

March 18, 2010

# Overview of 2010-11 Higher Education Budget

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LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review

Subcommittee No. 1 on Education

Hon. Carol Liu, Chair



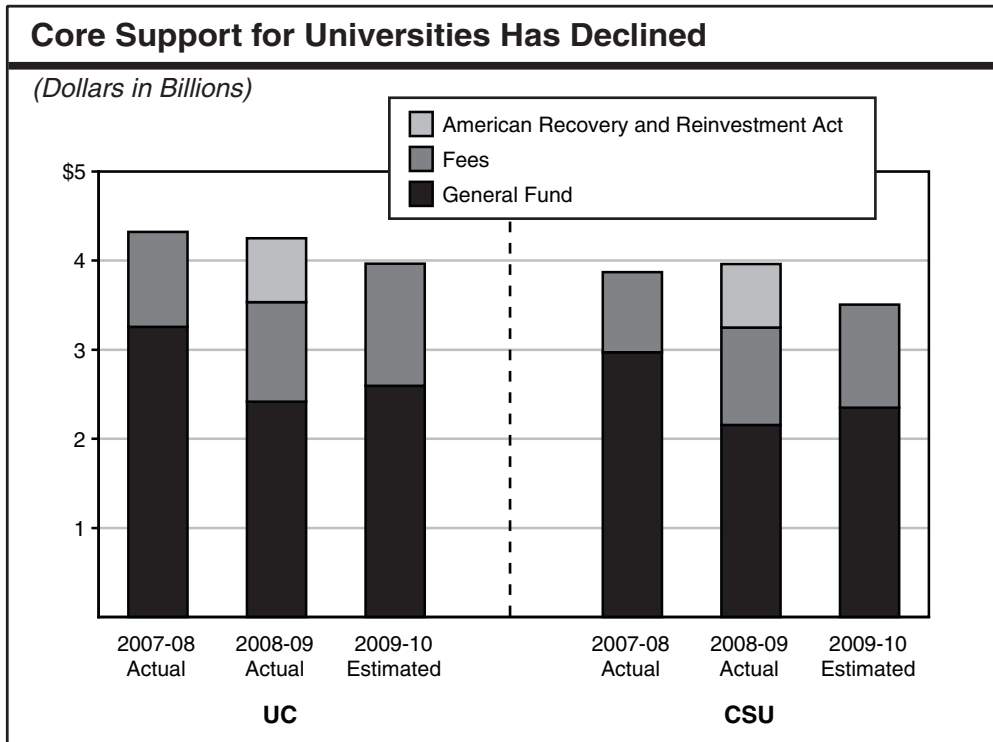


## Overview



### Current-year Funding Reflects Decline in State Support

- General Fund support for higher education has dropped 14 percent since 2007-08.
- Only major higher education program to receive net increase is Cal Grants (16 percent increase).
- Cuts to universities are partially offset by fees and federal funding.





## Overview

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### **Governor's Budget Would Provide General Fund Increases for All Segments**

- Total General Fund augmentation of about \$1.2 billion (12 percent) over current year level.
- But total General Fund support would still be about \$424 million (3.7 percent) below 2007-08 level.
- In addition, Governor's budget assumes segments would receive about \$1.2 billion more in fee revenue than they received in 2007-08.



### **Two Key Budget Questions Related to Universities**

- How much total funding should the universities spend per full-time equivalent (FTE) student?
- How many FTE students should the universities enroll?
- Neither of these questions has been directly addressed in past two budget acts.
- Governor's proposal would increase per-student funding above 2007-08 levels.



### **Governor's Proposal a Mixed Bag for Financial Aid Programs**

- \$132 million augmentation to fully fund Cal Grant entitlement program.
- \$45.5 million reduction for Cal Grant competitive program.
- Another \$79 million of Cal Grant funding would be subject to Governor's "trigger cuts."

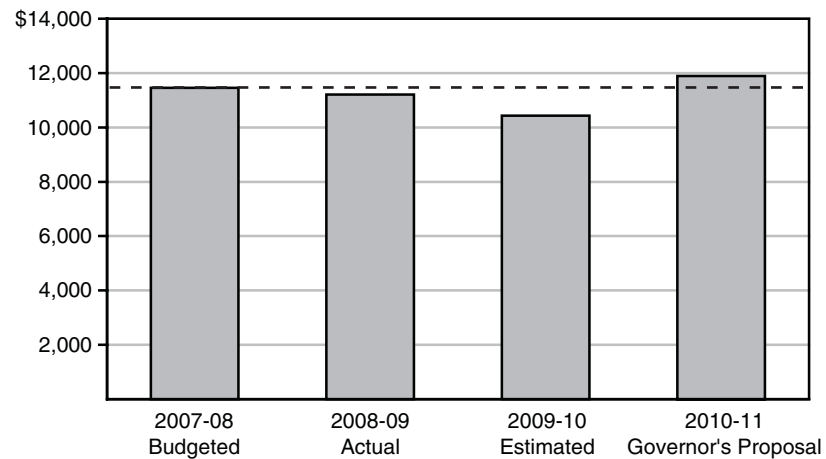


## Overview

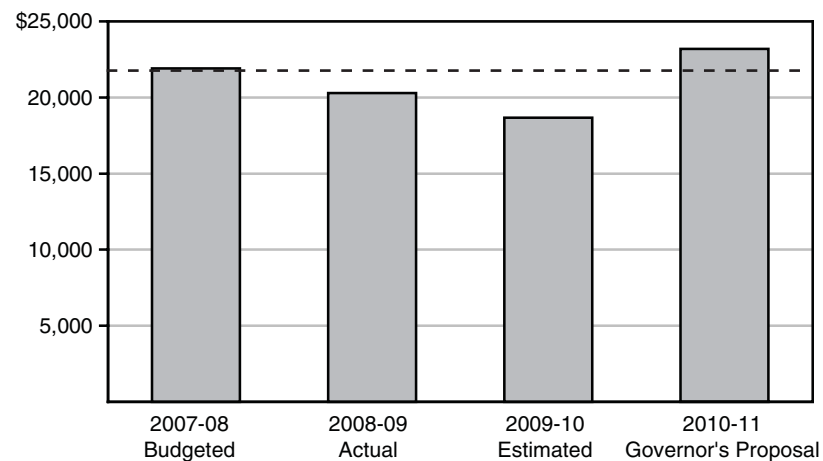
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### Core Funding Per Full-Time Equivalent Student

#### CSU



#### UC





## Student Fees

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### **Fees Are Important Source of Higher Education Revenue**

- Help support educational costs.
- Provide nearly \$4 billion annually, or more than 40 percent of core support for universities, 5 percent for community colleges.



### **Fees Have Increased in Recent Years**

- Undergraduate fees increased 36 percent at UC and 60 percent at CSU over four years.
- Despite increases, fees remain below averages for comparison institutions.
- CCC fees increased from \$20 to \$26 in 2009-10, and still remain lowest in the nation.



### **Budget Assumes UC and CSU Fee Increases**

- Assumes 15 percent fee increase at UC, and 10 percent at CSU.
- Proposed undergraduate fees are \$10,302 at UC and \$4,429 at CSU.
- CCC fees would remain at \$26 per unit.



### **Financial Aid Programs Help Offset Increased Education Costs**

- Proposed Cal Grant cuts would reduce affordability for financially needy students.



## State Fee Waivers and Federal Tax Breaks Help Offset Community College Fee Costs



The state's Board of Governors' (BOG) fee waiver program exempts financially needy students from paying fees.

- About 30 percent of community college students receive a fee waiver.



The vast majority of students who do not qualify for a BOG waiver are still eligible for federal financial assistance that covers all or a portion of their fees.

### Federal Tax Benefits Applied Toward Higher Education Fees

2010

#### American Opportunity Tax Credit

- Directly reduces tax bill and/or provides partial tax refund to those without sufficient income tax liability.
- Covers 100 percent of the first \$2,000 in tuition payments and textbook costs. Covers 25 percent of the second \$2,000 (for maximum tax credit of \$2,500).
- Designed for students who:
  - Are in first through fourth year of college.
  - Attend at least half time.
  - Are attempting to transfer or acquire a certificate or degree.
- Provides full benefits at adjusted income of up to \$160,000 for married filers (\$80,000 for single filers) and provides partial benefit at adjusted income of up to \$180,000 (\$90,000 for single filers).

#### Lifetime Learning Credit

- Directly reduces tax bill for unlimited number of years.
- Covers 20 percent of first \$10,000 in fee payments (up to \$2,000 per tax year).
- Designed for students who:
  - Already have a bachelor's degree.
  - Carry any unit load.
  - Seek to transfer or obtain a degree/certificate—or simply upgrade job skills.
- Provides full benefits at adjusted income of up to \$100,000 for married filers (\$50,000 for single filers) and provides partial benefit at adjusted income of up to \$120,000 (\$60,000 for single filers).

#### Tuition and Fee Deduction

- Reduces taxable income.
- Deducts between \$2,000 and \$4,000 in fee payments (depending on income level).
- Designed for any student not qualifying for a tax credit.
- Capped at adjusted income of \$80,000 for single filers and \$160,000 for married filers.



## Student Completion Rates

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### **Shift in Focus From “Access” to “Access and Success”**

- Renewed attention at all levels, from federal government and national organizations to states, regional collaborations, and institutions.



### **Why Completion Matters**

- Economic competitiveness.
- Degrees, certificates, and credentials as proxy for knowledge and skills.
- Return on public and personal investments.



### **Many Factors Affect Completion Rates**

- College readiness and need for remediation.
- Financial considerations.
- Academic skills, student engagement, use of support services.



### **Measuring Completion Rates**

- Using the right denominator is key.

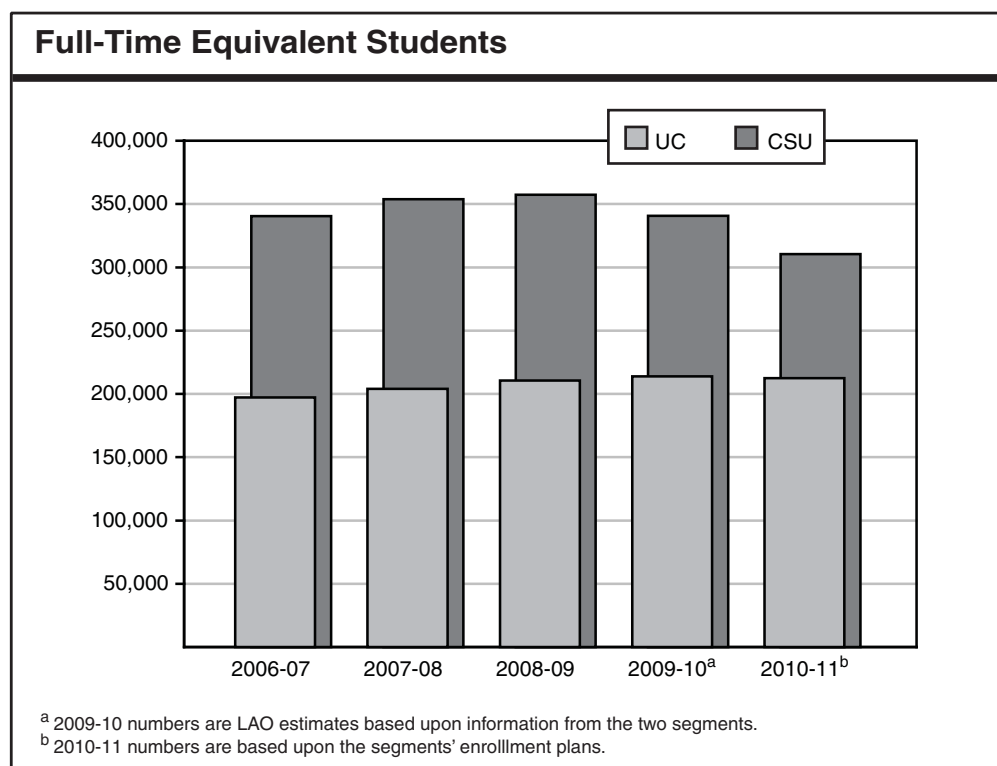


## Student Enrollment



### Funded Enrollment at UC and CSU Not Specified in Previous Budgets

- Legislature and Governor typically provide funded enrollment targets in annual budget acts.
- However, the 2008-09 and 2009-10 budgets did not specify enrollment targets for UC and CSU.







## Student Enrollment

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Governor's budget would provide general fund augmentation for "enrollment growth" at UC and CSU.

- General Fund augmentation is subject to federal funds trigger.
- Both segments plan to reduce enrollment in the 2010-11 academic year so proposed augmentation would support existing enrollment.



We recommend the Legislature specify enrollment levels for the universities as done in previous years.

- Enrollment targets would clarify expectations and avoid continued confusion about funded enrollment levels.
- The specific enrollment target will depend upon available funding and determining how much total funding the universities should spend per student.



At CCC, most districts are enrolling more students than they are funded to serve.

- Enrollment has exceeded funding at community colleges due to increasing demand and 2009-10 budget reductions.
- Governor's budget proposes an augmentation for 2.2 percent increase in funded enrollment levels.
- Similar to UC and CSU, community colleges have indicated that growth funds would support existing enrollment in order to reduce the gap between funded workload and actual enrollments.



## Student Enrollment

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