

MAJOR ISSUES

Higher Education



Projected Enrollment Increases Are Not of “Tidal Wave” Proportions

- Various reports characterize future enrollment increases in California’s higher education system as “Tidal Wave II.”
- Using college-participation rates from 1996, we project that, by 2005, higher education enrollments will be 98,000, or 4.8 percent, higher than peak levels in 1991.
- Even if the higher participation rates assumed by other studies occur, student enrollments will not grow at “tidal wave” proportions.
- Enrollments will increase over the next decade. The Legislature, however, has many policy levers that it can use to manage this growth and ensure students receive the best possible service (see page F-15).



Higher Education Enrollment Increases Are Not Justified

- All three segments request significant new funds for increases in enrollments.
- **University of California (UC).** The UC requests \$20.6 million from the General Fund to increase enrollments by 2,800, or 1.8 percent. We recommend reducing this proposal by \$9.4 million because (1) UC has not justified why it needs to increase enrollments above the 1 percent contained in the Governor’s compact and approved by the Legislature the past three years and (2) UC already can and should shift its class offerings to reflect changes in student needs (see page F-29).

- **California State University (CSU).** The budget requests \$40 million for “extra” growth for CSU. This growth, however, already has taken place. During 1996-97 and 1997-98, CSU has successfully accommodated the extra students, drawing from a \$50 million-plus pool of (1) productivity savings promised under the “compact,” and (2) unreported student fee revenues. Since resources already exist to teach the extra students, CSU does not need the \$40 million augmentation for that purpose.
- As an alternative, we suggest redirecting the augmentation to (1) provide new incentives for CSU faculty to increase their teaching commitments and (2) fund a plan adopted by the Legislature in 1996-97 to address CSU’s deferred maintenance (see page F- 34).
- **California Community Colleges (CCC).** The budget includes \$90 million in enrollment growth. This is significantly above the state’s projected level of adult population growth. Providing such high levels of growth, however, creates incentives for colleges to serve lower-priority classes (such as recreation classes). For this reason, we recommend the Legislature delete \$18 million budgeted for this purpose, which would align growth funding with the increase in the underlying population served by CCC (see page F-46).



The UC Request for \$9.9 Million for the Tenth Campus Lacks Sufficient Detail

- The UC received \$4.9 million in 1997-98 for activities related to the tenth UC campus in Merced County. The budget requests \$9.9 million in 1998-99 to continue these activities. The university indicates that it will need over \$80 million in operating funds before it opens the campus in 2005.
- The UC has provided only broad descriptions of how it is spending funds for the tenth campus in the current and budget year. We withhold recommendation on the budget-year funds until UC provides the Legislature with details of how it plans to spend them (see page F-30).

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OVERVIEW

Higher Education

The budget proposes an 8.3 percent increase in General Fund expenditures for higher education in 1998-99. This funds significant enrollment growth and fee reductions for all three segments.

The budget proposes total spending for higher education in California of \$21 billion in 1998-99, which is \$806 million, or 4 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, the California Student Aid Commission, and the California Postsecondary Education Commission, and various other costs. The \$21 billion includes activities at UC that are not entirely related to instruction, including providing medical care at its hospitals (\$2 billion) and managing three major U.S. Department of Energy laboratories (\$2.6 billion).

As Figure 1 (see next page) shows, the budget proposes General Fund expenditures of \$7.2 billion for higher education in 1998-99. This is \$552 million, or 8.3 percent, higher than estimated for the current year. In addition, the budget assumes that local property taxes will contribute \$1.4 billion for the community colleges in 1998-99, an increase of \$57 million, or 4.1 percent.

Student fee and tuition revenue at all the higher education segments account for \$1.8 billion of proposed expenditures, approximately the same as in the current year. While enrollments are projected to increase by 3.1 percent, recent state legislation reduced undergraduate fees and maintained graduate and professional school fees at the 1997-98 level. (Only nonresident fees at UC will increase.) The net effect will be to hold total student-fee revenue constant.

The budget proposes General Fund expenditures for UC of \$2.4 billion, which is \$175 million, or 8 percent, more than estimated General Fund expenditures in the current year. For CSU, the budget proposes a General Fund increase of \$163 million, or 8.6 percent. (After eliminating

\$14 million in one-time spending in 1997-98, the actual increase in ongoing General Fund support for CSU is \$177 million or 9.4 percent.) The combined General Fund, property tax revenue, and other fund amounts for the community colleges total \$251 million, or 6.8 percent, above 1997-98 estimated expenditures.

Figure 1					
Higher Education Budget Summary					
<i>1996-97 Through 1998-99 (Dollars in Millions)</i>					
	Actual 1996-97	Estimated 1997-98	Proposed 1998-99	Change From 1997-98	
				Amount	Percent
University of California					
General Fund	\$2,057.3	\$2,180.8	\$2,355.8	\$175.0	8.0%
Student fee revenue	961.3	1,005.8	1,020.0	14.1	1.4
Federal funds	3,643.0	3,718.8	3,793.0	74.2	2.0
Other funds	4,405.7	4,678.9	4,770.3	91.4	2.0
Totals	\$11,067.2	\$11,584.4	\$11,939.1	\$354.7	3.1%
California State University					
General Fund	\$1,810.1	\$1,897.2	\$2,060.1	\$162.9	8.6%
Student fee revenue	592.0	583.2	578.4	-4.8	-0.8
Federal & other funds	1,321.6	1,367.1	1,370.1	3.0	0.2
Totals	\$3,723.7	\$3,847.5	\$4,008.6	\$161.1	4.2%
California Community Colleges					
General Fund	\$1,734.0	\$1,947.5	\$2,116.8	\$169.3	8.7%
Local property tax revenue	1,337.3	1,391.3	1,448.2	56.9	4.1
Student fee revenue	163.5	165.5	155.3	-10.1	-6.1
Other funds	160.6	178.7	213.8	35.2	19.7
Totals	\$3,395.4	\$3,683.0	\$3,934.2	\$251.2	6.8%
Hastings College of the Law					
General Fund	\$12.3	\$12.3	\$13.2	\$1.0	7.8%
Student fee revenue	12.0	12.4	13.1	0.7	5.3
Other funds	6.0	6.9	6.6	-0.4	-5.1
Totals	\$30.3	\$31.6	\$32.9	\$1.3	4.0%
Student Aid Commission					
General Fund	\$263.9	\$294.7	\$319.9	\$25.2	8.6%
Federal & other funds	525.5	409.3	405.4	-3.9	-0.9
Totals	\$789.4	\$703.9	\$725.3	\$21.3	3.0%

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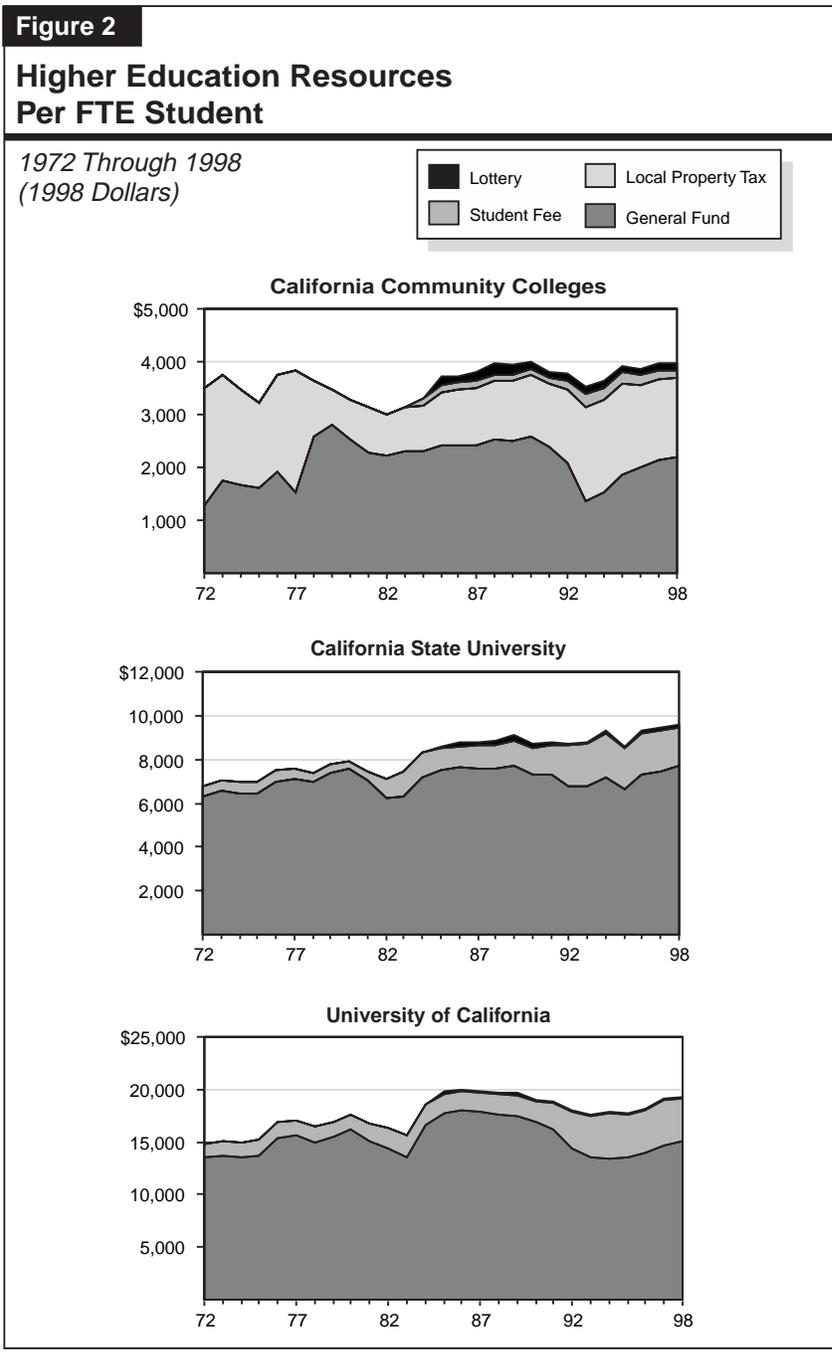
	Actual 1996-97	Estimated 1997-98	Proposed 1998-99	Change From 1997-98	
				Amount	Percent
Other Programs^a					
General Fund	\$302.6	\$307.1	\$325.4	\$18.3	5.9%
Federal & other funds	9.1	8.7	6.5	-2.2	-25.5
Totals	\$311.7	\$315.8	\$331.9	\$16.1	—
Totals, Higher Education	\$19,317.7	\$20,166.3	\$20,972.0	\$805.7	4.0%
General Fund	\$6,180.1	\$6,639.6	\$7,191.2	\$551.6	8.3%
Property tax revenue	1,337.3	1,391.3	1,448.2	56.9	4.1
Student fee revenue	1,728.7	1,767.0	1,766.9	-0.1	—
Federal & other funds	10,071.6	10,368.3	10,565.7	197.3	1.9
^a Includes California Postsecondary Education Commission, retirement costs for community college faculty, and debt service on higher education general obligation bonds.					

STATE HIGHER EDUCATION RESOURCES NEAR HISTORIC HIGHS

Adjusted for inflation, funding from the major state sources to each of the three segments per full-time-equivalent student are near their highest level in the past 26 years. Figure 2 (see next page) shows for each segment per-student spending from the General Fund, systemwide student-fee revenue, lottery funds, and local property tax revenue (for community colleges) since 1972-73. We used the inflation index for state and local services to adjust for the effects of inflation. As the charts show, each segment is near or exceeds the highest historic level of funding per student from these sources.

SPENDING BY MAJOR PROGRAM

Figure 3 (see page 9) 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 treat-



ments. 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 40 percent of its funding directly on instructional programs. Although difficult to determine precisely, substantial portions of the other activities listed in Figure 3 help support directly or indirectly the instructional mission. That UC expects to spend more on research (25 percent) than CSU (0.5 percent) reflects the fact that the state's Master Plan for Higher Education designates UC as the research university for the state.

Figure 3				
UC and CSU Proposed Spending in 1998-99 By Major Program				
<i>(Dollars in Millions)</i>				
Program	University of California	Percent^a	California State University	Percent^a
Instruction	\$2,410.1	36.0%	\$1,265.0	40.0%
Research	1,670.0	25.0	15.0	0.5
Public services	242.7	3.6	5.2	0.2
Academic support	736.8	11.0	322.1	10.2
Student services	253.3	3.7	243.5	7.7
Institutional support	380.6	5.6	374.6	11.9
Operation and maintenance of plant	367.1	5.4	276.8	8.8
Student financial aid	442.9	6.5	316.6	10.0
Other	281.5	4.1	334.2	10.6
Subtotals	\$6,785.0	100.0%	\$3,153.0	100.0%
Auxiliary enterprises	511.9	—	855.6	—
Federal energy laboratories	2,640.0	—	—	—
Teaching hospitals	2,002.2	—	—	—
Totals	\$11,939.1	—	\$4,008.6	—

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

MAJOR BUDGET CHANGES

Figure 4 describes the major General Fund budget changes proposed by the Governor for UC, CSU, and the community colleges. The largest changes in the UC and CSU budgets reflect increased funding under the final 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 \$84 million for UC and \$73 million for CSU. The budget also proposed additional funds (\$62 million for UC and \$51 million for CSU) to offset a statutory 5 percent student-fee reduction instead of a potential 10 percent fee increase for 1998-99.

ENROLLMENT

As Figure 5 (see page 12) shows, the budget proposes higher education full-time-equivalent student enrollments of 1.4 million, or 3.1 percent over the budgeted enrollments for the current year. The budget provides funds for a 1.8 percent increase for UC, a 4 percent increase for CSU, a 3 percent increase for CCC, and a 0.8 percent enrollment decline for Hastings. The budget includes \$21 million for UC, \$52 million for CSU, and \$90 million for the community colleges, for instruction and other operational costs to accommodate the additional students.

STUDENT FEES

Figure 6 (see page 13) shows student fee levels in public higher education. Chapter 853, Statutes of 1997 (AB 1318, Ducheny), reduced the annual resident undergraduate fees by 5 percent at CSU (-\$78) and UC (-\$190) for 1998-99 and keeps the fees at that lower level for 1999-00. The act also maintains graduate and professional fees for 1998-99 and 1999-00 at the 1997-98 level. Chapter 853 reduced community college fees from \$13 per credit unit to \$12 per credit unit for 1998-99 and 1999-00. For a full-time student paying fees, annual fees would fall from \$390 to \$360. (The community colleges waive the fee for low-income students. Currently, 39 percent of students receive waivers.)

Figure 4

**Higher Education
Proposed Major General Fund Changes for 1998-99**

University of California	Requested: \$2.4 billion
	Increase: \$175 million (+8%)

- + \$109 million for employee compensation and price increases
 - + \$62 million to avoid 10 percent student fee increase (\$39.5 million) and reduce fees by 5 percent (\$22.5 million)
 - + \$14.6 million for 2,000 more full-time equivalent (FTE) enrollments
 - + \$6 million for 800 more FTE enrollments in Computer Sciences and Engineering
-
- \$12.2 to eliminate state funding for Subject Matter Projects and International Studies Project

California State University	Requested: \$2.1 billion
	Increase: \$163 million (+8.6%)

- + \$87 million for employee compensation and price increases
 - + \$52 million for 10,320 more FTE enrollments
 - + \$51 million to avoid 10 percent student fee increase (\$31 million) and reduce fees by 5 percent (\$19 million)
-
- \$14 million to eliminate one-time spending in 1997-98

California Community Colleges, Local Assistance	Requested: \$2.1 billion
	Increase: \$168 million (+8.6%)

- + \$90 million for 28,211 more FTE enrollments
 - + \$68 million for a 2.22 percent COLA
 - + \$50 million for Partnership for Excellence, linking funding and outcomes
 - + \$21 million offset for reduced student fee revenues
-
- \$78 million offset for property tax revenues and one-time 1997-98 spending

Figure 5				
Higher Education Full-Time Equivalent Students				
<i>1996-97 Through 1998-99</i>				
	Actual 1996-97	Bud- geted 1997-98	Proposed 1998-99	Change From 1997-98
University of California				
Undergraduate	117,071	114,865	117,305	2.1%
Postbaccalaureate	394	400	400	—
Graduate	25,318	25,735	26,095	1.4
Health sciences	12,604	12,000	12,000	—
UC Totals	155,387	153,000	155,800	1.8%
California State University				
Undergraduate	225,624	221,818	230,679	4.0%
Postbaccalaureate	16,001	15,731	16,365	4.0
Graduate	20,803	20,451	21,276	4.0
CSU Totals	262,428	258,000	268,320	4.0%
California Community Colleges				
	912,967	940,356	968,567	3.0%
Hastings College of the Law				
	1,284	1,179	1,169	-0.8%
Grand Totals	1,343,666	1,352,535	1,393,856	3.1%

California's higher education fees compare favorably with public institutions in other states. The 1998-99 resident fees for UC undergraduate students will be \$909, or 18 percent, lower than current fees at the four public universities in other states that UC uses to compare faculty salaries. The 1998-99 resident fees for CSU undergraduates will be \$1,625, or 47 percent, lower than the average of fees at the 15 public universities in other states with which CSU compares itself. Community colleges do not have a similar comparison group. However, California community college fees for 1998-99—\$360 per year for a full-time student—are the nation's lowest, and about one-fourth of the national average for public two-year institutions.

Figure 6**Higher Education
Annual Student Fees***1996-97 Through 1998-99*

	1996-97	1997-98	Proposed 1998-99	Change From 1997-98
University of California				
Undergraduate	\$3,799	\$3,799	\$3,609	- 5.0%
Graduate	3,799	3,799	3,799	—
Professional Students:				
Law	10,175	10,175	10,175	—
Business	9,799	9,799	9,799	—
Medicine	8,175	9,175	9,175	—
Dentistry	7,799	8,799	8,799	—
Pharmacy	5,799	6,799	6,799	—
Veterinary medicine	7,799	7,799	7,799	—
Additional fees, all students:				
Undergraduate	367	413	413	—
Graduate	868	923	923	—
Additional fee, nonresidents	8,394	8,984	9,384	4.5%
California State University				
Undergraduates/graduates	\$1,584	\$1,584	\$1,506	- 4.9%
Additional campus fees	351	362	362	—
Additional fee, nonresidents	7,380	7,380	7,380	—
California Community Colleges^a				
	\$390	\$390	\$360	- 7.7%
Hastings College of the Law				
Education and registration fees	\$10,175	\$10,175	\$10,175	—
Other fees ^b	992	992	992	—
Additional fee nonresidents	8,392	8,392	8,392	—
^a	Based on two 15-credit semesters at \$13 per credit unit for 1996-97 and 1997-98, and \$12 per credit unit for 1998-99. Fees waived for 39 percent of students meeting financial aid eligibility requirements.			
^b	Includes an insurance fee of \$738 which can be waived with proof of insurance.			

CROSSCUTTING ISSUES

Higher Education

IS A TIDAL WAVE COMING? PROJECTIONS OF HIGHER EDUCATION ENROLLMENTS

There has been much talk of a “tidal wave” of new students in California’s public colleges. Our own projections and our review of other projections indicates that this is not the case. The number of students will increase steadily over the next several years, but at rates which are less than what the state has experienced over the past 20 years. Even with this increase, the Legislature has many policy levers that it can use to manage enrollment and ensure that students receive the best possible service. In this section, we summarize the major findings from our recent report on projections of higher education enrollments at the community colleges, California State University (CSU), and University of California (UC). The full text of the report can also be found in our companion document *The 1998-99 Budget: Perspectives and Issues* (Part V).

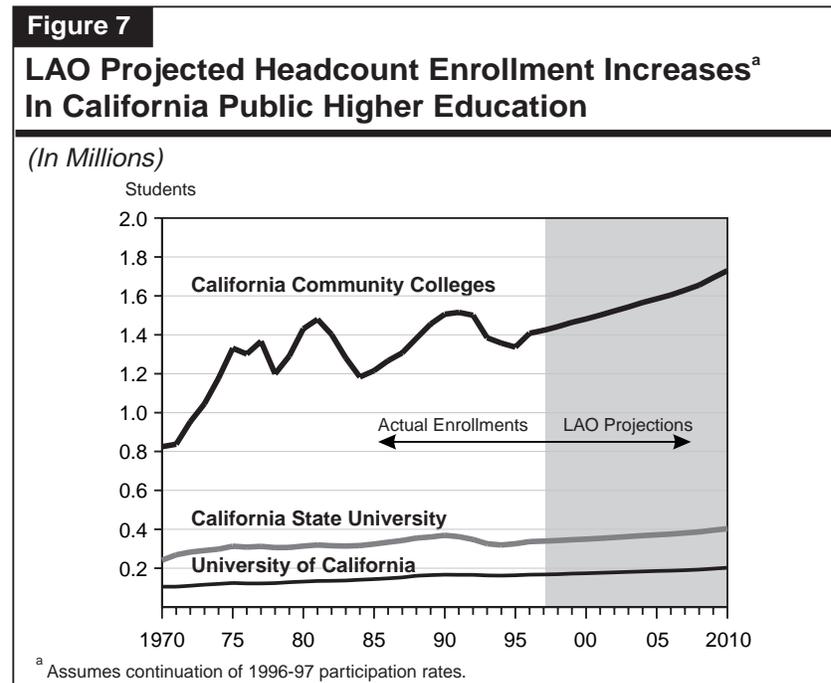
THE ENROLLMENT PROJECTIONS

Various reports have characterized anticipated increases in college enrollments as “Tidal Wave II.” In its *California Public Postsecondary Enrollment Projections: 1997 Series*, the Department of Finance (DOF) projected that a total of 2,395,000 students (measured in terms of headcount, not full-time-equivalent [FTE] students) will attend the community colleges, CSU, and UC in 2005. This would be 484,000, or 25 percent, more students

than enrolled in 1996. In its often cited 1995 report *A Capacity for Growth*, the California Postsecondary Education Commission (CPEC) projected that there will be 2,328,000 students in the three segments by 2005.

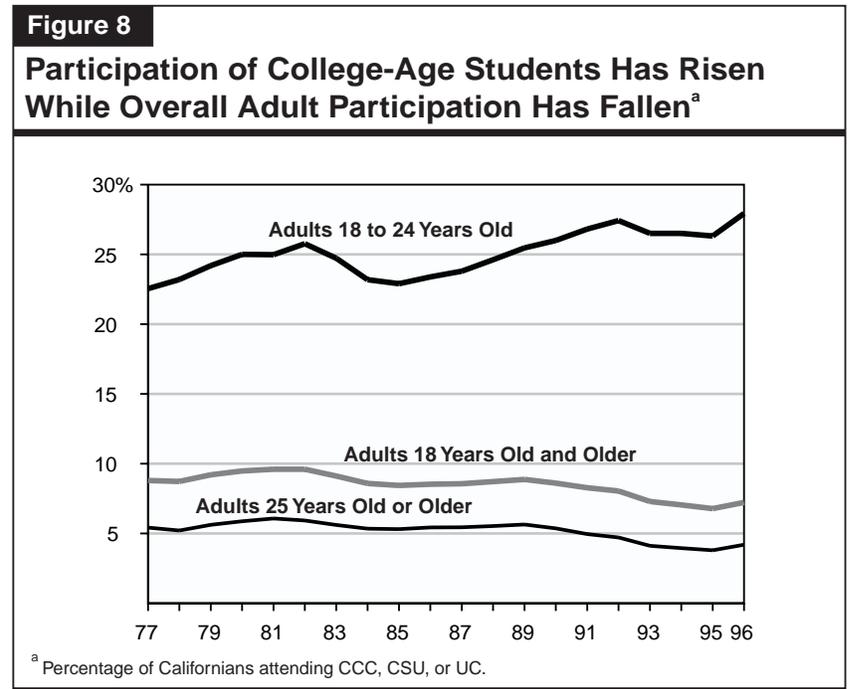
Projected Enrollment Growth Not of Tidal-Wave Proportions

If 1996-97 college-participation rates among Californians continue, we project that total enrollments in 2005 will be 2,142,000. This is approximately 253,000 fewer students than projected by the DOF and 186,000 fewer than projected by CPEC. Our projection is lower because we assume that current college-participation rates will continue, whereas the DOF and the CPEC assume that rates will increase by significant amounts, and in some cases to historic highs. We used 1996-97 participation rates because evidence suggests that using the most current rates as a base produces the most reliable projections. Even if the higher projections of DOF occur, however, future growth will be comparable to historic rates and not of tidal wave proportions. Figure 7 shows our projections of enrollment growth through 2010.



College Participation Is Up Among Young Adults. As Figure 8 shows, 23 percent of 18 to 24 year olds attended a public college or university in California in 1977. The participation rate of this group increased to 28 percent in 1996, the highest level in history. By contrast, the rate for those 25 years old and older fell from 5.4 to 4.2 percent over this same period. Because there are almost seven times as many adults 25 years old or older than there are in the 18 to 24 year old group, and because the percentage of older adults has increased significantly over the years, the overall participation rate for adults fell from 8.8 to 7.2 percent during this period.

The increase in participation rates among 18 to 24 year olds over the past two decades could at least in part explain why participation rates among *older* adults has fallen over time. As the state has been successful in educating people when they are young, there is less need to “catch” them when they are older.



Much Uncertainty in Projections of College Participation. Whether and where individuals attend college is subject to many social and economic variables. All projections of enrollment are based on assumptions about participation rates and, consequently, are subject to great uncertainty. Participation rates and enrollments in 2005 could be higher than

we project, but they could also be lower. As a consequence, it is important that the Legislature consider a range of enrollment projections when planning for the operating and capital needs of the segments.

Effect on Operations Costs Probably Will Not Be Extraordinary. The costs of operating state colleges and universities generally are proportional to the number of students that they serve. To anticipate future operating costs, we compared 1996-97 enrollments to the projections described above for 2005-06.

If participation rates remain what they were in 1996-97, enrollments in each of the three segments would grow by a total of 12 percent by 2005-06, or 1.3 percent per year over this nine-year period. By contrast, total enrollment in the three segments increased by an average of 1.9 percent per year from 1970 to 1996. From this perspective, accommodating enrollment growth should not be any more of a challenge in the next nine years than it has been since 1970.

The DOF, which projects the *highest* rate of growth, projects that enrollments in 2005 will be 2,395,000. This represents average annual growth of 2.5 percent from 1996 to 2005. This rate of growth has been experienced during several periods over the past 20 years. For example, over the ten-year period from 1971 to 1981, enrollments grew by an average of 4.8 percent per year. From 1984 to 1991, enrollments grew by an average of 3.2 percent per year. Consequently, the budgetary challenges to come, even if the highest growth projections occur, are less significant than at times in the past.

Capital Needs for Growth Should Be Lower Than in Past. To understand how enrollment growth will affect demand for additional campus space, buildings, and equipment, we compared projected enrollments with prior peak enrollments. In 1991, total enrollment at the three segments was at its highest level in history. At that time, the segments were able to accommodate a total of 2,043,000 students.

Our projection of 2,142,000 students in the year 2005 is 98,000 students, or 4.8 percent, above the 1991 levels. This represents average annual growth of 0.3 percent from 1991 to 2005. Such growth would be significantly lower than the 2.7 percent annual growth in enrollments experienced by the three segments between 1970 and 1991.

As Figure 8 shows, the growth from 1991 to 2005 is lower in part because enrollments will not return to the previous peak enrollment of 1991 until sometime around the year 2000.

The DOF projects that total enrollment in 2005 will be 17 percent higher than enrollments in 1991. This annual growth rate of 1.1 percent

is also well below the annual growth rate of 2.7 percent from 1970 to 1991. Even the highest projections, therefore, suggest enrollment will grow much more slowly than in the past. In terms of capacity requirements, then, none of the projections of future enrollment growth will be of tidal wave proportion.

ENROLLMENT GROWTH IS NOT AN UNMANAGEABLE FORCE

Tidal waves are rare events of overwhelming and destructive force, and are inherently unmanageable. By contrast, the enrollment growth in higher education facing California is very manageable. Who goes to college and which college students attend is in part determined by public policies. The Legislature can manage growth, for example, through various policies as described below.

Eligibility Standards. The *Master Plan for Higher Education* calls for UC to select from the top 12.5 percent of high school graduates, for CSU to select from the top 33.3 percent, and for the community colleges to admit virtually all applicants. In 1996, UC selected from the top 20.5 percent of high school graduates, while CSU selected from the top 29.6 percent. (Please see our full report for a discussion of the way in which the eligibility pool for UC is measured.) While UC has consistently exceeded its Master Plan eligibility target, CSU has been either slightly above or below the target in recent years. To the extent UC lowered its eligibility pool to reflect the master plan, enrollments would shift from UC to CSU and independent colleges and universities with potentially significant General Fund savings for the state.

Student Fees. Student fees influence whether and where individuals will attend college. The recently enacted federal income tax credits for college tuition significantly reduce the fee differential between the universities and the community colleges. This could cause a large number of high school graduates who may have considered a community college for their freshman year to instead attend CSU or UC. This would work at cross purposes to state policies encouraging students to articulate through community colleges to the four-year universities. We analyze the opportunities and concerns that the federal tax credits raise for California in *The 1998-99 Budget: Perspectives and Issues*, (Part V) as well as in a separate LAO report.

Financial Aid. Financial aid policies also affect whether and where students go to college. Dollar for dollar, state expenditures on financial aid provide greater access to higher education than do across-the-board

fee reductions. This is because financial aid targets students with the greatest financial need, who are the persons facing the greatest barriers to accessing higher education. State subsidies for higher education given through financial aid, rather than fee reductions, also shift some enrollment demand from the three public segments to independent colleges and universities in California.

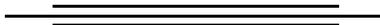
Allocation and Articulation of Students Among the Three Segments.

The Master Plan calls for large numbers of students to attend community colleges for their first two years of college, and for UC and CSU to give preference to qualified community college students seeking to transfer. The plan specifies that UC and CSU should not have more than 40 percent of its undergraduates at the freshman and sophomore level, and at least 60 percent at the upper-division level. In 1997-98, UC met this goal, and CSU exceeded it (with 70 percent of its students at the upper-division level). By increasing the opportunity of students to receive a lower-division education at community college that is comparable to what they can obtain at a four-year university, the state can increase the number of students served within the amount of General Fund resources available for higher education. This is because UC and CSU are more expensive than community colleges. The *1997-98 Budget Act*, for example appropriated \$7,000 from the General Fund for each additional FTE at UC, almost \$5,000 for each additional FTE at CSU, and about \$3,300 for each additional FTE at the community colleges.

Priorities for Community College Course Offerings. For the Legislature to manage enrollment growth in the community colleges, it needs to know how enrollments most likely would be allocated among college-level, remedial, vocational, avocational, and recreational courses. With such information, the Legislature could evaluate how well state funds were being allocated among the various missions of the colleges, and could influence the allocations through a variety of mechanisms.

CONCLUSION

Unlike a tidal wave, enrollment growth through 2005 will be steady and moderate by historical standards and manageable. While the Legislature will need to dedicate more resources to higher education, it also has several policy levers to manage that growth.



FEDERAL TAX CREDITS AND STATE FINANCIAL AID

We recommend that the Student Aid Commission, California Community Colleges, California State University, and University of California each report prior to budget hearings on the financial aid implications of new federal tax credits. These reports should include (a) adequate data for the Legislature to understand how each system's financial aid grants will interact with the federal credits, (b) estimated potential savings from maximizing receipt of federal credits, and (c) each system's specific plan for reallocating financial aid in order to maximize Californians' receipt of the credits.

Background

New Federal Tax Credits for Higher Education. Last August, President Clinton signed into law the Taxpayer Relief Act of 1997. The act creates several higher education-related tax incentives, including the "Hope Scholarship" and "Lifetime Learning" tax credits. (Please see our discussion of the problems and opportunities created by the federal tax credits in our *The 1998-99 Budget: Perspectives and Issues*.)

These tax credits will dramatically reduce the after-tax cost of tuition and fees for many middle-income California students (or their parents). Figure 9 (see next page) summarizes key features of these credits. As the figure shows, the Hope Scholarship credit allows taxpayers to claim an annual credit of up to \$1,500 per student for tuition and fee expenses for the first two years of college. The Lifetime Learning credit is a smaller percentage of costs, but it can be used by part-time students in any year of college, and by full-time students after the first two years of college.

State Financial Aid Emphasizes Grants. The state has a relatively elaborate system in place for the distribution of financial aid to higher education students. Some of this aid—administered by the Student Aid Commission (SAC)—is awarded to students to use at the California public or private institution of their choice. Other aid—administered by either

the California Community Colleges (CCC), California State University (CSU), or University of California (UC)—may be used only at the institution awarding the aid. A large portion of the aid from the SAC and the public segments takes the form of grants. The budget proposes to spend approximately \$800 million from the General Fund and other state funding sources for grants to students in 1998-99, as shown in Figure 10.

Figure 9		
Key Features of the Hope Scholarship and Lifetime Learning Tax Credits		
	Hope Scholarship	Lifetime Learning
What years of college are covered?	First two years only.	Any year.
What students are eligible?	Must be at least half-time.	Part-time or full-time.
What costs are covered?	Tuition and fees only.	
What does the credit cover?	100% of first \$1,000 in costs (\$1,000). 50% of next \$1,000 in costs (\$500).	20% of up to \$5,000 in costs (up to \$10,000 in 2003).
What is the maximum credit amount?	\$1,500 per <i>student</i> .	\$1,000 per <i>tax return</i> .
Effective dates	Academic terms beginning after December 31, 1997.	Academic terms beginning after June 30, 1998.
Are there income limits?	Credits begin to phase out at \$80,000 adjusted gross income (AGI) and phase out completely at \$100,000 for joint tax returns. For single returns, phase out begins at \$40,000 and is complete at \$50,000 AGI.	
Will poor students benefit?	Generally not. Poor students (and their parents) tend not to have the federal tax liability needed to receive the credits. The credits generally benefit middle-class students and parents.	

Figure 10	
Financial Aid Grants From State Funds	
1998-99 (In Millions)	
Student Aid Commission	\$310
California Community Colleges	130 ^a
California State University	120
University of California	240
Total	\$800
^a Includes \$103 million of Board of Governors' fee waivers.	

Grants Reduce Potential Federal Credits

The federal act requires that the amount of tuition and fees claimed by a taxpayer for purposes of receiving either the Hope Scholarship or Lifetime Learning credit be reduced by the amount of any grants received by the student (regardless of whether the grant covers tuition, fees, or any other college-related expense). As a result, grants generally will reduce the amount of federal credit that qualifying taxpayers otherwise would receive. In other words, state spending in these cases will lead to a dollar-for-dollar *reduction* in federal aid in California.

For example, any CSU student qualified for the Hope Scholarship credit who receives a grant fully covering annual fees of \$1,506 would forfeit the full federal credit which he or she otherwise would receive—\$1,253. From the state's perspective, this would constitute a major per-student loss of federal aid.

It appears the state has several ways to address this situation. For instance, the state (through SAC and the segments) could adjust the amount of state assistance that otherwise would be provided to students by the amount of any expected federal credit. This would hold students harmless, while freeing up state resources for other purposes (such as providing financial aid to more students). Alternatively, the state could avoid the loss of federal aid by changing the state's assistance from a grant to a loan guarantee. Either of these approaches would allow the federal aid (\$1,253 in the above example) to reach the student.

At the time we prepared this *Analysis*, the higher education segments did not have plans in place to address the issues raised by tax

credit/grant interactions, nor complete data revealing the extent to which these interactions may occur.

Recommendation

California's public higher education systems and the SAC have considerable discretion on the details of allocating financial aid to students. We expect that they will make financial aid shifts like the ones described above in order to take advantage of the new federal tax credits. These financial aid shifts imply major potential General Fund savings.

The Legislature should be involved in how these shifts are made and how any savings are reallocated—whether to increase financial aid for students who are too poor to receive the federal tax credits (due to lack of tax liability), to fund other higher education needs, or to address other state needs outside of higher education. Accordingly, we recommend that the SAC, CCC, CSU, and UC each report prior to budget hearings on the financial aid implications of the federal tax credits. These reports should include:

- Adequate data for the Legislature to understand how each system's grants will interact with the federal credits.
- Estimated potential savings, by funding source, from maximizing receipt of federal credits.
- Each system's specific plan for reallocating financial aid in order to maximize Californians' receipt of the credits.



DEPARTMENTAL ISSUES

Higher Education

UNIVERSITY OF CALIFORNIA (6440)

The University of California (UC) includes eight general campuses and one health science campus. The budget proposes General Fund spending of \$2.4 billion. This is an increase of \$175 million, or 8 percent, over the current year. The bulk of this increase consists of \$83.5 million for a 4 percent increase consistent with the four-year “compact” between the Governor and the universities. It also includes \$39.5 million to avoid a 10 percent student fee increase, and \$22.5 million to offset a 5 percent fee reduction contained in Chapter 853, Statutes of 1997 (AB 1318, Ducheny).

The General Fund increase is projected to be spent for the budget-year effect of 1997-98 cost-of-living adjustments (COLAs—\$15.8 million), salary adjustments in 1998-99 (\$81.4 million), cost increases (\$12.2 million), an additional 2,800 enrollments (\$20.6 million), and other items, as shown in Figure 11 (see next page).

Is UC’s Eligibility Pool Too Large?

We recommend the Legislature adopt supplemental report language asking the University of California to report by August 1, 1998 on options for reducing the size of its eligibility pool from 20.5 percent of high school graduates to the 12.5 percent called for by the Master Plan for Higher Education.

In our recent report on higher education enrollments, we discussed how eligibility for attending UC is determined. (We have included the full

text of the report in the companion document to this *Analysis, The 1998-99 Budget: Perspectives and Issues.*) We summarize below our findings and recommendations from the report as it relates to eligibility for UC.

Figure 11	
Proposed General Fund Changes University of California	
<i>1998-99 (In Millions)</i>	
1997-98 General Fund Budget	\$2,181.0
Proposed Changes	
Merit salary increases and COLAs of 4.5% for faculty and 2% for staff	\$ 81.4
Full year of 1997-98 salary increase	15.8
Backfill for 5% fee reduction per Chapter 823, Statutes of 1997	22.5
Increase enrollments by 2,800	20.6
Price increases	12.2
Eliminate funding for California Subject Matter Projects	-12.2
Restore one-time cut in 1997-98 budget	9.5
Expand industry-university cooperative research program	7.0
Increased building maintenance	6.0
Expand student outreach	5.0
Additional funding for tenth campus	5.0
Additional costs of health benefits to retirees	4.8
Additional instructional technology	4.0
Maintenance of new space	3.0
Digital library initiative	3.0
Other adjustments	-12.6
1998-99 General Fund Budget	\$2,356.0
Increase Over 1997-98	\$ 175.0
Governor's compact and student-fee offsets	(145.5)
Amount above total compact and fee offsets	(24.5)
Total Percent Increase	8.0%

Master Plan Calls for UC to Draw From Top 12.5 Percent of High School Graduates. When the *Master Plan for Higher Education in California* was first released in 1960, its authors recommended that UC draw from

the top 12.5 percent of high school graduates, as determined by the university. (It recommended that CSU draw from the top third of high school graduates, and that community college be open to virtually everyone.) At the time, the authors of the plan noted that UC had been drawing from 15 percent of high school graduates and CSU had been drawing from approximately 50 percent.

In recommending this reduction in the eligibility pools, the Master Plan stated, “The position of the Master Plan Survey Team is that so long as any high school graduate can be admitted to a junior college . . . , it will not reduce that opportunity for students able and willing to meet the requirements for transfer to the upper division in the state colleges and the University of California.” The 1973 and 1987 updates to the Master Plan reaffirmed that UC should draw from the top 12.5 percent of high school graduates.

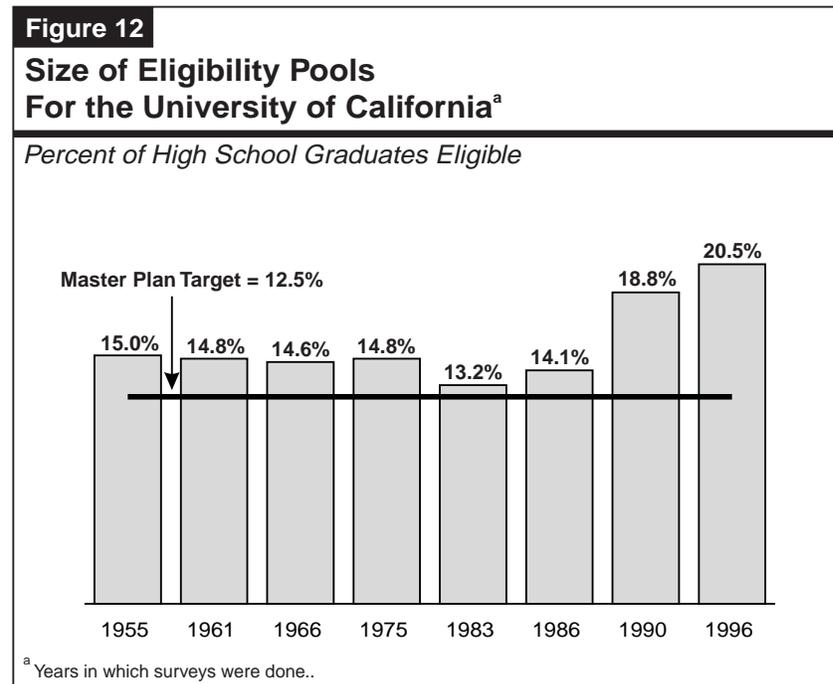
By directing high school graduates that are best prepared for the rigors of academic life at a research university to UC, and by directing others to CSU or the community colleges, the state satisfies two key principles of the Master Plan. First, it ensures that freshmen enter UC with the academic preparation and skills needed to succeed at the university. Students who are not as prepared still have the opportunity to attend CSU or transfer to UC or CSU after attending a community college.

Second, the Master Plan principles encourage the state to maximize the amount of educational services it can provide with available higher education resources. The cost of education at UC is significantly higher than at the other two segments. The *1997-98 Budget Act*, for example, appropriated \$7,000 to UC from the General Fund for each increase in full-time-equivalent (FTE) enrollments for the year. The Budget Act appropriated \$4,936 per FTE to the CSU and \$3,300 per FTE student taking college-credit courses at a community college. The Master Plan eligibility guidelines recognized that the state could accommodate more students if only the top students were admitted to the more costly UC.

UC Above Existing Eligibility Target. The university says that it is drawing from the top 11.1 percent of high school graduates. Based on the definition of eligibility UC used until 1990, however, it is drawing from the top 20.5 percent. This is a level that is almost two-thirds higher than envisioned by the Master Plan. (Please see our full report for a discussion of differences in eligibility-measurement methods.) As Figure 12 (see next page) shows, the eligibility pool for UC has grown significantly in recent years.

We think that UC’s eligibility pool is clearly much larger than the Master Plan intended it to be. According to UC, reducing the eligibility

pool from 20.5 to 12.5 percent would require UC to increase the required minimum high school grade-point-average (GPA) from 3.3 to 3.65. (The GPA scale has changed in recent years. Whereas a 4.0 used to be the maximum score possible for an “A,” high school students can now receive a 5.0 for an “A” in honors courses.) Approximately 36 percent of entering UC freshmen in 1997 had high school GPAs below 3.65. If UC had not admitted these students, the students would nevertheless have been eligible to attend CSU, a community college, or many of the independent colleges and universities.



The university advises that raising the GPA cutoff point would reduce freshmen enrollments by significantly less than 36 percent, because of the way in which it manages its admissions process. Nevertheless, reducing the eligibility pool to the Master Plan target of 12.5 percent of students would shift some future lower-division enrollments from UC to other public and private schools in California, consistent with the Master Plan. It would probably also increase the number of community college students that transfer to the university.

UC Should Report to Legislature on Eligibility Criteria. If the Master Plan eligibility targets for UC are to be meaningful, the university will need to significantly revise its admission criteria. There might be reasons,

however, for not returning to the 12.5 percent level immediately. For example, UC is already in the admissions process for next year. As a consequence, UC should explore various options for meeting its Master Plan eligibility target as quickly as possible, and evaluate the implications of each option. We recommend, therefore, that the Legislature adopt supplemental report language asking the university to report by August 1, 1998 on how it can meet the Master Plan target of a 12.5 percent eligibility pool, and what the implications of various options would be for enrollments among the segments.

Reject Unnecessary Growth Funds

We recommend deleting \$9.4 million of the \$20.6 million requested for 2,800 additional full-time equivalent students at the University of California because the university could not justify an increase beyond the compact level.

The budget requests a total of \$20.6 million from the General Fund to increase funding for an additional 2,800 undergraduate FTE students in 1998-99, an increase of 1.8 percent. This increase consists of 2,000 FTE students, which the budget states is part of the compact with UC to fund 1 percent annual enrollment growth, and an additional 800 FTE students specifically in the engineering and computer science disciplines.

Request for 2,000 Additional FTE Is More Than Compact. In his compact with the CSU and UC, the Governor agreed to provide General Fund support for enrollment growth of 1 percent per year over the four-year period ending in 1998-99. The budget states that funding for an additional 2,000 FTE students is consistent with the compact. In fact, funding for 2,000 new FTE students represents an increase of 1.3 percent over budgeted FTE students in the current year.

Consistent with the compact, the Legislature has approved the 1 percent growth provided in the previous three budgets. The university is not able to explain why its growth should be greater than this amount. Consequently, we recommend that the Legislature reduce the requested increase from 2,000 to 1,530, to reflect 1 percent budgeted enrollment growth for 1998-99. This would reduce the General Fund appropriation by \$3.4 million.

University Should Adjust Course Offerings to Meet a Shift in Demand Toward Engineering and Computer Science Courses. In addition to the 2,000 FTE enrollment increase, the budget requests \$6 million for 800 FTE enrollments specifically for increasing course offerings in engineering and computer sciences. The university says that this request reflects the grow-

ing demand in the market place for well-trained engineers and computer programmers.

We have several concerns with the request. While UC asserts that demand for engineering and computer science is increasing at a faster rate than other disciplines, data on freshmen applications for these programs do *not* show this. In addition, it is not clear to us why UC needs a special augmentation to accommodate such a shift. The university can shift its existing resources by hiring more new faculty in engineering and computer sciences, and hiring fewer new faculty in other presumably less popular disciplines. To a limited extent, UC appears to have done this already. From 1992 through 1996, for example, the percentage of UC faculty in the engineering and computer science fields has increased from 9.1 percent to 9.9 percent. The university also indicates that it holds 10 percent of its faculty on temporary status to accommodate short-term fluctuations in faculty need related to student demand. If demand for more engineering and computer science slots is as great as UC suggests, it might appropriately shift its recruitment and hiring practices even more toward these disciplines.

Neither state law nor the budget process restricts the ability of UC to allocate enrollments by discipline according to student demand and qualifications. We agree that UC should be sensitive to student demand. The university, however, has adequate flexibility and resources to respond to demands in engineering and computer science with its base funding and the additional funds requested for enrollment growth under the compact. Thus, the additional \$6 million request is not needed for this purpose and we recommend its deletion.

Details Needed on Tenth Campus

We withhold recommendation on \$9.9 million requested from the General Fund for planning costs associated with the proposed new University of California (UC) campus in Merced County, pending receipt from UC of its plan to spend the \$4.9 million appropriated for this purpose in the 1997-98 Budget Act and the \$9.9 million requested in the budget.

The 1997-98 Budget Act included \$4.9 million from the General Fund for a tenth UC campus in the San Joaquin Valley. The act provided the funds to support a broad array of activities, including “. . . planning and start-up costs associated with academic programs to be offered in the San Joaquin Valley and planning, startup costs, and ongoing support for a new campus. . .”

Merced Site Chosen. At its July 1997 meeting, the Board of Regents officially chose a site near Lake Yosemite in Merced County to be the home of the new tenth campus. It plans to open the campus to 1,000 students in 2005, and to increase enrollments to 5,000 by 2010.

The university projects that it will need \$400 million in capital outlay funds to build the Merced campus for 5,000 students. Of this amount, it projects that it will need \$250 million before opening the campus in 2005, and the balance of \$150 million between 2005 and 2010. The university has not requested any funds in the 1998-99 budget for capital projects at the site. It plans to request funding beginning in the 2000-01 budget for the first stages of site development, and plans to begin construction in 2001-02.

UC Requests Base Operational Funding of About \$10 Million per Year. The Governor's budget includes a total of \$9.9 million from the General Fund for 1998-99 for the tenth campus. The university indicates that it will request \$9.9 million each year through 2002-03, and then gradually increase its request to about \$50 million per year in 2010-11 and thereafter. Thus, UC plans to spend a cumulative total of more than \$80 million from the General Fund for noncapital purposes *before* the first student enrolls at the campus.

We asked UC to provide an expenditure plan for the \$4.9 million it received in the current year for the tenth campus and the \$9.9 million requested in the budget for 1998-99. When this *Analysis* was written, the university had provided a general description of the activities related to the tenth campus and the summary expenditure information shown in Figure 13 (see next page). However, UC was unable to provide the expenditure detail needed to understand how the university arrived at this allocation of funds.

In addition, the university indicates that it might not spend all of the funds requested in the next few years, and will use the unexpended balance of funds for costs it will incur immediately prior to starting operations in 2005. Until UC provides greater detail on how it plans to spend funds for the tenth campus, and can justify the need for such expenditures in the current and budget years, we recommend the Legislature defer appropriating the requested funds.

UC Needs to Provide the Legislature with a More Detailed Expenditure Plan. The *1997-98 Budget Act* describes a broad array of purposes to which UC can direct funding for the tenth campus. While the Legislature gave the university wide discretion in how it could use the funds, the university should nevertheless provide the Legislature with more detailed information on its actual and planned expenditures, so that the Legisla-

ture can be assured that such expenditures are consistent with its priorities and are not excessive. Accordingly, we withhold recommendation on the \$9.9 million requested by UC for the tenth campus, pending receipt of more detailed expenditure information from the university.

Figure 13		
UC Expenditure Plan for the Merced Campus		
<i>1997-98 and 1998-99 (In Millions)</i>		
	Estimated 1997-98	Proposed 1998-99
Academic and physical planning	\$1.5	\$1.5
Equipment and facilities (including UC regional offices in Fresno and Merced)	1.1	1.1
New academic program development	1.3	1.3
Long-range development plan/environmental impact report	—	1.5
Additional academic development—future start-up costs	1.0	4.5
Totals	\$4.9	\$9.9

Progress Report on Faculty Workload

Chapter 776, Statutes of 1993 (SB 506, Hayden), expressed the Legislature’s intent that UC provide the courses that students need to make normal progress to a baccalaureate degree. The statute requires the Legislative Analyst to review and analyze the annual reports UC submits on faculty workload. The University’s March 1997 report provides trend data indicating that:

- **Persistence Rates Are Up.** Persistence rates (the proportion of first-year students returning immediately for their second year of studies) are one indicator of whether the university is meeting student needs. The university reports that this rate is up from 88 percent for the entering class of 1983 to 91 percent for the entering class of 1994. The percentage of students who “persisted” for at least two years increased from 76 percent to 83 percent over that time period.
- **Faculty Workload Recently Declining.** The teaching workload is another indicator of how student needs are being met. Between 1990-91 and 1995-96, total student credit hours per FTE faculty

increased from 692.6 to 700.6 (increase of 1.2 percent). When measured from a peak in 1992-93, however, when credit hours per FTE faculty reached 743.8, the workload measure in 1995-96 had fallen by 5.8 percent.

- ***Courseloads per Student Slightly Up.*** The number of classes students take per academic year measures course availability. Between 1990-91 and 1995-96, the number of credit hours per student increased from 41.6 to 41.8, or 0.5 percent.

In our view, these data paint a partial picture of the quality and quantity of instructional services at the university. Nevertheless, from these data we would conclude that UC instructional productivity has varied slightly—up on some indicators and down on others—over the past few years.

The UC's 1998 faculty workload report was due to the Legislature by February 1, 1998. 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 almost \$2.1 billion, an increase of \$163 million, or 8.6 percent, over the current year. Adjusting for one-time carryover funds, the proposed budget increases CSU's base-level General Fund spending by \$177 million in 1998-99. Figure 14 shows the sources and uses of funds for this General Fund increase. As Figure 14 indicates, the budget provides CSU with \$51 million more than would be expected under the terms of the Governor's current compact with CSU.

CALIFORNIA STATE UNIVERSITY WANTS NEARLY \$40 MILLION IT ALREADY HAS

We recommend that the Legislature deny the Governor's request for \$39.6 million for "extra" enrollment growth beyond the compact and instead direct California State University (CSU) to meet this enrollment growth with funds available from productivity savings and from unreported revenues. This would free-up \$39.6 million that the Legislature could use to meet any General Fund priorities or provide to CSU for other high-priority programs. If the Legislature chooses to keep these funds within CSU, we suggest two spending options: (1) creation of an "incentive" fund to induce faculty to teach more courses and (2) implementation of a maintenance funding plan adopted by the Legislature in the Supplemental Report of the 1996-97 Budget Act.

Background

The budget proposes a total of \$52 million from the General Fund for 4 percent enrollment growth in 1998-99 (10,320 full-time-equivalent [FTE] students), although CSU projects that enrollment will increase by 1.6 percent in the budget year (see further explanation below). The request has two parts. First, the budget includes over \$12 million for

1 percent enrollment growth (2,580 FTE) under the terms of the Governor's four-year compact with CSU. In addition, the budget proposes \$39.6 million for a further 3 percent enrollment growth (7,740 FTE), above and beyond CSU's compact monies. We focus below on the \$39.6 million General Fund request for 7,740 FTE.

Figure 14	
California State University Proposed General Fund Changes	
<i>1998-99 (In Millions)</i>	
1997-98 General Fund Budget (base)	\$1,883.2
Proposed Changes	
Salary and benefit increases	\$73.7
Enrollment increase per "compact"	12.3
Additional enrollment increase	39.6
Offset student fee revenue loss	19.4
Current employee benefits	8.6
Ventura center (Camarillo)	5.2
Teacher preparation and development	5.0
Workers' compensation	4.8
Monterey Bay campus	2.6
Facility maintenance increases	2.3
Increased bond payments	1.9
Other	1.5
1998-99 General Fund Budget	\$2,060.1
Increase over 1997-98	\$176.9
Governor's compact and student fee offsets	(125.8)
Amount above compact and fee offsets	(51.1)
Total percent increase	9.4%

Problems With the Request

We have several concerns with the request for "extra" enrollment growth, as discussed below.

The Students Are There Already. Although CSU characterizes its overall request as funding 4 percent enrollment growth, it expects the number

of students on campuses in 1998-99 to be only 1.6 percent higher than in 1997-98. In reality, the money requested for the “extra” growth (7,740 FTE) is for enrollment growth that has occurred already. In the first three years of its four-year compact with the Governor, CSU has allowed enrollments to grow faster than the 1 percent annual growth budgeted under the compact.

Consequently, in the current fiscal year, CSU estimates that it will teach 266,400 FTE, or 8,400 more than the 1997-98 budget called for. In 1996-97, CSU taught nearly 7,000 FTE more than budgeted. (The CSU not only succeeded in teaching these additional students in 1996-97 but carried over into the subsequent fiscal year \$14 million of unspent budgeted funds.) In reality, CSU is requesting compensation in 1998-99—at the *full* per-student amount of the traditional budget formula—for students that it is successfully teaching with existing resources.

The Money Is There Already. One reason CSU has successfully accommodated this “excess” enrollment growth is the augmentation in available resources made possible by productivity improvements promised under the Governor’s compact. Specifically, the compact required CSU to achieve, each year of the compact, at least \$10 million of new, ongoing, productivity improvements. Through the budget year, therefore, the compact expected CSU to achieve at least \$40 million of ongoing savings from productivity improvements. The budget states that the level of productivity savings required for the first three years of the compact not only has been achieved, but has been exceeded. Thus, more than the entire amount requested for the 7,740 “unbudgeted” FTE should be available for 1998-99 in the form of achieved productivity savings. The budget, however, does not explain why the highest priority application of these savings should not continue to be the instruction of the 7,740 FTE students.

In our discussions with CSU on these savings, the university advised that it could not provide a comprehensive accounting of how the savings in 1995-96 through 1997-98 were spent. A CSU report on the savings generated in 1995-96, however, indicates that a significant portion of the funds were used to serve additional students.

Budget Underestimates Fee Revenues That Help Fund Enrollment Growth. The budget also underestimates fee revenues in both the current and budget years, in part because it ignores the fee revenues that it has received and will receive from unbudgeted students. Because of this, the budget shows fee revenues *declining* in 1997-98 compared to the prior-year level, even though the number of students enrolled at CSU grew between the two years and per student fee levels had not changed. Our

analysis indicates that CSU has underestimated fee revenues by almost \$18 million in the current year and by almost \$7 million for 1998-99. (Last year's budget ended up underestimating revenues by \$23 million for the 1996-97 fiscal year.) These amounts are an invisible reserve in CSU's budget. Their presence reinforces our conclusion that CSU has sufficient budgetary resources to continue to accommodate the 7,740 FTE without the requested General Fund augmentation.

Recommendation

The analysis above indicates that the Governor's request for a \$39.6 million augmentation, ostensibly for enrollment growth, is unnecessary because (1) the students in question are being served and (2) the funds needed to serve them are demonstrably within CSU's base budget. Accordingly, we recommend that the Legislature direct CSU to use productivity savings and unreported revenues to continue to meet the enrollment growth that it already has accommodated beyond the compact's assumptions.

The Legislature then would have the \$39.6 million available to meet General Fund priorities in other parts of the state budget or reinvest in CSU for other activities. If the Legislature wants to keep these funds within CSU, we suggest the following two spending options:

- \$17.1 million for an Extra-Teaching Incentive Fund.
- \$22.5 million for needed facilities maintenance.

Establish an Incentive Fund to Induce Faculty to Teach More Courses and Students. We recommend that the Legislature redirect \$17.1 million to provide a fund from which the university would give incentive payments to faculty who are interested in teaching more courses. The most fundamental productivity improvement that can take place at a university is to teach more students with existing faculty (and to do so without increasing average class size or otherwise reducing the quality of instruction). Other universities have achieved this productivity improvement by establishing such an incentive fund to induce faculty to teach more courses per semester.

Our recommended incentive fund would allow the state to efficiently teach the growing numbers of students who will continue to arrive at CSU in the near future. This approach would have a "pay off" to CSU and the state, not only because it would reduce the instructional cost per student, but because it would reduce, to some extent, the significant faculty and staff time that otherwise would be needed for new faculty recruiting and hiring. Under this approach, CSU also would have added

flexibility to offer courses at times students need them, which would help reduce student times-to-degree.

Augment Facility Maintenance to Safeguard State's Investments. We recommend that the Legislature redirect \$22.5 million of the \$39.5 million CSU requested for enrollment growth to critically needed maintenance projects. In the *Analysis of the 1996-97 Budget Bill*, we recommended that the Legislature address the serious backlog of deferred maintenance—and the related funding shortfall for ongoing maintenance—of state higher education facilities. With regard to CSU, the Legislature added \$7.5 million in that Budget Bill to match a CSU commitment to increase annual maintenance funding. The Legislature also adopted supplemental report language outlining a plan to augment CSU's annual maintenance funding, by the 1998-99 fiscal year, by \$45 million above the amount spent in 1995-96. This would be accomplished through successive spending augmentations totaling \$22.5 million from within CSU's compact monies, matched by an equal amount that the Legislature would appropriate above the compact amounts. Under this plan, CSU would meet its ongoing maintenance needs and would address its deferred maintenance backlog.

The Governor, however, vetoed the \$7.5 million legislative augmentation in the *1996-97 Budget Bill*. The Legislature now has the opportunity, however, to implement the plan it endorsed two years ago and to permit CSU at last to address its deferred maintenance backlog, rather than to see it grow further. It can do this by redirecting \$22.5 million of the \$39.6 million General Fund amount that we have shown above is not needed for enrollment growth.

STATE NEEDS TO PROCEED CAUTIOUSLY BEFORE MOVING VENTURA OFF-CAMPUS CENTER

We recommend the Legislature delete the Governor's requested \$5.2 million augmentation of California State University's support item for higher costs of operating the Ventura off-campus center at the now-vacated Camarillo State Hospital site pending a completed environmental impact report and more thorough consideration of alternatives.

Chapter 914, Statutes of 1997 (SB 623, O'Connell), authorizes transfer of the buildings and land of the now-vacant Camarillo State Hospital to CSU for ultimate development as a new campus. Currently, CSU Northridge operates an off-campus center serving approximately 690 FTE students in leased space in downtown Ventura. The CSU's Trustees have agreed to accept the Camarillo site on July 1, 1998, *provided* that the state

gives CSU additional funds in recognition of the higher costs of operating its center at the Camarillo site. These funds would be *above and beyond* amounts that CSU normally would receive for additional students and for capital outlay.

The Governor's budget proposal essentially meets the conditions identified by the Trustees. Specifically, the budget provides:

- \$11.3 million in capital outlay funds for renovations in 1998-99.
- \$5.2 million annually for higher operating costs at Camarillo.

If the Legislature appropriates the requested funds, CSU proposes to accept the Camarillo property in July, commence renovations in August, and move students to the site in January 1999. The academic program at the new site would continue to be that of an *off-campus center*—with classes only for upper-division undergraduate students—for at least seven years, at which point CSU intends to evaluate whether a *campus*—requiring a full range of undergraduate and graduate programs—is justified at Camarillo. California State University already owns a 260-acre site closer to Ventura County's population centers that it purchased for \$7 million in 1995 for a possible campus. Presumably, this site would become surplus to CSU's needs under its proposal to move to Camarillo.

Proposal Is Premature

In the capital outlay section of our *Analysis* (please see Section H), we identify various reasons why the Governor's proposal to move the Ventura off-campus center is premature, and recommend deletion of the \$11.3 million capital outlay request from the *1998-99 Budget Bill*. This recommendation is made without prejudice to later consideration by the Legislature of a proposal to meet higher education needs in Ventura County. Such a proposal should be based on a completed environmental impact report (previously funded by the Legislature) and more thorough consideration of alternatives by CSU. With this additional information, the Legislature could make a decision based on the long-term costs and benefits of the Camarillo site as part of the Governor's 1999-00 budget.

Consistent with our capital outlay recommendation, we recommend that the Legislature delete the Governor's requested \$5.2 million augmentation of CSU's support item. If the Legislature concurs, \$3.8 million of these savings would need to be restored to the Department of Developmental Services' (DDS) 1998-99 budget to continue support for security and maintenance of the Camarillo site. (See our analysis of the DDS in Section C.)

A MARKET-DRIVEN SOLUTION TO TRAIN MORE TEACHERS

We recommend the Legislature redirect to the Student Aid Commission \$3.3 million requested by the California State University to prepare more teachers. These monies then could be used to fund scholarships—redeemable at any accredited teacher preparation program in the state—to students whose financial needs impede them from pursuing the multiple subject teaching credential.

The budget proposes a \$5 million General Fund augmentation (beyond the level of funding assumed under the “compact”) for a “Teacher Preparation and Development Initiative.” The proposal consists of:

- \$3.3 million to add 600 FTE students at CSU’s Schools of Education as candidates for teaching credentials (an average of \$5,500 per additional FTE).
- \$1.5 million for in-service professional development programs for current mathematics teachers who are under-prepared in that subject. The CSU would develop the programs during the budget year and serve an estimated 4,500 K-12 teachers during 1999-00.
- \$200,000 for CSU’s Center for Teaching Careers to develop an inter-segmental recruiting program for new K-12 mathematics teachers.

We have concerns regarding the proposed \$3.3 million augmentation to add 600 FTE students, as discussed below.

Background. California State University is the state’s largest provider of newly credentialed teachers. That contribution, however, has been declining. Figure 15 shows trends for the multiple subject teaching credential (the credential most relevant for primary school instruction). In 1991-92, CSU Schools of Education graduated 10,013 students who received the multiple subject credential, or two-thirds of the statewide total. By 1996-97, those numbers had declined to 7,306 students and 57 percent of the statewide total. The CSU lost teacher education “market share” to independent colleges, despite the significantly higher tuitions charged by these colleges, for two basic reasons. First, many of the independents have been more responsive to student needs (for example, offering “fast-track” programs and evening classes). Second, CSU Schools of Education were limiting enrollment “slots” due to budgetary constraints. (Teacher education programs have relatively high faculty/student ratios and correspondingly high per student costs.)

Proposal Does Not Assure an Increased Supply of Teachers. The budget proposal is intended to help address the state's well-known need for new teachers in the public school system, a need made especially acute for primary schools by the recently enacted Classroom Size Reduction (CSR) program. On its face, the proposal to add 600 FTE enrollments at CSU Education Schools would appear to help meet this need.

Figure 15

Multiple Subject Credentials Awarded At California Schools of Education

Institution	1991-92		1996-97	
	Number	Percent of Total	Number	Percent of Total
CSU	10,013	66%	7,306	57%
Independent colleges	4,198	28	5,147	40
UC	956	6	448	3
Totals	15,167	100%	12,901	100%

As presently structured, however, the proposal does not assure that the *statewide* number of newly credentialed teachers—which is the measure that really matters—will increase by 600 or by any number close to that. To the contrary, one likely outcome is a rearrangement of demand, with students who intended to attend teacher preparation programs at independent colleges “switching” to the lower-priced CSU programs. To the extent this occurs, it would minimize the hoped-for effect of the \$3.3 million expenditure—which is to increase the overall number of newly credentialed teachers across the state.

A Market-Driven Alternative

The state has an important interest in increasing the number of qualified teachers in its public schools. From the perspective of the schools and the schoolchildren, whether the new teachers come from CSU or from other accredited institutions does not matter. What does matter is that a *net* increase from all teacher preparation programs occurs.

In view of this, we recommend the Legislature redirect the \$3.3 million to the Student Aid Commission to fund scholarships—redeemable at *any* accredited teacher preparation program in the state—to students whose

financial needs impede them from pursuing the multiple subject teaching credential. For example, with the \$3.3 million the Legislature could help twice as many students as the budget proposes (1,200 versus 600) by creating a scholarship of \$2,750 (half the per-student expenditure proposed by the budget). Moreover, by directing the aid to students who otherwise would be least financially able to pursue the teaching credential, the state better assures that the overall number of teacher candidates increases. Finally, our proposal offers students full freedom to choose the institution that best meets their education needs.

Under our proposal, the scholarship amount would reduce the tuition that a student otherwise would pay to a participating institution. For scholarship recipients choosing a CSU School of Education, we would recommend that CSU receive the entire amount of the scholarship, even though the tuition it charges is only \$1,506 a year. This would help CSU offset the higher marginal cost of providing instruction in teacher preparation programs. We further recommend that the Legislature require CSU to increase its teacher education enrollments by at least the number of these scholarships it accepts. (Under our recommendations for the CSU budget, CSU would receive growth funding for 2,580 FTE students in 1998-99. The CSU has complete discretion to add as many of these budgeted "slots" to teacher education programs as it sees fit.)



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. Based on agreements with local school districts, some college districts offer a variety of adult education programs including basic skills education, citizenship instruction, vocational, avocational, and recreational programs. Finally, pursuant to state law, many colleges have recently established programs intended to further regional economic development.

The proposed CCC budget for 1998-99 is over \$3.9 billion. This is an increase of \$251 million, or 6.8 percent, above estimated current-year expenditures. Of the proposed \$3.9 billion total, \$2.1 billion is from the General Fund, over \$1.4 billion is from local property tax revenues, and the remainder—less than \$400 million—is primarily from resident student fees and state lottery funds. Adjusting for one-time current-year expenditures, the increase in ongoing budget resources is \$283 million, or 7.8 percent.

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 equal \$4.8 billion in 1998-99.

LEGISLATURE'S FUNDING OPTIONS

Current-Year and Prior-Year Funds. The Legislature must determine spending levels and priorities for both the current year and budget year.

Current-year spending is before the Legislature because more Proposition 98 funding is available for K-14 programs than was anticipated in the *1997-98 Budget Act*. Through separate legislation, the budget proposes to add the following funds to the CCC for current-year and prior-year Proposition 98 “settle-up” purposes:

- \$40 million block grant to be distributed to districts for any combination of one-time expenditures for instructional equipment, facility maintenance and repairs, library materials, technology, and hazardous materials abatement.
- \$11.2 million to “backfill” the current-year shortfall of estimated property tax revenues to college districts.

We agree with the administration’s estimate of current-year and prior-year “settle-up” amounts. We also agree that the above proposals for the CCC are appropriate.

Budget Year: Our Proposition 98 Guarantee Estimate Is Lower Than the Budget. The 1998-99 spending level for CCC depends in part on the overall level of Proposition 98 spending to be 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 required under the State Constitution. The level of the minimum funding guarantee depends on a variety of factors, including estimated General Fund tax revenue growth between the current year and the budget year. As we discuss in the “K-12 Priorities” section (see Section E of this *Analysis*), our estimate of General Fund revenues is higher than the level identified in the Governor’s budget. However, our estimate of the increase in General Fund tax revenue *growth between the two fiscal years*—and therefore our estimate of the Proposition 98 minimum funding guarantee—is lower than the budget’s estimate.

LAO Alternative Funding Proposal for 1998-99

Our projection of General Fund revenue results in a lower Proposition 98 minimum guarantee level for 1998-99. This also lowers the amount available to the California Community Colleges by \$20.3 million.

To assist the Legislature with its deliberations on CCC funding priorities, we developed an alternative proposal to the administration’s 1998-99 spending plan. Our alternative plan is based on our estimate that the total Proposition 98 guarantee level for 1998-99 is \$196 million below the budget’s estimate.

Consistent with our forecast, our alternative proposes Proposition 98 spending for the CCC in 1998-99 that totals \$20.3 million less than the budget. Even at this slightly lower amount, our recommended Proposition 98 spending level for the CCC in 1998-99 is \$229 million, or 6.9 percent, higher than current-year spending (after adjusting for one-time funds).

As Figure 16 (see next page) shows, we agree with the Governor's spending proposals in most program areas. Figure 16 also shows our recommended changes, which we discuss below.

Legislature Should Create Proposition 98 Reserves For CCC and K-12

We recommend the Legislature create a reserve from the California Community Colleges' share of Proposition 98 funds to guard against unanticipated General Fund revenue declines.

In the years after Proposition 98 was passed by the voters, the Legislature created a reserve account to protect the state in case the projection of General Fund revenues assumed in the Budget Act was too optimistic. During the early 1990s, a reserve was not created and, as a result, the state overappropriated the minimum funding guarantee several times. These inadvertent overappropriations reduced the Legislature's flexibility over state funding priorities in subsequent years because they permanently increased the Proposition 98 guarantee "base."

General Fund revenues—and their interactions with the Proposition 98 formula—are inherently hard to predict. Even in relatively good times, a brief slowdown in the economy can translate into relatively large Proposition 98 consequences. In that event, a reserve gives the Legislature some measure of protection from overappropriating the minimum guarantee without reducing amounts already provided to schools and colleges. If the reserve turns out not to be needed, the funds are available as "settle-up" monies in the following year to meet high priority needs of a one-time nature (such as deferred maintenance or property tax shortfalls).

Therefore, to protect against an unanticipated reduction in General Fund revenues, we recommend the Legislature set aside a Proposition 98 reserve. Within the amount allocated for the CCC, we recommend a \$7.7 million reserve. This would be *roughly* proportional, in terms of the current K-12/CCC share of resources, to the \$75 million reserve that we recommend for K-12 programs (see Section E of this *Analysis*).

Figure 16
**California Community Colleges
Governor and LAO Proposals
1998-99 Proposition 98 Funds**

(In Thousands)

	Governor's Budget	LAO Recommendations	Difference
Fund Continuing Program Costs			
Base apportionments	\$2,832,294	\$2,832,294	—
Apportionments COLA	67,590	67,590	—
Categorical programs base	190,828	190,828	—
Categorical COLA	4,363	4,363	—
Welfare reform	65,000	65,000	—
Lease-payment bond cost	46,663	46,663	—
Telecommunications/technology	18,000	18,000	—
Other programs	167,030	167,030	—
Program Improvement			
Partnership for Excellence	50,000	50,000 ^a	—
Foster parent training	1,866	1,866	—
Program Expansion			
Enrollment growth (statutory)	56,476	56,476	—
Additional enrollment growth	33,904	15,904	-\$18,000
Categorical program growth	5,726	5,726	—
Telecommunications/technology	10,000	—	-10,000
Virtual university	3,900	3,900	—
Transfer education articulation	835	835	—
Reserve			
Proposition 98 reserve	—	7,700	7,700
Totals	\$3,554,475	\$3,526,075	-\$20,300

^a Withhold recommendation on program, pending finalization of program details by the administration.

**Proposed Enrollment Growth Exceeds Underlying Growth
In Adult Population**

We recommend the Legislature reduce funding by \$18 million to conform enrollment growth funding to underlying population growth.

Current 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. (The statutory formula results in a recommended statewide average increase. The CCC's distribution formula provides above-average growth amounts for fast-growing college districts.)

The DOF projects the state's adult population (age 18 and older) to increase by 1.9 percent from the current to the budget year. The budget proposes \$56 million to fund an enrollment increase consistent with this estimate. The budget includes an additional \$34 million for further enrollment growth, bringing proposed enrollment growth to a total of 3 percent (about 28,000 full-time-equivalent [FTE] students).

The proposed 3 percent increase does not correspond to any index of underlying population growth or any other objective measures of growth. The \$90 million total for enrollment growth represents the administration's judgment (1) of how much is available for CCC growth after addressing its other K-14 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 \$90 million growth allocation. This may be true, particularly if districts spend funds to advertise for new students (as some districts have recently done). In our view, however, asking whether colleges *can* attract more new students than would be justified by underlying population growth asks the wrong question.

We believe that more appropriate questions are:

- Given multiple competing needs in education, what are the best ways the Legislature can invest limited state funds?
- Should the state invest in growth for growth's sake, or should it invest in growth to the extent it serves high priority educational needs?

One major problem with funding growth at an arbitrarily high level is the incentive it creates for districts to "chase" higher FTE targets in order to get their share of the growth funding. The more the budget provides growth funds above the level indicated by population growth, the more districts may offer courses of decreasing educational priority (such as avocational and recreational courses). Moreover, this striving after increasingly "casual" students would come at the expense of other important funding needs, including needs to improve the quality of CCC programs for students pursuing degree, certificate, or transfer objectives.

To avoid the types of problems noted above, we believe the CCC growth target should be related to underlying changes in population. We recommend that the growth target be based on DOF's projected changes in the state's population for the various age groupings times actual CCC participation rates for each age group. We think this is the best indicator of community college demand. Accurate projections of CCC demand must consider the age-distribution of the adult population because the differences in CCC participation rates between age groups are substantial. For example, 18 and 19-year-olds are almost four times as likely to attend a California community college as people in their late twenties, and more than 14 times more likely to attend than people over the age of 50.

This approach produces an average growth rate of 2.4 percent between the current and budget years. This is more than the 1.9 percent statutory rate, but is justified by the fact that the younger age groups that are most likely to attend community colleges (ages 18 to 24) are growing faster than the population as a whole. Based on a growth target of 2.4 percent, we recommend an \$18 million reduction in the amount requested for growth. This would leave a total of \$72 million for enrollment growth in the budget year.

Telecommunications/Technology Augmentation

We recommend the Legislature delete the \$10 million augmentation request for telecommunications/technology because the California Community Colleges has not demonstrated the need for an augmentation.

The budget proposes a \$10 million augmentation to the CCC's telecommunications/technology program. This program was initially funded in the *1996-97 Budget Act* with \$9.3 million, then augmented to an \$18 million spending level in the *1997-98 Budget Act*. We believe the Legislature needs a clear understanding of what has been accomplished in the program's first two years before it commits to another significant expansion. The Legislature anticipated this need by requiring in the *1997-98 Budget Act* that the CCC report to it on those accomplishments by April 1, 1998. Moreover, the documentation provided by the administration does not make clear why \$10 million is needed nor does it make clear what this additional investment would "buy" in terms of better educational services.

In view of the above, we recommend the Legislature delete the \$10 million augmentation request for telecommunications/technology.

Details Lacking on “Partnership for Excellence”

We withhold recommendation on the \$50 million request for a “Partnership for Excellence” pending receipt of the program’s details.

The budget proposes \$50 million for a new program called the “Partnership for Excellence.” Under the proposal, the Chancellor’s Office would allocate funds on the basis of individual districts’ progress in meeting important educational outcomes. According to the Chancellor’s Office, the outcomes to be measured and rewarded *may* include successful course completions by students, degrees and certificates earned, and transfers to four-year institutions. At the time this *Analysis* was written, however, key details of the proposal were still being refined.

At a conceptual level, the proposal is a welcome step in introducing meaningful accountability into California’s higher education funding process. It responds in principle to earlier calls by the Legislature for accountability, including the expressed intent of Chapter 978 of 1988 (AB 1725, Vasconcellos) for development of a comprehensive accountability system, reports mandated by Chapter 741 of 1991 (AB 1808, Hayden), and language in the *Supplemental Report of the 1995-96 Budget Act* calling for development of outcomes data and standards.

As mentioned above, the development of important details of the “partnership” proposal is still a work-in-progress. Without these details, we must withhold recommendation on the \$50 million requested for the “partnership.”



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 1998-99 budget (state and federal funds) is \$725 million. This is \$21.3 million, or 3 percent, more than estimated expenditures in the current year. The commission receives about \$350 million, or 48 percent, of its funding, from the federal government.

The budget requests \$320 million from the General Fund for the commission. This is \$25.2 million, or 8.6 percent, more than estimated expenditures in the current year. After reducing base-level General Fund expenditures by \$6.4 million to account for one-time expenditures in the current year, the budget proposes an increase of \$32 million, or 11 percent, in ongoing General Fund costs. Of the requested \$320 million for 1998-99, \$313 million, or 98 percent, is for direct student aid for higher education. The balance is for the cost of operating the commission. Figure 17 shows the major changes proposed for the commission's budget in 1998-99.

MAJOR GENERAL FUND BUDGET CHANGES

As Figure 17 shows the budget requests a General Fund increase of \$32 million (after adjusting for one-time expenditures in the current year). The major factor driving this change is the second- and third-year costs (\$26.3 million) associated with past increases in the number and amount of Cal Grant awards. The *1996-97 Budget Act* 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. The *1997-98 Budget Act* provided \$5.2 million for additional Cal Grant awards and \$5 million to increase the maximum award from \$7,164 to \$8,184. Costs for these changes increase incrementally over a four-year period as first-time recipients renew their awards each year in school and new recipients enter college each year.

Figure 17

**Major General Fund Changes
In Student Aid Commission Budget**

(Dollars in Thousands)

1997-98 General Fund Budget	\$294,695
Adjust for one-time costs in current-year	-6,771
Baseline for ongoing expenditures	\$287,924
Phase-in of 1996-97 and 1997-98 Cal Grant increases	26,332
Adjust for loss in federal funding	3,918
Cal Grant for computer-related expenditures	1,000
Start-up loan to Scholarshare program	580
Replace federal funds for Cal-SOAP ^a program (Prop. 98)	300
Other adjustments	-152
Proposed 1998-99 General Fund Budget	\$319,902
General Fund increase over baseline	31,978
Percent increase	11.1%

^a Cal-SOAP: California Student Opportunity and Access Program.

**Governor Calls for Task Force to Advise on
Cal Grant Changes for May Revision**

The proposed budget does not make any changes to either the number of first-time awards or the maximum award level of Cal Grants for 1998-99. According to the budget document, "The Administration is calling for a broad-based workgroup, composed of representatives from the higher education segments, the Legislative Analyst, the Department of Finance, the California Postsecondary Education Commission, and the Student Aid Commission, to reexamine the long-term statutory Cal Grant policy." The Governor anticipates that work by this task force would conclude in early spring and guide him in making any adjustments to SAC's budget in his May Revision. We will advise the budget subcommittees during hearings on the progress of the task force, and will evaluate any additional changes to the Cal Grant budget if and when the Governor proposes them.

OVERVIEW OF THE CAL GRANT PROGRAM

The Cal Grant program consists of three parts—Cal Grant A, Cal Grant B, and Cal Grant C. Figure 18 summarizes the purpose, eligibility requirements, and awards for the three programs.

Figure 19 (see page 30) shows—for selected past years—how the Cal Grant’s program activities compare to the program’s statutory goals. It indicates, for example, that the budget would support about 41,000 first-time Cal Grant scholarships, which constitutes 56 percent of the program’s statutory goal to fund scholarships for one-fourth of high school graduates.

We discuss below two issues related to the commission’s budget request for 1998-99. In addition, in the “Crosscutting Issues” section of our analysis of higher education issues, we evaluate how recently adopted federal tax credits for college tuition will affect California, including its Cal Grant and other financial aid programs. The full text of our recently released report on this issue can be found in the companion document to this *Analysis* entitled, *The 1998-99 Budget: Perspectives and Issues*.

Technology Access Matching Grants Restrict Student Choice

We recommend eliminating Budget Bill language that earmarks up to \$1 million from the General Fund for new Cal Grant awards solely for the purchase of computer hardware, software, and Internet services. Instead, we recommend that the Legislature use the \$1 million to increase funding for Cal Grant awards generally, thereby allowing financially needy students to spend their resources on items they determine best meet their education needs.

The budget requests \$1 million from the General Fund for the creation of a Technology Access Grant within the Cal Grant program. According to the budget, 2,000 Cal Grant recipients would receive \$500 each to purchase computer hardware and/or software, or pay monthly Internet connection charges. Under the proposal, a student could receive a grant only if the student or her college matches the grant award.

State Financial Aid Should Provide Students With Maximum Flexibility. Student financial aid is intended to provide financially needy students with greater opportunities to attend colleges, universities, and vocational-training schools. Students choose among various career paths based on their interests and the income they can earn in a particular career. They also choose to spend their resources—including personal

Figure 18		
Description of Cal Grant Programs		
1998-99		
Cal Grant A	Cal Grant B	Cal Grant C
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 (1998-99)		
Income ceiling: \$61,900 for dependent student with five family members	Income ceiling: \$34,700 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: 3.05 (1997-98) Sophomores and Juniors: 3.24 (1997-98)	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 (1997-98)		
\$30,748	\$12,518	\$24,957
Maximum Award (1998-99)		
Tuition and fees: Nonpublic: \$8,184 UC: \$3,609 CSU: \$1,506	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: \$1,506
Other costs: None	Other costs: Up to \$1,410	Other costs: Up to \$530
Number of New Awards Annually		
19,260	19,260	2,089
Proposed Budget 1998-99 (In Millions)		
\$219.5	\$86.2	\$3.9
Number of Current Recipients		
58,855	48,996	3,657

Figure 19			
Cal Grants Statutory Goals Compared to Actual Awards			
1978-79, 1988-89, 1998-99			
	1978-79	1988-89	1998-99 Proposed
Goal: Number of Awards			
25 percent of high school graduates	69,637	67,264	72,420
Actual number of new awards	23,062	29,270	40,609
Percent of goal	33%	44%	56%
Goal: Cover UC and CSU Fees^a (for financially needy students)			
University of California			
Weighted average tuition and fees	\$720	\$1,554	\$4,022
Maximum award	675	1,080	3,609
Percent of goal	94%	69%	90%
California State University			
Weighted average tuition and fees	\$212	\$815	\$1,868
Maximum award	203	324	1,506
Percent of goal	96%	40%	81%
Goal: Support Private Institution Recipients at Level of Public Institution Funding			
Specified costs and fees at public institutions	— ^b	— ^b	\$9,852
Maximum award (SAC estimate)	\$2,700	\$4,370	8,184
Percent of goal	— ^b	— ^b	83%
^a	Cal Grant A and B.		
^b	Not available.		

resources, Cal Grants, and other financial aid—in ways they deem best for attaining their academic goals. Computer hardware, software, and Internet services can be useful aids to students—but they are but a few of many types of resources that students use to meet their education objectives. It is not clear why the state should provide financial aid to a student only if he or she agrees to spend \$1,000 on computer-related resources—the \$500 grant plus the \$500 match—rather than on shelter, textbooks, or other items the student might need to reach an academic

goal. The proposal unnecessarily constrains the ability of students to manage their college resources.

Proposal Creates Unnecessary Administrative Costs. In addition, the proposal would create significant administrative costs at SAC and in campus-based financial-aid offices where Cal Grants are delivered to students. Not only would administrators have to develop a separate grant application and award process, but they would have to ensure that recipients spend both the \$500 grant and the matching \$500 on computer-related items. Thus, the proposal creates unnecessary administrative costs and would require financial aid officers to audit student finances.

Maintain Student Discretion Over Grant Expenditures. For these reasons, we recommend the Legislature reject the proposal to provide \$1 million in financial aid to 2,000 students for computer-related spending only. We therefore recommend the Legislature eliminate Provision 6 of Item 7980-101-0001, which would restrict the use of \$1 million in Cal Grants to the purchase of computer-related items. Under our recommendation, students would continue to be free to purchase whatever computer-related items they felt best advanced their own educational needs.

Cal-SOAP Should Seek Federal Funds for Scholarship Program

We recommend that the Student Aid Commission use a proposed \$300,000 General Fund augmentation for higher education scholarship funds.

The budget requests an increase of \$300,000 from the General Fund (Proposition 98) for the California Student Opportunity and Access Program (Cal-SOAP). These funds would replace an expected loss of federal funding for Cal-SOAP currently received under the National Early Intervention Scholarship and Partnership (NEISP) program.

Cal-SOAP Seeks to Direct Disadvantaged Students to College. Created by legislation in 1978, the Cal-SOAP program is designed to increase postsecondary education opportunities for low-income and ethnic minority elementary and secondary school students. The program provides special tutoring, counseling, and information services to participants. Funds for the program flow through SAC to nine local consortia, each consisting of a local high school and community college, as well as representation from among nonprofit educational, counseling, or community agencies, and postsecondary education institutions. In 1996-97, the nine consortia provided services to 6,440 students.

As Figure 20 shows, the Cal-SOAP program received \$1.7 million in state and federal funding in 1997-98. Of that amount, the federal government provided \$300,000 through the NEISP program. Much like the Cal-SOAP program, the NEISP seeks to encourage and help disadvantaged students overcome barriers to attending college. Five of the nine Cal-SOAP consortia participate in the NEISP program, each receiving \$60,000 of the federal funds.

Figure 20		
Cal-SOAP^a Funding Summary		
	Estimated 1997-98	Proposed 1998-99
General Fund	\$577,000	\$577,000
General Fund, Prop. 98	690,000	990,000
NEISP ^a (federal)	300,000	—
Other funds	97,000	97,000
Totals	\$1,664,000	\$1,664,000

^a Cal-SOAP: California Student Opportunity and Access Program;
NEISP: National Early Intervention Scholarship and Partnership program.

As a condition of receiving NEISP funds, programs such as Cal-SOAP must include a college scholarship component. Through the current year, the U.S. Department of Education has waived this scholarship requirement for California because, until recently, none of the NEISP participants were old enough to graduate from high school. The federal government has withdrawn this waiver for 1998-99 because there are now NEISP participants ready to graduate.

Student Aid Commission Proposes to Decline Federal Funds Rather Than Implement a Scholarship Component. The SAC indicates that it will decline the \$300,000 in federal funds for 1998-99 because the cost to implement NEISP regulations for a scholarship program would not justify the \$300,000 federal funding that is at stake. As a consequence, the budget proposes an additional \$300,000 from the General Fund to make up for lost federal funds.

Our Proposal: Offer Cal-SOAP Scholarships and Retain Federal Funds. Based on our review of federal regulations, we agree that the costs to comply with existing NEISP scholarship requirements probably would

not justify the receipt of \$300,000 in federal funds. Nevertheless, the commission—with a federal waiver—could implement a scholarship program more sensibly than envisioned by the federal regulations *and* as a result, retain federal NEISP funding for the Cal-SOAP program. Basically, the state could use the proposed \$300,000 General Fund augmentation to fund scholarships for *each* Cal-SOAP/NEISP participant who successfully completes the program *and* graduates from high school (or who meets some other simple criteria that local consortia determine awards achievement and need). These scholarships would be redeemable upon enrollment towards student fees at any higher education institution eligible for the federal Pell Grant program. In 1996-97, a total of 911 high school seniors participated in the Cal-SOAP program. If the \$300,000 were divided among similar numbers of graduates in the coming years, each graduate would receive a scholarship worth over \$300.

According to the U.S. Department of Education, scholarships in states participating in the NEISP program range from \$200 to \$1,000 per student. Thus, with \$300,000, the Cal-SOAP program could make a comparable commitment to scholarship awards, *and* avoid the unnecessary administrative overhead of the current NEISP scholarship system by simply awarding *each* graduating Cal-SOAP participant a voucher worth approximately \$300. Such a scholarship would provide an additional incentive for Cal-SOAP participants to excel in school and pursue a college education.

The Student Aid Commission Should Seek a Federal Waiver. Rather than simply decline the \$300,000 in federal aid for the Cal-SOAP program, SAC should seek a waiver from the complex regulations governing a NEISP scholarship program in order to implement a new scholarship and continue receiving the \$300,000 in federal funding. We believe that the federal government likely would approve such a waiver request, because the state would propose to:

- Double its funding for NEISP programs from \$300,000 per year to \$600,000 per year.
- Provide *each* NEISP participant in the Cal-SOAP program with a scholarship of approximately \$300, which is comparable to scholarships by states with approved NEISP scholarship programs.
- Direct virtually 100 percent of increased funding to scholarships, rather than to unnecessary administrative overhead.
- Provide NEISP participants of all ages with an added incentive to succeed in preparing for a college education.

If the U.S. Department of Education did not waive its complex admin-

istrative requirements for offering NEISP scholarships to Cal-SOAP participants, then the \$300,000 requested from the General Fund could be used to offset lost federal funds, consistent with the Governor's budget proposal.

We recommend, therefore, that the Legislature adopt the following Budget Bill language under Item 7890-102-0001:

Of the amount of funds appropriated in this item, \$300,000 shall be available for the California Student Opportunity and Access Program (Cal-SOAP) program for scholarships to graduating high school seniors who satisfactorily complete a program funded under the National Early Intervention Scholarship and Partnership (NEISP) program, provided the federal government approves such a program and continues to provide \$300,000 in federal matching funds for NEISP participants. If this federal funding is not obtained, the Student Aid Commission may authorize the \$300,000 provided in this item for scholarships to be used to offset the loss of federal funding and maintain existing Cal-SOAP programs, not sooner than 30 days after notifying the Joint Legislative Budget Committee that it has exhausted all reasonable means of obtaining the federal approval.



FINDINGS AND RECOMMENDATIONS

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Crosscutting Issues

1. **Federal Tax Credits and State Financial Aid.** Recommend that the Student Aid Commission, California Community Colleges, California State University, and University of California each report prior to budget hearings on the financial aid implications of new federal tax credits. F-21

University of California

2. **UC Eligibility Pool Too Large.** Recommend the Legislature adopt supplemental report language asking the University of California to report by August 1, 1998 on a plan to reduce the size of its eligibility pool from 20.5 percent of high school graduates to the 12.5 percent called for by the Master Plan for Public Higher Education. F-25
3. **Reject Unnecessary Growth Funds.** Recommend deleting \$9.4 million requested from the General Fund to increase enrollments by 2,800, because 1,070 of the proposed enrollments are not justified. F-29
4. **Detail Needed on Tenth Campus.** Withhold recommendation on \$9.9 million from the General Fund requested for planning activities related to the tenth UC campus in Merced County, pending receipt of more detailed expenditure information. F-30

California State University

5. **California State University (CSU) Wants Nearly \$40 Million It Already Has.** We recommend that the Legislature deny the Governor's request for \$39.6 million for "extra" enrollment growth beyond the compact and instead direct CSU to meet this enrollment growth with funds available from productivity savings and from unreported revenues, as it is doing currently. The Legislature then could provide the \$39.6 million to meet other state priorities, including: (a) creation of an "incentive" fund to induce CSU faculty to teach more courses and (b) implementation of a CSU maintenance funding plan adopted by the Legislature in the *Supplemental Report of the 1996-97 Budget Act*. F-34
6. **Better Evaluation of Alternatives Needed Before Moving Ventura Off-Campus Center.** Recommend the Legislature delete the Governor's requested \$5.2 million augmentation of CSU's support item for higher costs of operating the Ventura off-campus center at a new site, pending a completed environmental impact report and more thorough consideration of alternatives. (See analysis of CSU's capital outlay program in Section H and analysis of the Department of Developmental Services' support budget in Section C for related recommendations.) F-38
7. **Teacher Preparation and Development.** We recommend the Legislature redirect to the Student Aid Commission \$3.3 million requested by the CSU to prepare more teachers. These monies then could be used to fund scholarships—redeemable at any accredited teacher preparation program in the state—to students whose financial needs impede them from pursuing the multiple subject teaching credential. F-40

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| 8. | LAO Alternative Spending Plan for 1998-99. Our projection of General Fund revenue results in a lower Proposition 98 minimum guarantee level for 1998-99. This also lowers the amount available to the California Community Colleges (CCC) by \$20.3 million. | F-44 |
| 9. | Proposition 98 Reserve. Recommend the Legislature create a \$7.7 million Proposition 98 reserve from the CCC's share of those funds to guard against unanticipated General Fund revenue declines. | F-45 |
| 10. | Proposed Enrollment Growth Exceeds Underlying Growth in Adult Population. Recommend the Legislature reduce funding by \$18 million to conform enrollment growth funding to underlying population growth. | F-46 |
| 11. | Telecommunications/Technology Augmentation. Recommend the Legislature delete the \$10 million augmentation request for telecommunications/technology because the CCC has not demonstrated the need for an augmentation. | F-48 |
| 12. | "Partnership for Excellence." Withhold recommendation on \$50 million requested for the "Partnership for Excellence" pending review of program details being finalized by the administration. | F-49 |

Student Aid Commission

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| 13. | Technology Access Grant Program. Recommend rejection of the proposal to limit \$1 million of Cal Grant funds to 500 students who agree to spend \$1,000 each on computer hardware, software, or Internet services, because financially needy students should be able to use grants for purposes they determine best meet their academic objectives. | F-52 |
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14. California Student Opportunity and Access Program. Recommend Student Aid Commission use proposed \$300,000 General Fund augmentation for higher educa- tion scholarships.	F-55