

MAJOR ISSUES

Higher Education

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- ☑ **Significant Budget-Year Increases for the University of California (UC) and California State University (CSU)**
 - The budget proposes an increase of \$126 million, or 6.1 percent, for UC and an increase of \$113 million, or 6.4 percent, for CSU. The proposed General Fund increases include funds to avoid the need for student fee increases.
 - We recommend net budget-year reductions of \$28.8 million in UC's funding—of which \$19.8 million would be redirected to the Student Aid Commission—and \$29.3 million in CSU's funding. (See pages F-19 and F-27)

 - ☑ **Funds Not Needed for “Extraordinary” Growth at Community Colleges Should Help Meet K-12 Needs**
 - While we agree with the Governor's 1997-98 spending proposals for the colleges in most program areas, we recommend a reduction of \$29.3 million in funding for “extraordinary” enrollment growth to conform funding with the underlying change in the state's college-age population.
 - We further recommend that, with these savings, the state: (1) provide \$8 million of equalization funds to address historic inter-district funding disparities and (2) redirect the net savings of \$21.3 million to address pressing needs in K-12 programs. (See page F-35)

 - ☑ **Eliminate Deferred Maintenance on Expedited Basis**
 - UC and CSU have growing backlogs of deferred facility maintenance, a major problem that is not adequately addressed by the Governor's budget.
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- We recommend a \$26 million augmentation as part of a comprehensive approach to the system's maintenance problems—deferred and ongoing—by initiating a state/segment partnership to increase funding for ongoing maintenance and eliminate deferred maintenance backlogs.
- Our recommended approach is essentially the same adopted by the Legislature in last year's budget, but vetoed by the Governor. (See page F-15)



Cal Grant Increase Proposed


- The budget proposes \$10 million to increase the maximum Cal Grant award level for recipients who attend private colleges and universities. The annual cost of this increase will reach \$30 million by 2000-01. We recommend approval of this increase.
 - In addition, we recommend transferring \$19.8 million in financial aid from the University of California to the Cal Grant program for additional awards because the transfer would (1) allow recipients greater choice among colleges and universities and (2) ensure the funds would be used for financial aid. (See page F-24)
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OVERVIEW

Higher Education

The budget proposes a 6.3 percent increase in General Fund expenditures for higher education in 1997-98, and no increase in annual fees for undergraduate students.

The budget proposes total spending for higher education in California of \$19.1 billion in 1997-98, which is \$524 million, or 2.8 percent, more than estimated expenditures in the current year. This consists of funding from all sources for all activities of the University of California (UC), California State University (CSU), California Community Colleges, Hastings College of the Law, and the California Student Aid Commission. The \$19.1 billion includes activities at UC that are not entirely related to instruction, including providing medical care at its hospitals (\$1.9 billion) and managing three major U.S. Department of Energy laboratories (\$2.3 billion).

As Figure 1 (see page 6) shows, the budget proposes General Fund expenditures of \$6.2 billion for higher education in 1997-98. This is \$366 million, or 6.3 percent, higher than estimated for the current year. The budget assumes that local property taxes will contribute \$1.4 billion for the community colleges in 1997-98, an increase of \$47 million, or 3.4 percent. Student fee and tuition revenue at all the higher education segments account for \$1.8 billion of proposed expenditures, an increase of \$41 million, or 2.3 percent. This revenue increase primarily is due to projected increases in the numbers of enrolled students. Under this budget, the only statewide fee increases would be for various professional schools and nonresident students that were authorized in prior years.

The budget proposes General Fund expenditures for UC of \$2.2 billion, which is \$126 million, or 6.1 percent, more than estimated General Fund expenditures in the current year. For CSU, the budget proposes a General Fund increase of \$68 million, or 3.7 percent. After eliminating \$45 million in one-time spending in 1996-97, the actual increase in ongoing General Fund support for CSU is \$113 million or 6.4 percent. The combined General Fund, property tax revenue, and other fund amounts for the community colleges total \$193 million, or 5.8 percent, above 1996-97 estimated expenditures.

Figure 1**Higher Education Budget Summary
1995-96 Through 1997-98****(In Millions)**

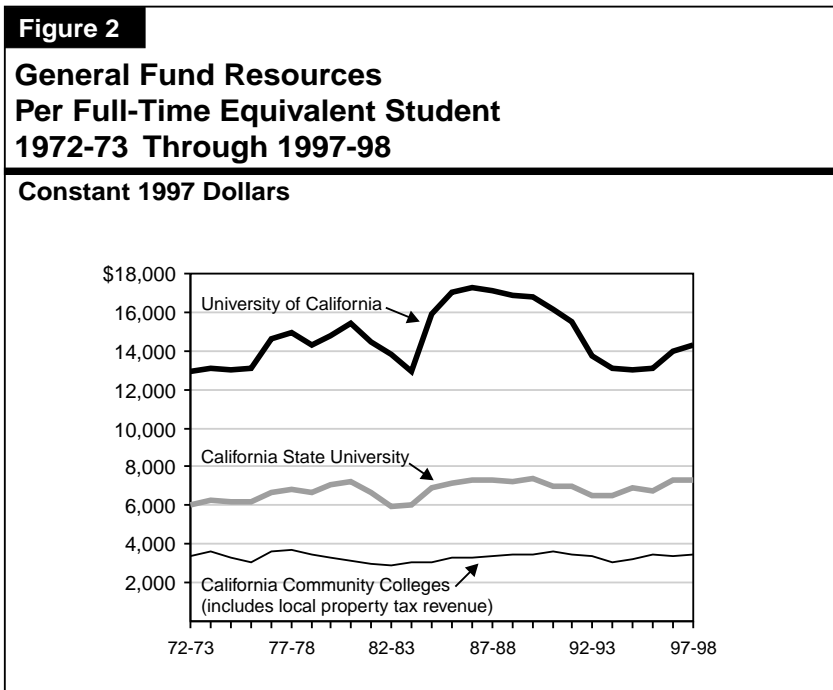
	Actual 1995-96	Estimated 1996-97	Proposed 1997-98	Change from 1996-97	
				Amount	Percent
University of California					
General Fund	\$1,917.7	\$2,060.3	\$2,186.0	\$125.6	6.1%
Student fee revenue	907.3	949.2	979.7	30.6	3.2
Federal funds	3,353.1	3,419.7	3,556.3	136.6	4.0
Other funds	4,226.4	4,396.4	4,355.1	-41.4	-0.9
Totals	\$10,404.5	\$10,825.6	\$11,077.1	\$251.4	2.3%
California State University					
General Fund	\$1,629.7	\$1,825.4	\$1,893.8	\$68.4	3.7%
Student fee revenue	568.8	564.1	569.6	5.5	1.0
Federal and other funds	1,085.6	1,356.0	1,330.4	-25.6	-1.9
Totals	\$3,284.2	\$3,745.5	\$3,793.7	\$48.3	1.3%
California Community Colleges					
General Fund	\$1,472.7	\$1,644.8	\$1,786.8	\$142.0	8.6%
Local property tax revenue	1,348.1	1,369.2	1,415.8	46.6	3.4
Student fee revenue	166.9	171.3	175.4	4.1	2.4
Other funds	186.3	159.2	159.8	0.6	0.4
Totals	\$3,174.0	\$3,344.5	\$3,537.8	\$193.3	5.8%
Hastings College of the Law					
General Fund	\$12.0	\$12.3	\$12.3	—	—
Student fee revenue	8.7	12.3	12.6	0.3	2.8%
Other funds	5.6	6.1	5.6	-0.5	-8.9
Totals	\$26.4	\$30.7	\$30.5	-\$0.2	-0.7%
Student Aid Commission					
General Fund	\$236.8	\$264.8	\$295.1	\$30.3	11.4%
Federal and other funds	499.7	358.4	359.6	1.2	0.3
State Guaranteed Loan Reserve Fund	150.1	4.9	1.4	-3.5	-72.3
Totals	\$736.4	\$623.2	\$654.7	\$31.5	5.1%
Total Higher Education					
General Fund	5,268.8	5,807.6	6,173.9	366.3	6.3
Property tax revenue	1,348.1	1,369.2	1,415.8	46.6	3.4
Student fee revenue	1,691.4	1,736.4	1,777.1	40.7	2.3
Federal and other funds	9,317.1	9,656.3	9,727.0	70.7	0.7

A 25-YEAR LOOK AT GENERAL FUND EXPENDITURES

There are several perspectives on how General Fund support for higher education has changed over the years. By using the deflator for state and local services to adjust spending for inflation, state expenditures over the past 25 years can be compared directly.

Total Spending. Total budgets for all three segments have increased substantially. Based on the Governor's budget proposal, General Fund expenditures for UC will be \$818 million, or 60 percent, greater in 1997-98 than in 1972-73, after adjusting for the effects of inflation. Proposed General Fund expenditures are \$567 million, or 43 percent, greater for CSU and \$1 billion, or 49 percent, greater for community colleges, after adjusting for the effects of inflation.

Per-Student Spending. Growth in inflation-adjusted General Fund expenditures over the past 25 years can be explained in large part by the increase in students attending college. Figure 2 shows the 25-year history of General Fund and local property tax expenditures for UC, CSU, and the community colleges per full-time-equivalent student (FTE). Measured

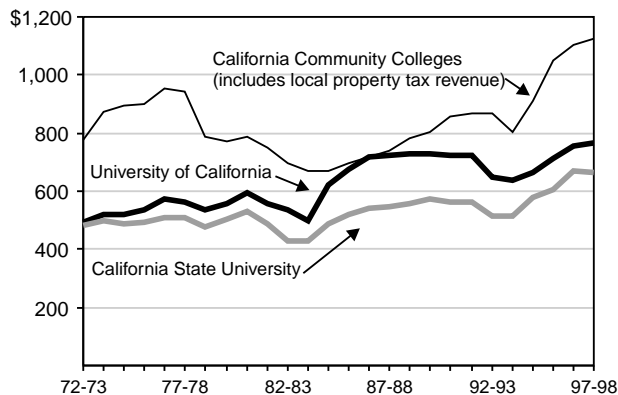


this way, proposed General Fund expenditures, after adjusting for inflation, will be \$1,332 per student more (10.3 percent) for UC, \$1,326 per student more (22 percent) for CSU, and \$110 per student more (3 percent) for the community colleges than in 1972-73.

Funding per College Age Population Has Grown Significantly. Funding per FTE incompletely describes the growth in General Fund expenditures for California's colleges. This is because a greater percentage of college-aged students attend college today than 25 years ago. As a consequence, it has taken increasingly more funds to maintain per-student spending. Figure 3 shows that the state spends substantially more today on higher education for each college-age resident in California than it has in the last quarter century. Measured this way, General Fund effort per 18 to 24 year old in the population, after adjusting for inflation, has increased by 55 percent for UC, 39 percent for CSU, and 45 percent for the community colleges since 1972-73.

Figure 3
General Fund Resources In Higher Education
Dollar Amount Per 18- to 24-Year-Old in California
1972-73 Through 1997-98

Constant 1997 Dollars



In conclusion, although outlays for higher education have varied year-to-year since 1972, the amount of inflation-adjusted General Fund and local property tax resources proposed for 1997-98 per FTE is approximately equal to the amount spent in the early 1970s. The budget proposal is 1 percent higher than the average expenditure during the past 25 years. Measured by how much the state is spending for the college-age population, however, the budget is much more generous than at any time in

recent history. Because so many more residents are attending higher education, proposed state and local expenditures per college-age resident are 28 percent higher than the average expenditure since 1972, after adjusting for inflation.

Accounting for Student Fees. Student fees also have increased substantially since 1972-73. After adjusting for the effects of inflation, annual student fees have increased by \$390 (from zero) at the community colleges, by over \$1,200 (175 percent) at CSU, and by over \$2,000 (99 percent) at UC since 1970. Taking the General Fund, local property tax revenue, and fee revenue together, resources for higher education are among the highest they have been at any time during the previous 25 years, on any basis.

SPENDING BY MAJOR PROGRAM

Figure 4 shows the percentage of total resources that UC and CSU spend on instruction, research, public services, and other programs. We have shown auxiliary enterprises—such as campus stores and dormitories—“below the line” because these enterprises are self-supporting and are only tangentially related to the mission of the universities. We also treat similarly UC’s teaching hospitals and the three major energy laboratories it manages in the calculations for the same reasons. The laboratories are funded through a contract with the U.S. Department of Energy. The teaching hospitals obtain most of their funding from payments made by hospital patients and their insurers for medical treatments. We do not include community college spending in the figure because funding for local colleges is based on *revenues* provided to each school, not support for specific *costs*.

As the figure shows, UC expects to spend 36 percent of its funding directly on instructional programs. The CSU expects to spend 41 percent of its funding directly on instructional programs. Although difficult to determine precisely, substantial portions of the other activities listed in Figure 4 help support directly or indirectly the instructional mission. That UC expects to spend more on research (25 percent) than CSU (0.1 percent) reflects the fact that the state’s Master Plan for Higher Education designates UC as the research university for the state.

Figure 4

**Proposed Spending in 1997-98
By Major Program
UC and CSU**

(Dollars in Millions)

Program	University of California	Percent ^a	California State University	Percent ^a
Instruction	\$2,279.2	36.0%	\$1,218.7	41.0%
Research	1,583.2	25.0	4.1	0.1
Public services	227.6	3.6	2.2	0.1
Academic support	677.3	11.0	327.3	11.0
Student services	256.7	4.0	252.3	8.5
Institutional support	385.7	6.0	298.3	13.0
Operation and maintenance of plant	334.7	5.2	327.1	11.0
Student financial aid	406.7	6.3	308.5	10.4
Other	256.0	4.0	127.2	4.3
Subtotals	\$6,407.1	100.0%	\$2,965.6	100.0%
Auxiliary enterprises	496.6		828.1	
Federal energy laboratories	2,299.0			
Teaching hospitals	1,874.3			
Totals	\$11,077.1		\$3,793.7	

^a Percent of subtotal, excluding self-supporting auxiliary enterprises and major energy laboratories and hospitals.

MAJOR BUDGET CHANGES

Figure 5 describes the major General Fund budget changes proposed by the Governor for UC, CSU, the community colleges, and Student Aid Commission. The largest changes in the UC and CSU budgets reflect increased funding under the third year of the four-year "compact" between the Governor and the universities. The compact called for General Fund increases averaging 4 percent each year for the three-year period starting in 1996-97. The 4 percent increases proposed under the compact are \$78.3 million for UC and \$68.7 million for CSU. The budget also proposed additional funds (\$37 million for UC and \$30.4 million for CSU) to avoid fee increases.

Figure 5

Higher Education Proposed Major General Fund Changes for 1997-98

University of California	Requested: \$2.2 billion
	Increase: \$126 million (+6.1%)

- + \$109 million for employee compensation and price increases
- + \$5.8 million for added debt costs on lease-payment bonds
- + \$10.5 million for increased enrollment

California State University	Requested: \$1.9 billion
	Increase: \$68 million (+3.7%)

- + \$61 million for employee compensation and price increases
 - + \$12 million for building maintenance (\$8.5 million) and continued campus development (\$3.5 million)
 - + \$14.4 million for increased enrollment
 - + \$9.5 million for added debt costs on lease-payment bonds
-
- \$45 million to eliminate one-time carryover funds in 1996-97

California Community Colleges, Local Assistance	Requested: \$1.8 billion
	Increase: \$142 million (+8.6%)

- + \$80 million for a 2.79 percent COLA
 - + \$67 million for enrollment growth
 - + \$21 million for debt costs on lease-payment bonds
 - + \$53 million for special services for students on welfare
-
- \$35 million to eliminate one-time 1996-97 spending
 - \$55 million offset for property tax and student fee revenues

Other Programs	Requested: \$295 million
	Increase: \$30 million (+11%)

- + \$10 million to the Student Aid Commission to increase the maximum Cal Grant award for new enrollees at independent and proprietary colleges

ENROLLMENT

As Figure 6 shows, the budget proposes higher education full-time-equivalent student enrollments of 1.4 million, or 1.9 percent over the budgeted enrollments for the current year. The budget projects a 1 percent increase for both UC and CSU, a 2.4 percent increase for CCC, and an 8.3 percent enrollment decline for Hastings.

Figure 6				
Higher Education Full-Time Equivalent Students 1995-96 Through 1997-98				
	Actual 1995-96	Budgeted 1996-97	Proposed 1997-98	Percent Change Over 1996-97
University of California				
Undergraduate	115,765	113,000	114,200	1.1%
Postbaccalaureate	411	400	400	—
Graduate	25,346	26,100	26,400	1.1
Health sciences	12,619	12,000	12,000	—
UC Totals	154,141	151,500	153,000	1.0%
California State University				
Undergraduate	218,980	220,635	222,793	1.0%
Postbaccalaureate	14,321	13,710	13,844	1.0
Graduate	20,526	21,156	21,363	1.0
CSU Totals	253,827	255,501	258,000	1.0%
California Community Colleges				
	870,357	922,578	944,536	2.4%
Hastings College of the Law				
	1,216	1,308	1,200	-8.3%
Grand Totals	1,315,616	1,324,849	1,354,267	2.2%

S EES

The (see page 14) shows student life and graduate fees and the same level for the consecutive years. The CSU and for possible to continue increasing fees for various professional schools at UC

We should not be surprised if the public schools at UC or "parsons" for the same level of graduate fees as CSU are \$1,600, college and college fees in \$800 a year for a full-time student. However, the national average for public

Figure 7**Student Fees
1995-96 Through 1997-98**

	1995-96	1996-97	Proposed 1997-98	Percent Change
University of California				
Undergraduate/graduate	\$3,799	\$3,799	\$3,799	—
Professional Students:				
Law ^a	\$8,175	\$10,175	\$10,175	—
Business ^a	7,799	9,799	9,799	—
Medicine ^a	7,175	8,175	9,175	12%
Dentistry ^a	6,799	7,799	8,799	13
Pharmacy ^a	3,799	5,799	6,799	17
Veterinary medicine ^a	6,799	7,799	7,799	—
Additional fees, all students:				
Undergraduate	\$340	\$367	\$367	—
Graduate	836	868	868	—
Additional fee, nonresidents	7,699	8,394	8,984	7
California State University				
Undergraduates/graduates	\$1,584	\$1,548	\$1,548	—
Additional campus fees	307	351	351	—
Additional fee nonresidents	7,380	7,380	7,380	—
California Community Colleges^b				
	\$390	\$390	\$390	—
Hastings College of the Law				
Education and registration fees ^a	\$8,175	\$10,175	\$10,175	—
Other fees ^c	1,033	997	997	—
Additional fee nonresidents	7,699	8,392	8,392	—
^a Fee increases charged to new students. Special phasing arrangements have been made for selected business schools. ^b Based on two 15-credit semesters at \$13 per credit unit. Fees waived for students meeting income eligibility requirements. ^c Includes an insurance fee of \$738 which can be waived with proof of insurance.				

CROSSCUTTING ISSUES

Higher Education

THE STATE'S APPROACH TO DEFERRED MAINTENANCE: ROUND TWO

Last year the higher education segments and the Legislature agreed on a multiyear program to resolve (1) existing backlogs in facility maintenance and (2) chronic underfunding of regular maintenance needs. We recommend that the Legislature continue the basic approach it adopted in last year's budget, including General Fund augmentations for the California State University and the University of California.

BACKGROUND

To keep the state's facilities at the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC) functional, the state and the systems fund ongoing maintenance and special repair programs.

For the purposes of this discussion, "maintenance" refers to programs to maintain the condition of facilities and infrastructure/utility systems. "Special repair" refers to maintenance projects that are required periodically and are above the level of expenditures needed for routine maintenance. Examples of special repairs include replacing roofs, painting exteriors, and replacing mechanical/electrical equipment.

In the *Analysis of the 1996-97 Budget Bill*, we discussed the repeated deferral of needed maintenance and repairs of higher education facilities. In response, the systems and the Legislature adopted a plan to (1) reduce the backlog of deferred work and (2) fully meet ongoing maintenance.

nance/repair needs over a three- to four-year period and thereby avoid additional backlogs. We discuss these plans below. (For additional detail on the dimensions of the deferred maintenance problems, please see our discussion in the higher education section of the *1996-97 Analysis*.)

Community Colleges

The CCC's maintenance problems have been easier to address because of the large amount of funds ultimately available for K-14 education under Proposition 98. Thus, in the *1996-97 Budget Act* the Legislature augmented ongoing maintenance/repair funding for CCC by \$39 million, with a requirement that the colleges provide up to \$11 million in matching local funds. In addition, the Legislature provided \$60 million of one-time Proposition 98 monies to address CCC's deferred maintenance backlog, matched by up to \$17 million of local funds (Chapter 204, Statutes of 1996 [AB 3488, Ducheny]).

The *1997-98 Governor's Budget* proposes to continue the augmented level of \$39 million ongoing maintenance/repair funding—with local matches of up to \$39 million—and to provide additional one-time monies for the deferred backlog as part of a proposed block grant. In view of the above, we believe the Legislature has placed the CCC on a sound fiscal footing regarding maintenance/repair needs.

The Four-Year Universities

Addressing the needs of the four-year universities has proved more difficult. In response to the issues we raised in last year's *Analysis*, CSU and UC each committed to augment their annual maintenance/repair expenditures by allocating, respectively, \$9.6 million and \$7.5 million from budget increases proposed for them by the Governor. To match these efforts, the Legislature added \$7.5 million to each segment from the General Fund. These actions were seen as the first step in a multiyear effort to stop further growth of—and eventually eliminate—maintenance/repair backlogs.

The Governor, however, vetoed the legislative augmentations, stating that the segments should address their maintenance needs within the funding levels he has committed to provide under his "compact" with them. In response to the Governor's veto, UC withdrew the \$7.5 million it committed as a "match" for the maintenance augmentation. The CSU did increase maintenance funding by \$9.6 million in 1996-97 with "compact" funds.

RECOMMENDATIONS

The 1997-98 Governor's Budget proposes to increase maintenance spending by \$8.5 million at CSU and \$7.5 million at UC. These amounts reflect what each segment is willing to commit to additional maintenance, given the overall fiscal resources proposed for them by the Governor. While this commitment of additional resources to maintaining the state's university facilities is commendable, more needs to be done. We think the Legislature should follow its previous plan and augment the CSU and UC budgets for maintenance for the following reasons:

- **Additional Funds Will Stop Deterioration of the State's Facilities More Quickly.** The state has invested heavily in higher education facilities over the years. The value of this asset—many billions of dollars—demands more rapid action. Both segments estimate that maintenance funding falls short of established need by at least \$50 million annually. Matching the proposed budget increases, in a series of cumulative annual augmentations as contemplated in last year's legislative actions, will eliminate the deficits in three to four years. Failure to match will double the time it takes to reach an adequate level of ongoing maintenance. Moreover, each year of delay will increase deferred maintenance backlogs, complicating, rather than aiding, the state's already expensive efforts to solve this related problem.
- **It Sends the Right Signals to the Segments.** As we pointed out in last year's *Analysis*, the Legislature, Governor, and the segments share responsibility for the existence of today's serious maintenance problems. By augmenting their maintenance budgets, the Legislature can be a partner in the segments' efforts, and underscore its intent that higher education adequately maintain the public's facilities.

To protect the state's tremendous investment in higher education facilities, we recommend that the Legislature take the following budget actions:

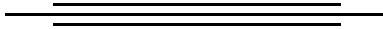
- Match the amounts that CSU and UC have committed from their 1996-97 and 1997-98 "compact" increases for maintenance and special repairs. (Augment General Fund amounts for CSU by \$18.1 million and for UC by \$7.5 million.)
 - Restate (with appropriate updating) last year's supplemental report language outlining the multiyear steps to resolve the deferred maintenance problems.
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- Include the following budget bill language in each segment's support item to ensure that the augmentations supplement, rather than supplant, base spending on maintenance/repairs:

Of the amount appropriated by this item (\$63,018,000 for CSU and \$82,711,000 for UC) is for building maintenance as that activity is defined and accounted for in the program budget detail in the Governor's annual budgets.

Deferred Maintenance Backlog. Last year's supplemental report reflects a commitment by CSU to address its deferred maintenance backlog with a combination of (1) the augmented levels of annual maintenance funding specified in the language and (2) capital outlay projects that involve renovation of existing facilities. We believe this commitment is a responsible approach for which CSU should be commended.

Under last year's supplemental report language, UC is preparing a plan (due to the Legislature in February 1997) for addressing its deferred maintenance backlog. We will comment on the plan, as appropriate, at budget hearings.



DEPARTMENTAL ISSUES

Higher Education

UNIVERSITY OF CALIFORNIA (6440)

The University of California includes eight general campuses and one health science campus. The budget proposes General Fund expenditures of \$2.2 billion. This is an increase of \$125.6 million, or 6.1 percent, from estimated current-year expenditures. The bulk of this increase reflects increased funding under the third year of the four-year “compact” between the Governor and the universities (\$78.4 million), and a “buy-out” of UC’s proposed 11 percent general increase in student fees (\$37 million). This fee buy-out results from the Regents’ proposal for a 10 percent general fee increase and a new 1 percent instructional technology fee.

The General Fund increase is proposed to be spent for salary (\$96.9 million), cost (\$11.8 million), and enrollment (\$10.5 million) increases and additional costs for lease-payment bonds (\$5.8 million), as shown in Figure 8 (see page 20). The budget estimates that UC’s full-time-equivalent (FTE) enrollment will be roughly 153,000 in 1997-98. This is 1,500, or 1 percent more than the amount of FTE budgeted for 1996-97. The budget does not anticipate a general fee increase for undergraduate or graduate students, but does continue a series of gradual fee increases for professional-school and nonresident students.

Instructional Technology Request Is Premature

We recommend deletion of \$4 million requested from the General Fund for instructional technology, because the university has not developed any specific plans for using the funds.

Figure 8	
Proposed General Fund Changes University of California 1997-98	
(Dollars in Thousands)	
1996-97 General Fund Budget	\$2,060,332
Changes Within Compact	
Merit, 5% faculty, and 2% staff salary increases	\$81,700
Full year of 1996-97 salary increase	15,200
Price increases	11,800
Enrollment growth	10,500
Maintenance of new space	3,500
Building maintenance	7,500
Academic technology	4,000
Other	-18,808
Subtotal	(\$115,392)
Changes Above Compact	
Lease-payment debt costs	\$5,800
Health/dental for annuitants	1,399
Student outreach program	1,000
Industry-university cooperative research	5,000
Supercomputer center	2,000
Various one-time technical adjustments	-4,971
Subtotal	(\$100,228)
General Fund Increase	\$125,620
Proposed Sources	
Governor's 4 percent "compact"	\$78,392
Buy-out of 11 percent fee increase	37,000
Additional General Fund	10,228
Totals	\$125,620
1997-98 General Fund Budget	\$2,185,952
Percent Increase	6.1%

The budget requests \$4 million from the General Fund for UC's instructional technology initiative. The UC Regents' budget proposal for 1997-98 indicates that campuses would use the funds to improve:

- **Teaching and Learning.** This includes incorporating learning technologies into the curriculum and “digital laboratories.”
- **Support to Students.** The initiative would provide, for example, electronic mail, web resources, new or expanded on-line course enrollment, and help desks for students.
- **Access to Library Resources.** On-line book reserves and textbooks, and digital library collections would be established or expanded.
- **Computer-Network Infrastructure.** This includes expanded Internet access, support for distance learning, remote library access, and other long-term capital projects.

The Regents’ budget initially proposed to fund its instructional technology initiative with a combination of student fees, General Fund support, and in-kind contributions from industry. The \$4 million included in the Governor’s budget request “buys-out” a \$40 per student fee proposed by the Regents to help fund the program in 1997-98. The budget does not (1) include any additional General Fund support for the program or (2) identify any in-kind contributions from industry.

The Regents’ budget also indicates that in future years, UC will charge students an annual fee of \$200 when it fully implements its instructional technology initiative. It does not indicate how much UC will request from the General Fund or how much industry will contribute in future years.

Beyond broadly describing its proposal, UC has not provided any detail on how it intends to implement or completely fund its initiative. The Governor’s budget summary states “. . . the Department of Information Technology (DOIT) will be meeting with UC, CSU, and the California Community Colleges to determine how best to improve California’s higher education technology infrastructure.” When we asked for detail, UC indicated that campuses were developing their individual plans for instructional technology, but that they were not yet complete. The university also indicated that it had not provided the campuses with any specific directions on how campuses should or might implement instructional technology programs.

Absent detail on how UC plans to proceed in the budget year, we have no basis on which to evaluate its proposal. Furthermore, to the extent its instructional technology initiative could represent a multiyear commitment requiring future General Fund and student support, UC should provide the Legislature with a multiyear expenditure and funding plan. Without this information, the university’s request for funding is premature. Accordingly, we recommend the Legislature reduce UC’s budget by \$4 million.

Additional Funding Not Necessary For Industry-University Research

We recommend a reduction of \$5 million from the General Fund for the University of California's (UC) proposed industry-university cooperative research program, because UC has not justified the need for the funds.

The Governor's budget requests \$5 million from the General Fund for an industry-university cooperative research program. The university indicates that the funds would support research with industry to develop promising products and processes to the benefit of the state's economy. The *1996-97 Budget Act* appropriated \$5 million for the program, which the Legislature had added during the budget process. In approving this amount, the Governor stated that he viewed the augmentation as one-time funding to begin the project, and that future expenditures for the project should be funded within the higher education compact. This budget proposal, however, would continue state funding for the program.

UC's Proposal for 1996-97. The university indicates that the \$5 million General Fund appropriation in the *1996-97 Budget Act* will be used with \$3 million in university funds, and at least \$10 million in industry funds to:

- Fund a biotechnology grant program (\$12 million).
- Fund research grants in a second field to be selected from among information sciences (\$5.5 million).
- Assess the economic impacts of these investments.
- Continue planning the program.

As of October 1996, UC had awarded \$8.4 million of the \$12 million in biotechnology grants to fund 30 research projects. Of this amount, \$3.3 million came from state and UC funds, and \$5.1 million came from industry funds. The university plans to award another \$3 million in grants for additional biotechnology research in the current year. The remaining \$600,000 in state, UC, and industry funds will be used for administrative costs. No grant awards have been made from the \$5.5 million reserved for a second research field.

UC's Plans for 1997-98 and Beyond. The university plans to spend funds provided in 1997-98 for additional biotechnology research and research in other unspecified fields. The university would also evaluate the effect of the research on the state's economy. The university seeks to eventually expand the program to \$40 million per year, consisting of an annual \$15 million General Fund appropriation, \$5 million in UC funds, and \$20 million in industry funds.

Our analysis of UC's proposal indicates that additional funding for the industry-university cooperative research program is not needed, because (1) industry is already able to obtain research assistance in today's marketplace, (2) the state already spends \$252 million for research tax credits, and (3) UC can market its research to industry with its existing \$360 million research budget.

Capital Markets for Research Do Not Require UC Intervention. The university states: "The first round of grants in the biotechnology grant program was met with enthusiasm by industry. Companies seeking research partnerships were willing to invest close to \$10 million in cash—not in-kind contributions—to fund specific research projects that will advance work in their fields." This is not surprising. Participating businesses, after all, received \$18 million in research for an industry investment of \$10 million. This means that industry would pay just 56 cents of every \$1 of research it obtains.

The university also states: "when other partners, like the State and the University via the [UC research] program, are available to share the risk—businesses are willing and eager to invest in earlier stage, more fundamental technologies, which have greater potential for high economic payoffs and industry-wide impacts." In essence, UC is saying that industry does not choose its research investments wisely.

The university does not provide any evidence, however, that capital markets do not appropriately weigh the risks and rewards from new ventures, or that industries cannot avail themselves of capital for promising research. Furthermore, UC does not explain why *it* is better-suited than industry to determine how businesses should allocate their research funds, or why it should provide specific research with a 44 percent subsidy. To the extent that businesses can obtain better information from UC scientists and engineers on some projects than they can obtain elsewhere, they are free to seek and to pay for such advice now. Such a business-like relationship between industry and universities, in fact, is common.

The State Already Provides an Income Tax Credit for Industry Research and Development. Chapter 954, Statutes of 1996 (SB 38, Lockyer), increased the personal income and bank and corporation tax credit for qualified research above specified amounts, from 8 percent to 11 percent, and for basic research from 12 percent to 24 percent. In addition, that act specifies that university and research hospitals qualify as institutions of basic research for purposes of the tax credit. Federal law provides a similar research tax credit. This means that up to 24 percent of the cost of basic research purchased by business from UC can be deducted from both the company's federal and state tax liability. Statewide, the Franchise Tax

Board estimates that the research tax credit will reduce General Fund revenues by a total of \$252 million in 1997-98.

The research credit subsidizes industry research, regardless of whether it chooses UC to assist it. The UC's proposed industry-university cooperative research proposal would, on the other hand, subsidize industry *only if it contracts with UC*. To the extent that the Legislature seeks to subsidize the research of industry, the tax subsidy provides business greater flexibility, on a dollar for dollar basis, than the restricted subsidy proposed by UC.

UC Can Market Its Research Within Its Existing Budget. The university states "This program represents an opportunity for the State to play a pivotal role in stimulating high technology research efforts for the future of the California economy." The university already is able to play a significant role in advanced research with its existing annual research budget from the General Fund and university sources of over \$360 million. By requesting additional state funds for the cooperative program, UC assumes that all research funded with its existing \$360 million research budget is a higher priority than the cooperative program. If the program is as important to the state's economy as the system suggests, UC could easily fund it by reducing support for lower-priority research projects.

In sum, UC's request for an additional \$5 million for an industry-university cooperative research program is not justified. Industry can readily obtain funding for research in existing capital markets that is bolstered by federal and state research tax credits. Furthermore, the university has the ability to market the research it conducts within its proposed research budget of \$360 million. Accordingly, we recommend deletion of the \$5 million requested in UC's budget for industry-university cooperative research.

UC Financial Aid Not Keeping Pace with Fee Increases

We recommend the deletion of \$19.8 million from the University of California 's (UC's) requested General Fund appropriation for transfer to the Student Aid Commission's Cal Grant program, because (1) UC has shifted financial aid resources to other university programs while student fee revenues have risen, (2) shifting funds to the Cal Grant program will give students greater flexibility when choosing which college to attend, and (3) funding Cal Grants gives the Legislature greater assurance that the \$19.8 million will be used for financial aid.

The Governor's budget shows that revenue to UC from fees paid by resident undergraduate, graduate, and professional students totaled

\$583 million in 1995-96. The budget estimates that revenue from these fees will be \$618 million in the current year, and \$630 million in 1997-98. The budget-year figure is \$46.6 million, or 8 percent, more than actual fee revenue in 1995-96. These increases are due to two factors—increased enrollments and increased fees for selected professional schools.

The amount set aside from fees for financial aid is declining, however. The Governor's budget shows that UC spent \$220.8 million for student financial aid in 1995-96. The budget shows that UC will spend \$213.2 million in the current year, and \$216.5 million in 1997-98. The budget proposal represents a decrease of \$4.3 million, or 1.9 percent, in financial aid since 1995-96.

Financial Aid Not Keeping Pace With Past Practices. The Legislature has taken a number of actions in previous years to ensure that financial aid is available to needy students. First, when fees were raised substantially in the early 1990s, the Legislature required the universities to set aside at least one-third of additional student fee revenues for financial aid. This set-aside of fee revenues for financial aid also is part of the Governor's "compact" with higher education. Second, the Legislature has increased funding for the state's Cal-Grant program. Specifically, the Legislature added \$10 million to the Cal-Grant program in the *1996-97 Budget Act* to increase the number of students eligible for state financial aid.

Judging from UC's budget, however, it has not directed increased student fees to financial aid. Based on past practices, we expect financial aid to students would increase as the level of student fee revenues increased. Instead, the budget figures show a \$4.3 million decline. Our review indicates that, based on past practices, UC spending on financial aid should be \$19.8 million higher than proposed in the 1997-98 budget.

Shift Funds to the Cal Grant Program. The Legislature has two distinct options for making these fee revenues available for financial aid: (1) redirect \$19.8 million in UC funds to increase financial aid for UC students or (2) shift the funds to the state Cal-Grant program (administered by the Student Aid Commission) to increase the number of students eligible for financial aid at the higher education institution of their choice. We recommend shifting the funds to the Cal-Grant program for the following reasons:

- **The Cal-Grant Program Affords Students Greater Choices.** The Cal Grant program provides funds to financially needy students who attend public and private colleges and universities in the state no matter which institution they choose to attend. By providing financial aid directly to students, rather than restricting students to

attending a particular college (as college-based financial aid awards do), the Cal Grant program allows students greater educational choices and opportunities (including the opportunity to use financial aid at a UC campus).

- **Providing Funds to the Cal-Grant Program Ensures That Financial Aid Will Increase.** Funds appropriated for Cal Grant awards are used exclusively for student financial aid. Funds appropriated to UC for financial aid can be used for other purposes. By shifting funds from UC to the Cal Grant program, therefore, the Legislature can be more certain that the funds are used for financial aid.

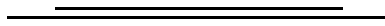
In sum, to offset UC's apparent redirection of financial aid monies and to allow students greater discretion in choosing colleges, we recommend that the Legislature reduce UC's General Fund budget by \$19.8 million and shift the funds to the Student Aid Commission's Cal-Grant program.

PROGRESS REPORT ON FACULTY WORKLOAD

Chapter 776, Statutes of 1993 (SB 506, Hayden) expressed the Legislature's intent that courses required for normal progress to a baccalaureate degree be provided in sufficient number at UC. The statute requires the Legislative Analyst to review and analyze the annual reports UC submits on faculty workload. The University's March 1996 report provides trend data indicating that (1) total student credit hours per student increased by 0.4 percent from 1990-91 through 1994-95 and (2) faculty teaching workload, as measured by the number of 1994-95 classes taught per faculty member and student undergraduate credit hours per faculty member, increased by 3.4 percent and 2.6 percent, respectively. This change in faculty teaching workload represents a modest increase in our view.

The report states "In the fall 1995, an adequate number of open course sections and classroom seats (800 sections with 17,000 seats) were available to students." For freshmen entering in the fall of 1989, 43 percent obtained their degrees within 12 quarters of study. This compares with 38 percent for the freshmen class of 1988, and 36 percent for the entering class of 1985.

The UC's 1997 faculty workload report was due to the Legislature by February 1, 1997. We will comment on it, as appropriate, during budget hearings.



CALIFORNIA STATE UNIVERSITY (6610)

The California State University (CSU) consists of 22 campuses. The budget proposes General Fund spending of \$1.9 billion, an increase of \$68 million, or 3.7 percent, over the current year. This understates, however, the true increase in ongoing budget resources for CSU. Adjusting for one-time carryover funds and various minor base changes, the proposed increase in CSU's "base" spending from the General Fund totals \$113 million. This increase would support salary, price and enrollment increases, and other spending initiatives as shown in Figure 9.

Figure 9	
California State University Increased General Fund Base Budget: Sources and Uses of Funds	
(In Millions)	
Proposed Increases:	
Salary and benefit increases	\$57.8
Enrollment increase (2,500 FTE)	14.4
Lease-purchase bond cost increase	9.5
Technology	8.5
Facility maintenance increase	8.5
"Economic Improvement Initiative"	5.0
Inflation (non-salary goods/services)	3.5
Added operation cost at new campuses	3.5
Added cost at center in Stockton	1.7
Additional student outreach	1.0
Total	\$113.4
Sources of Funds:	
Four percent "compact" increase	\$68.7
"Buy-out" of student fee increase	30.4
Additional increase	14.3
Total	\$113.4

The system's 1996-97 funded enrollment level is 255,500 full-time-equivalent (FTE) students. The budget provides funds for a 2,500 FTE increase (1 percent) in 1997-98. No general student fee increase is proposed.

Enrollment Information in Budget Is Incomplete

The annual budget documents omit California State University (CSU) enrollment data for the budget year. Given the central importance of enrollments to CSU's mission and budget, we recommend that (1) CSU provide the fiscal committees with a written reconciliation of budgeted enrollment levels for all three fiscal years and (2) future budgets include three-year enrollment displays.

Virtually all data in the Governor's annual budgets are displayed in the following three-year series: (1) actual data for the fiscal year just completed, (2) estimated data for the current year, and (3) projected data for the budget year. This format gives the Legislature and other interested parties a quick sense of recent trends and also permits useful comparisons with past Governor's budgets.

For CSU enrollment data, however, the annual budget omits the budget year. This omission makes it unnecessarily difficult for the Legislature to "track" year-to-year developments in CSU's budgeted enrollment levels or even to know with clarity what the budget proposes for enrollments. For example, a careful comparison of the enrollment display in the *1996-97 Governor's Budget* with the enrollment display in the *Governor's 1997-98 Budget* indicates that the 2,000 FTE enrollment increase funded in the *1996-97 Budget Act* may have gone entirely to postbaccalaureate and graduate student "slots." It is impossible to tell what really happened, however, because the 1996-97 budget document did not include proposed enrollment figures data for the 1996-97 fiscal year.

Given the central importance of enrollments to CSU's mission and budget, the Legislature should have "at its fingertips" basic enrollment data that are complete and unambiguous. Accordingly we recommend that CSU provide the fiscal committees, prior to budget hearings, with a written reconciliation of budgeted enrollment levels for the three fiscal years ending with the budget year.

We further recommend the Legislature adopt the following supplemental report language to provide that future budgets include projected enrollment data for the budget year:

It is the intent of the Legislature that annual Governor's budgets include budgeted enrollment levels for the prior, current, and budget years, by lower division, upper division, postbaccalaureate and graduate levels, and by headcount and full-time-equivalent.

Trends in Newly Credentialed Teachers Going the Wrong Way

We recommend that California State University (CSU) report to the fiscal committees prior to budget hearings on the steps it is taking to (1) reverse the decline in the number of newly credentialed teachers graduating from its teacher preparation programs and (2) implement quality improvements in those programs recommended by CSU's Institute for Education Reform.

The CSU's teacher preparation programs are the source of nearly 60 percent of new public school teachers in California. (Indeed, the oldest campuses in what is now the CSU were established more than a century ago as "normal schools" for the purpose of preparing school teachers.) The Class Size Reduction program created by the Governor and the Legislature in the *1996-97 Budget Act* has dramatically increased the need for trained teachers throughout the state. In the current year, an estimated 18,000 new K-3 classes have been added statewide under the program. The Governor's budget proposes further expansion in 1997-98. Already, some school districts are having difficulty finding enough qualified teachers to implement class size reduction.

As Figure 10 shows, the recent trend in the number of teaching credentials awarded by CSU campuses is downward. (Figure 10 excludes advanced credentials in specialties such as administration or bilingual education.) This is not the right direction given the urgent need for more trained teachers and CSU's central role in providing them.

Figure 10		
California State University Teacher Credentials Awarded 1992-93 to 1994-95^a		
1992-93	1993-94	1994-95
7,877	7,159	6,979
^a Most recent data available.		

One disturbing explanation for the downward trend, which we have heard in conversations with campus educators and administrators, involves budgetary pressures at the campus level. Generally, the CSU Chancellor's Office allocates to each campus a lump sum budget, granting campuses broad discretion over specific program expenditures. This discretion means that campuses, facing constant cost pressures, have an incentive either to scale back, or retard the growth of, programs with high per-student costs in order to pay for other programs.

Such high-cost programs include the teacher preparation programs, which employ relatively high faculty-to-student ratios. Thus, incentives exist for campuses to restrain the size of teacher preparation programs, incentives that work at cross-purposes with current state needs. In view of the above, we recommend that the CSU report to the fiscal committees prior to budget hearings on the steps it will take to reverse the downward trend in teaching credentials awarded by CSU campuses.

In addition to concerns over the *quantity* of teachers graduated by CSU, many concerns have been raised about the *quality* of CSU's teacher preparation programs. In a study released last year, for example, CSU's Institute for Education Reform found that: ". . . the level of disenchantment with schools of education both within and outside the CSU system is high among professionals working in California's school system." The institute made a set of recommendations for fundamental improvement of the programs.

Examples of the institute's recommendations include:

- Each CSU School of Education should create formal partnerships with K-12 schools to facilitate teacher training that meets the real needs of schools.
- The CSU should establish an ongoing evaluation and reporting system to monitor the partnership accomplishments of each School of Education.
- Schools of Education should assure that faculty tenure and promotion decisions explicitly value faculty involvement in improvement of K-12 school programs.

As part of its report to the fiscal committees on increasing the number of teachers prepared, the CSU also should report on the status of its actions on the institute's recommendations and any other steps it has taken to improve the quality of its teacher credential programs.

Economic Improvement Initiative

We recommend the Legislature delete \$5 million requested from the General Fund for an "economic improvement initiative" at California State University because the request is lacking in detail.

The budget adds \$5 million from the General Fund for an "economic improvement initiative." The Governor's budget summary describes the initiative as CSU ". . . working directly with third-grade teachers and students on new instructional methods and working through charter schools to develop programs that will specifically benefit students who traditionally have not been fully prepared to enter college . . . "

At the time this analysis was prepared, CSU could not provide any additional detail regarding this \$5 million proposal. The CSU staff indicated that an extensive round of internal discussions was still needed in order to adequately define the request. The initiative proposed in the budget has laudable objectives. Without adequate specifics, however, the Legislature has no assurance that the \$5 million would be well spent. We therefore recommend its deletion.

Integrated Technology Strategy

We recommend that the Legislature delete \$13.5 million requested from the General Fund for “academic technology” because (1) the budget makes no provision for the larger “integrated technology strategy” of which it is a part and (2) California State University presently lacks a well-defined programmatic and funding plan for this “strategy.”

The budget includes \$13.5 million from the General Fund for “academic technology.” These funds would be used for various information technology purposes including hardware, software, user training, and support. These expenditures are a relatively small part of an ambitious information technology initiative that CSU calls the “integrated technology strategy” (ITS). Under ITS, all CSU campuses would be “wired” and otherwise outfitted to provide all faculty and students “universal 24-hour access” to Internet and other information technology services.

According to CSU, the ITS infrastructure alone could cost up to \$450 million. The budget, however, makes no provision for these infrastructure improvements on which the ITS depends. Instead, the Governor’s budget summary states that the Department of Information Technology will be meeting with the higher education segments in the coming months “. . . to determine how best to improve California’s higher education technology infrastructure.”

In isolation from the outcome of these discussions and from a well-defined programmatic and funding plan for ITS, CSU’s \$13.5 million request for “academic technology” (slated to grow to \$35 million a year under CSU plans) is premature. As a result, until CSU presents the full costs and benefits of its long-term technology plan to the Legislature, we recommend that the fiscal committees delete the funds, for a General Fund savings of \$13.5 million.

Start-Up Funding for Relocated Stockton Center

We recommend the Legislature eliminate California State University’s (CSU) \$1.7 million request for ongoing funding for a relocated center in Stockton and instead provide \$850,000 as one-time funds for interim

maintenance of the new facility, because CSU has adequate ongoing budget resources for the center's programs.

The budget proposes a \$1.7 million General Fund augmentation "... to assist in the conversion of the former Stockton Developmental Center to the CSU, Stanislaus Regional Center for Education and Human Services ..." Chapter 193, Statutes of 1996 (SB 1770, Johnston), authorizes the Department of General Services (DGS) to dispose of the 102-acre site of the Stockton Developmental Center, which the Department of Developmental Services (DDS) vacated due to declining client populations state-wide.

Currently, CSU and DGS are negotiating the details of a transfer of the site to CSU. In the interim, DDS is maintaining the center in a "warm shutdown" mode, which provides security for the site and maintains the buildings and grounds. The *1996-97 Budget Act* provides \$1.7 million to the DDS for this purpose.

Currently, CSU Stanislaus operates a center in Stockton on the campus of San Joaquin Delta Community College. The center offers various bachelor's and master's degree programs and teaching credential programs. The CSU plans to begin moving these programs to the Stockton Developmental Center site in the fall of 1997, and to complete the move by January 1998. The CSU plan describes the re-named center as a "cooperative" of four CSU campuses (Stanislaus, Chico, Fresno and Sacramento), San Joaquin Delta Community College, and the University of the Pacific. The plan includes the following key features:

- Gradual growth of programs and enrollment—from 350 FTE in the first year of operation (1997-98), to 650 FTE by the fifth year of operation, and to 2,000 FTE by the fourteenth year.
- Significant operational support from the leasing of building space on site that is not needed for CSU activities—a projected \$1.9 million in the budget year, with moderate annual growth thereafter.
- "Start-up" support from the state—supplementing state funds already budgeted on an FTE-basis—of \$2.5 million for capital outlay in 1997-98 and \$1.7 million for operations in 1997-98 and the four subsequent fiscal years. (See Section I of this *Analysis* for our discussion of the budget's \$2.5 million capital outlay request.)

CSU Not Committing Enough of Its Own Funds to the New Center. As mentioned above, the budget proposes a \$1.7 million operational supplement for the center for five fiscal years beginning in 1997-98. This amount equals what the DDS is spending in the current year for a "warm shut-

down” of their vacated Stockton facilities. The CSU has not provided a programmatic basis for the \$1.7 million request. Instead, CSU staff justify the request on the basis that there is no net cost to the General Fund since the DDS would continue to spend \$1.7 million annually for “warm shut-down” if the site were not transferred to CSU.

This is no basis for justifying the budget request. If the site were not transferred to CSU, it would be sold or otherwise disposed of in a reasonable time period as authorized by Chapter 193. Assuming the site is transferred to CSU, the university will soon cease to incur “warm shut-down” costs of its own. CSU plans to move its Stockton center programs to the new site during the first half of the budget year and to lease out unused building space at the same time.

Our review also indicates the CSU has ample operational funds to operate the center without the supplemental appropriation. First, projected lease revenues (\$1.9 million in the budget year and growing amounts thereafter) will be available to subsidize the center. Second, CSU underestimates the amount of state support and student fees that is available to meet center expenses. The *1997-98 Governor’s Budget* (adjusted for our various recommended reductions) would provide about \$9,750 per FTE. From these systemwide funds, CSU plans to use only \$3,625 per FTE for the Stockton Center in 1997-98. By the fifth year of operation, CSU proposes to use only \$4,700 per FTE.

If CSU would allocate to its Stockton programs the average level of support it receives from the General Fund per FTE, the programs would have an additional \$2.1 million in the budget year (when 350 FTE students will be on-site). By the fifth year of operation, when 650 FTE are there, the center’s programs would have more than \$3 million of additional funds. In our view, CSU should *at least* allocate average per student resources from its existing budget before needing additional General Fund appropriations. Therefore, with the available projected lease revenues and additional state and student fee support that will be available, the request for \$1.7 million of supplemental General Fund for five fiscal years is not justified.

The only valid justification we see for a supplemental appropriation is the need for CSU to cover “warm shutdown” needs during the interim period (about six months) before it can move its programs and students to the new location. We therefore recommend that the Legislature (1) reduce the request by half (\$850,000) for 1997-98 and (2) stipulate that these funds are provided on a one-time basis for “warm shutdown” needs.

Technical Budgeting Issues

We recommend that the Legislature correct specific instances of overbudgeting in the CSU budget. These corrections would result in \$40 million of General Fund savings.

Our analysis indicates that CSU is overbudgeted in the instances described below.

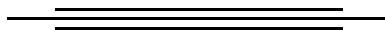
Missing Adjustment for Productivity Improvements. Under the Governor's four-year "compact" with UC and CSU, the university systems each committed to achieving annual productivity improvements of at least \$10 million. For 1997-98, the Governor's budget includes a \$10 million General Fund reduction for expected productivity improvements at UC. The budget does not include a similar adjustment for CSU.

There is no indication that CSU is having difficulty generating these internal savings. Referring to the \$10 million target, CSU's most recent productivity improvement report to the Legislature (December 1996) states: "We are proud to say that the CSU has met this challenge—and then some." Therefore, to recognize these savings, we recommend that the Legislature make this technical adjustment to the CSU budget for a \$10 million General Fund savings.

Missing Adjustments for Increased CSU Revenues. Each year, the budget act shows estimated CSU revenues (from student fees and other miscellaneous fees) as an offset to the main General Fund appropriation for CSU (Item 6610-001-0001). Thus, for a given level of total expenditures, any increase in fee revenue results in a lower General Fund appropriation. The *1997-98 Governor's Budget* estimates that CSU revenues for 1996-97 will be \$20 million higher than the \$583 million assumed in the *1996-97 Budget Act*. The Governor's budget estimates that 1997-98 revenues will exceed the *1996-97 Budget Act* level by \$26 million.

Of the \$20 million and \$26 million in additional revenues in the current and budget years, \$12 million and \$18 million, respectively, are available to offset CSU's need for General Fund monies. (The balance of \$8 million in each year is from increased health-fee revenues that are dedicated to increased student health care expenditures.) The budget, however, does not include any General Fund adjustments to account for these additional revenues. We therefore recommend that the Legislature take the following actions for a total General Fund savings of \$30 million:

- Revert \$12 million from CSU's current-year General Fund appropriation.
- Reduce budget bill Item 6610-001-0001 by \$18 million.



CALIFORNIA COMMUNITY COLLEGES (6870)

The California Community Colleges (CCC) provide instruction to about 1.4 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, as well as a variety of adult education programs including basic skills education, citizenship instruction, and vocational programs.

The proposed CCC budget is \$3.5 billion. This is an increase of \$193 million, or 5.8 percent, above estimated current-year expenditures. Of the proposed \$3.5 billion total, \$1.8 billion is from the General Fund, \$1.4 billion is from local property tax revenues, and \$300 million is primarily from student fees and state lottery funds.

The above amounts reflect only what is subject to legislative action through the annual budget process, and understate the full dimension of CCC spending. When local miscellaneous revenues, state debt service on general obligation bonds, and state payments to the State Teachers' Retirement System (for community college instructors) are counted, the Department of Finance (DOF) estimates that total spending related to the CCC will exceed \$4.4 billion in 1997-98.

LEGISLATURE'S COMMUNITY COLLEGE FUNDING OPTIONS

The Legislature must determine spending levels and priorities for both the current and budget year. Current-year spending is an issue primarily because more Proposition 98 funding is available for K-14 programs than was anticipated in the *1996-97 Budget Act*.

The 1997-98 spending level for community colleges depends, in part, on the level of the Proposition 98 spending determined by the Legislature and, in part, on how the Legislature chooses to divide those resources between K-12 and CCC programs. The Legislature has generally set Proposition 98 funding levels at the minimum amount required under the

State Constitution. The level of the minimum funding guarantee depends on a variety of factors, including estimated General Fund revenue growth in 1997-98. As we discuss in the K-12 priorities section (see Section E of this *Analysis*), our estimate of General Fund tax revenue growth—and therefore our estimate of the Proposition 98 minimum funding guarantee—exceeds the budget’s estimate.

To assist the Legislature with its deliberations on CCC funding priorities, we developed an alternative proposal to the administration’s spending plan. In our alternative plan for 1997-98, we recommend the Legislature redirect about \$21 million from CCC to K-12 programs. Our alternative assumes that the division of Proposition 98 resources between K-12 and CCC programs should be driven by program needs and not by rigid formula. While the Governor’s budget allocates resources between the two segments in exactly the same proportion as 1996-97 (89.8 percent to K-12 and 10.2 percent to CCC), our approach is based on the premise that the relative needs of K-12 and CCC will vary one year to the next. Based on our reviews of the K-12 and CCC budgets, we conclude that, at the margin, relative program needs are currently greater in K-12 education.

Figure 11 compares the Governor’s proposal and our proposal for Proposition 98 spending for the CCC in 1997-98. Our recommendations are based on the following order of priorities:

- **Fund Continuing Program Costs.** Support for the current level of service in K-14 programs should receive the highest priority.
- **Fund Program Improvement.** The Legislature should support critical program improvement proposals and provide equalization monies to address historical inter-district funding differences.
- **Fund Appropriate Program Expansion.** The state should provide funding for enrollment growth based on growth in the college-age population, as well as other necessary expansions.

We discuss our recommendations in more detail below.

LAO Alternative Funding Proposal for 1997-98

While we agree with the Governor’s 1997-98 California Community Colleges spending proposals in most program areas, we recommend the following changes: (1) reduce funding for “extra” enrollment growth by \$29.3 million to conform funding with the underlying change in the state’s college-age population, (2) provide \$8 million of equalization funds to address historic inter-district funding disparities, and (3) redirect the resulting net savings of \$21.3 million to support high priority programs in K-12 education.

As Figure 11, shows, we agree with the Governor's spending proposals in most program areas. We discuss our few areas of disagreement below.

Figure 11			
California Community Colleges Governor and LAO Proposals 1997-98 Proposition 98 Funds			
(In Thousands)			
	Governor's Budget	LAO Recommendations	Difference
Fund Continuing Program Costs			
Base apportionments	\$2,809,231	\$2,809,231	—
Apportionments COLA	80,247	80,247	—
Categorical programs base	164,178	164,178	—
Categorical COLA	4,690	4,690	—
Facilities maintenance/repairs	39,000	39,000	—
Lease-payment bond cost (base)	35,880	35,880	—
Lease-payment bond cost increase	21,443	21,443	—
Telecommunications/technology	9,300	9,300	—
Other programs	66,344	66,344	—
Program Improvement			
Special services for students on welfare	53,209	53,209 ^a	—
Fund for student success	11,418	11,418	—
Equalization	—	8,000	\$8,000
Program Expansion			
Enrollment growth (statutory)	33,992	33,992	—
Additional enrollment growth	33,008	5,338	-27,670
Categorical program growth	3,915	2,300	-1,615
Telecommunications/technology	4,700	4,700	—
Totals	\$3,370,555	\$3,349,270	-\$21,285

^a LAO recommends this amount be "set aside" for consideration in omnibus welfare reform legislation.

Enrollment Growth Exceeds Underlying Growth in College-Age Population. Current state law calls for the annual percentage increase in funding for CCC enrollment growth to at least equal the percentage increase in the state's adult population, as calculated by the DOF. The law states that additional factors may be considered to justify a higher percentage increase. (This statutory formula sets a statewide average. The CCC's

distribution formula provides above average growth amounts for fast-growing community college districts.)

The DOF projects the state's adult population (age 18 and older) to increase by 1.21 percent from the current to the budget year. The budget proposes \$34 million to fund this enrollment increase. The budget, however, proposes an additional \$33 million for more enrollment growth. In total, the budget proposes \$67 million for an enrollment increase of 2.38 percent—over 21,000 full-time-equivalent students (FTE).

The proposed percentage increase of 2.38 percent does not correspond to any index of underlying population growth or any other objective measures of growth. It is simply the percentage that results by having a total augmentation of \$67 million. The dollar amount represents the administration's judgment (1) of how much is available for growth after addressing its other priorities and (2) that the CCC can attract at least this much enrollment growth.

According to DOF and CCC staff, most community college districts can generate the necessary FTE growth to earn their share of a \$67 million growth allocation. This may be true, particularly if districts spend from existing funds to advertise for new students, as some districts have done in the current year. In our view, however, asking whether colleges *can* attract more new students than would be justified by underlying population growth is asking the wrong policy question. We think the following is the more appropriate policy question: Given multiple competing needs throughout K-14 education, what are the best ways the Legislature can invest limited state funds? In this instance, specifically, are we better off investing up to \$33 million in an effort to fuel extraordinary growth in the number of adults taking college courses, or are we better off investing at least some of those funds to meet high priority educational needs in K-12 education?

Viewed in the above context, we believe the Governor is allocating too much to CCC enrollment growth. We suggest that projected growth in the state's population between the ages of 18 and 24—the age “cohort” that accounts for the largest share of community college FTE—is an appropriate index for determining the aggregate amount of CCC enrollment growth funds. We project that growth of this cohort will be 1.4 percent from the current to the budget year, slightly higher than the increase of the adult population as a whole. On this basis, we recommend that the Legislature appropriate a total of \$39.3 million for apportionment enrollment growth, a reduction of \$27.7 million from the Governor's proposal. We recommend a conforming reduction in growth funds for categorical programs of \$1.6 million.

Our recommendations result in total funding for enrollment growth (including the categorical programs) of \$41.6 million. This exceeds the statutory minimum indicated by the 1.21 percent change in adult population by \$7.6 million. It also would fund a substantially higher rate of enrollment growth than the 1 percent change proposed in the budget for the University of California and the California State University.

Inter-District Funding Disparities Should Be Addressed. We recommend the Legislature allocate \$8 million to fund inter-district equalization. Community college districts did not receive the same equalization funding that was provided to K-12 districts in the 1980s. Consequently, significant funding disparities still exist between community college districts. The \$8 million amount that we recommend is based on CCC regulations that call for equalization funding to equal 10 percent of the apportionment COLA amount. It also builds on the \$14 million for equalization added by the Legislature in the *1996-97 Budget Act*.

Net Savings Should Be Invested in K-12. Our recommendations for equalization funding and reduced enrollment growth funding, if adopted by the Legislature, would result in net savings of \$21.3 million of Proposition 98 funds. In our review of Proposition 98 funding and K-12 priorities, we estimate—based on our projection of higher General Fund revenues and our recommendation for a Proposition 98 reserve—that the Legislature will have \$63 million more to spend on K-12 programs than the Governor proposes for 1997-98.

Under the Governor's approach of a fixed "split" between K-12 and CCC, the colleges would receive \$6.4 million of that amount. We recommend spending the entire \$63 million on K-12 needs. In addition, we recommend redirecting the net savings of \$21.3 million from our CCC recommendations to more pressing K-12 needs. Thus, our recommendations call for the investment of \$27.7 million more on K-12 needs (and \$27.7 million less on the CCC) than would occur under a fixed split that assumes that the state's relative needs for educating children and for educating adults never change. Our recommendation still leaves the CCC with ample resources. Instead of 10.2 percent of K-14 allocations, our recommendation would leave the CCC with 10.1 percent.

CCC Proposals Related to Welfare Reform

We recommend that the fiscal committees set aside up to \$53.2 million of Proposition 98 funding the Governor proposes for California Community College efforts related to welfare reform so that the Legislature may consider this proposed funding in concert with the state's overall welfare reform strategy.

As part of the Governor’s welfare reform proposal, the budget adds \$53.2 million of Proposition 98 funds to the CCC in 1997-98 to substantially augment various special services for welfare recipients attending the colleges. In addition, in order to accommodate demand expected from these students for child care services, the budget proposes \$6 million from one-time Proposition 98 monies for loans to campus-based child care providers to expand their facilities. Figure 12 displays how the \$53.2 million of ongoing funds would be allocated among different purposes.

Figure 12	
California Community Colleges Welfare-Related Spending Proposal 1997-98 Proposition 98 Funds	
(In Millions)	
Work-Study	\$32.5
Child care subsidy	10.2
Campus staff to coordinate services	5.3
Campus staff for job development/placement	5.3
Totals	\$53.2^a

^a Total does not add due to rounding.

Background. According to the Chancellor’s Office, about 125,000 current CCC students are welfare recipients, or about one in every 11 CCC students. (This “headcount” translates into roughly 85,000 FTE students when course loads are accounted for.) Of the 125,000 students, about 20,000 have been referred to the colleges through the Greater Avenues for Independence (GAIN) program. The remainder are attending on their own initiative.

The Chancellor’s Office estimates that about 3,400 welfare-recipient students currently are involved in work-study programs. Typically, these students work in on-campus jobs. Almost all of these jobs are subsidized, with federal funds providing 75 percent of the wage and the employer (in most cases the college) providing the 25 percent match. The Student Aid Commission also funds 154 jobs at three college campuses.

Most colleges have child care services available on or near campus, although many colleges report waiting lists for the services. Various child care subsidies are available for welfare recipients under current law.

Governor's Proposal. As Figure 12 shows, the largest portion of the \$53.2 million of ongoing Proposition 98 funds is the \$32.5 million proposed for work-study. According to the CCC, this amount would be sufficient to pay minimum wage to 5,000 welfare-recipient students at 32 hours per week for a 44-week academic year. (Similar to the current work-study program at the CCC, the state would pay 75 percent of the wage and employers would pay 25 percent.) In fact, the \$32.5 million would fund work-study stipends for more than 5,000 students. This is because some of the students' course time (which is not paid) could be applicable to the 32-hour "work participation" requirement of the Governor's reform proposal. At the time of this analysis, CCC staff were unable to estimate how many additional students might receive stipends due to this effect.

The proposal would provide \$10.2 million for child care subsidies, helping an estimated 2,000 FTE students. Finally, the proposal funds on-campus staff, as follows:

- \$5.3 million for a position at each campus to coordinate referrals from county welfare offices, place students in appropriate academic programs and work activities, refer students to child care and other support services, and track student academic/training progress and post-CCC employment.
- \$5.3 million for a position at each campus to develop work-study placements, internships and post-CCC job placements for students.

Proposal Should Be Considered As Part of Overall Welfare Reform Legislation. It is clear that the above CCC budget proposal is inextricably tied to the state's overall strategy on welfare reform and should be considered by the Legislature in concert with omnibus welfare reform legislation. Accordingly, we recommend that the fiscal committees "set aside" up to the \$53.2 million of Proposition 98 funds for the Legislature to consider as part of the omnibus legislation. Some issues the Legislature may want to consider regarding the CCC proposal include:

- The role for community colleges in the overall strategy of welfare reform.
 - The potential for unwanted overlap or duplication of efforts and funding by different parts of government for child care services.
 - Whether the proposed 32-hour per week work participation requirement (rather than the 20 hours needed to satisfy the federal work participation requirements for most AFDC recipients) may interfere with the primary focus of attendance at college—education and training.
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- Whether the CCC's planned program start-up at the beginning of the budget year should conform with the January 1, 1998 start assumed for the rest of the Governor's welfare reform efforts. (The \$53.2 million is "priced out" on the basis of full-year, not half-year, funding.)

Spending Proposal for One-Time Proposition 98 Funds

We withhold recommendation on \$6 million proposed for on-campus child care facilities, because the appropriate disposition of these funds will depend on the Legislature's overall strategy on welfare reform. We recommend approval of the proposed \$53.4 million block grant for instructional equipment, library materials, technology, and facility maintenance/repairs.

One-time Proposition 98 monies are available for K-14 programs because current-year General Fund revenues are higher than the level assumed in the 1996-97 Budget Act. Of these funds the Governor proposes to allocate \$59.4 million to the CCC. This amount consists of \$6 million for on-campus child care facilities (as described above in our discussion of CCC welfare-related proposals) and a \$53.4 million block grant to the 71 CCC districts. The proposed block grant would be available for any combination of one-time expenditures for instructional equipment, library materials, technology, or facility maintenance/repairs. The block grant would be distributed on an FTE-basis. The above spending proposals are to be included in legislation separate from the budget bill, because they involve spending to meet Proposition 98 minimum funding levels for the current and prior fiscal years.

We withhold recommendation on the \$6 million proposed for child care facilities, because the appropriate disposition of these funds will depend on the Legislature's overall welfare reform strategy. Our review of the \$53.4 million block grant proposal indicates that it will give districts appropriate discretion to meet high priority needs that have not been fully addressed in past funding. We therefore recommend approval of the block grant proposal.



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's proposed 1997-98 budget (state and federal funds) is \$655 million. This is \$31.5 million, or 5.1 percent, more than estimated expenditures in the current year. The commission receives about 54 percent of its funding from the federal government.

The budget requests \$295 million from the General Fund for the commission. This is \$30.3 million, or 11 percent, more than estimated expenditures in the current year. Figure 13 shows the major changes proposed for the commission's budget in 1997-98.

Figure 13

Major General Fund Changes In Student Aid Commission Budget

(Dollars in Thousands)

1996-97 General Fund Budget	\$264,757
1997-98 cost of 1996-97 Cal Grant increase	15,786
Increase maximum Cal Grant award	10,000
One-time federal audit payment	4,965
Cal Grants for digital animation	1,200
Grant program compliance reviews	311
Staff for Student Expenses and Resources Survey	225
Other adjustments	-2,191
Proposed 1997-98 General Fund Budget	\$295,053
General Fund increase	30,296
Percent increase	11%
Increase excluding one-time audit payment	25,331
Percent increase excluding one-time audit payment	9.6%

Of the \$295 million requested from the General Fund, \$283 million, or 96 percent, is for student financial aid awards, primarily in the Cal Grant program. The balance of \$11.8 million is for SAC administrative costs.

MAJOR GENERAL FUND BUDGET CHANGES

As Figure 13 shows, the budget requests a General Fund increase of \$30.3 million. The major components of this increase are:

- \$15.8 million for the second-year cost increase associated with the *1996-97 Budget Act*, which provided \$10 million for additional Cal Grant awards and \$10 million to raise the maximum award from \$5,250 to \$7,164 for recipients attending private colleges and universities. Costs for such changes increase over four years as first-time recipients renew their awards each year in school.
 - \$10 million to increase the maximum Cal Grant award from \$7,164 to \$9,105 for first-time recipients attending private colleges and universities. The commission estimates that the annual cost of this action will increase to \$29.3 million by 2000-01.
 - \$5 million to settle an audit claim filed by the federal government for SAC expenditures in 1993-94 and 1994-95. The federal government determined that the commission incorrectly billed the federal government loan program, which the SAC administers, for costs attributable to state programs. The commission agrees with the audit findings.
 - \$1.2 million for 500 new Cal Grants for students studying digital animation. Of this amount, \$1 million would be for new awards and \$200,000 would be for costs to administer the new program.
 - \$311,000 for 4.7 personnel-years of staff to audit campuses that process Cal Grant awards for their students. The SAC estimates that by increasing their audits, they can recover approximately \$545,000 per year in mishandled grant funds to the benefit of the state General Fund.
 - \$225,000 for a staff person and expenses to process SAC's triennial Student Expenses and Resources Survey (SEARS). The survey provides information on the costs of attending college and how students and their families finance their education. It also provides financial profiles of students and their families.
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THE CAL GRANT PROGRAM

The Cal Grant program consists of three parts—Cal Grant A, Cal Grant B, and Cal Grant C. Figure 14 (see page 46) summarizes the purpose, eligibility requirements, and awards for the three programs.

Additional Cal Grant Awards

We recommend the transfer of \$19.8 million from the University of California (Item 6440-001-0001) to the Student Aid Commission's Cal Grant program (Item 7980-101-0001) for additional Cal Grant awards sufficient to provide, on average, \$19.8 million in additional grants per year.

In our analysis of the University of California's (UC's) budget, we recommend transferring \$19.8 million to the SAC's Cal Grant program because (1) UC has shifted financial aid resources to other university programs while student fee revenues have risen and (2) shifting funds to the Cal Grant program will give students greater flexibility when choosing which college to attend. This recommendation, if adopted, will provide \$19.8 million each year for financial aid in the Cal Grant program.

Budget Proposal. The budget includes \$10 million to increase the maximum award for Cal Grant recipients who choose to attend private colleges or universities. This action would address one statutory goal of the Cal Grant program—to provide the same level of public aid to recipients who attend private institutions as the state provides students attending UC and California State University. As Figure 15 (see page 47) shows, the commission estimates that the proposed maximum award for students attending private colleges nearly meets this goal. We think this is a reasonable approach and we recommend approval of the \$10 million.

Increasing the Number of Cal Grant Awards. In recent years, the Legislature also has addressed another statutory goal of the Cal Grant program as well—to provide first-time awards to one-fourth of high school graduates. As Figure 15 shows, the SAC estimates that 47,826 first-time awards will be available in 1997-98, which achieves almost two-thirds of this goal. To increase this percentage, we recommend that the SAC use the \$19.8 million transferred from the UC to provide more Cal Grant awards.

Figure 14		
Description of Cal Grant Programs 1997-98		
Cal Grant A	Cal Grant B	Cal Grant C
Purpose		
Choice—based on financial need and academic performance	Access—based primarily on financial need, preference for initial attendance at community college	Vocational—based on financial need
Eligibility (1997-98)		
Income ceiling: \$57,200 for dependent student with five family members	Income ceiling: \$32,249 for dependent student with five or more family members	Income ceiling: Same as Cal Grant A
Asset ceiling: \$42,000	Asset ceiling: \$42,000	Asset ceiling: \$42,000
Freshman grade point average (GPA) cutoff: 3.16 (1996-97) Sophomores and Juniors: 3.27 (1996-97)	Applicants ranked based on family income, family size, GPA, family education background, and marital status of parents	Applicants ranked based on work experience, educational performance, and recommendations
Plan to enroll at least two years at UC, CSU, or nonpublic institution	Plan to enroll at least one year at a college	Plan to enroll at least four months at community college, independent college, or vocational school
Average Family Income of New Recipients (1996-97)		
\$29,793	\$11,541	\$24,207
Maximum Award (1997-98)		
Tuition and fees: Nonpublic: \$9,105 UC: \$3,799 CSU: \$1,584	Tuition and fees: No award in the first year, then same as Cal Grant A	Tuition and fees: Nonpublic: \$2,360 UC: \$2,360 CSU: \$1,584
Other costs: None	Other costs: Up to \$1,410	Other costs: Up to \$530
Number of New Awards Annually		
19,026	15,578	2,089
Proposed Budget 1997-98 (In Millions)		
\$195.2	\$85.8	\$3.7
Number of Current Recipients		
53,846	41,222	3,264

Figure 15

**Cal Grants
Statutory Goals Compared to Actual Awards
1977-78, 1987-88, 1997-98**

	1977-78	1987-88	1997-98 Proposed
Goal: Number of awards			
25 percent of high school graduates	66,156	59,354	72,713
Actual number of new awards	23,062	28,220	47,826
Percent of goal	35%	48%	66%
Goal: Cover UC and CSU fees^a (for financially needy students)			
UC			
Weighted average tuition and fees	\$706	\$1,492	\$4,130
Maximum award	662	1,070	4,130
Percent of goal	94%	72%	100%
CSU			
Weighted average tuition and fees	\$195	\$754	\$1,925
Maximum award	190	328	1,925
Percent of goal	97%	43%	100%
Goal: Support private institution recipients at level of public institution funding			
Specified costs and fees at public institutions	— ^b	— ^b	\$9,383
Maximum award (SAC estimate)	\$2,700	\$4,370	9,105
Percent of goal	— ^b	— ^b	97%
^a	Cal Grant A and B.		
^b	Not available.		

When the number of first-time Cal Grant awards is increased, the cost to the General Fund increases each year for four years. This is because freshmen maintain their annual grant awards for four years, and new first-year recipients are added to the Cal Grant roles each year. If the SAC allocated the full \$19.8 million in 1997-98 to increase the number of awards, the annual cost of the change could exceed \$73 million by 2001-02.

There is, however, another way the Legislature could augment the Cal Grant program and increase the number of grants with no increase in the annual cost of these awards. To do this, the SAC would adjust the number of new grants so that the additional grants will cost an average of \$19.8 million on an ongoing basis. We recommend that the \$19.8 million be allocated using this approach. The SAC indicates that this alternative method of budgeting increases is feasible. The commission estimates that the \$19.8 million will create approximately 3,300 new Cal Grant awards.

The traditional way of expanding the Cal Grant program commits the state to future budget increases beyond those proposed in the budget year. This places an added burden on future General Fund resources, thereby reducing the Legislature's future fiscal flexibility. Our recommended method of increasing the Cal Grant funding ensures that the cost will not exceed the \$19.8 million available, even in future years.

We recommend that the Legislature add the following budget language to Item 7980-101-0001 to provide for additional Cal Grant awards at an average annual cost of \$19.8 million each year.

Of the amount appropriated in this item, a total of \$19.8 million is available for additional Cal Grant awards. The Student Aid Commission shall increase the number of awards such that the average annual cost of the added grants shall equal \$19.8 million. Notwithstanding Section 2.00 (a) of this act, any unexpended funds appropriated pursuant to this provision on June 30, 1998 shall be available to the commission for expenditure for Cal Grant awards in subsequent years.

Digital Animation Proposal Restricts Student Choice

We recommend eliminating the proposal to award \$1 million in Cal Grant funds solely for students seeking to study digital animation, because financially needy students should be free to pursue careers that offer them the greatest personal and economic benefits. Furthermore, we recommend transferring \$200,000 for associated administrative costs to actual Cal Grant awards.

The budget requests an additional \$1.2 million for the creation of a Cal Grant award for up to 500 students each year that are enrolled in digital-animation programs. The \$1.2 million would consist of \$1 million for Cal Grants, and \$200,000 for the SAC to administer the new digital-animation grant program. The proposal would make the funds available for grants only if prospective employers match the Cal Grant funds.

Cal Grants Should Provide Students With Maximum Flexibility. The Cal Grant program is intended to provide financially needy students with greater opportunities to attend colleges, universities, and vocational-

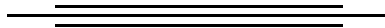
training schools. These educational opportunities allow students to attain the benefits of higher education, and to contribute more to the economy and their communities. Students choose among various career paths based on their interests and the income they can earn in a particular career.

The budget proposes to restrict 1.2 percent of first-time Cal Grant awards to students studying digital animation. By limiting \$1 million in proposed Cal Grants to students pursuing careers only in digital animation, the budget unnecessarily restricts the ability of students to choose among career paths, even when other paths might be more satisfying or economically rewarding to them than digital animation.

Maintaining the freedom of Cal Grant recipients to choose their educational paths does not limit prospective employers in the digital-animation field from offering to match a Cal Grant award for students pursuing studies in digital animation—indeed, they have many opportunities to do so. Over 30,000 students each year receive a Cal Grant for the first time. The state should encourage all prospective employers to contribute to the educational opportunities of prospective employees, whether by matching Cal Grant awards or by directly providing grants of their own. The state should not make grants contingent on students receiving matching funds from only one sector of the economy.

To maintain the freedom of Cal Grant recipients to choose their educational and career paths, we recommend that the Legislature eliminate provision number 7 of Item 7980-101-0001, which would restrict the use of \$1 million in Cal Grant funds to students studying digital animation. We also encourage the commission to assist *all* businesses, including the motion picture industry, in providing financial aid to Cal Grant recipients.

The budget also includes \$200,000 for the SAC's cost to create and administer a restricted digital-animation grant program. These added administrative costs are not necessary under our recommendation to allow students unrestricted use of these grant awards as is already done under the current Cal Grant program. We therefore recommend that the \$200,000 in budget bill Item 7980-001-0001 be shifted to Item 7980-101-0001 for additional Cal Grant awards.



FINDINGS AND RECOMMENDATIONS

Higher Education

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Crosscutting Issues

1. **The State's Approach to Deferred Maintenance.** Last year the Governor vetoed a plan developed by the Legislature to resolve (a) existing backlogs in facility maintenance and (b) chronic underfunding of maintenance needs. We recommend that the Legislature continue the basic approach it adopted in last year's budget, including General Fund augmentations for the CSU (\$18.1 million) and for the UC (\$7.5 million). F-15

University of California

2. **Instructional Technology.** Recommend deleting \$4 million from the General Fund because the university has not developed any specific plans for its instructional technology proposal. F-19
 3. **Industry-University Cooperative Research.** Recommend reducing \$5 million from the General Fund because UC's proposed industry-university cooperative research program is possible within existing resources. F-22
 4. **Transfer UC Financial Aid Funds to Student Aid Commission.** Recommend transfer of \$19.8 million from the General Fund to the Cal Grant program to give aid recipients greater flexibility to choose among all colleges and universities in the state. F-24
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California State University

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| 5. | Enrollment Information in Budget Incomplete. Recommend (a) CSU provide fiscal committees with a written reconciliation of budgeted enrollment levels for prior, current, and budget years and (b) future budgets include three-year enrollment displays. | F-28 |
| 6. | Trends in Newly Credentialed Teachers Going Wrong Way. Recommend CSU report to fiscal committees on steps it will take to (a) reverse decline in number of graduates from its teacher preparation programs and (b) implement improvements in those programs recommended by CSU’s Institute for Education Reform. | F-29 |
| 7. | Economic Improvement Initiative. Recommend Legislature delete \$5 million requested from General Fund for an “economic improvement initiative” because the request lacks detail. | F-30 |
| 8. | Integrated Technology Strategy. Recommend Legislature delete \$13.5 million requested from General Fund for “academic technology” because (a) the budget makes no provision for the larger “integrated technology strategy” of which it is a part and (b) CSU lacks a well-defined programmatic and funding plan for this “strategy.” | F-31 |
| 9. | CSU Not Committing Enough of Its Funds to Stockton Center. Recommend the Legislature eliminate CSU’s \$1.7 million request for ongoing funding for a relocated center in Stockton and, instead, provide \$850,000 for interim maintenance of the new facility, because CSU has adequate ongoing budget resources for the center’s programs. | F-31 |
| 10. | Technical Budgeting Issues. Recommend Legislature correct specific instances of overbudgeting. These corrections would result in current-year General Fund savings of \$12 million and budget-year savings of \$28 million. | F-34 |
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Analysis
Page**California Community Colleges**

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| 11. LAO Alternative Funding Proposal for 1997-98. While we agree with the Governor's 1997-98 CCC spending proposals in most program areas, we recommend the following changes: (a) reduce funding for enrollment growth by \$29.3 million to conform funding with the underlying change in the state's college-age population, (b) provide \$8 million of equalization funds to address historic inter-district funding disparities, and (c) redirect the resulting net savings of \$21.3 million to increase support for high-priority K-12 programs. | F-36 |
| 12. CCC Proposals Related to Welfare Reform. Recommend the fiscal committees set aside up to \$53.2 million of Proposition 98 funding the Governor proposes for CCC efforts related to welfare reform so that the Legislature may consider this proposed funding in concert with the state's overall welfare reform strategy. | F-39 |
| 13. Spending Proposal for One-Time Proposition 98 Funds. Withhold recommendation on \$6 million proposed for on-campus child care facilities because the appropriate disposition of these funds will depend on the Legislature's overall strategy on welfare reform. Recommend approval of the proposed \$53.4 million block grant for instructional equipment, library materials, technology, and facility maintenance/repairs. | F-42 |

Student Aid Commission

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| 14. Recommended Transfer From University of California. Recommend transfer of \$19.8 million from the University of California (Item 6440-001-0001) to the Cal Grant program (Item 7980-101-0001) for additional Cal Grant awards. | F-45 |
| 15. Digital Animation Awards. Recommend denying a proposal to target \$1 million in Cal Grant funds, solely for students seeking to study digital animation, because financially needy students should be free to pursue careers that offer them the greatest personal and economic benefits. | F-48 |

