

Overview of the Governor's 2006-07 Budget Proposal

LEGISLATIVE ANALYST'S OFFICE

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Mervyn Dymally, Chair

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On Education Finance





Net Augmentations in Governor's Budget Proposal

Governor's 2006-07 Higher Education Budget Proposal				
<i>(Dollars in Millions)</i>				
	2005-06	2006-07	Change	Percent
UC				
General Fund	\$2,842.4	\$3,049.2	\$206.7	7.3%
Fee revenue	1,957.6	1,999.9	42.3	2.2
Subtotals	(\$4,800.0)	(\$5,049.1)	(\$249.1)	(5.2%)
All other funds	\$14,599.9	\$14,993.6	\$393.7	2.7%
Totals	\$19,400.0	\$20,042.7	\$642.7	3.3%
CSU				
General Fund	\$2,597.5	\$2,775.8	\$178.3	6.9%
Fee revenue	1,205.3	1,231.3	26.0	2.2
Subtotals	(\$3,802.7)	(\$4,007.1)	(\$204.3)	(5.4%)
All other funds	\$2,198.9	\$2,190.5	-\$8.4	-0.4%
Totals	\$6,001.7	\$6,197.6	\$196.0	3.3%
CCC				
General Fund ^a	\$3,457.2	\$3,958.1	\$500.9	14.5%
Local property tax	1,829.7	1,899.3	69.6	3.8
Fee revenue	347.9	358.4	10.4	3.0
Subtotals	(\$5,634.9)	(\$6,215.8)	(\$581.0)	(10.3%)
All other funds ^b	\$272.2	\$260.9	-\$11.3	-4.2%
Totals	\$5,907.0	\$6,476.7	\$569.7	9.6%
CSAC				
General Fund	\$752.5	\$861.6	\$109.2	14.5%
All other funds	817.5	768.4	-49.0	-6.0
Totals	\$1,569.9	\$1,630.0	\$60.1	3.8%
Other				
General Fund	\$10.4	\$12.2	\$1.8	17.3%
Fee revenue	26.3	26.4	0.1	0.4
All other funds	21.2	17.8	-3.4	-16.0
Totals	\$57.9	\$56.4	-\$1.5	-2.6%
Grand Totals	\$32,936.5	\$34,403.5	\$1,467.0	4.5%
General Fund	\$9,659.9	\$10,656.9	\$997.0	10.3%
Fee revenue	3,537.2	3,616.0	78.9	2.2
Local property tax	1,829.7	1,899.3	69.6	3.8
All other funds	17,909.7	18,231.2	321.5	1.8

^a Excludes teachers' retirement funds and bond payments.
^b Excludes other funds maintained in local budgets.



Major Features of Governor's Higher Education Proposals



Provides Enrollment Increases That Exceed Population Growth

- 2.5 percent growth at UC and CSU.
- 3 percent growth at CCC.
- Pool of eligible students to grow by less than 2 percent.



Revises UC and CSU Marginal Cost Formula

- Increases per-student spending by 34 percent at UC and 8 percent at CSU.



Maintains Student Fees as Current Levels

- Budget seeks to rescind UC and CSU fee increases called for in his compact, but provides additional General Fund support in lieu of those increases.
- Similar fee buyout for CCC.



Provides Base Increases Over 5 Percent

- 5.8 percent for UC, 5.2 percent for CSU, and 5.2 percent for CCC.
- UC and CSU's base increases include funding for "fee buyout."



Eliminates General Fund Support for Outreach Programs

- \$17.3 million reduction for UC and \$7 million reduction for CSU.



Provides \$130 Million Toward Ongoing Equalization Efforts at CCC

- Intended to achieve equalization targets currently in statute.



Issue: How Should Higher Education Funding Be Allocated Among Priorities?



Governor's budget would allocate about \$150 million to the three segments to increase the general subsidy provided to nonneedy students.

- The Legislature could choose to instead allocate this money to other needs which it considers a higher priority. For example, part of this funding could be used to support additional Cal Grant awards, textbook grants, or outreach activities.
- In this way, the Legislature could shift some of the proposed funding away from subsidizing nonneedy students and toward assisting needy students.



The Governor's budget would fund enrollment growth substantially higher than expected enrollment demand.

- In recent years, some segments have not been able to use all their enrollment funding for enrollment growth. Overfunding growth ties up resources that could be used for other purposes.



The Governor's budget provides an additional \$50 million to CCC for his workforce development initiative that began in the current year.

- None of the \$20 million provided in the current year has yet been allocated, and is unlikely to be spent before the end of the fiscal year.
- Instead of more than tripling funding for a new, unproven program, the Legislature may wish to shift some of this money toward an existing need.



Issue: How Can the Legislature Preserve Its Budgeting Authority?



The Governor's budget generally funds UC and CSU according to an agreement he negotiated with them in 2004. That agreement includes somewhat arbitrary funding targets—such as 2.5 percent annual enrollment growth for each segment from 2004-05 through 2010-11.

- The Legislature need not fund these arbitrary amounts. Instead, the Legislature can fund whatever costs it feels are warranted based on its own policy goals, priorities, and estimates of need.



The marginal cost formula adopted in the Governor's budget would significantly limit the Legislature's influence over key budget decisions.

- For example, it insulates the state's share of marginal cost funding from any change in student fee levels or student-faculty ratio that the Legislature might pursue.



Issue: How Can Budgetary Accountability Be Strengthened?



The compact between the Governor and the universities assumes that the universities should have discretion to spend any new revenue resulting from a fee increase as they see fit. Although the Governor's budget would provide General Fund support in lieu of a fee increase, it still permits UC and CSU to spend it any way they wish.

- Although the segments indicate that they will spend this funding in accordance with spending plans they adopted last fall, budgetary accountability is weakened because the state budget does not link this money to any specific need.
- In addition, the Governor's budget proposal weakens budget bill language that would require UC and CSU to use their enrollment growth funding only on enrollment growth. Budgetary accountability requires that funding be spent in the way it is intended.