authority to refuse to make a direct grant or loan to an institution which the commission has determined fails to comply with the applicable state minimum standards for financial aid and educational performance. They also require the commission to provide written evidence of this noncompliance to the State Department of Education's (SDE) Private Postsecondary Education Division and, later, to its successor agency, the newly-created Council for Private Postsecondary and Vocational Education.

The budget proposes \$104,000 from the Private Postsecondary and Vocational Education Administration Fund in 1990-91 for two new audit positions for the SAC to implement the provisions of Chapters 1239 and 1307. Our analysis indicates that these positions are justified on a workload basis. It is too early to tell, however, whether these positions will be sufficient in the future to meet completely the Legislature's intent that private postsecondary institutions comply with newly-strengthened state minimum standards for financial aid and educational performance. The SAC staff indicate that they will collect workload data over a period of time and use that data to assess their staffing needs. We will review the data as they become available.

(We discuss related issues earlier in our analysis of the SDE budget (Item 6110-001-305) and the council's budget (Item 6880-001-305).)

Assessment of Additional Auditors Needed

We recommend that the Legislature adopt supplemental report language in Item 7980-001-951 requiring the Student Aid Commission to develop a system for determining the incremental costs and benefits of hiring additional auditors and related staff.

The SAC audits schools and lenders to (1) ensure that student loans are processed accurately and (2) prevent fraud and abuse. According to SAC staff, the audits focus primarily on relatively major problems, such as the awarding of loans to ineligible students, the nonpayment by the educational institution of appropriate tuition refunds to loan recipients who have left school (which are used to offset outstanding loan debt), and systematic calculation errors. To the extent that the SAC identifies school and lender problems early, it can reduce the loan default rate and potential losses to the Loan Fund.

The budget proposes \$204,000 from the Loan Fund to add 3.5 auditor positions at the SAC in 1990-91, including associated indirect costs. The SAC staff indicate that these positions could result in additional annual recoveries of approximately \$1.6 million, based on previous audit experience. Thus, for every \$1 spent for audit staff, the SAC anticipates that up to \$15 in recoveries could be made. Our analysis indicates these positions are justified.

We further find that additional auditor positions could be justified in the future, to the extent that the SAC develops a system for assessing the incremental revenues and costs associated with the positions. During the course of our analysis, we found that one such system may provide the SAC with at least a general framework for determining the cost-benefit of additional auditors. This is the system used by the Franchise Tax Board (FTB).

The Legislature's policy has generally been to fund FTB's audit program on the basis of *incremental* costs to *incremental* revenue. This allows a comparison to be made, on the margin, between expected revenue and the actual cost incurred for each additional auditor. As we noted in the *Analysis of the 1987-88 Budget Bill* (FTB budget, Item 1730), the Legislature and the Governor have generally accepted a \$5 to \$1 incremental revenue to incremental cost level of audit effort for the FTB. This is because this level "covers a significant portion of the board's audit cases without raising the possibility of excessive enforcement and harassment of taxpayers."

There are several differences between FTB audits and SAC audits, which suggest that the SAC could not use the FTB audit assessment system without some modifications:

- The SAC audits all 1,008 schools and 152 lenders approximately every five years, while the FTB audits are based on *samples* of the total taxpaying population. Thus, the SAC may experience, more quickly

STUDENT AID COMMISSION—Continued

than the FTB, diminishing returns in the ratio of revenue collections to auditor costs, particularly if it reduced the period between audits to less than one year.

- The SAC may not be able to collect all the funds it identifies as "recoverable." This is because some schools with particularly grave student loan problems may go out of business rather than pay for their errors. Thus, the benefits of such audits may be observed only in an indirect sense, because such schools can no longer issue loans with potentially high default rates.

We find that development of an auditor analysis system at the SAC would allow the Legislature to determine on a systematic basis when additional benefits outweigh the costs of hiring additional auditors. To the extent that audit recoveries accrue to the Loan Fund, these resources can be used to (1) pay loan default claims (which are reinsured by the federal government), and (2) provide additional assistance to students and schools.

Therefore, we recommend that the SAC develop a system for estimating the costs and benefits of hiring additional auditors and related clerical and professional staff and present it to the Legislature by November 1, 1990. Accordingly, we recommend that the Legislature adopt supplemental report language in Item 7980-001-951, as follows:

The Student Aid Commission shall develop a system for estimating the incremental costs and revenues associated with hiring additional auditors and related staff, including audit investigators. The commission shall report to the legislative fiscal committees, the Joint Legislative Budget Committee, and the Department of Finance on the findings and development of this system by November 1, 1990.
