

Governor's Compact With UC and CSU

LEGISLATIVE ANALYST'S OFFICE

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Major Features of the Governor's Compact With UC and CSU

- The compact would be in effect from 2005-06 through 2010-11. Under the agreement, the Governor commits to include the following augmentations in his annual budget proposals:
 - General Fund base increases of 3 percent in 2005-06 and 2006-07, 4 percent in 2007-08, and 5 percent in 2008-09 through 2010-11. (Additional amounts would be provided to cover increases in debt service, retirement contributions, and annuitant health benefits. Also, bond funds would be provided for capital outlay.)
 - General Fund support for enrollment growth of 2.5 percent annually (roughly an additional 5,000 full-time equivalent [FTE] students at the University of California [UC] and 8,000 FTE students at the California State University [CSU] annually).

- For their part, the segments commit to the following:
 - Increasing undergraduate student fees by 8 percent in 2005-06 and 2006-07, and afterwards at the growth rate of per capita personal income (although the segments could increase fees up to 10 percent under "compelling circumstances"). Graduate student fees would move toward the goal of 150 percent of undergraduate fee levels. All new fee revenue would be retained by UC and CSU, providing them with new funding *on top of* the General Fund augmentations discussed above.
 - Providing annual reports on a variety of activities and outcomes.



LAO Estimate of Future Funding Commitments

Funding Expectations Under Governor's Compact						
<i>Additional Funding Above 2004-05 Level^a (In Millions)</i>						
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Additional General Fund support	\$237.5	\$482.2	\$789.9	\$1,168.5	\$1,566.1	\$1,983.5
Additional student fee revenue	173.8	362.3	516.6	680.0	850.1	1,030.0
Total additional resources	\$411.4	\$844.6	\$1,306.5	\$1,848.5	\$2,416.2	\$3,013.6

^a As proposed in Governor's May Revision.

These figures reflect the estimated cost of the compact's commitments for enrollment growth and cost-of-living adjustments, and estimated new revenue from the compact's anticipated student fee increases. (We have not attempted to estimate the costs of other commitments in the compact, such as increased costs of annuitant health benefits, employer retirement contributions, and debt service.)

As shown in the figure, by the last year of the compact UC and CSU's General Fund support is projected to increase by about \$2 billion from the 2004-05 level. When additional fee revenue is included, total resources for UC and CSU would increase by at least \$3 billion.



Should the Legislature Endorse or Otherwise Embrace the Compact?

- Consistent with our comments about earlier compacts under prior administrations, we believe that a multiyear funding compact for higher education could negatively affect program performance and the state budget process.
 - A multiyear funding commitment would reduce the Legislature's annual budgetary discretion, undermining its ability to respond to the state's policy needs in the face of changing fiscal conditions.
 - Furthermore, by guaranteeing annual budget increases the proposed compact could undermine incentives to provide services in the most cost-effective way.

- The Legislature has already provided a road map for higher education through the Master Plan.
 - The Master Plan specifies student eligibility targets and other key policies.
 - The Master Plan has had a high level of bipartisan support among policymakers.

- The compact does not necessarily promote the Master Plan.
 - For example, levels of enrollment growth in the compact have no evident connection to the Master Plan.
 - The compact also ignores how UC and CSU should interact with the California Community Colleges.



Should the Legislature Endorse or Otherwise Embrace the Compact?

(Continued)

- The Legislature is already pursuing various efforts to clarify and promote higher education goals.
 - Current legislative efforts are pending to adopt a student fee policy. We recommend adoption of a policy that establishes a foundation for fees based on a fixed percentage of educational costs at the three segments.
 - The Legislature also is pursuing additional accountability measures that will help ensure that appropriate levels of resources are used efficiently and effectively to achieve higher education goals.
 - The recent release of the California Postsecondary Education Commission's eligibility study provides some insight into how well Master Plan eligibility targets are being met. For example, given that UC and CSU are in very different places with regard to their Master Plan eligibility pool targets, the Legislature may wish to fund different rates of enrollment growth at the two segments. This approach is not envisioned by the compact, which treats the two segments identically.