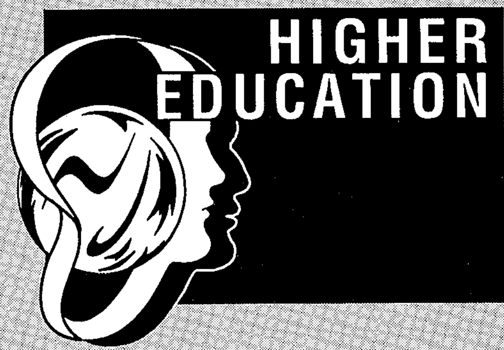
HIGHER EDUCATION



Major Issues

▌***Major Unallocated Reductions Proposed at the University of California (UC) and the California State University (CSU).*** The budget proposes reductions from the current year of 7.2 percent for the UC and 4.5 percent for the CSU. We estimate that on a current services basis, both the UC and CSU budgets are underfunded by 12 percent. (See page 17.)

▌***Information Not Available for Legislative Decision Making.*** The budgets for the UC and the CSU do not contain any information on (1) how the segments will accommodate the budget reductions, (2) enrollment levels in 1993-94, or (3) levels of fee increases related to the 1993-94 budget. The budget states that the segments will prepare plans for review in the spring. (See page 17.)

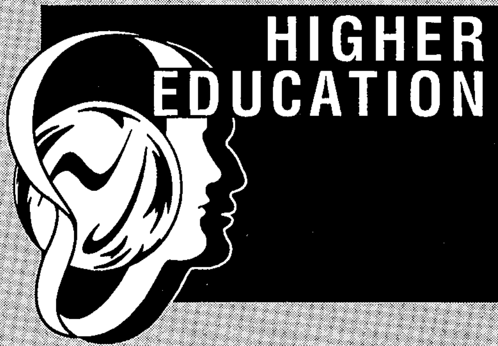
▌***Unallocated Reduction of $266 Million (10 Percent) Proposed at the Community Colleges.*** The budget proposes to authorize the Community Colleges Board of Governors to increase fees to up to triple their current level, in order to offset all or part of the reduction. The Legislature may conclude that a significant reduction in the community colleges General Fund budget is unavoidable. (See page 52.)

▌***Legislature Should Review Policies Affecting Enrollment at Community Colleges.*** For practical purposes, "open access" cannot be achieved in the current budget situation. We identify several enrollment priority and fee increase strategies that would maintain the colleges' Master Plan mission to the maximum extent possible. (See page 43.)

▌***Faculty Workload.*** Redirecting UC faculty workload from research to teaching would increase student access to the UC. The CSU should defer plans to reduce faculty workload in 1993-94. (See page 24 and page 26.)

▌***UC Should Avoid Deficit Financing in 1992-93.*** The UC teaching hospitals report gains totaling $221 million from operations in 1991-92 and 1992-93, an increase of $78 million over the amount that had been projected. The increase is a result of enactment of SB 855 (Ch 271/91, Robbins). The UC could use a portion of this windfall on a one-time basis to avoid borrowing up to $70 million to balance its current-year budget, thereby eliminating the need for future students to pay for current-year services. (See page 33.)

▌***The Gap Between Eligibility and Funding for the Cal Grants Program Has Widened Significantly.*** Since 1990-91, the number of students who are eligible for the Cal Grants financial aid program has increased significantly due to federal law changes, increased higher education fees, the state's economy, and other factors, while program funding has decreased. The Legislature may wish to refocus the goals of the program to target, for example, students with the highest financial need. (See page 65.)



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HIGHER EDUCATION

OVERVIEW

The budget contains major unallocated spending reductions for all higher education segments. The budget does not propose enrollment or student fee levels at the University of California (UC) or the California State University (CSU). As a result, the Legislature lacks basic information by which to evaluate the administration's higher education proposals.

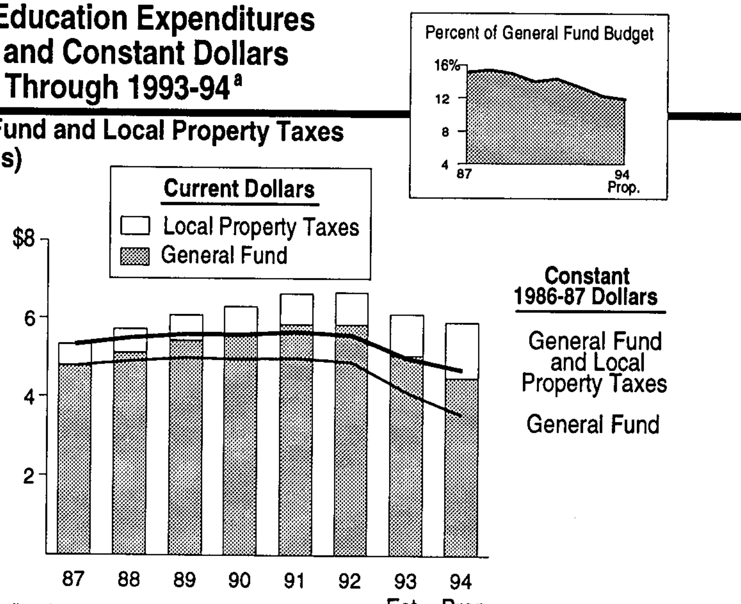
The budget proposes General Fund expenditures of $4.5 billion for higher education in 1993-94. This is $576 million, or 11 percent, less than estimated expenditures in the current year. Including local property taxes (which help fund the community colleges), the budget proposes spending of $5.9 billion, which is $209 million, or 3.4 percent, less than estimated expenditures in the current year.

Figure 1 shows that higher education expenditures from the General Fund have decreased by $309 million since 1986-87, representing an average annual decrease of 0.9 percent. When these expenditures are adjusted for inflation, General Fund spending decreased over this time period by an average of 4.2 percent annually. Higher education expenditures from the General Fund and local taxes have increased by $574 million since 1986-87, an average annual increase of 1.5 percent. Adjusted for inflation, spending has decreased an average of 1.8 percent annually. The share of General Fund spending allocated to higher education has declined from 15 percent to 12 percent over this period.

Figure 1

Higher Education Expenditures Current and Constant Dollars 1986-87 Through 1993-94[a]

General Fund and Local Property Taxes (In Billions)



[a] Data are for fiscal years ending in year shown.

Spending by Major Programs

Figure 2 shows spending from the General Fund and local taxes in detail. The figure shows that the budget proposes reductions for each segment of higher education. For the UC and the CSU, the budget proposes unallocated General Fund reductions of $135 million (7.2 percent) and $68 million (4.5 percent), respectively. This constitutes the third consecutive year of General Fund reductions for the UC and CSU. In 1991-92 and 1992-93, the budget reductions were partially offset by revenues from substantial fee increases, which are not shown in the figure. (We discuss these reductions in detail later in this section.) The budget does not contain specific fee proposals for the UC or CSU but indicates that the Governor will support fee increases.

For the community colleges, the budget proposes to reduce support from the General Fund and local taxes in 1993-94 by $21 million (0.9 percent). If a one-time current-year loan is taken into account, however, the 1993-94 decrease is $262.4 million, or 10 percent. (The loan funds will not be "counted" for budgetary purposes until they are repaid from future appropriations.) The budget proposes legislation authorizing the Board of Governors to raise fees from $10 per credit unit to up to $30 per credit unit, to offset all or a portion of the reduction in available funds. No specific fee level is proposed. (We discuss the funding situation for the community colleges in detail later in this section.)

Figure 2

Higher Education Budget Summary General Fund and Local Property Taxes 1991-92 Through 1993-94

(Dollars in Millions)

	Actual 1991-92	Estimated 1992-93	Proposed 1993-94	Change From 1992-93	
				Amount	Percent
University of California					
General Fund	$2,105.6	$1,878.5	$1,743.6	-$135.0	-7.2%
California State University					
General Fund	$1,634.4	$1,501.0	$1,433.2	-$67.7	-4.5%
California Community Colleges—local assistance					
General Fund	$1,684.8	$1,269.9	$882.0	-$387.9	-30.5%
Local property taxes	834.2	1,061.6	1,428.1	366.5	34.5
Subtotals	($2,519.0)	($2,331.5)	($2,310.1)	(-$21.4)	(-0.9%)
General Fund loan	—	241.0	—	-241.0	-100.0
Totals	**$2,519.0**	**$2,572.5**	**$2,310.1**	**-$262.4**	**-10.2%**
Hastings College of the Law					
General Fund	$13.6	$12.0	$11.1	-$0.9	-7.4%
California Maritime Academy					
General Fund	$6.5	$6.7	$5.6	-$1.1	-16.9%
Student Aid Commission—local assistance					
General Fund	$169.0	$143.8	$149.1	$5.3	3.7%

MAJOR BUDGET CHANGES

Figure 3 presents the major budget changes resulting in a net reduction of $576 million in General Fund spending for higher education. The budget document does not provide any detail on how the unallocated reductions for the UC ($135 million) and the CSU ($68 million) will be implemented. Rather, the budget document indicates that, due to the magnitude of the proposed reductions, the administration expects that the UC Regents and CSU Trustees will

Figure 3

Higher Education Proposed Major Changes for 1993-94 General Fund

University of California	Requested: Decrease:	$1.7 billion $135 million	(-7.2%)

−

- $135 million unallocated reduction

California State University	Requested: Decrease:	$1.4 billion $68 million	(-4.5%)

−

- $68 million unallocated reduction

California Community Colleges—Local Assistance	Requested: Decrease:	$882 million $388 million	(-30.5%)

+

- $224 million to partially support services funded from a one-time $241 million loan in 1992-93
- $40 million for statutory enrollment growth
- $41 million for deferred maintenance and instructional equipment

−

- $367 million for property tax growth and proposed shift
- $266 million unallocated reduction, with fee authority legislation
- $40 million to eliminate apportionments for BA degree holders
- $39 million for full-year fees and financial aid impact

Other Programs

+

- $5.3 million for one-time expenditure adjustments and changes in the Cal Grant student mix

−

- $894,000 (7.4 percent) unallocated reduction at Hastings College of the Law
- $514,000 reduction related to prior-year carry-over adjustments at California Maritime Academy
- $621,000 (10 percent) unallocated reduction at California Maritime Academy

develop a specific plan for accommodating the shortfall, and that the plan will be available for presentation to the Legislature sometime during budget hearings this spring. The budget document indicates the Governor's support to impose student fee increases in 1993-94 to address the General Fund shortfalls.

There are several proposals related to the community colleges. As shown in Figure 3, the budget proposes (1) an increase of $224 million to support services funded from a one-time $241 million loan to the colleges enacted as part of the deliberations on the 1992 Budget Act, (2) a reduction of $367 million to reflect the administration's proposal to shift local property taxes from local governments to the colleges, and (3) an unallocated reduction of $266 million. The budget also proposes legislation to authorize the Board of Governors of the community colleges to increase fees from $10 per credit unit to up to $30 per unit, with 30 percent of the fee revenues allocated for financial aid, to offset all or a portion of the $266 million unallocated reduction. In addition to the proposals with a direct budget impact shown in Figure 3, the budget also includes language deferring a scheduled repayment of one-half of the current-year $241 million loan.

Figure 3 also shows the proposed 7.4 percent ($894,000) reduction for Hastings and a 17 percent ($1.1 million) reduction for the Maritime Academy. In the case of the Maritime Academy, the reduction is 10 percent after allowance for prior-year carry-overs.

ENROLLMENT

Figure 4 shows student enrollment at each of the segments. It shows that the budget reductions since 1990-91 have affected enrollment at the UC and the CSU. The change at the CSU has been particularly dramatic. In 1990-91, CSU full-time-equivalent (FTE) enrollment was 278,502. For 1992-93, we estimate a CSU enrollment of 257,000. This is a decline of 21,502 students (7.7 percent) over this two-year period. This drop-off occurred despite an increase in the eligible population of high school graduates. The UC's enrollment increased slightly in 1991-92 but was down by 2,389 (1.5 percent) in 1992-93 in comparison to 1990-91.

In enacting the 1992 Budget Act, the Legislature did not specify enrollment levels for the UC and CSU for 1992-93. Both the UC and CSU believe that their current-year budgets are not adequate to support the number of currently enrolled students. The budget document reflects enrollments for the current year that are equal to the UC and CSU estimates of what the current budget supports. *These levels are* *significantly below estimated actual enrollment on the campuses.* For instance, the UC estimates that the current-year budget supports an enrollment of 140,910 FTE students (FTES), which is 12,497 (8.1 percent) below estimated actual enrollment on UC campuses. For the CSU, the budget reflects a 1992-93 "budgeted" enrollment of 247,494 FTES, which is 9,506 (3.7 percent) below estimated actual enrollment on the campuses. The current-year "budgeted" enrollment figures are significant because they will, if approved, form the basis for calculating future budgets.

Figure 4

Higher Education Full-Time Equivalent (FTE) Students 1990-91 Through 1993-94

	Actual 1990-91	Actual 1991-92	Estimated 1992-93	"Budgeted" 1992-93
University of California				
Undergraduate	115,517	116,398	114,492	Open
Postbaccalaureate	944	899	746	Open
Graduate	26,798	26,511	26,459	Open
Health sciences	12,537	12,563	11,710	Open
Totals	**155,796**	**156,371**	**153,407**	**140,910**
California State University				
Undergraduate	239,117	232,170	220,885	Open
Postbaccalaureate	19,667	18,136	15,974	Open
Graduate	19,718	20,423	20,142	Open
Totals	**278,502**	**270,729**	**257,000**[a]	**247,494**
California Community Colleges (funded FTE)	841,075	862,269	878,582	878,582
Hastings College of the Law	1,325	1,271	1,255	1,250
California Maritime Academy (headcount)[b]	400	425	488	475

[a] Estimated fall enrollment was 260,498. We expect a drop in enrollment in the spring, which should lower the enrollment estimate for the year to approximately 257,000 FTE.

[b] The budget shows headcount instead of FTE for the Maritime Academy. The California Maritime Academy reports an FTE count of 557 in 1992-93 in comparison to a headcount of 488 students.

The budget does not propose 1993-94 enrollment levels for the UC and CSU. Later in this *Analysis*, we discuss UC and CSU enrollment levels and their relationship to the state's Master Plan for Higher Education.

In contrast to the UC and CSU, enrollment at the community colleges increased by 37,507 FTES (4.5 percent) over the period 1990-91 through

1992-93. The budget proposes an enrollment level of 867,927 FTES in 1993-94, which represents a decrease of 10,655 FTES from the funded current-year level. This decrease is the net effect of (1) an increase of 13,881 FTES due to adult population growth of 1.6 percent and (2) a decrease of 24,536 FTES to reflect a budget proposal to eliminate state funding for BA degree holders. The CCC enrollment figures represent funded enrollment; actual enrollment is higher.

STUDENT FEES

Figure 5 presents student fee levels from 1990-91 through 1992-93. The budget does not propose a specific fee increase for any segment related to the 1993-94 budget but does indicate support for increasing student fees in 1993-94 to help offset the proposed General Fund unallocated reductions. For the CSU and the California Community Colleges, increasing student fees requires legislation.

Figure 5

Higher Education Student Fees 1990-91 Through 1992-93

	1990-91	1991-92	1992-93
University of California[a]			
Undergraduate/graduate	$1,624	$2,274	$2,824
Medicine/law	2,000	2,650	3,200
California State University	$780	$936	$1,308
California Community Colleges[b]			
10 units of credit	$100	$120	$200
15 units of credit	100	120	300
Hastings College of the Law	$2,000	$2,650	$3,200
California Maritime Academy	$928	$978	$1,369

[a] Budget includes the regents' adopted $605 fee increase effective in fall 1993 related to 1992-93 budget but leaves open the decision on 1993-94 fee increases beyond the already adopted $605 increase.

[b] 1992-93 fees are as of January 1, 1993. The budget proposes legislation to authorize the Board of Governors to increase fees from $10 per unit to up to $30 per unit.

While the budget does not propose any specific fee increases related to the 1993-94 budget for the UC, it does build in a fee increase, related to the 1992-93 budget, of up to $605 (21 percent) already approved by the regents, effective for the fall of 1993. The increase consists of two components:

- A permanent $455 fee increase (worth $50 million a year), which would allow the system to continue its current program into future years.
- A short-term fee increase of up to $150 (worth up to $15.7 million), which would allow the system to pay back, over five years, a loan of up to $70 million taken out by the regents to balance the UC's 1992-93 budget.

Later in this section, we discuss the current-year loan in greater detail.

Between 1990-91 and 1992-93, UC student fees have increased by $1,200 (74 percent), CSU fees increased by $528 (68 percent), and community college fees for full-time students have increased by $200 (200 percent). Despite these large increases, the California Postsecondary Education Commission (CPEC) reports that UC resident student fees are $805 less than the average fee of the four public universities with which the UC compares itself on faculty salaries, and CSU fees are approximately $1,037 lower than the average fee of the 15 public universities with which the CSU compares itself on faculty salaries. The CPEC reports that California's community college fees are still the lowest in the nation.

As indicated previously, the budget does not propose a specific fee level for community colleges. Instead, the budget proposes legislation to authorize the Board of Governors to increase fees from $10 per credit unit to up to $30 per credit unit. With a $30 per unit fee, the $900 annual community college fee per FTE student would be $252 lower than the current-year national average, and would be lower than 37 other states. As part of the proposal to eliminate state support for BA degree holders, the budget also proposes to eliminate the current $50 per unit fee for these students and, presumably, instead allow individual community colleges to determine whether, and at what cost, to enroll BA students.

Crosscutting Issues

Budget Gap in Higher Education

Budget Gap in 1992-93

The UC and the community colleges are relying on deficit financing (loan funds) to balance their 1992-93 budgets. The UC proposes to increase student fees by up to $605 (21 percent) in 1993-94 simply to sustain the 1992-93 expenditure level.

All of the segments experienced increased baseline costs in the current year. With the exception of the community colleges, the segments experienced declining funding as well. In this section, we examine the actions taken by the UC and CSU to bridge the budget gap.

Available Funding

Figure 6 shows our estimate of the total amount of funding available to the UC, CSU, and community colleges in 1991-92 and 1992-93. The UC's General Fund appropriation declined by $227 million, or 11 percent, in 1992-93 compared to 1991-92. The CSU 1992-93 General Fund appropriation declined by $133.4 million, a loss of 8.2 percent. Community colleges support from the General Fund and local property taxes declined by $187.4 million, or 7.4 percent.

Figure 6

Higher Education Funding Changes 1992-93

(Dollars in Thousands)

	University of California	California State University	California Community Colleges
1991-92			
General Fund	$2,105,560	$1,634,366	$1,684,766
Property taxes	—	—	834,224
IDDA/EPDA (retirement-related) offset	—	—	50,000
Totals	**$2,105,560**	**$1,634,366**	**$2,568,990**
1992-93			
General Fund	$1,878,547	$1,500,954	$1,269,947
Property taxes	—	—	1,061,604
Community college loan	—	—	241,000
Private bank loan (planned)[a]	70,000	—	—
Student fee increase	83,996	97,392	56,318
Student financial aid (formula)	-23,996	-22,386	-12,527
Cal Grant replacement funding	-3,000	-6,601	—
Financial aid (base adjustment)	-935	-8,728	—
Other general revenue	3,000	—	—
IDDA/EPDA offset	—	—	14,000
Totals	**$2,007,612**	**$1,560,631**	**$2,630,342**
Change 1991-92 to 1992-93			
Amount	-$97,948	-$73,735	$61,352
Percent	-4.7%	-4.5%	2.4%

[a] The UC currently plans to borrow up to $70 million in 1992-93 from a bank to balance its 1992-93 budget. The plan calls for this loan to be paid off over a five-year period with student fee revenue.

A variety of other funding sources, however, were available to offset a portion of these reductions. The most important funding source shown in Figure 6, other than the state General Fund and local property taxes, is loan funding at two segments—the community colleges and the UC. First, the 1992 budget package provided a loan of $241 million to the community colleges, to be repaid from future appropriations. Second, the UC currently plans to borrow up to $70 million in 1992-93 from a private bank to balance its 1992-93 budget. The plan proposes that student fees be increased in 1993-94 by (1) up to $150 to provide sufficient funds over a five-year period to pay off the loan and (2) an additional $455 to provide approximately $50 million in ongoing support for current-year activities that were funded from one-time actions. The $605 amount represents a 21 percent increase. We discuss this planned loan in greater detail below.

Other funding available in 1992-93 primarily consists of student fee revenue (less expenditures for student financial aid). Figure 6 shows both the gross increase in student fee revenue and the associated increases in expenditures for different categories of financial aid. In 1992-93, student fees at the UC increased by $550 (24 percent), while student fees increased by $372 (40 percent) at the CSU and by $180 (150 percent) at the community colleges.

Figure 6 shows that the 1992-93 UC net reduction in funding from all sources is $98 million (4.7 percent). The CSU 1992-93 net reduction is $74 million (4.5 percent). In contrast, the community colleges' available funding in 1992-93 increased by $61 million (2.4 percent). In the following sections, we examine in more detail the effect of these reductions on the UC and the CSU.

Baseline Cost Increases at the UC and the CSU

The funding shortfalls for the UC and CSU shown in Figure 6 reflect only resource reductions, without consideration of changes in spending between the two years. The need to pay for unavoidable cost increases, however, exacerbates the funding reductions at the UC and the CSU. We do not have total cost increase figures because there is no consensus on what costs are truly unavoidable. At a minimum, however, unavoidable costs include the following:

- *Price Increases.* Price increases are needed to maintain the purchasing power of the nonsalary portion of the budget. We estimate that prices increased by approximately $9.2 million for the UC and by $8.3 million for the CSU in 1992-93.

- *Lease-Purchase Revenue Bond Payments.* These are debt service payments for bonds sold to finance capital construction and equipment approved by the Legislature in prior Budget Acts. In 1992-93, the UC's increased cost for revenue bond payments was $5.6 million, while the CSU's cost increased by $1.1 million.

- *Benefit Increases.* The costs of certain benefit increases are also unavoidable. The UC had to pay $9 million for these costs in 1992-93, while the CSU paid $6.2 million.

There are other examples of costs that the segments consider to be unavoidable. (Some of these costs are avoidable in any particular year, but at some point become unavoidable.) These costs include:

- *Merit Salary Adjustments (MSAs).* For example, the UC allocated $46 million in the current year for MSAs, including (1) $29 million to provide MSAs that were not provided last year for faculty and staff and (2) $17 million for full-year MSAs for faculty for the current year. The CSU provided MSAs last year for faculty and staff but did not provide MSAs for either faculty or staff in the current year. Other state civil service agencies provided MSAs in both 1991-92 and 1992-93.

- *Instructional Equipment Replacement (IER).* The UC and CSU estimate their additional 1992-93 IER needs to be $21.6 million and $18.1 million, respectively. However, the UC decided not to allocate any additional funds in the current year for IER, while the CSU allocated an additional $1.5 million.

- *Maintenance for New Space.* As new buildings are opened, funds are added to the budget to provide utilities and maintenance for the new space. We estimate costs related to new space of $3.5 million for the UC and $10.2 million for the CSU in 1992-93.

- *Other.* The CSU identified $4.5 million in increased costs related to contractual obligations (for diversity and development enhancement and communications systems, among others) and an additional $5.1 million for equity programs and financial aid staffing that the system believed had to be increased.

UC and CSU Expenditure Reductions

Both the UC and the CSU distributed the cuts to systemwide operations and the campuses first in the form of unallocated reductions. The UC reports an overall reduction to the campuses of 8.7 percent and a reduction of 10 percent (from all funding sources) to the Office of the President. The CSU reports 9.2 percent reductions to systemwide operations and to the campuses. These percentages are greater than the percentages shown in Figure 6 due to segment expenses on "unavoidable costs" in 1992-93.

Probably the most significant step taken by the systems to adjust to reduced funding levels in 1992-93 was the offering of early retirement programs. The UC offered the same early retirement program in 1992-93 as it did in 1991-92. The UC program, which is available for eligible faculty and staff, provides five additional years of service credit and three months of salary for transition assistance. Because the UC Retirement Plan has a surplus of funds, there are no immediate costs to the state (in the form of higher employer contributions) for this program. The UC estimates savings of $75 million in 1991-92 and an additional $30 million to $40 million in 1992-93 from its early retirement program.

Chapter 450, Statutes of 1992 (AB 1522, Campbell), established the CSU early retirement program. Chapter 450 limited the program to faculty and provided four years of service credit in contrast to the UC's five years. The CSU is using its lottery funds to pay for the cost of this program. The CSU estimates that the cost will be $56.6 million, or $18.4 million more than previously estimated, because more faculty are taking advantage of the program than anticipated. At this time, the CSU does not have an estimate of savings from this program. CSU staff have the same early retirement program as that available for other state employees. This program offers two years of service credit.

The individual campuses made a variety of other reductions to adjust to the reduced funding levels. In the case of the CSU, reductions were made in nontenure track faculty and support staff. Fewer course sections were offered, with a resulting decline of almost 14,000 students. On the other hand, the UC made a number of one-time reductions in the purchase of instructional equipment, deferred maintenance, and library book purchases. The UC also shifted $10 million in Regents' Opportunity Funds used in prior years for faculty recruitment. These actions enabled the UC to pretty much sustain its 1992-93 course offerings. Consequently, the UC's enrollment reduction was only 2,400 FTE students.

Budget Gap in 1993-94 for the UC and the CSU

We estimate a 1993-94 budget gap of $233 million (12 percent) for the UC and $196 million (12 percent) for the CSU. We recommend that the UC and CSU submit specific plans for accommodating the shortfall to the Legislature early in the budget hearing process.

In Figure 7, we estimate the General Fund baseline budget gaps for the UC and the CSU for 1993-94. We discuss the community college budget situation in detail in a later section. Our estimates do not attempt to make up for the current-year budget gaps that we discuss in the preceding section. Our salary estimates are based on the cost of providing sufficient funds on January 1, 1994, to increase faculty salaries to the weighted average faculty salary at comparable universities. The staff salary increase, consistent with other state employees, is based on a 5 percent increase also effective on January 1, 1994. We have included the cost of merit salary adjustments for both faculty and staff starting on July 1, 1993, but included no additional funds for benefit increases. Finally, we assumed an enrollment increase of 1,500 undergraduates for the UC and 5,000 undergraduates for the CSU. This is the enrollment increase that we would expect in a "normal" year based on the state's Master Plan.

Figure 7

Higher Education Funding Gaps at The University of California and The California State University 1993-94

(Dollars in Thousands)

	University of California	California State University
1992-93 General Fund appropriation	$1,878,547	$1,500,954
Expenditure adjustments		
Faculty salary increases	$29,484	$37,212
Staff salary increases	15,363	15,739
Merit salary adjustments	25,354	17,400
Price increases (2.7 percent)	8,640	8,254
New space	5,459	8,998
Instructional equipment replacement	6,740	10,000
Revenue bonds	4,965	8,670
Revenue offset	-6,500	—
Additional students	9,000	22,165
1993-94 baseline expenditure level	$1,977,052	$1,629,392
1993-94 proposed General Fund appropriation	$1,743,570	$1,433,244
1993-94 budget gap		
Amount	-$233,482	-$196,148
Percent	-11.8%	-12.0%

As shown in Figure 7, we estimate that the 1993-94 funding gaps are $233 million (12 percent) for the UC and $196 million (12 percent) for the CSU. These figures are higher than the budget gap figures cited in the budget document. Our estimate is $39 million higher for the UC and $37 million higher for the CSU. The major items included in our estimate but not reflected in the budget document are merit salary adjustments, price increases, allowances for new space, and allowances for instructional equipment replacement. We also include sufficient funds to provide parity-level faculty salaries on January 1, 1994, while the budget reflects a 5 percent increase for both UC and CSU faculty. On the minus side, our estimates do not include $6.8 million for additional UC graduate students and include only $22 million for 5,000 additional CSU students in contrast to the budget's estimate of $46 million for 10,000 more CSU students. (These enrollment figures were used to develop the funding levels proposed in the budget; they are not actual proposals for enrollment increases.)

The budget indicates that the UC Regents and CSU Trustees will develop specific plans for accommodating the shortfall and present them to the Legislature this spring. We recommend that the UC and CSU submit their plans early in the budget hearing process.

UC AND CSU ENROLLMENT ISSUES

Enrollment Assumptions for 1992-93

Our review indicates that the 1992-93 enrollment figures presented in the budget for the CSU do not comply—and for the UC, may not comply—with enrollment policies set forth in the Master Plan for Higher Education. We withhold recommendation on the enrollment figures pending additional information.

In enacting the 1992 Budget Act, the Legislature did not specify enrollment levels for the UC and the CSU for 1992-93. As mentioned in an earlier section on enrollment, both the UC and the CSU believe that their current-year budgets are not adequate to support the number of currently enrolled students. The 1993-94 budget reflects enrollments for the current year that are equal to the UC's and the CSU's estimates of what the current budget supports.

Enrollment Figures Significantly Below Estimated Actual Enrollment on the Campuses. For the UC, the "budgeted" 1992-93 enrollment of 140,910 FTE is 12,497 FTE (8.1 percent) *below* estimated actual enrollment on the UC campuses. (The UC refers to a proposed reduction of 12,000 FTE rather than 12,497 because the additional 497 FTE are considered normal budget adjustments rather than a response to budget constraints.) In discussing the UC's plans for accommodating the current-year funding shortfall, UC staff have indicated that the UC intends to reduce actual enrollment over a four- to five-year period to the level actually supported by the budget.

For the CSU, the "budgeted" 1992-93 enrollment of 247,494 FTE is 9,506 FTE (3.7 percent) *below* estimated actual enrollment on the campuses. CSU staff have also indicated that the CSU intends to reduce actual enrollment over an extended period to the budgeted level.

Departure From Past Budget Practice. The administration's proposal to reduce UC and CSU enrollment targets in line with available resources is a significant departure from prior budget practice. In the past, enrollment figures have been based on projections of undergraduate enrollment under the state's Master Plan. In contrast, the enrollment figures contained in the 1993-94 budget for 1992-93 were developed without reference to the Master Plan, but only to available funds.

We identified two problems in using this approach. We discuss these below.

Enrollment Levels Inconsistent With Master Plan. Under the state's Master Plan for Higher Education, the top 12.5 percent of high school graduates are eligible to attend the UC, while the top 33.5 percent are eligible to attend the CSU. Clearly, the CSU is not serving all eligible students under the Master Plan. In our 1992-93 *Analysis,* we indicated that the CSU's 1991-92 enrollment level was approximately 12,000 FTE less than the Master Plan demographic projected level. The enrollment gap is significantly higher now, but precise estimates are not available at this time.

Although the UC currently appears to be meeting Master Plan enrollment goals, a reduction in 12,000 students from currently enrolled levels may not be consistent with Master Plan policies. The UC has not completed its plan for achieving an enrollment reduction nor completed estimates of the effect of any enrollment policy changes proposed in a plan on actual enrollment or on achievement of Master Plan goals. The Legislature will need such information in order to evaluate and approve the 1992-93 enrollment figures.

Methodology for Calculating Reduction Flawed. The proposed enrollment reductions were calculated by applying a gross dollars-per-student amount to the current-year budget reduction. We believe this method is flawed because it does not account for the actual effect of the reductions on instructional programs. For example, enrollment should be reduced only to the extent that faculty resources were reduced.

Additional Information Needed. If these figures are approved, they would become the basis for future budgets. Accordingly, we believe the Legislature should review these figures very carefully. We believe the Legislature does not yet have sufficient information to conduct this review and, accordingly, withhold recommendation on the 1992-93 enrollment figures. In the next section, on 1993-94 enrollment issues, we discuss the information the Legislature needs to review the budget proposal.

Proposal for 1993-94

We recommend that as part of their plans for accommodating the 1993-94 budget gap, the UC and the CSU submit additional information regarding their plans for enrollment and the capacity of the segments for instructing students.

The budget does not propose 1993-94 enrollment levels for either the UC or the CSU. According to the budget, this is due to the magnitude of the reductions proposed for the segments, and the likelihood that the segments' plans for accommodating the reductions will involve enrollment reductions as well as additional fee increases as cited in the budget document.

Essentially, the administration avoids the issue of the appropriate levels of enrollment at the segments, leaving these difficult choices to the Legislature.

In previous sections, we recommended that the UC and CSU submit their plans for accommodating the shortfalls to the fiscal committees early in the budget hearing process. We believe that the Legislature needs information at the same time on the effect of the current- and budget-year plans proposed by the segments on enrollment. Specifically, the Legislature needs information on (1) proposed enrollment policy changes for the current and budget years and (2) the effect of the plans on the segments' capacity for instructing students.

Specifically, we recommend that the UC and CSU provide the following information to the fiscal committees early in the budget hearing process:

- Proposed enrollment policy changes and estimates of the effect of those policies on the enrollment of underrepresented students.
- A comparison of proposed enrollment to projected enrollment under Master Plan policies.
- The UC's and the CSU's assessment of the student-faculty ratio needed to maintain an appropriate level of quality in their respective instructional programs.
- The estimated number of full-time equivalent (FTE) faculty positions (tenure track and nontenure track), including part-time retirees, on the campuses in the current year and projected for the budget year.
- The number of FTE teaching assistant positions in the current year and projected for the budget year.

MANAGEMENT OF FACULTY RESOURCES

State General Fund expenditures for higher education in 1993-94 are projected to total $4.5 billion. This represents about 12 percent of the state's estimated General Fund budget for 1993-94. Expenditures in higher education represent one of the state's major investments in the future composition and productivity of the state's labor force. As such, the state is keenly interested in decision-making on student enrollment made by its higher education institutions.

Our analysis indicates that enrollment management and planning in the past two years has been driven by the state's budgetary decisions. Due, in part, to the delays in adoption of the final state budget, there was little time for careful academic program review, or for consideration of the state's Master Plan and economy. Improvements in the planning and management of enrollment would result in more efficient use of faculty resources and strengthen the economic returns for the state's investment in higher education.

In the preceding section, we recommended that the UC and CSU provide information regarding the number of faculty positions and students that would be supported in 1993-94 under their plans for accommodating the budget shortfall. In this section, we describe how the segments decide on the most efficient deployment of their faculty resources. We focus on three specific issues: (1) how the segments determine the distribution of faculty resources devoted to undergraduate instruction versus graduate instruction, (2) the appropriate distribution of faculty workload, and (3) how the segments ensure that resources are employed efficiently (for example, how they deal with low-demand course and program offerings).

Undergraduate Versus Graduate Enrollment

We recommend that the UC and CSU include in their plans for accommodating the 1993-94 budget shortfall information regarding the distribution of faculty resources between undergraduate and graduate programs.

CSU. Figure 4 of the higher education overview shows a CSU enrollment decline of 21,502 FTE (7.7 percent) from 1990-91 to 1992-93. This enrollment decline occurred at the undergraduate (18,232 FTE) and postbaccalaureate (3,693 FTE) levels. Graduate enrollments, on the other hand, actually increased over this period (424 FTE).

The state's Master Plan for Higher Education sets the top 33.5 percent of high school graduates as eligible to attend the CSU. The Master Plan does not address graduate student eligibility. Last year, the CSU's 1991-92 overall enrollment level was approximately 12,000 FTE less than the projected level based on the Master Plan. Since last year, the Master Plan eligible pool has increased, while CSU undergraduate enrollment decreased. We are aware of no explicit decision within the CSU to reduce access only at the undergraduate level.

UC. The UC's proposal to reduce enrollment by 12,000 FTE over time in response to the current-year budget shortfall does not provide any specific information regarding the categories of students to be reduced.

To enable the Legislature to determine budget priorities for the segments, we recommend that the UC and CSU include in their plans for accommodating the 1993-94 budget shortfalls information regarding the distribution between undergraduate and graduate enrollment in 1993-94 and future years. To the maximum extent possible, we recommend that the segments show the relationship between their plans and the specific needs facing the state.

Should UC Faculty Devote More Time to Teaching?

We withhold recommendation on faculty workload distribution, pending receipt and review of the UC's faculty workload report requested by the Legislature last year.

Last year we recommended that UC faculty alter the distribution of their workload to teach, on average, one more course per year. We recommended a reduction in funding because, by increasing teaching loads, a greater number of students can be served without adding additional faculty with little, if any, impact on the instructional program.

In response to our recommendation, the Legislature adopted supplemental report language expressing the intent that UC faculty alter the distribution of their workload to increase the average teaching load. The Legislature did not make any funding reductions associated with this change. Instead, the supplemental report language reflects the UC's proposal to improve the instructional program by (1) increasing the number of courses and sections offered that are required for normal progress to degree, (2) increasing the number of freshman and sophomore seminars, (3) increasing the number of opportunities for undergraduates to do research as an integral part of their baccalaureate studies, and (4) reducing the size of classes whenever possible. The Legislature stated that it anticipated that these changes would result in an increase in the average teaching load of one additional course every one to three years. In addition, the supplemental report language directed the UC to report annually to the Legislature on the implementation of this workload redirection by February 1.

How Many Courses Do UC Faculty Actually Teach per Year? Last year we reported that UC faculty, whose campuses operate on the quarter system, typically teach no more than five courses per academic year. According to the UC, this was the typical workload for nonscience faculty. We recommended increasing the workload to six courses with offsetting reductions in research and other responsibilities. We received several letters and newspaper accounts from tenured UC faculty taking sharp issue with this information. These letters indicated that UC faculty course loads have been falling over the last ten years. The letters indicated that, in reality, nonscience faculty are teaching less than five courses per year.

We have discussed this information with UC Office of the President staff who inform us that the UC is in the process of conducting on-campus reviews of workload policies and practices. We requested that the UC be prepared to comment during budget hearings on the status of its review.

Effect of Recommendation on the Student-Faculty Ratio. Our recommendation last year, if adopted, would have had the effect of increasing UC's student-faculty ratio (SFR). This is because, under our recommendation, a greater number of students would be served by the same number of faculty, thereby increasing the ratio. In discussions last year, the UC criticized our recommendation because it believed that increasing the SFR would reduce the quality of instruction by increasing average class sizes and/or by decreasing the breadth of course offerings.

The change we recommended last year would *not*, in fact, result in a reduction in the quality of instruction. This is because the amount of time each faculty member spends on instruction and related activities would increase, and the time spent on non-instruction-related activities would decrease. The SFR measures the aggregate amount of faculty resources per student, not solely the amount of faculty resources available for instruction and related activities. The UC recently reported to the California Postsecondary Education Commission that 54 percent of a typical faculty member's time was spent on direct and supplementary instructional activities. Faculty spend approximately 28 percent of their time on research unrelated to instruction and 17 percent of their time on university and public service activities.

Legislative Choices. For the Legislature, this issue boils down to two questions: (1) should faculty resources be redirected from research and other activities to teaching and (2) how should additional funds freed up from the redirection be used? The funds could be used to reduce class sizes, serve additional students, offset a portion of the unallocated reduction, or further reduce General Fund support for the UC.

We continue to believe that workload shifts greater than the level requested in the supplemental report language are warranted. The funds freed up in this way could be used to serve additional students. The UC will be providing additional information regarding this issue in a report to be available on February 1, which may affect the level of workload redistribution we would recommend or the amount of freed-up funding. Accordingly, we withhold recommendation on teaching workload, pending receipt and review of this report.

Should CSU Faculty Devote More Time to Teaching? We do not propose a workload shift to teaching for CSU faculty, like that we recommend for the UC, because, at the CSU, faculty workload practices currently do not include a research component. Below we discuss a proposal to reduce faculty teaching workload at the CSU.

CSU Faculty Workload Reduction Should Be Deferred Another Year

We recommend that the Legislature adopt the same supplemental report language adopted last year requesting that the CSU administration and faculty defer the planned July 1, 1993 implementation of a teaching load reduction of one unit.

Last year we recommended that the Legislature adopt supplemental report language requiring the CSU administration and faculty to defer the planned July 1, 1992 implementation of a teaching workload reduction of 1 unit, from 12 to 11 units. The Legislature adopted supplemental report language expressing its intent that the CSU Trustees and the California Faculty Association defer implementation of a teaching (direct instruction) workload reduction in 1992-93.

As we stated last year, the proposal may have merit. Given the state's fiscal situation, this is not the time to do it. We recommend that this workload change not be made in 1993-94. Such a workload distribution change, if made, would result in even greater increases in class sizes than are already occurring due to budget constraints. The budget situation has deteriorated since last year. Accordingly, we recommend that the Legislature adopt the same supplemental report language as adopted last year in Item 6610-001-001:

It is the intent of the Legislature that the CSU Trustees and the California Faculty Association defer implementation of a teaching (direct instruction) workload reduction proposal in 1993-94.

Course Management and Educational Technology

We recommend that the UC, CSU, California Community Colleges, and California Postsecondary Education Commission (CPEC) report during budget hearings on efforts to manage course offerings and use educational technology.

Management of Faculty Resources. In the last two years, we have asked about management of faculty resources at a number of campus visits. Our limited review found mixed results. On the UC Irvine campus, we found a management system that was effective in shifting faculty resources to meet high-demand core course needs. San Jose State University also employs a management system to track and realign faculty resources.

On the other hand, last year we found one campus that had reduced many core courses in response to budget constraints, but advertised openings in ballroom dancing and jazz, and offered a new course in martial arts. This year, another campus lamented the shortage of a course section in chemistry because of insufficient funds, yet, at the same time, offered a new credit course in rhumba dancing.

Use of Educational Technology. We found several promising efforts in use of educational technology during our campus visits. At CSU Chico, we found an extensive number of courses offered by telecommunications to surrounding communities. One UC campus reports plans to offer upper-division coursework in Chinese by telecommunications from one of its campuses to another. This would allow both campuses to offer a low-demand major at a reduced cost. Of course, employment of these strategies has to make sense academically as well as economically.

With the exception of the UC planned offering, we did not find examples of telecommunications between campuses or between segments. However, the CSU system has extensive plans for greater use of electronic media to deliver courses and degree programs. We were not able to review this program, referred to as Project Delta, within the time frame of the preparation of this analysis.

Segments Should Report at Budget Hearings. Based on our discussions with campuses, we believe that the potential efficiencies from improvements in course management and use of educational technology are great. If employed skillfully, limited faculty resources will be able to meet the needs of more students.

Because our review was limited, we recommend that the UC, the CSU, and the community colleges report during budget hearings on their efforts in course/program management and educational technology. We also recommend that the CPEC comment on these areas during budget hearings. The Legislature has charged the CPEC with the task of assuring "the effective utilization of public postsecondary education resources, thereby eliminating waste and unnecessary duplication, and to promote diversity, innovation, and responsiveness to student and societal needs." In light of this charge, we believe it is appropriate for the CPEC to provide comments and suggestions for improvements in these areas.

Other Crosscutting Issues

Redirection From the UC and CSU to Community Colleges Saves Money

We recommend the enactment of legislation to establish a policy whereby the UC and the CSU would admit qualified freshmen but redirect a portion of them, on a voluntary basis, to enroll in community colleges, allowing annual General Fund savings of up to $50 million beginning in 1994-95.

In our *Analysis of the 1992-93 Budget Bill,* we recommended that the Legislature enact legislation allowing freshmen students to be voluntarily redirected from the UC and CSU to the community colleges. This is because the costs to both the state and the student to attend the UC and the CSU are significantly higher than the costs to attend a community college. Thus, it is cost-beneficial to have students attend the community colleges for lower-division (freshman and sophomore) work and then transfer to the UC or the CSU. We estimated that this recommendation would result in annual General Fund savings to the UC and CSU of approximately $50 million (non-Proposition 98) and in annual General Fund costs to the community colleges of approximately $25 million (Proposition 98), for a net savings of $25 million.

Based on our recommendation, the Legislature, in fall 1992, passed AB 3575 (Farr) to allow a student to be accepted at a UC or CSU campus and then be redirected voluntarily to a specific community college for lower-division coursework. This bill was vetoed. In his veto message, the Governor stated "I support the goals of this bill and recognize its potential to increase access at UC and CSU as well as providing a savings to the General Fund . . . (However, AB 3575) . . . could result in the creation of legal deficiencies for the first time for the community colleges."

To prevent the deficiencies noted in the veto message, the Legislature has two options. The first option is to specify that the community colleges shall use funds they receive for growth to serve any redirected students. (The budget proposes $40 million in statutory growth funds for 1993-94.) Under this option, the state would have savings of the full $50 million, because the costs would be covered from a designated funding source. The advantage of this option is that it would result in $25 million more in annual savings than the option discussed below. The disadvantage is that it would reduce the ability of community colleges to serve other types of new students.

Under this option, these redirected students would have a high priority for enrollment at the community colleges. This is generally consistent with existing Master Plan policies. If the Legislature elects to establish new enrollment policies, it would need to coordinate its action on this option with the new policies. Later in this *Analysis,* we discuss approaches for setting enrollment priorities at the community colleges.

The second option is to require the UC and/or the CSU to contract with the community colleges for the provision of the lower-division coursework. This option would result in net annual savings of $25 million, because the state would have to appropriate funds (non-Proposition 98) to the UC and CSU to pay for the contracts with the community colleges. This option would still save half the General Fund amount as the first option, while allowing the community colleges to use their growth funds for other new students.

We believe that either of these options would be consistent with the Legislature's intent in enacting AB 3575 and would meet the concerns outlined in the Governor's veto message. Accordingly, we recommend that one of these two options be enacted into legislation.

Other Issues. In addition to the concerns expressed in the veto message, others who worked on AB 3575 still had some concerns with the bill at the time of this analysis. These relate to ensuring that ethnic diversity among the segments be maintained through the voluntary transfer process and that students who choose voluntary transfer are provided with appropriate transfer courses. At the time of this analysis, these issues were being discussed by the CPEC and the segments in an intersegmental coordinating council.

Privatization of Law Schools and the California Maritime Academy

We recommend that the administration provide additional information on its rationale for proposed studies on privatization.

The budget proposes that (1) the UC Regents report on privatization of one of the UC's three law schools or Hastings College of the Law and (2) the California Maritime Academy (CMA) Board of Governors report on privatization of the CMA or combining the CMA with the California State University system. The budget requests that these reports be provided to the Legislature and Governor by October 1, 1993. We have no additional information on these proposals.

Presumably, "privatization" means that the entity would operate as a private corporation and would not receive state General Fund support.

We recommend that the administration provide additional information on the proposed scope of these studies.

We also recommend that (1) the Board of Directors' of Hastings College of the Law participate in the study with the UC Regents and (2) the CMA Board of Directors report during budget hearings on the likelihood of retaining the CMA training ship *Golden Bear* if the CMA is converted to a private entity. The *Golden Bear* is owned by the federal government.

HIGHER EDUCATION

DEPARTMENTAL ISSUES

UNIVERSITY OF CALIFORNIA (6440)

The University of California (UC) includes eight general campuses and one health science campus. The budget proposes General Fund expenditures of $1.7 billion. This is a decrease of $135 million, or 7.2 percent, from estimated current-year expenditures.

Deficit Financing of UC's Current Budget Is Ill-Advised

To avoid deficit financing, we recommend that the Legislature direct the regents to redirect a portion of the projected net gain of $221 million realized from hospital operations in 1991-92 and 1992-93 to campus budgets.

As mentioned in preceding sections, the regents currently plan to borrow up to $70 million from a private bank to balance the UC's 1992-93 budget. This loan would be paid off over a five-year time period with student fee revenue. The regents have already adopted a student fee increase of up to $150 beginning in 1993-94 depending on the size of the current-year loan.

In our view, deficit financing of the UC's operating budget in the current year is ill-advised. Prudent budget policy calls for annual balancing of the UC budget. We cannot identify any special situation that would call for the UC to borrow private funds to balance its 1992-93 budget. Under the UC plan, students enrolled in each of the next five years will pay a portion of their fees for services delivered in

1992-93. Thus, freshmen entering the UC in 1993-94 will be asked to pay up to an additional $150 per year over an entire undergraduate program to pay for services provided in a year when they were not even on the campus.

What Are the Alternatives? The alternatives to borrowing are (1) further expenditure reductions in the current year and/or (2) identification of other revenue sources besides a loan. Because more than half of the fiscal year has passed, it would be difficult for the UC to further reduce its expenditures. The other possibility is for the UC to identify additional revenue. In our own review, we have identified additional revenue within the teaching hospitals in the current year that the UC could use, on a one-time basis, to avoid the loan.

Teaching Hospital Financing

In 1992-93, net operating revenue for the five teaching hospitals was $1.6 billion. The General Fund provided only $58 million, or 3.6 percent, of the hospitals' operating revenue, in the form of clinical teaching support (CTS). CTS funds are intended to finance the cost to the hospitals related to the training of UC undergraduate and resident medical students. The primary source of the hospitals' revenue is patient revenues from third-party payors such as Medi-Cal, private insurance companies, and county contracts.

With the exception of CTS, the teaching hospitals provide for their own operating budget and capital outlay needs. In 1985-86, however, the three former county hospitals experienced financial difficulties. Between 1985-86 and 1990-91, the state provided special operating subsidies of $28.6 million to the Irvine hospital and subsidies of approximately $84 million for capital outlay at the Davis ($14 million), Irvine ($41 million) and San Diego ($29 million) hospitals. The 1993-94 General Fund budget includes $8 million in bond payments for these capital outlay projects. The intent of these subsidies was to (1) reduce the hospitals' operating costs by improving the efficiency of their physical plant and (2) make the hospitals more attractive to privately supported patients whose reimbursement rates are higher than those for publicly supported patients. Given the increasing profitability of the three former county hospitals, the plan seems to have worked.

Hospitals Generate Unexpected Net Gains. Our analysis indicates that the UC has considerable unanticipated revenue available from the 1991-92 and 1992-93 operations of its five teaching hospitals. Figure 8 shows net gains or losses (the "bottom line") for each of the hospitals for the period 1985-86 through 1993-94. Also shown in Figure 8 is the "bottom line"—net gains expressed as a percentage of the hospitals' net operating revenue. For example, in 1991-92 the net gain for all five hospitals was $118.4 million, or approximately 7.3 percent of the hospitals' total net operating revenue.

Figure 8

The University of California Teaching Hospital Net Gain (Loss)[a] 1985-86 Through 1993-94

(Dollars in Millions)

	Davis	Irvine	San Diego	Los Angeles	San Francisco	Totals	Gain as a Percent of Net Revenue
1985-86	$8.3	$12.6	$3.7	$12.4	$12.5	$49.5	6.0%
1986-87	3.2	0.7	7.1	14.1	10.6	35.8	3.9
1987-88	4.6	2.9	1.9	24.0	8.0	41.4	4.1
1988-89	8.2	-0.3	7.1	25.1	12.1	52.3	4.6
1989-90	15.3	0.9	7.0	21.2	12.6	57.0	4.4
1990-91	19.8	6.3	6.9	12.5	13.6	59.1	3.9
1991-92	36.7	13.1	17.9	16.1	34.6	118.4	7.3
1992-93	37.3	23.1	15.2	2.5	22.7	102.2	5.9
1993-94	27.9	1.3	6.5	10.9	30.5	77.1	4.1

[a] Actual results through 1991-92, projected results for 1992-93 and 1993-94. Details may not add to totals due to rounding.

The 1991-92 net gain of $118.4 million was $43 million higher than previously projected, and the current estimate for 1992-93 is $102 million, or $25 million higher than previously projected. (This current-year estimate may be too low, because through the first four months of 1992-93, actual results are running ahead of the UC's estimate by an additional $10 million.) These higher-than-expected gains can be attributed to the passage of SB 855 (Ch 279/91, Robbins), which provides supplemental Medi-Cal payments (effectively, all from federal funds) for inpatient hospital services provided by all hospitals that serve a disproportionate share of Medi-Cal or other low-income patients. The UC's Davis, Irvine, and San Diego hospitals received $38.9 million in SB 855 funds in 1991-92. The UC estimates SB 855 receipts of $44.1 million in 1992-93. Over the two-year period, estimated SB 855 revenues total $83 million. The UC does not expect to receive SB 855 funds in 1993-94, and therefore SB 855 funding is not included in its 1993-94 projection.

Redirect Hospital Gains to the Campuses

While we recognize the need for the hospitals to generate gains, the $221 million amount gained in 1991-92 and 1992-93 appears to be well in excess of the expected needs for equipment and construction purposes. Based on past trends, we estimate that the teaching hospitals, in general, need to generate gains of approximately 4 percent of net operating revenue to meet their equipment and capital outlay needs. An average net gain of 4 percent for each of these years results in gains of $65 million in 1991-92 and $69 million in 1992-93. These gains are comparable to those in 1990-91 and projected for 1993-94. Allowing the hospitals to keep gains in the 4 percent range makes available approximately $87 million that the UC could use, on a one-time basis, for other purposes in 1992-93.

The SB 855 program essentially provided an unexpected "windfall" to UC hospitals in 1991-92 and 1992-93. We believe it is appropriate for the UC to use this windfall on a one-time basis to avoid the current-year loan—thereby eliminating deficit financing and the need for future students to pay for current-year services. We therefore recommend that the Legislature request the UC not to implement its plan to finance current-year expenditures with a bank loan. Instead, the UC should redirect excess hospital earnings to the campuses.

UC Executive Salaries

We recommend that during budget hearings, the UC report on the actions taken by the regents in response to A. Alan Post's September 1992 report on the UC's executive compensation, including information on how the UC plans to set the salaries of the president and vice presidents.

Last year there was considerable legislative debate concerning the merits of the retirement package being offered by the regents to President Gardner, who was in the process of retiring, and on the level of compensation offered to the UC's top executives (the president, chancellors, and vice presidents). At the request of the Legislature, the Auditor General conducted a review of the UC's executive compensation. At the UC's request, A. Alan Post (former state Legislative Analyst) also reported on UC executive compensation.

The Auditor General report provided a great deal of information on the actual level of salary and benefits of UC executives. The Post report found numerous shortcomings in the process for setting top level executive compensation and made several recommendations for improvements.

Executive Salary Comparisons

Figure 9 shows data for 1982-83 and 1992-93 on (1) the level and change in UC and CSU top executive salaries, (2) the level and change in UC and CSU faculty salaries, and (3) the average annual increase in the California Consumer Price Index (CPI). Executives include the top 16 administrators at the UC and the top 26 administrators at the CSU.

Figure 9

The University of California and The California State University Selected Salary and Price Index Data 1982-83 and 1992-93

	University of California			California State University		
	1982-83	1992-93	Percent Change	1982-83	1992-93	Percent Change
President/chancellor	$94,645	$243,500	157.3%	$80,004	$175,000	118.7%
Chancellors/campus presidents[a]	76,438	182,243	138.4	69,915	119,995	71.6
Vice presidents						
Agriculture	68,500	172,900	152.4	—	—	—
Administration	82,500	199,200	141.5	77,076	138,504	79.7
Academic affairs	71,500	vacant	—	73,716	128,304	74.1
Budget	66,400	180,000	171.1	—	—	—
Health	73,500	178,100	142.3	—	—	—
Business affairs	—	—	—	73,716	128,304	74.1
Human resources	—	—	—	58,824	120,504	104.9
Treasurer	82,400	238,400	189.3	—	—	—
Assistant treasurer	65,000	174,600	168.6	—	—	—
General counsel	82,400	196,200	138.1	71,256	129,996	82.4
Regents' secretary	51,500	116,300	125.8	—	—	—
Weighted average	$74,991	$185,931	147.9%	$70,519	$123,886	75.6%
Average annual change	—	—	9.5%	—	—	5.8%
Faculty average	$35,642	$64,289	80.4%	$31,331	$54,648	74.4%
Average annual change	—	—	6.1%	—	—	5.7%
California Consumer Price Index						
Average annual change	—	—	4.2%	—	—	4.2%

[a] Data exclude University of California San Francisco (UCSF) Chancellor. The UCSF Chancellor's 1992-93 salary is $243,300. This salary increased by 107 percent since 1982-83. There are 8 UC general campus chancellors (one position is currently vacant) and 20 CSU campus presidents. Overall average salary is a weighted average.

Salaries for UC executives increased on average by 148 percent since 1982-83, or by 9.5 percent per year. This contrasts with a UC faculty salary increase of 80 percent (6.1 percent annually). In 1982-83, the average salary for UC top executives was about 2.1 times greater than the average salary for UC faculty ($74,991 compared to $35,642). By 1992-93, the average salary for UC top executives had increased to be approximately 2.9 times the average salary for UC faculty ($185,931 compared to $64,289).

CSU executive salaries increased by 76 percent (5.8 percent annually) between 1982-83 and 1992-93. This increase is almost identical to the change in CSU faculty salaries over this same time period.

Post Report Findings

The Post report found the executive salary setting process used by the UC over the last ten years to be seriously deficient. The report states:

> The manner in which compensation issues have been presented, considered, and approved during the last ten years has been seriously deficient. Some of the proposals for compensation increases were illogical, divisive, and uncommon in the public service. They were sometimes presented without sufficient time or opportunity for regents to consider them adequately. The true costs, precedents, and other policy implications were not made sufficiently clear in the presentations. Staff reports to the regents omitted critical points which had been raised in preliminary documents and legal analyses.

The Post report states that the standards used by the regents to set executive compensation were inappropriate:

> Apart from the president and four ex officio state government officials, the members of the Board of Regents have traditionally been business executives . . . conversant with private-sector compensation standards. Corporate compensation of principal executive officers has recently soared in multiple ways . . . There are, however, significant differences between standards and criteria which logically apply to private compensation and that which is regarded as appropriate and customary in the public sector. Persons, moreover, can sell their interest in a private corporation if they think its management is extravagant. There is no similar option to sell out of a public institution. Those institutions are owned by the people to whom perceived extravagance on the part of public officials using public money is anathema, and always has been. It is perceived as a violation of the public trust.

Post states that the UC's argument that funds used in some cases were not from the state General Fund is not relevant and that current compensation problems reflect failure of the UC's administration to make sure that the principles of public accountability and public trust are dominant in the governance of the UC:

> The university's argument that a large share of the funds used for particular salaries and perquisites is not state General Fund money is not relevant to the extravagance issue because those revenues are perceived as public money. Responsible and fiscally conservative management of public funds is expected of public officials. The nature of the public trust in this most vital institution is a critical element in maintaining credibility with the faculty, students, and public . . . The president . . . has to make sure that the principles of public accountability and public trust are dominant in the performance of all who comprise his administration, as well as instilling such awareness in the thinking of the regents . . . The current compensation problems, unfortunately, reflect a failure to do so.

Post Report Recommendations

The Post report made several recommendations for improvement in the setting of executive compensation. The UC has responded to each of these recommendations. For example, based on the Post recommendations, the UC eliminated the tax and estate planning allowances and payment of property taxes on personal residencies. On the other hand, the UC chose to retain the executive program severance plan despite a Post report recommendation to eliminate this benefit. We list below three other major Post recommendations and the UC's response.

Recommendation: Eliminate all deferred income programs except those which have been available to UC employees generally. UC Response: The UC eliminated deferred compensation but rolled the comparable dollar amounts into salaries. Executive deferred compensation averaged approximately $23,000 per executive and ranged from a low of $5,500 to a high of $38,000. All of this deferred compensation is now part of the regular salary and is reflected in Figure 9.

Recommendation: Base executive compensation on a logical relationship to faculty salaries. UC Response: The UC rejects this idea in favor of comparing chancellor salaries to salaries of other single-campus executive officers. For example, the salaries of UC chancellors are compared to the salaries of a group of 26 comparable universities, including the eight universities used for faculty salary comparisons. The California Postsecondary Education Commission concurs with the UC's approach. According to the UC, based on 1991-92 market data, the average total compensation of UC chancellors lagged the comparison group by 5 percent. What is not clear in this approach is what comparisons are to be used to set the president's and vice president's salary levels given that there are few similar multi-campus systems with which to compare these positions.

Recommendation: Eliminate the housing allowance and reconstitute the basis for UC housing. UC Response: Housing policy was revised to (1) require chancellors to live in UC housing as a condition of employment, (2) limit payment of allowance to situations where suitable housing is not available, (3) eliminate housing and housing allowances for senior vice presidents, and (4) eliminate the housing allowance from the compensation base for retirement.

We recommend that during budget hearings, the UC report on each of the Post report recommendations, including information on how UC plans to set the salaries of the president and vice presidents.

Should UC Reallocate Medical Resident Positions to Primary Care?

We withhold recommendation on the UC's proposed budget for medical residents, pending receipt and review of a report from the UC on the state's need for primary care and family practice physicians.

Last year the Legislature passed AB 3593 (Isenberg), which would have required the UC to allocate 50 percent of its medical residency positions to primary care specialties. The bill also required that the UC allocate 40 percent of its primary care positions for family practice residencies. Thus, 20 percent of the UC's medical residency positions would be required to be family practice positions. In 1991-92 the UC's budgeted enrollment included 3,999 medical residents, of which 50 percent were in primary care. However, only 12 percent (or 459) were in family practice residencies, in comparison to AB 3593's target of 20 percent (800).

The Governor vetoed AB 3593, citing concerns about reallocations within primary care specialties, but requested that the UC prepare a plan that can be implemented beginning in 1993-94 to "significantly enhance the number of family practice residencies." While expressing confidence in the UC's cooperation, the veto message concludes that if these efforts fell short of the goal of increasing the number of family practice residencies, the Governor would be willing to revisit the issue in legislation.

The UC Promises Extensive Review of Issue

The UC requested that the Governor veto AB 3593 but promised the Governor that it would undertake an extensive review of this issue during 1992-93. In a September letter to the Governor, the UC committed to convening a committee that, among other charges, will "seek to determine the optimum number and distribution of residency positions to be sponsored by the UC, with special attention to appropriate realignment between nonprimary and primary care positions, particularly with respect to family practice slots."

The UC promised to develop preliminary recommendations by the end of February 1993 and "to continue the process of refining recommendations and developing a reasonable timetable for implementation and monitoring no later than June 1993."

Pending receipt and review of the UC's February 1993 report, we withhold recommendation on the UC's budget for medical residency positions.

Policy Committees Should Review Technology Development Proposal

We recommend that (1) the UC provide additional information on its proposal to partially fund a new technology development company from future increases in the state's share of the UC's patent income and (2) the proposal be referred to the appropriate legislative policy committees for review.

The budget document proposes that the UC retain the future increases in the state's share of the UC's patent income to partially support the UC's creation of two corporations to enhance its efforts in technology transfer. The Legislature has limited information on this proposal.

Under current state policy, the state's share of UC patent income is equal to 25 percent of patent income after provision has been made for administrative and legal costs and the inventor's share. The state's share of the UC's patent income in 1990-91, the last year of available data, was $2.8 million. This is an increase of $1.3 million (91 percent) in comparison to 1989-90. As these figures show, patent income has been increasing at substantial rates in the past few years.

The UC's proposal envisions the formation of a not-for-profit corporation, currently referred to as the University of California Technology Development Foundation (UCTDF). This corporation would function through a contractual agreement as the agent of the UC Regents to advance and enhance technology transfer programs. As a companion effort, the UC proposes to establish a for-profit corporation as a subsidiary of the regents. This for-profit corporation, currently referred to as the University of California Technology Development Company (UCTDC), would function through a contractual agreement with the UCTDF. According to the proposal, the UCTDC would fund the development of research findings and technology to the point of commercialization and would also fund the formation of start-up companies.

Information is not currently available as to why the UC needs to create two corporations, the UCTDF and the UCTDC. While not part of the UC's formal budget request, a proposed budget is available for the UCTDC. No budget is available for the UCTDF. The ongoing UCTDC budget of $2 million includes $1.3 million in staff salaries and benefits. However, there is no information on the number of staff positions and corresponding salary levels.

Therefore, we recommend that prior to the start of budget hearings, the UC provide information on (1) the functions of the UCTDF and UCTDC, (2) the relationship between the UCTDF and UCTDC, (3) the relationship of these corporations to the regents, (4) the relationship of these corporations to the state, (5) the budget and specific staffing including compensation levels for the UCTDF, (6) the budget and specific staffing including compensation levels for the UCTDC, and (7) information on the distribution of UCTDC profits.

Because of the significant policy issues involved in this proposal, we also recommend that this proposal be referred to the appropriate legislative policy committees for review and comment.

CALIFORNIA COMMUNITY COLLEGES (6870)

The California Community Colleges (CCC) provides instruction to approximately 1.5 million adults at 107 colleges operated by 71 locally governed districts throughout the state. The system offers academic and occupational programs at the lower division (freshman and sophomore) level, basic skills education, and citizenship instruction.

The proposed 1993-94 CCC budget is $2.6 billion. Of this amount, $892 million is from the General Fund, $1.4 billion is from local property tax revenues, and the remaining support is from student fees and a variety of other sources.

Enrollment Priorities at the Community Colleges

We recommend that the Legislature adopt Budget Bill language and, in the long run legislation, to implement either, or a combination, of the following policies: (1) statewide enrollment priorities that focus on higher-priority students with provisions to reallocate funds over time or (2) higher fees and higher financial aid, because they would result in a more cost-effective use of resources than the current policies.

Under the Master Plan for Higher Education and related legislation, any person over the age of 18 who can benefit from instruction may attend a community college. Under current law, the primary mission of the CCC is to "offer academic and vocation instruction at the lower-division level . . . (through) the second year of college." Under this mission, the CCC grants associate in arts (AA) and associate in science (AS) degrees and promotes transfers to four-year institutions.

In addition to the primary mission, the CCC has the following "essential and important" functions:

- "The provision of remedial instruction for those in need of it, and in conjunction with the school districts, instruction in English as a second language (ESL), adult noncredit instruction, and support services that help students succeed at the postsecondary level . . . ."

- "The provision of adult noncredit education curricula in areas defined as being in the state's interest . . . ."

Finally, the CCC has "authorized" functions, including "the provision of community services (fully fee-supported) courses and programs . . . so long as their provision is compatible with an institution's ability to meet its obligations in its primary missions."

Despite the Master Plan "open access" policy, we have found on our campus visits and in discussions with the CCC Chancellor's Office that many students who enroll cannot get into the classes they need to meet their educational goals. This problem has developed over many years. For example, community colleges served almost 20,000 full-time-equivalent students (FTES) in 1988-89 for which they did not receive state funding. By the current year, the number of unfunded FTES had grown to over 60,000. The magnitude of this problem varies among campuses. For example, some campuses have experienced rapidly increasing demand from new immigrants for ESL courses, while others have not. The access problem will become more serious in 1993-94 to the extent that major budget reductions are enacted.

The Chancellor's Office estimates that roughly 100,000 students annually cannot get the courses they want and that roughly half of these students then withdraw from enrollment. While we cannot verify these particular figures for a variety of reasons, including duplicate counting (that is, one student who tries to get into nine courses is counted as nine students), both students and faculty indicate that many students cannot get the courses they want. Thus, in effect, community college enrollments are currently being "rationed."

There are also differences among community college districts. In some areas, colleges actively recruit new students to fill classes, while other colleges cannot serve the students they have.

Because the current budget situation means it is unlikely that sufficient classes can be made available for every student who wishes to enroll, we believe the Legislature should reevaluate the CCC enrollment policies. This evaluation should concentrate on modifying the enrollment policies to meet the Legislature's goals for community college education. The following sections outline principles and options that the Legislature could use in this effort.

Principles to Guide Enrollment Management Reform

We believe the following principles would assist the Legislature in reforming enrollment policies at the community colleges to make sure the state's highest priorities for scarce community college funds are met:

Focus on the Master Plan's Primary Goals. As mentioned above, the Master Plan provides two major, equal goals for the community colleges—transfer education and vocational training. The Master Plan was developed with much careful thought by the Legislature. The challenge will be to make sure that the community colleges' enrollment policies are designed to achieve these goals.

Provide Basic Skills Necessary for Satisfactory Participation in the Workforce and Society. Funds directed towards ESL and basic skills (remedial) instruction are likely to help students obtain the fundamental skills they need for employment. In contrast, state funds that are directed to students who are taking personal enrichment courses or who are not making satisfactory progress towards a particular goal may improve particular students' educational awareness, but may not result in any particular "payback" to the state. Given the state's budget constraints, the Legislature should ensure that, as a secondary priority, state community college funds are directed towards providing the basic skills and ESL courses that are crucial for the workforce.

Make Sure That Higher-Priority Students Are Served, No Matter Where They Live in the State. Some districts serve relatively high proportions of higher-priority students (such as those pursuing transfer and vocational education), while others serve relatively high proportions of lower-priority students (such as those pursuing personal development). For example, 53 percent of the students served by the Sequoia Community College District (located in Visalia) indicate their major goal is transfer, while roughly 2 percent indicate that their major goal is personal development. These goals contrast markedly with the goals of students served by the Monterey Peninsula Community College District, where 29 percent of the students indicate transfer and 38 percent indicate personal development as their major goals. Given such disparities, we believe that, over time, state funds should be reallocated towards districts such as Sequoia that are primarily serving higher-priority students. This would ensure that higher-priority students are served, regardless of the district in which they enroll.

In our campus visits, various faculty and administration members have expressed concern that enrollment priorities not be designed so as to reduce the quality of education. We believe the above principles may actually improve quality by allowing the colleges to focus their resources on higher-priority students.

Options for Reforming Enrollment Management Policies

As indicated earlier, our review indicates that the state does not have sufficient funding to meet the current Master Plan goal of open access. We believe that CCC enrollment policies should be revised to ensure that state priorities are met and that scarce community college funds are used to serve higher-priority students.

Below, we discuss in detail five options for revising CCC enrollment policies, and our conclusions regarding which options are the most promising for legislative consideration based on the principles we identified in the previous section. Figure 10 summarizes the discussion.

Figure 10

Community Colleges Enrollment Management Options

Advantages	Disadvantages
Option 1: The current system—registration lines and some district-initiated priorities	
Maintains some semblance of open access. Students and colleges have experience working with this option.	District priorities often do not reflect the Master Plan's primary emphasis on transfer and vocational education. Students who cannot get a space near the beginning of a registration line may not get the classes they need. Because some districts have priorities and some do not, and priorities differ among districts, access varies among districts.
Option 2: A statewide list of registration priorities, with state funds reallocated to districts that enroll the highest proportion of higher-priority students	
Focuses state funds on the highest Master Plan priorities. State can ensure that community colleges provide basic skills courses to students who need them to participate in the workforce and society. As funds are reallocated over time, higher-priority students, no matter where they live within the state, are likely to be served.	Access restricted to certain groups of students. Students who do not quite fit into an enrollment category may "slip through the cracks." (This problem, however, can be reduced by providing some district flexibility.) Some students may choose a particular education goal primarily because they want to be in a higher-priority enrollment category. May increase administrative costs.
Option 3: A state requirement to maintain some specified level of enrollment in all types of curricula, with enrollment priorities within categories	
Maintains some enrollment in all the Master Plan enrollment categories, while focusing on the highest priorities of transfer and vocational education. Ensures that each campus has students pursuing diverse goals.	Compared to other alternatives, does not sufficiently limit student enrollments in lower-priority areas, such as personal enrichment courses. Students who do not quite fit into an enrollment category may "slip through the cracks." (This problem, however, can be reduced by providing some district flexibility.) May increase administrative costs.

Advantages	Disadvantages
Option 4: Establish admission requirements based on a combination of grades, test scores, and possibly other factors	
Ensures that students who are most able to benefit from a community college education are served. Refocuses the mission of the community colleges to be truly "higher education." Students would have the abilities necessary to complete their educational goals more quickly.	Contrary to prior Master Plan assumption that all adults should have access to a community college education. May reduce or eliminate enrollments of students who succeed in a community college environment but performed poorly in high school.
Option 5: Higher fees combined with higher financial aid, along with more financial aid outreach	
Students who are most interested in a community college education, as shown by their willingness to pay fees or pursue financial aid, would be served. (Low- income students are not penalized because they would be eligible for financial aid.) Students who want to spend the least amount possible for their education would have a greater incentive to complete their educational goals more quickly. Would raise additional funds that could be used to serve more students.	Significant departure from a long California history of low fees. Providing significant financial aid will increase direct aid and administrative costs. "Sticker shock," even with financial aid, may reduce enrollments in the first few years of the new policy and may result in permanent enrollment decreases.

Option 1: Current System

At local community colleges, classes are allocated to students based on (1) district-specific enrollment priorities (which vary across the state), (2) individual students' initiative (those who are willing and can stand in registration lines the longest often get the classes they need), or (3) some combination of district priorities and individual initiative. A September 1992 survey by the Chancellor's Office shows that at least 52 of the 71 districts have written registration priorities. Most often, the top two priorities are (1) students who are continuing their studies at the particular college (that is, they enrolled in the preceding semester) and (2) disabled students and students from underrepresented groups. Other priorities sometimes include (1) students with higher levels of course units previously completed, (2) special majors and programs, and (3) matriculated students (students with a specified goal, such as transfer to a four-year institution or completion of an AA degree, who have completed a counseling and assessment process).

As Figure 10 indicates, the main advantage of the current policy is that it maintains a certain open accessibility. That is, students willing and able to get into line early enough have a reasonable chance to get the classes they need.

The current system, however, also has several major disadvantages. In places with local enrollment priorities, the priorities may not be the same as the state's would be. For example, a district may give first priority to continuing students, while the state might place the highest priority on continuing students who are actively pursuing a goal (such as transfer to a four-year institution or a vocational education certificate), and place a much lower priority on continuing students who are taking personal enrichment courses or are not advancing towards a particular goal.

Under the current system, students are also treated differently depending on which community college they attend. For example, students taking only personal enrichment courses may have a very high registration priority in a district that emphasizes continuing students and may have a very low priority in a district that focuses on matriculated students.

In areas where a student's place in a registration line determines his or her priority, a student who cannot be away from work or arrange for child care has a disadvantage compared to others. This may particularly affect students from underrepresented and low-income groups.

Option 2: Statewide List of Enrollment Priorities

In this option, the state would establish statewide enrollment priorities. There are many possible variations on such a system. To meet the principles discussed earlier, the highest priority should be given to matriculated students who are making satisfactory progress towards their goals (primarily vocational education or transfer). Within this category, priority could be given to continuing students or disabled students and students from underrepresented groups, as is true under many current district priority systems. This category should be defined to exclude students who are pursuing personal interest courses. Lower priority would be given to nonmatriculated students, students who are pursuing personal interest or noncredit courses not specified below, and students who are not making satisfactory progress toward their goals (for example, as defined in financial aid procedures).

In addition, the state should set aside a certain portion of enrollment (for example 10 to 20 percent) for ESL, basic skills, and short-term vocational education students taking noncredit courses to ensure these students are served. Otherwise, these students would be given a lower priority when in fact they are taking courses that provide fundamental skills for the workplace. The system should also have some provision for reallocating state funds among districts to ensure equal access to courses for high-priority students.

We note that the Chancellor's Office is currently circulating a draft proposal that would establish statewide priorities for enrollment and is to be commended for this effort. We believe the draft plan has merit and have used parts of the draft plan as the basis for the priorities discussed above. The Chancellor's Office proposal, however, does not include any provision for reallocating funds, which we believe is important for improving interdistrict access.

As shown in Figure 10, the major advantage of a statewide rationing system is that it would make sure that state funds are targeted to the highest Master Plan priorities—transfer and vocational education. In addition, as funds are reallocated over time, more higher-priority students are likely to be served.

The major disadvantage of a statewide rationing system is a result of its "top-down" nature: the state is too far removed from individual campus administration to be able to categorize all types of students. We believe there may be particular problems in categorizing students who (1) are exploring various courses before they decide on an academic goal and (2) are pursuing a transfer or vocational goal but for some reason have not yet been formally designated as "matriculated." This problem, however, could be reduced considerably by giving districts some flexibility to make individual determinations or to allocate a certain small percentage of enrollment slots based on districts' student needs.

Option 3: Maintain an Enrollment Mix

During our campus visits, several faculty noted the importance of maintaining an enrollment mix in order to encourage the interactions and learning that result from student bodies with diverse goals. One way to obtain such a mix would be to require the colleges to maintain a mix of enrollments according to set percentages, and then set priorities within each category as stated in the previous option. For example, the following percentages were suggested at several campus visits:

- Transfer education—35 percent.
- Vocational education—35 percent.

- ESL and basic skills—20 percent.
- Personal enrichment/possessors of AA, BA, or higher degrees—10 percent.

This option would maintain some level of enrollment in all the Master Plan categories, while still focusing on the highest priorities of transfer and vocational education. The plan also ensures that each campus has students pursuing diverse goals.

This plan, however, would not limit the enrollment of students who are pursuing personal enrichment to the extent the statewide enrollment rationing model would. In addition, this plan may not accommodate students who do not fit neatly into a particular enrollment category. This problem could be reduced, however, by giving districts some flexibility to address certain students' situations.

Option 4: Selective Admission Based on Grades and Test Scores

Under this option, the colleges would ration registration primarily by assessing students' ability to benefit from a community college education. In a manner similar to that used by the University of California and California State University, the colleges could use some combination of test scores, grades, and (possibly) extracurricular factors to admit students. As an example, the colleges could establish some enrollment cutoff (such as the equivalent of a 2.0—"C"—grade point average from high school). The portion of the community colleges' budget that supports ESL and basic skills students could be redirected to the K-12 adult education system, as part of this option, to ensure these students continue to be served.

The main advantage of this system is that students who are most able to benefit from a community college education would be served. This option would also focus on the "higher education" mission of the community colleges. Because students would have the necessary academic abilities, a greater proportion of students, compared to the current system, would be able to complete their goals quickly.

The main disadvantage, however, is that community college faculty and counselors indicate many students who do well in the adult-oriented community college environment performed poorly in high school.

Option 5: Establish Higher Fees With Increased Financial Aid for Needy Students

Finally, the state could ration enrollment by imposing higher fees, along with providing higher financial aid. This option should also include sufficient financial aid outreach to attract poorer and more disadvantaged students. To the extent the Legislature wishes to maintain enrollments in ESL and basic skills, additional financial aid and outreach could be offered for these courses. Similarly, state funding for certain lower-priority students could be reduced by having differential fees, as is now the case for BA degree holders.

While not explicitly designed as a rationing policy, the Governor's Budget proposal to authorize the community colleges Board of Governors to increase fees to up to $30 per unit to offset all or a portion of a $266 million unallocated reduction is one example of this type of option.

Adopting this option would mean that the students who are most motivated to obtain a community college education will be willing to pay the fees or pursue sufficient financial aid to enroll. Students would also have a greater incentive to complete coursework quickly.

Finally, a key advantage of this option is that it would raise additional funds that could be used to serve more students.

A disadvantage of this option is that it is directly contrary to a long California history of low fees. In addition, students' "sticker shock" at the sharply increased price of a community college education (even with sufficient financial aid) is likely to reduce enrollments in the first few years of the policy, even with outreach. This "shock" could also permanently decrease the enrollment of students.

Conclusion

Based on our review of the advantages and disadvantages of the five options, two appear to be the most attractive: a system of statewide enrollment priorities (option 2) or higher fees and higher financial aid (option 5). The two options are not mutually exclusive. Both plans generally meet the principles set out previously:

- A system of statewide enrollment priorities would explicitly target funds towards the Master Plan's highest goals of transfer and vocational education. A system based on higher fees and higher financial aid would probably implicitly target funds in this way also, because many students would be willing to pay the higher fees or pursue financial aid only in order to enroll in vocational education or transfer programs that could improve their economic circumstances in the future.

- Similarly, both systems would allow the state to ensure that students who need ESL and basic skills courses in order to participate in the workforce and society are served.
- Finally, both systems would treat students throughout the state in the same manner.

The other options we considered above, including the current system, generally are not as desirable for at least one of the following reasons:

- They do not focus sufficiently on the highest priorities of transfer and vocational education.
- They result in significant enrollment differences among community college districts.
- They disproportionately reduce enrollments of students who succeed in a community college environment but performed poorly in high school.

The Legislature faces various policy choices, rather than strictly analytical decisions, when deciding which of the two options we identify as most promising (or a combination of the two) would best meet the state's priorities for community college services. One policy choice relates to the extent to which a "top-down" statewide priority system may be preferable to the current locally set priorities that exist in many districts. Another choice relates to whether students should be required to pay a higher portion of their higher education costs and whether higher fees (even with sufficient financial aid) may adversely affect student access.

We recommend that the Legislature adopt one of these two options or some combination of the two rather than retaining the current system. This is because the current system has several major disadvantages and does not have any of the advantages of these two options, especially the ability to target funds to the highest Master Plan priorities.

Unallocated Reduction and Fee Increase Proposal

The budget proposes a $266 million unallocated reduction for community colleges. If the Legislature concurs that a large reduction is necessary, it will have two main options available to accommodate such a cut: enrollment reductions and fee increases.

The budget proposes a $266 million unallocated General Fund reduction for community colleges. The budget also proposes legislation authorizing the community colleges' Board of Governors to increase fees from $10 per credit unit to up to $30 per unit, with a 30 percent set-aside for financial aid, to raise funds to offset all or a portion of the reduction. The Department of Finance (DOF) projects that the fee revenues generated by a $30 per unit fee would be $335 million. This is based on various assumptions, including full-year implementation and a 5 percent attrition rate. After roughly 30 percent is set aside for direct financial aid and administration costs, the net fee revenues would be $239.5 million.

Due to pressures in the K-12 and non-Proposition 98 portions of the budget, the Legislature may also conclude that a significant reduction in the community colleges' General Fund budget is unavoidable. The task confronting the Legislature is how to accommodate a large reduction in a manner that affects as little as possible the community colleges' mission under the Master Plan.

Alternatives for Addressing a General Fund Reduction

The Legislature basically has two main ways of accommodating a large reduction in community colleges' spending: enrollment decreases and fee increases. (While any reduction could also be addressed through operational efficiencies, we believe their contribution to a solution could only be marginal in the budget year.) In the preceding issue, we discussed, at length, how the Legislature could set enrollment priorities in times of shrinking budgets while minimizing the impact on Master Plan objectives.

The budget proposal to authorize a fee increase of up to $30 per credit unit takes the second approach. With higher fees, students who are most motivated to obtain a community college education—as indicated by their willingness to pay fees or pursue financial aid—would still be served. In addition, as long as sufficient financial aid is available, low-income students would not be penalized. The main concern about higher fees is that they would be a significant departure from California's long history of low fees. Even with sufficient financial aid, higher fees result in reduced enrollments.

Below, we discuss other issues related to fee increases. First, we describe the relationship of California community college fees to those elsewhere in the nation. Then, we discuss the need to provide flexibility in any fee legislation due to uncertain fiscal estimates and the Legislature's historical desire to minimize the impact of fees on poorer students. Finally, we note that the need to raise general fees could be mitigated to a very limited extent by raising other types of targeted fees.

California's Fees Versus the Nation's

Currently, California community college students pay annual fees of $300. This fee level is the lowest in the nation (well below the nationwide average of $1,152). Under the budget proposal, a full-time community college student would be charged $900 annually. This amount would be $252 lower than the current-year national average. At that level, California's fees would still be lower than those of 37 states.

Flexibility Needed to Address Attrition

If the Legislature approves or authorizes the Board of Governors to approve a significant fee increase, we believe that the related legislation should include certain provisions for flexibility in order to respond to unexpected consequences. For example, the DOF projects that the attrition rate related to a $30 per unit fee (with roughly a 30 percent set-aside for financial aid) would be 5 percent. The Chancellor's Office fee model, however, projects that the attrition rate would be 20 percent or more. Since the statewide and district-specific attrition rates could vary significantly, the Legislature may wish to establish "hold-harmless" provisions so that local community college budgets are protected if the statewide attrition rate goes beyond a certain level or if certain districts lose relatively more enrollment than the state average. Most community college fee-increase legislation (including the legislation enacted for the current year) has included some type of "hold-harmless" language.

The Legislature may also wish to designate some part of the financial aid set-aside for districts that will disproportionately lose enrollment if sufficient financial aid funds are not available.

Targeted Fees Could Somewhat Mitigate The Level of General Fee Increase

There are several types of more-targeted fees that we believe the Legislature should consider as it assesses whether to authorize up to a $30 per unit fee increase. It is likely, however, that the fee revenues would offset the $266 million unallocated reduction only to a very limited extent.

Increase the Penalty for Dropping Courses. Currently, the community colleges may retain up to $10 in fees per student per semester when a student drops one or more courses during an established drop period (usually about the first ten days of a semester). If students drop courses after this time, they forfeit the entire related fee. Establishing roughly a $5 or $10 fee for *each* course dropped during the initial period could encourage students to make an up-front commitment to their courses and could allow the community colleges to plan better exactly how many and what types of courses they need to offer. Our review indicates that a $10 charge per course dropped during the drop period could generate $1 million or more in fee revenues.

Materials Fee. Currently, the community colleges may require students to have available certain materials, such as calculators, in a class. When the purchase of these materials would also benefit the student outside of the class, the cost is paid by the student. In cases where the materials are primarily for the class itself (such as reading guides), there is no provision to charge the students. Some campuses have indicated that charging students a fee that would partially or fully offset the cost of the materials would be a reasonable way to general additional revenues. At the time of this analysis, it was not clear how much revenue this fee increase would generate.

Noncredit Course Fee. As discussed later, we recommend one other major fee increase. This is to charge fees to certain adults attending state-supported community college noncredit and K-12 adult and vocational education courses.

Impact of New Fee for BA Degree Holders

To reduce the effect of the new BA fee on poorer students, we recommend that the Legislature enact legislation broadening the fee exemption for dislocated workers.

The 1992 Budget Act and related legislation funded community colleges in part by raising student fees effective January 1993. The 1993-94 budget estimates that as a result of these changes, fee revenues will increase by $44 million compared to 1991-92. The $44 million includes (1) $28 million due to increasing the regular fee from $6 per credit unit to $10 per credit unit and removing the ten-unit cap on the fee charge (previously students only had to pay for the first ten units of credit per semester) and (2) $16 million generated by a fee of $50 per credit unit for students attending community colleges who already have BA degrees. Full-year revenues from these fees are roughly $88 million, including $56 million for the regular fee and $32 million for the BA fee.

This analysis focuses on the new fee for BA holders, often referred to as the "BA fee" or "differential fee." Specifically, we (1) summarize available data on the effect of the BA fee on community college enrollment and (2) identify ways the Legislature can reduce the effect of the fees on poorer students. We do not discuss here the proposal contained in the Governor's Budget to delete state funding for most BA degree holders (see next issue).

Effect of BA Fees on Enrollment

To determine the effect of the BA fee on enrollment, we reviewed data from the Chancellor's Office and data gathered in fall 1992 by four community college districts (Los Rios in Sacramento and El Dorado Counties; Sierra in Sacramento, El Dorado, Nevada, and Placer Counties; DeAnza in Santa Clara County; and Mendocino in Mendocino and Lake Counties). This information was gathered by these entities in anticipation of the January 1993 implementation of the fee. The four surveys from the districts are not necessarily representative of BA students statewide. Data from the Chancellor's Office, however, are representative.

Roughly 10 percent of all community college students hold BA or higher degrees. However, because these students most often take only one or two courses per semester, they account for less than 5 percent of the full-time-equivalent students (FTES). Figure 11 summarizes various information on the new BA fee provided by the Chancellor's Office. As the figure shows, 29 percent of the full-time-equivalent students holding BA or graduate degrees are enrolled to train for a new career, and 26 percent are enrolled to advance in their current job. Another 33 percent are enrolled for educational development and personal enrichment reasons. The remaining students are enrolled for a variety of other reasons.

Figure 11 indicates that 66 percent of the BA degree holders have household incomes of $24,000 or more. Since most of these students take either one or two courses per semester (fewer than six credit units), it seems reasonable that these students could afford the roughly $150 to $300 per semester in fees.

Only one survey of community college students (in Los Rios) asked how many students might qualify for an exemption from the fee because they are (1) dislocated workers, (2) displaced homemakers, or (3) receiving public assistance. Of the Los Rios students, 11 percent believe they would qualify for an exemption.

Information on the actual impact of the BA degree fee will not be available until March 1993. The four district surveys of BA students enrolled in fall 1992 indicate that from 51 to 63 percent of the BA students, depending on the district involved, do not intend to re-enroll in spring 1993. Only the Los Rios district survey attempted to determine why students do not intend to re-enroll. Of the roughly one-half of the BA students who do not plan to re-enroll, about 60 percent cited the new fee as the reason. However, it is not clear whether they did not want to pay the fee because they are low-income or because they do not place a sufficient priority on their courses to pay the fee. Another 25 percent of those who do not plan to re-enroll cited factors other than fees, such as previous completion of their educational goals or plans to transfer to a four-year institution. The remainder did not give a reason for their decision.

Figure 11

Statewide Data on BA Degree Holders Attending the Community Colleges[a]

	Percent
Goals	
Pursue educational development and personal enrichment	33.0%
Train for a new career	29.0
Maintain various professional credentials, or otherwise advance in their current job	26.0
Various other goals, including transfer to other institutions and basic skills (remedial) education	12.0
Total	**100.0%**
Ethnicity	
White	66.3%
Asian	13.4
Hispanic	6.4
African-American	4.4
Other non-white	5.4
Unknown	4.1
Total	**100.0%**
Annual household income	
Less than $12,000	19.1%
$12,000 to less than $24,000	15.2
$24,000 to less than $36,000	17.6
$36,000 or more	48.1
Total	**100.0%**

[a] Based on information from the California Community Colleges Chancellor's Office.

Effect on Poorer Students

Some students who do not intend to re-enroll are probably low-income students who are pursuing job training goals. The BA fee legislation is designed to exempt at least some of these students from the fees. Specifically, Ch 703/92 (SB 766, no author) specifies that the following persons are exempt from paying the BA fee:

- ***Dislocated Workers.*** These persons must have either received notice of a pending layoff or termination from work, or have actually been laid off or terminated from work. In addition, they must be unlikely to return to their previous occupation or industry. This category also includes the unemployed self-employed and the long-term unemployed. These persons are required to obtain certification of their status by a state or other designated agency—generally a Private Industry Council (PIC).
- ***Displaced Homemakers.*** These persons must meet all of the following three conditions: (1) the person has not worked in the labor force for a substantial number of years but has worked in the home providing unpaid service for family members, (2) the person has depended upon the income of another family member or on public assistance but is no longer receiving such income, and (3) the person is unemployed or underemployed and cannot obtain or upgrade a job.
- ***Public Assistance Recipients.*** These persons are recipients of Aid to Families with Dependent Children (AFDC), Supplemental Security Income/State Supplementary Program (SSI/SSP) aid, or general assistance.

Our analysis indicates that the Legislature's intent in enacting the dislocated worker category may not be met because this category is unnecessarily narrow. Requiring unemployed persons to go to a PIC office to get the proper certification is probably too much of a barrier to enrollment. Some campuses have indicated that these persons' incomes are often low, and paying for a special trip to a PIC can be difficult.

Accordingly, we recommend that the dislocated worker category be broadened to allow these workers to use alternative forms of documentation—for example, a copy of their most recent unemployment check stub or a layoff notice—as proof of their status. While this change would reduce the level of fee revenue from BA students by some unknown amount, it would more closely align the actual exemption laws with the Legislature's intent in enacting them.

Proposal to Delete Apportionments for BA Degree Holders Should Be Clarified

We believe that the proposal to delete apportionments for BA degree holders is reasonable but recommend various modifications to the proposal.

The budget proposes legislation to eliminate state apportionments to community colleges for students who already have a BA or graduate degree, for a projected budget-year savings of $40 million ($72 million in reduced apportionments less $32 million loss in BA student fee revenues). The proposal exempts the approximately 10 percent of BA students who, the administration estimates, are dislocated workers, displaced homemakers, or public assistance recipients. Presumably, the proposal would allow local community college districts to continue serving these students as long as they pay some level of fees.

In our *Analysis of the 1992-93 Budget Bill,* we recommended the elimination of apportionments for students with 90 credit units or more, which included students with BA and higher degrees. This recommendation was made primarily on the basis that limited state funding should be focused on the higher priority of serving students who have had little or no access to previous higher education and are actively working towards an AA degree or vocational certificate. We believe the budget proposal is a reasonable alternative because it too focuses limited funds on these higher-priority students. Our analysis indicates, however, that the proposal should be clarified in three ways.

Proposed Reduction Allocated Inappropriately. The community colleges' Chancellor's Office indicates that it does not have data to allocate the apportionments losses to local districts based on district-specific enrollments of BA degree holders. Because such data are not available, the office instead plans to allocate the roughly 1.8 percent net decrease in total state-allocated apportionments funding across all districts in proportion to their total apportionments.

We believe that allocating the decrease in this manner would unfairly penalize districts with low proportions of BA students. Information from fall 1990 shows that, on a head-count basis, BA students comprise less than 1 percent of some community colleges enrollments and over 20 percent in others. The colleges with higher proportions of BA holders may be able to make up most or all of the apportionments loss from fees charged to these students, while colleges with lower proportions of BA holders may not be able to make up much of the loss.

We do not believe it would be unduly burdensome for the Chancellor's Office to collect data on each district's BA FTES so that the losses could be allocated more fairly. Since January 1, 1993, BA students have been charged a higher fee than other students. Thus, the main workload required to determine the amount of each district's apportionments that serves BA students would be to convert this head-count enrollment data into FTES data, based on course enrollments. Thus, we recommend that the Chancellor's Office collect these data this spring. In addition, we recommend that the enacting legislation specify that the apportionments losses shall be allocated based on district-specific BA FTES data.

Prohibition on Use of State Funds Needed. The second concern we have with the proposal is that it is not clear whether community colleges could use state assistance to support BA degree holders. This would happen to the extent colleges continue to serve these students but do not collect fees that fully offset their costs. (The fee level that would fully offset costs is currently $104 per credit unit.) We believe that state funds should be targeted to higher-priority students. Thus, we recommend that the enacting legislation clarify that no state funds shall be used to support these students, as is required in establishing nonresident tuition amounts.

Exemption Language Should Be Broadened. The budget proposes to exempt, among other persons, dislocated workers from the apportionments change. Presumably, the exemption language would be similar to that in current law for BA fees. As we discuss in our analysis of the current-year impact of the BA fee, we believe this language is too narrow and should be broadened.

Conclusion. We believe the budget proposal to eliminate BA apportionments is reasonable. We recommend, however, that the enacting legislation (1) allocate the apportionments losses based on a district-specific survey on BA FTES enrollments, (2) prohibit the use of state funds to support BA students, and (3) modify the definition of a dislocated worker as discussed in our analysis of the BA degree fee impact.

Requiring Nominal Fees for Noncredit Students Would Reduce Course Dropouts

We recommend that the Legislature enact legislation establishing a nominal fee of $10 for each noncredit course for adults who have a high school diploma or the equivalent, to ensure that state apportionments are directed at students who are most likely to complete their classes,

thereby freeing up $730,000 for other Proposition 98 purposes. (Reduce Item 6870-101-001 by $730,000.)

In most cases, adults enrolled in state-supported noncredit courses in the community college system or in adult or vocational education through the K-12 system pay no fees. The courses offered by both systems are similar and include basic skills (remedial) education, ESL, short-term vocational education, parenting skills, health and safety education, and classes for older and disabled adults. Other large states tend to charge nominal fees for these types of courses, as long as the adults enrolled have a high school diploma or the equivalent.

Currently, K-12 adult and vocational education programs, including Regional Occupational Centers and Programs (ROC/Ps), have statutory authority to charge fees, but are not required to do so. That is, an adult or vocational education program can charge fees and use the revenues generated to serve additional students. Community colleges offering noncredit courses do not have such authority, even though the courses offered are similar to the K-12 courses.

Some ROC/Ps that have instituted fees have found that they tend to reduce the drop rates in courses by as much as half, so that classes are almost as full at the end of the semester as they were at the beginning. Thus, the fee is seen as useful in ensuring that students make up-front commitments to their course selections.

While there are no statewide data regarding the number of students who enroll in community college noncredit or K-12 adult and vocational courses and later drop the courses, it is clear from our site visits that the drop rates in certain courses with no fees may be 10 percent or more. It appears that students are relatively more likely to drop out of some vocational courses and less likely to drop out of ESL courses (where waiting lists are typically long).

In the current year, the state provides an average apportionment of $1,648 each for over 73,000 community college noncredit full-time equivalent students. In the K-12 system, the state also provides an average apportionment of $1,481 each for 210,000 average daily attendance (ADA) at adult education classes, and an average of $2,297 each for 107,000 ADA at ROC/Ps.

Given current fiscal constraints, we believe that these apportionments should be targeted to the extent possible to students who are likely to complete their courses. Thus, we recommend that the Legislature enact legislation requiring a nominal fee of $10 per course for both community college noncredit and K-12 adult and vocational education courses. We recommend that these systems be treated equally, because the courses they offer and the characteristics of the adults they serve are similar.

Based on the practices of other states we contacted, a $10 per course fee seems reasonable. To ensure that students who are working towards a high school diploma or the equivalent are not penalized, we recommend that students who do not have a diploma or the equivalent be exempted from the fee. This is consistent with the practices in other states.

It is difficult to estimate the amount of fee revenues that would be generated from a $10 per course fee. However, assuming only 20 percent of the community college noncredit students already have diplomas or the equivalent, and thus would be subject to the fee, the amount raised in 1993-94 would be roughly $730,000. Accordingly, we recommend a reduction of $730,000 to Item 6870-101-001. This would free up these funds for use on other Proposition 98 purposes.

Restoring K-12 General-Purpose Funding and Reducing K-12 Loan Take Priority Over Augmentations

We recommend reductions totaling $44.9 million to the community college budget in order to free up funds to restore general-purpose funding and/or reduce the loan. (Eliminate Item 6870-485 and reduce Item 6870-101-001 by $3.6 million.)

The budget proposes to fund K-12 education programs funded under Proposition 98 in part by providing a $540 million loan to local education agencies. It also proposes to reduce per-ADA school district general-purpose funding. For a variety of reasons that we discuss in the K-12 education section of this *Analysis,* we believe that to the maximum extent possible, general-purpose funding should be restored and the loan should be reduced or eliminated. Thus, we have recommended that the Legislature delete growth funds for most categorical programs and almost all the proposed K-12 augmentations—regardless of their individual merit. We recommend that these funds be redirected within the Proposition 98 guarantee to restore general-purpose funding and to reduce the loan amount.

We recommend that various community college augmentation funds and growth funds for certain categorical programs be redirected for this purpose as well. While all of these proposals have merit, we believe that the state cannot afford them at this time. Below we discuss the individual proposed augmentations and growth funding that we recommend be redirected.

Instructional Equipment. The budget proposes to use $35 million in one-time funds from the Proposition 98 Reversion Account (funds reverted from prior-year Proposition 98 appropriations) for instructional equipment, library materials, and telecommunications equipment. The proposal includes a 25 percent local matching requirement. Various statewide surveys indicate that the community colleges need an additional $42 million annually to purchase instructional equipment and library materials. The Chancellor's Office also indicates that providing telecommunications equipment could potentially improve educational quality and/or reduce costs. Existing community college funding levels do not appear to be sufficient for instructional equipment and related purposes.

Deferred Maintenance. The budget proposes to increase the community colleges allocation for deferred maintenance from $8.7 million to $15 million, for a $6.3 million, or 72 percent, one-time increase. This increase is also from the Proposition 98 Reversion Account. The proposal includes a 50 percent local matching requirement. The community colleges have a deferred maintenance backlog of $200 million. Providing funding for this purpose could save the state money in the long run by preventing undue deterioration to community college facilities.

Cooperative Agencies Resources for Education (CARE) Program. The budget proposes to increase the CARE Program by $1.8 million, or 53 percent. This program serves public assistance recipients who are single parents by providing counseling and related activities and grants for child care, transportation, books, and supplies. In 1992-93 an estimated 5,250 students will be served at an average cost of $650 each (including staffing costs) by the CARE Program. The Chancellor's Office estimates that about 3,000 eligible students are currently not being served due to funding constraints. After start-up and operations costs at additional campuses are funded, the proposed increase would allow roughly 2,500 additional students to be served. The actual number served would depend on whether the grant amounts are increased.

Growth for Various Categorical Programs. The budget proposes to increase funding for four categorical programs by $1.8 million, or 1.6 percent. The programs affected are (1) Extended Opportunity Programs and Services grants, which provide financial aid to identified educationally and economically disadvantaged students; (2) the CARE Program, which is described above; (3) Disabled Students Programs and Services, which provides counseling and other assistance to disabled students; and (4) matriculation, which provides counseling and assessments for students. The budget is intended to fund the increased workload in these programs that is anticipated to occur because of a proposed 1.6 percent increase in apportionments (which reflects the statutory adjustment for adult population growth). Unlike the other categorical program (financial aid) that also receives growth funding, all students are not automatically entitled to receive these services. The Legislature over the past several years, however, has provided growth adjustments to these programs as apportionments growth has been provided.

STUDENT AID COMMISSION (7980)

The Student Aid Commission (SAC) provides financial aid to students through a variety of grant, loan, and work-study programs. The commission also (1) operates an outreach program for disadvantaged and underrepresented students and (2) collects financial aid data and assesses the statewide need for graduate and undergraduate financial aid.

The proposed 1993-94 SAC budget is $516 million. The commission receives around two-thirds of its funding from federal funds. Most of the remaining funding is from the General Fund, of which the vast majority is for the Cal Grants Program.

Legislative Review Needed to Address the Gap Between Cal Grant Eligibility and Funding

We recommend that the Legislature reevaluate the Cal Grant programs to determine whether they should be refocused beginning in 1994-95 (for example, to target students with the highest financial need), given increasing numbers of students eligible for awards and fiscal constraints affecting both the programs and higher education generally.

The budget proposes $152.2 million for Cal Grants (all from the General Fund), an increase of $5.2 million, or 3.5 percent, over the current-year amount. The increase consists of $1.3 million to offset reductions in federal grant receipts and $3.9 million to reflect increases in renewal rates for the awards and in the expenses associated with students' chosen colleges. The increase does not account for two factors that will significantly increase costs in 1993-94: (1) fee increases that have already been approved and may be increased for the UC and are likely to occur at the CSU and (2) amendments to the federal Higher Education Act that changed the methodology the state uses for determining financial need.

Due to these changes, as well as general eligibility increases that most likely are due to the recession, the SAC is considering changes to its programs to bring costs into line with its available resources. Below, we provide background on the major state financial aid programs and previous responses by the SAC to budget reductions, and discuss the options currently being considered by the SAC.

Background

Cal Grant A Program. The Cal Grant A Program provides grants to middle- and low-income, academically able students to assist them in completing a four-year degree program at a public or private California college or university of their choice. The grant award covers a portion of tuition and fees. To be eligible for a Cal Grant A award in the current year, an applicant must come from a family with a gross income of $55,000 or less (for a family of four or more). In addition, an applicant must have earned a certain grade point average (GPA), as follows: (1) freshman—3.2 high school GPA, (2) sophomore—3.5 high school GPA, and (3) juniors and seniors—3.5 college GPA. The median family income of Cal Grant A recipients is $28,700, and the median high school GPA is 3.64. Figure 12 shows that 39,200 students received Cal Grant A awards in the current year. Roughly 17,400 were new awards and 21,800 were renewal awards.

Figure 12

Student Aid Commission
Cal Grant A and B Awards
1990-91 Through 1993-94

	1990-91	1991-92	Est. 1992-93	Prop. 1993-94	Percent Change 1990-91 to 1993-94
Cal Grant A					
Total expenditures (in thousands)	$102,550	$108,488	$92,516	$99,302	-2.9%
Number of awards	43,948	38,679	39,200	40,560	-7.7
Average amount per award	$2,333	$2,798	$2,360	$2,456	5.3
Cal Grant B					
Total expenditures (in thousands)	$56,079	$61,508	$54,734	$53,100	-5.0%
Number of awards	31,649	31,799	31,950	31,950	1.0
Average amount per award	$1,772	$1,934	$1,713	$1,667	-5.9

Cal Grant B Program. The Cal Grant B Program is targeted to lower-income disadvantaged students to promote access to higher education programs generally, including the community colleges. The grant awards may be used for programs that are at least one year long and cover living expenses (all recipients) and tuition and fees (to eligible students after the first year). Unlike the Cal Grant A Program, the selection of grant winners is based on a composite score determined using the student's family income and family size, the student's GPA, the level of parental education, and family circumstances (such as single parent status). To be eligible for a Cal Grant B award in the current year, an applicant must come from a family with a gross income and benefits of less than $32,000. The median family income of Cal Grant B recipients is $10,700, and the median high school GPA is 2.89. As Figure 12 indicates, 31,950 students received Cal Grant B awards in the current year. Roughly 12,250 were new awards and 19,700 were renewal awards.

UC and CSU Programs. The UC and the CSU also provide state-funded financial aid to assist students, many of whom are eligible for Cal Grant A awards. In the current year, the UC provided $133 million in financial aid—$99 million to students who demonstrated financial need (potentially including Cal Grant A eligible students) and $34 million to students who did not demonstrate financial need. The CSU provided an estimated $65 million in state university grants in the current year to students who demonstrated financial need. This aid is provided directly by the individual segments rather than the SAC.

Cal Grant Cuts in 1991-92 and 1992-93

The SAC has the authority to change maximum award amounts and adjust the criteria for determining which eligible students actually receive awards. It used two different approaches when faced with funding shortfalls in 1991-92 and 1992-93.

In 1991-92, to cover a $6.8 million reduction in funding for Cal Grants, the SAC lowered the number of first-year awards offered by about 3,400. In the Cal Grant A Program, the SAC determined which students would receive awards by changing the GPA cutoffs from 2.8 to 3.2 for freshmen and from an average of 3.18 to 3.5 for sophomores, juniors, and seniors. The SAC did not change the income and assets standards or the average award amounts. In the Cal Grant B Program, the SAC raised the cutoff for the composite score.

In 1992-93, the Cal Grant budget was reduced by $25.6 million, or 15 percent. In allocating the cut, the SAC maintained the 1991-92 program eligibility standards and the number of new awards, but reduced the average Cal Grant A and B award amounts for all students by 15 percent. At the same time, the UC and the CSU implemented fee increases of 24 and 40 percent, respectively. Previously, the Cal Grants had covered the full costs of fees at the UC and the CSU. However, as a consequence of these actions, a substantial "gap" developed between total (systemwide and campus-based) UC and CSU fees and Cal Grant A awards. In the current year, on average, the difference between the award amount and fees for each UC student is $936, and the difference for CSU students is $540. Figure 13 shows the gap between Cal Grant A awards and fees at the UC and the CSU.

Figure 13

Cal Grant A Funding Shortfall at the University of California and the California State University 1990-91 Through 1992-93

	1990-91	1991-92	1992-93
University of California			
Fees (systemwide and campus-based)	$1,820	$2,486	$3,044
Average maximum award	1,820	2,486	2,108
Shortfall amount	—	—	936
Shortfall percent	—	—	30.7%
California State University			
Fees (systemwide and campus-based)	$920	$1,080	$1,456
Average maximum award	920	1,080	916
Shortfall amount	—	—	540
Shortfall percent	—	—	37.1%

The actual effect of the cut on students was mitigated somewhat because the UC and the CSU for the first time provided $3 million and $6.6 million, respectively, to supplement Cal Grant A awards to cover the portion of the gap associated with fee increases imposed in 1992-93. The remaining gap is associated with the 15 percent reduction in SAC funding.

Increased Need for Cal Grants in 1993-94

There are three major factors that would increase costs for Cal Grants in 1993-94, absent any policy changes implemented by the SAC. First, the number of students who demonstrate financial eligibility for Cal Grant awards has increased over the past couple of years. The number of financially needy, income-eligible applicants in the current year is 132,700, an increase of 40,400 income-eligible applicants over a two-year period. The SAC indicates that this significant increase in eligibility is due to rising college costs (which increase the number of students who are financially eligible for awards), an increased number of students who are applying for financial aid, and other factors such as the recession.

Second, the UC has already approved substantial fee increases for 1993-94, and additional fee increases are likely to be necessary at both the UC and the CSU due to unallocated budget reductions.

Third, the federal Higher Education Act amendments of 1992 will increase the numbers of students who are able to demonstrate financial need in the budget year and thus become eligible for financial aid. These amendments affect state grant programs because current state law requires the financial need analysis methodology to conform to federal student aid requirements. The new federal law makes a number of major changes, including the elimination of home and family farm equity when considering family assets available to help meet students' college expenditures. The SAC has decided to use the new federal financial need analysis methodology when determining eligibility for Cal Grant awards, rather than seeking changes in state law, because both the SAC and the higher education segments have determined that the new federal need requirements are generally reasonable.

The SAC estimates however, that as a result of this law, there will be over 20,000, or 26 percent, more students eligible for a Cal Grant A award compared to the number of students eligible in the current year, if it continues to use its existing income ceiling and GPA cutoffs. (The SAC indicates that these changes will not have a significant impact on the Cal Grant B Program.)

Because its proposed budget is not sufficient to support an expansion in the number of awards, the SAC is considering various proposals to limit the number of Cal Grant A awards. The major proposals are to (1) increase the minimum required GPA, (2) reduce the family assets ceiling, (3) reduce the family income ceiling, and (4) eliminate awards for students whose calculated "need" is less than the maximum award amount. The SAC plans to make a decision on these options by March 2, 1993, when Cal Grant applications for 1993-94 are due.

Legislative Review Needed

The Legislature has granted the SAC authority to limit the number and size of Cal Grant awards in the past. However, the gap between eligibility and funding has widened considerably since 1990-91 as a result of rapidly increasing eligibility and funding cuts. The result is that Cal Grant A and B funding has been redirected in ways that are more than marginal and that call into question (1) whether the goals of these two programs still make sense and (2) if they do, what criteria should be used to allocate awards, since the significant funding increases needed to fully serve currently eligible students are unlikely in the near future.

It is too late to make changes in the program for the budget year, because the 1993-94 financial aid process is well underway. However, we believe the Legislature should reexamine the goals of the Cal Grant programs to determine whether the programs should be refocused beginning in 1994-95, given increased eligibility and current budgetary constraints.

We discuss below the major options and trade-offs before the Legislature. The first three options would refocus the Cal Grant programs towards serving the state's lowest-income families. The fourth option would further target Cal Grant awards to high-achieving students, and the last option would serve more students but at lesser amounts per student.

Eliminate the Cal Grant A Program and Redirect the Funding to the Cal Grant B Program. Previous funding cuts have been allocated proportionately to the Cal Grant A and B Programs. This option would ensure instead that funds are targeted to the lower-income students served through the Cal Grant B Program. The disadvantages with this alternative are that (1) the higher-income students who would not be eligible for this program are not likely to qualify for federal grants or low-interest loans and (2) the remaining grant program would not place as high a priority on rewarding high academic achievers as the current Cal Grant A Program.

Give Priority to Students With Higher Financial Need, as Long as They Meet CSU Academic Entrance Criteria. This option would further target the Cal Grant A Program to students with the highest financial need. Instead of meeting the current minimum GPA requirement (which is higher than CSU entrance requirements), students would be academically eligible for an award as long as they have a qualifying CSU eligibility index score. This score is based on combined GPA and national college entrance test scores. Once academic eligibility is determined, awards would be allocated to students with the greatest financial need first, until Cal Grant A funding is exhausted.

This option has the same advantages and disadvantages as the previous option. An additional advantage is that the option would increase "choice" for potential CSU students, because more CSU-eligible students would potentially qualify for awards. On the other hand, further targeting Cal Grant A resources to families with the highest financial need could reduce the number of UC and independent college students served because they tend to come from higher-income families.

Reduce the Family Income Ceilings for the Cal Grant A Program. This option would also target funds to lower-income students, while continuing to reward high academic achievers. Because recent data show that parental incomes for full-time students average about $53,500 for CSU students and roughly $67,500 for UC and independent college students, reducing the family income ceiling would affect more UC and independent college students than CSU students.

Raise the Minimum Required GPA. This option would reward students with higher GPAs. SAC data show that under this option, more UC students would receive grants. Fewer students would receive grants who (1) want to attend CSU or the independent colleges and (2) are from lower-income and ethnic minority backgrounds.

Reduce the Per-Student Award Amounts. This option would allow relatively more students to be served, at lower award levels per student. Since the award amounts do not currently cover UC and CSU fees, this would require students to make up a greater difference between the award amount and fees. As a result, this option would have a greater negative impact on students from lower-income families. It may even mean that some of them decide not to attend college. In addition, it is not likely that UC and CSU financial aid awards could be used to make up much, if any, of the difference between fees and award amounts because the segments are facing proposed budget reductions and increased financial aid eligibility as well.

List of Findings and Recommendations

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Crosscutting Issues

Budget Gap in Higher Education

1. **Budget Gap in 1992-93.** The University of California (UC) and the community colleges are relying on deficit financing (loan funds) to balance their 1992-93 budgets. UC student fees will need to increase by up to $605 (21 percent) in 1993-94 simply to sustain the 1992-93 expenditure level. 13

2. **Budget Gap in 1993-94.** We estimate a 1993-94 budget gap of $233 million (12 percent) for the UC and $196 million (12 percent) for the California State University (CSU). Recommend that the UC and CSU submit specific plans for accommodating the shortfall to the Legislature early in the budget hearing process. 17

UC and CSU Enrollment Issues

3. **Enrollment Assumptions for 1992-93.** Our review indicates that the 1992-93 enrollment figures presented in the budget for the CSU do not comply—and for the UC, may not comply—with enrollment policies set forth in the Master Plan for Higher Education. We withhold recommendation on the enrollment figures pending additional information. 20

4. **Proposal for 1993-94.** Recommend that as part of its plans for accommodating the 1993-94 budget gap, the UC and the CSU submit additional information regarding their plans for enrollment and the capacity of the segments for instructing students. 21

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Management of Faculty Resources

5. **Undergraduate Versus Graduate Enrollment.** Recommend that the UC and CSU include in their plans for accommodating the 1993-94 budget shortfall information regarding the distribution of faculty resources between undergraduate and graduate programs. 23

6. **UC Faculty Workload.** Withhold recommendation on faculty workload distribution, pending receipt and review of the UC's faculty workload report requested by the Legislature last year. 24

7. **CSU Faculty Workload Reduction.** Recommend that the Legislature adopt the same supplemental report language as that adopted last year requesting that the CSU administration and faculty defer the planned July 1, 1993 implementation of a teaching load reduction of one unit. 26

8. **Course Management and Educational Technology.** Recommend that the UC, CSU, California Community Colleges, and California Postsecondary Education Commission (CPEC) report during budget hearings on efforts to manage course offerings and use educational technology. 27

Other Crosscutting Issues

9. **Redirection From the UC and CSU to Community Colleges.** Recommend the enactment of legislation to establish a policy whereby the UC and the CSU would admit qualified freshmen but redirect a portion of them, on a voluntary basis, to enroll in community colleges, allowing annual General Fund savings of up to $50 million beginning in 1994-95. 29

10. **Privatization of Law Schools and the California Maritime Academy.** Recommend that the administration provide additional information on its rationale for proposed studies on privatization. 30

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University of California

11. **Deficit Financing of UC's Current Budget Is Ill-Advised.** To avoid deficit financing, we recommend that the Legislature direct the regents to redirect a portion of the projected net gain of $221 million realized from hospital operations in 1991-92 and 1992-93 to campus budgets. 33

12. **UC Executive Salaries.** Recommend that during budget hearings, the UC report on the actions taken by the regents in response to A. Alan Post's September 1992 report on the UC's executive compensation, including information on how the UC plans to set the salaries of the president and vice presidents. 36

13. **Reallocation of Medical Resident Positions.** Withhold recommendation on the UC's proposed budget for medical residents, pending receipt and review of a report from the UC on the state's need for primary care and family practice physicians. 40

14. **Technology Development Proposal.** Recommend that (a) the UC provide additional information on its proposal to partially fund a new technology development company from future increases in the state's share of the UC's patent income and (b) the proposal be referred to the appropriate legislative policy committees for review. 41

California Community Colleges

15. **Enrollment Priorities.** Recommend that the Legislature adopt Budget Bill language and, in the long run legislation, to implement either, or a combination, of the following policies: (1) statewide enrollment priorities that focus on higher-priority students with provisions to reallocate funds over time or (2) higher fees and higher financial aid, because they would result in a more cost-effective use of resources than the current policies. 43

16. **Unallocated Reduction and Fee Increase Proposal.** The budget proposes a $266 million unallocated reduction for community colleges. If the Legislature concurs that a large 52

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reduction is necessary, it will have two main options available to accommodate such a cut: enrollment reductions and fee increases.

17. **Impact of New Fee for BA Degree Holders.** To reduce the effect of the new BA fee on poorer students, we recommend that the Legislature enact legislation broadening the fee exemption for dislocated workers. 55

18. **Proposal to Delete Apportionments for BA Degree Holders.** We believe that the proposal to delete apportionments for BA degree holders is reasonable but recommend various modifications to the proposal. 59

19. **Requiring Nominal Fees for Noncredit Students.** Reduce Item 6870-101-001 by $730,000. Recommend that the Legislature enact legislation establishing a nominal fee of $10 for each noncredit course for adults who have a high school diploma or the equivalent, to ensure that state apportionments are directed at students who are most likely to complete their classes, thereby freeing up $730,000 for other Proposition 98 purposes. 60

20. **Restoring K-12 Apportionments and Reducing K-12 Loan Take Priority Over Augmentations.** Eliminate Item 6870-485 and reduce Item 6870-101-001 by $3.6 million. Recommend reductions totaling $44.9 million to the community college budget in order to free up funds to restore apportionment funding and/or reduce the loan. 62

Student Aid Commission

21. **Legislative Review Needed to Address the Gap Between Cal Grant Eligibility and Funding.** Recommend that the Legislature reevaluate the Cal Grant programs to determine whether they should be refocused beginning in 1994-95 (for example, to target students with the highest financial need), given increasing numbers of students eligible for awards and fiscal constraints affecting both the programs and higher education generally. 65