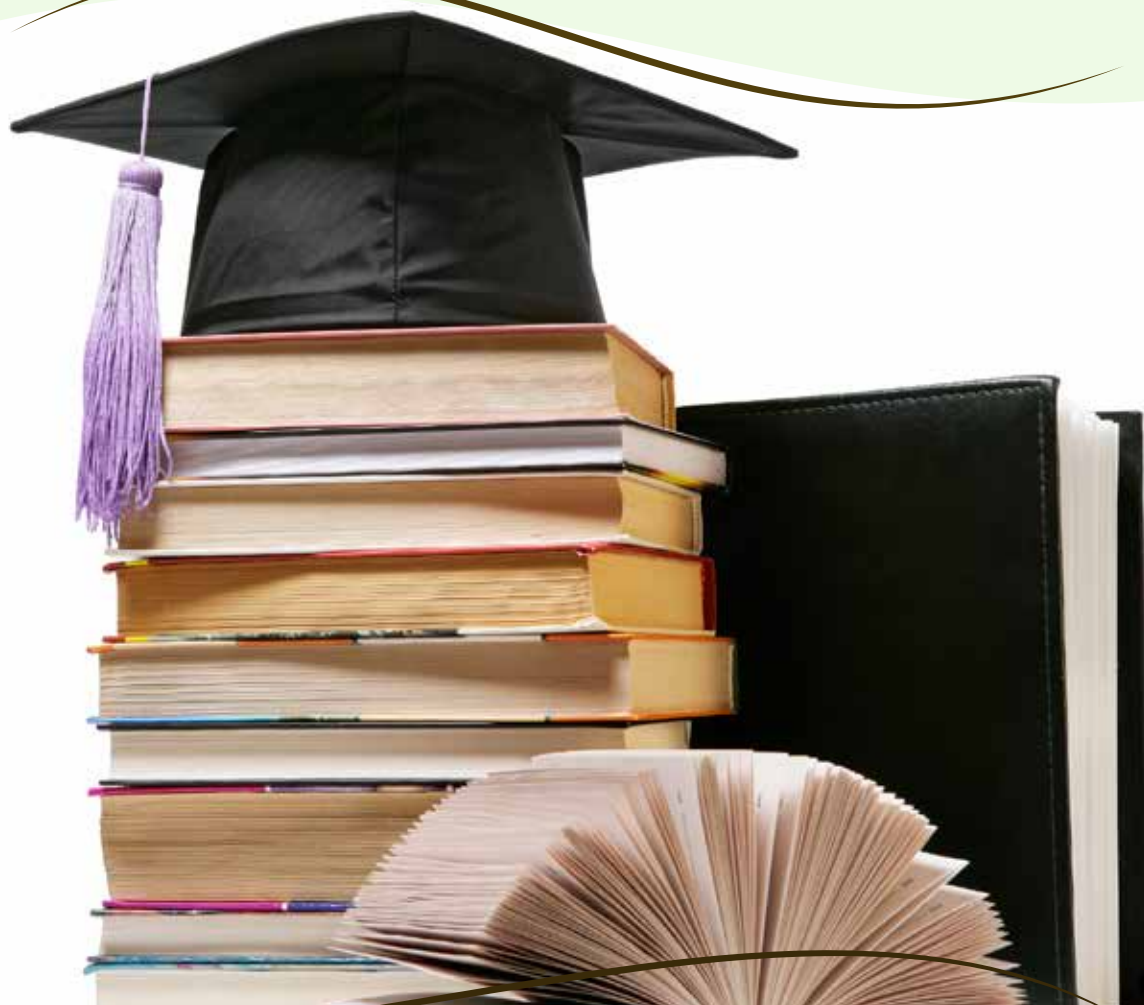


The 2014-15 Budget:

Analysis of the Higher Education Budget



MAC TAYLOR • LEGISLATIVE ANALYST • FEBRUARY 12, 2014

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EXECUTIVE SUMMARY

Overview

California's public higher education system consists of the University of California (UC), California State University (CSU), California Community Colleges (CCC), Hastings College of the Law (Hastings), the California Student Aid Commission, and the California Institute for Regenerative Medicine (CIRM). The Governor's budget provides \$13 billion in General Fund support for higher education in 2014-15. This is \$1.2 billion (10 percent) more than the revised current-year level. After making adjustments for enrollment and accounting changes that otherwise would distort year-to-year comparisons, per-student support funding increases 2 percent at UC, 3 percent at CSU, and 4 percent at CCC.

Universities

Governor Proposes Continuation of His Multiyear Budget Plan. The Governor's 2014-15 budget proposal for the universities is the second year of a four-year budget plan introduced last year. Specifically, the Governor proposes to: (1) provide UC and CSU each with \$142 million in unallocated base increases, (2) maintain an extended freeze on student tuition, (3) provide CSU with more flexibility to make decisions on capital projects (such flexibility was provided to UC beginning in 2013-14), and (4) not link funding with enrollment or other specific purposes.

Serious Concerns With Governor's Approach. Similar to last year, we have serious concerns about the Governor's overall budgetary approach for the universities and recommend the Legislature reject it. Most troubling, the Governor's budget does not link university funding to specific purposes. Instead, his plan includes large unallocated increases tied only to keeping tuition flat. Further, the Governor's approach to CSU capital outlay takes funding decisions out of the regular budget process. This overall budgetary approach diminishes the Legislature's role in key decisions and allows the universities to pursue their own interests rather than state-identified priorities.

Recommend Alternative Approach That Designates Funding for Specific Purposes. We recommend the Legislature return to its traditional budgetary approach for the universities. Using a workload approach, we lay out a specific alternative to the Governor's plan. Our alternative funds 2 percent enrollment growth at CSU to serve eligible students who might otherwise be denied admission. (For UC, we include no enrollment growth since the university continues to accept all eligible students.) Our alternative also funds inflation and other workload cost increases at both universities. In total, our plan provides UC with \$186 million and CSU with \$209 million—\$44 million and \$18 million more, respectively, than the Governor's plan. Because we assume that the state and students share in these cost increases, the amount of state support provided to the universities is \$100 million lower under our alternative. (This would be offset by an associated \$38 million increase in Cal Grant costs.)

Recommend Monitoring Performance. We recommend the Legislature require UC and CSU to discuss their performance in specific areas (such as student access and success) at budget hearings

each spring. The Legislature could use this opportunity to learn more about each university's performance, develop performance expectations moving forward, and make funding decisions based on this information.

Community Colleges

Significantly Increases CCC Funding in 2014-15. The Governor proposes to increase CCC's Proposition 98 funding to \$6.7 billion, which is \$489 million (8 percent) more than the revised current-year level. (In addition to the augmentations highlighted below, the Governor proposes to pay down CCC deferrals, fund CCC maintenance and instructional support, and address certain CCC mandates. We discuss these issues in other 2014-15 budget reports.)

Funds 3 Percent Enrollment Growth. One of the Governor's largest CCC augmentations for 2014-15 is \$155 million for 3 percent enrollment growth (34,000 full-time equivalent [FTE] students). The Governor's budget also requires the CCC Chancellor's Office to develop a new enrollment growth allocation formula. Based on preliminary information we have received from community colleges, we believe 3 percent enrollment growth likely is too high and needs to be revisited once better current-year data are available. In addition, while we agree that CCC's existing enrollment growth allocation formula needs to be revised, we recommend the Legislature postpone implementation until 2015-16. Such a delay would give the Chancellor's Office a reasonable amount of time to develop a new CCC formula as well as to coordinate with the California Department of Education (CDE) on a funding formula for the state's adult education initiative.

Increases Funding for Student Support Programs. The Governor proposes a \$200 million augmentation for the Student Success and Support Program (SSSP) and gives partial flexibility to three other CCC student support programs. While the Governor's overarching goals of enhancing student support and increasing flexibility are laudable, we believe his specific proposals are too narrowly focused. To provide substantially greater flexibility, we recommend the Legislature consolidate seven categorical programs into a new Student Support block grant.

Tuition and Financial Aid

Low Tuition, High Aid Make College Affordable for Many. California's tuition and fee levels are relatively low (especially at CSU and CCC) while other costs of college attendance (such as housing and transportation) are somewhat higher than national averages. Financial aid programs help offset a large proportion of costs for many low- and middle-income families in the state. As a result, the net price they pay (after fee waivers, grants, and scholarships) often is far less than the list price. Moreover, students' share of educational costs is declining, and student debt levels remain low by national comparisons.

Recommend Rejecting Extended Tuition Freeze. The Governor proposes to freeze public college tuition for three more years (keeping fees flat from 2011-12 through 2016-17). We believe an extended tuition freeze would have several negative consequences and recommend instead that the state adopt a share-of-cost policy to help guide tuition and state funding decisions.

INTRODUCTION

In this report, we provide an overview of the Governor's higher education budget and then turn to the Governor's specific proposals for: (1) the universities, (2) community colleges, (3) new higher education innovation awards,

and (4) tuition and financial aid. In each of these four areas, we analyze the Governor's proposals and offer recommendations for the Legislature's consideration.

OVERVIEW

Provides \$20 Billion in Core Funding for Higher Education. Under the Governor's proposal, total core funding for higher education in 2014-15 is \$20 billion—a \$1.3 billion (7 percent) increase over the 2013-14 level. As shown in Figure 1 (see next page), nearly all the increase in core funding is covered by the state General Fund. In addition to state General Fund support, the universities receive significant support from student tuition revenues. Under the Governor's proposal, tuition levels at the universities would remain flat. (Total tuition revenue increases slightly at UC due to an increase in nonresident students. It increases slightly at CSU due to a projected 2 percent increase in enrollment.) For the community colleges, local property tax revenue and student fee revenue are other main sources of core funding. The Governor's budget estimates that local property tax revenue will be up \$94 million (4 percent) from the current-year level. Student fee revenue is budgeted to increase \$13 million (3 percent) due to enrollment growth.

Funding Per Student Would Increase at All Segments. Figure 2 (see page 7) shows another perspective on higher education funding—one that adjusts for enrollment levels and any accounting changes (such as payment deferrals) that otherwise would distort year-to-year programmatic comparisons. The figure focuses on the amount of funding generally available to support operational costs. As shown in the figure, funding per FTE student in 2014-15 under the Governor's budget

ranges from about \$6,000 at CCC to nearly \$42,000 at Hastings. (The difference in level of support largely reflects the segments' different missions.) Year-over-year, the percentage increase in per-student funding ranges from 2 percent at UC to 6 percent at Hastings. (The increase at Hastings reflects a 2.6 percent reduction in total funding combined with an 8.1 percent decrease in enrollment.)

Governor Proposes 10 Percent General Fund Increase. The state is the largest source of core funding for UC, CSU, and CCC. As shown in Figure 3 (see page 7), the Governor's budget includes \$13 billion in total state General Fund support for higher education in 2014-15—a \$1.2 billion (10 percent) increase over the revised 2013-14 level. (For this comparison, we include support from the Student Loan Operating Fund (SLOF) and the federal Temporary Assistance for Needy Families (TANF) program because these sources directly offset General Fund support for Cal Grants. In effect, these sources are interchangeable with General Fund.)

Large Increases for Universities, Community Colleges, Student Aid. The Governor's major proposed augmentations for higher education are: base increases at the universities, increases in apportionment funding and two categorical programs at the community colleges, Cal Grants growth, and implementation of the new Middle Class Scholarship program approved by the

Figure 1
Higher Education Core Funding

(Dollars in Millions)

	2012-13 Actual	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
University of California (UC)					
General Fund ^a	\$2,566	\$2,844	\$2,987	\$142	5%
Net tuition ^b	2,525	2,605	2,651	46	2
Other UC core funds ^c	351	344	331	-13	-4
Lottery	30	38	38	—	—
Subtotals	(\$5,471)	(\$5,831)	(\$6,006)	(\$175)	(3%)
California State University (CSU)					
General Fund ^{a,d}	\$2,473	\$2,789	\$2,966	\$177	6%
Net tuition ^b	2,009	2,014	2,055	41	2
Lottery	40	56	57	1	2
Subtotals	(\$4,522)	(\$4,859)	(\$5,078)	(\$219)	(5%)
California Community Colleges (CCC)					
General Fund ^a	\$4,269	\$4,390	\$4,828	\$438	10%
Local property tax	2,241	2,232	2,326	94	4
Fees	425	435	448	13	3
Lottery	157	182	182	—	—
Subtotals	(\$7,092)	(\$7,238)	(\$7,784)	(\$545)	(8%)
Hastings College of the Law (Hastings)					
Net tuition ^b	\$33	\$33	\$30	-\$2	-7%
General Fund ^a	9	10	11	1	13
Subtotals ^e	(\$42)	(\$42)	(\$41)	(\$1)	(-3%)
California Student Aid Commission (CSAC)					
General Fund	\$671	\$1,042	\$1,299	\$257	25%
Student Loan Operating Fund	85	98	60	-38	-39
TANF funds	804	542	545	3	1
Subtotals	(\$1,559)	(\$1,682)	(\$1,904)	(\$222)	(13%)
California Institute for Regenerative Medicine					
General Fund ^a	\$53	\$97	\$284	\$187	193%
Awards for Innovation in Higher Education					
General Fund	—	—	50	50	N/A
Totals^f	\$17,685	\$18,583	\$19,893	\$1,310	7%
General Fund	\$10,041	\$11,173	\$12,425	\$1,252	11%
Net tuition/fees ^f	3,936	3,919	3,930	11	—
Local property tax	2,241	2,232	2,326	94	4
Other	1,239	984	936	-48	-5
Lottery	228	275	276	1	—

^a Includes general obligation bond debt service. For CCC, also includes Quality Education Investment Act funds.

^b Reflects tuition after set aside for institutional financial aid. In 2014-15, UC, CSU, and Hastings plan to provide \$1 billion, \$665 million, and \$12 million, respectively, in institutional aid.

^c Excludes carry forward of prior year balance in 2013-14 under the assumption that most of this balance will continue to be carried forward.

^d Includes health benefit costs for CSU retired annuitants.

^e Embedded in the subtotals each year is about \$200,000 from Lottery funds.

^f To avoid double-counting, excludes UC and CSU tuition paid on behalf of students from Cal Grants. These payments appear in both UC/CSU net tuition and CSAC General Fund.

TANF = Temporary Assistance for Needy Families.

Figure 2

Higher Education Support Funding Per Full-Time Equivalent Student^a

(Dollars in Millions)

	2012-13 Actual	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
Hastings College of the Law	\$34,151	\$39,535	\$41,896	\$2,361	6%
University of California	21,295	22,736	23,249	513	2
California State University	11,879	12,506	12,823	318	3
California Community Colleges	5,671	5,997	6,266	269	4

^a Includes General Fund, net tuition and fees, other university core funds, and local property taxes. Excludes general obligation and lease-revenue bond debt-service payments. Also excludes institutional financial aid, which averages about \$12,500 per student at Hastings, \$4,100 per student at UC, and \$1,800 per student at CSU.

Legislature last year, as shown in Figure 4 (see page 8). (The Governor’s budget also contains a \$187 million increase for debt service for bonds

that support CIRM research. The increased payments are related to the timing of previous bond issuance.)

UNIVERSITIES

In this section, we start by providing background on major actions taken in last year’s budget for UC and CSU. Next, we discuss the Governor’s 2014-15 plan for the universities, assess the plan, and offer an alternative plan for the

Legislature’s consideration. For the alternative, we rely on a number of guiding principles for developing university budgets that we lay out in our recent publication, *A Review of State Budgetary Practices for UC and CSU*.

Figure 3

Higher Education General Fund Support

(Dollars in Millions)

	2012-13 Actual	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
University of California	\$2,566	\$2,844	\$2,987	\$142	5%
California State University ^a	2,473	2,789	2,966	177	6
California Community Colleges ^b	4,269	4,390	4,828	438	10
California Student Aid Commission ^c	1,559	1,682	1,904	222	13
California Institute for Regenerative Medicine	53	97	284	187	193
Hastings College of the Law	9	10	11	1	13
Awards for Innovation in Higher Education	—	—	50	50	N/A
Debt-Service Obligations ^d	(1,027)	(1,027)	(1,255)	(228)	(22)
Totals	\$10,930	\$11,812	\$13,030	\$1,218	10%

^a Includes health benefit costs for CSU retired annuitants.

^b Includes Quality Education Investment Act funds.

^c Includes federal Temporary Assistance for Needy Families funds and monies from the Student Loan Operating Fund—both of which directly offset General Fund expenditures for Cal Grants.

^d Amounts, which include debt service on general obligation, lease-revenue, and UC general revenue bonds, are shown for reference only, as they already are reflected in the lines above.

Figure 4
Governor’s Higher Education
General Fund Spending Changes^a

(In Millions)

2013-14 Budget Act	\$11,564
Provide additional funds for CCC deferral paydown	\$163
Backfill for CCC redevelopment agency revenue	38
Other adjustments	47
Total Change	\$248
2013-14 Revised Spending	\$11,812
Provide 5 percent base increases for UC, CSU, and Hastings	\$286
Increase funding for CCC Student Success and Support program	200
Adjust debt-service payments	187
Increase CCC maintenance and instructional support	175
Fund 3 percent CCC enrollment growth	155
Implement Middle Class Scholarship program	107
Fund Cal Grant program growth	100
Fund new Awards for Innovation	50
Provide 0.86 percent CCC cost-of-living adjustment	48
Provide additional funds for CCC deferral paydown	43
Adjust employee compensation and benefits	24
Expand Cal Grant renewal eligibility	15
Remove one-time funding	-55
Adjust for anticipated CCC redevelopment agency revenue	-3
Other adjustments	-115
Total Change	\$1,218
2014-15 Proposed Spending	\$13,030

^a Excludes transfer of \$198 million in general obligation bond debt-service funding from a separate item to CSU support item since this has no immediate programmatic effect on the university and does not increase overall state spending. Also excludes changes in Temporary Assistance for Needy Families and Student Loan Operating Funds, as these directly offset General Fund support and have no programmatic effect.

Legislature Adopted Some Elements of Governor’s Plan, Rejected Others. The Legislature adopted the proposed 5 percent base increases for both universities, though it did not commit to out-year, unallocated funding increases or the extended tuition freeze. The Legislature also set enrollment targets and restored some earmarks. The Governor, however, vetoed the enrollment targets and nearly all the earmarks, citing a desire to give the universities greater flexibility to manage their resources. The Legislature approved the Governor’s proposal to combine UC’s support and capital budgets, but rejected this same proposal for CSU.

Background

Last Year Governor Proposed Multiyear Plan for Universities. Last year, the Governor proposed a four-year funding plan for the universities that included unallocated base budget increases of 5 percent each year for 2013-14 and 2014-15, followed by 4 percent increases in each of the subsequent two years. The plan also called for an extended tuition freeze. In addition, the plan proposed to increase the universities’ flexibility to allocate funds by (1) removing enrollment targets, (2) eliminating most earmarks (such as for student outreach programs), and (3) combining support and capital budgets.

Governor’s Proposals

The Governor’s 2014-15 budget plan for the universities is largely a continuation of the multiyear plan he introduced last year, as detailed below.

Proposes Increase in General Purpose Funding for Universities. The Governor proposes unallocated base budget increases of \$142 million each for UC and CSU in 2014-15. These increases represent the second annual installment in the four-year funding plan he proposed last year. About \$10 million of CSU’s increase is related to a

new proposed process for funding capital projects, discussed in the next paragraph. In addition, the Governor adjusted CSU's budget for changes in debt service, retirement contributions, and retired employee health care costs.

New Capital Outlay Process for CSU. Similar to the new capital outlay process approved for UC last year, the Governor proposes to shift general obligation and lease-revenue bond-debt service payments into CSU's main appropriation. Moving forward, CSU would be responsible for funding debt service from within this main appropriation. Under the proposal, the university would issue its own revenue bonds for various types of capital projects and could restructure its existing lease-revenue bond debt. To use its new authority, the university would be required to submit project proposals to the Joint Legislative Budget Committee (JLBC) and Department of Finance (DOF) for approval. The CSU's capital projects no longer would be reviewed as part of the regular budget process.

No Enrollment Targets for Universities. Similar to last year, the Governor does not propose enrollment targets or enrollment growth funding for the universities. The Governor's budget summary shows resident enrollment flat in the budget year at UC, growing by 2.3 percent at CSU, and decreasing by 8 percent at Hastings. (The administration indicates these enrollment levels are shown for "display purposes only and do not constitute an enrollment plan.")

Assumes No Tuition Increases. The Governor once again conditions his proposed annual funding increases for the universities on their continuing to freeze tuition at 2011-12 levels. This proposal is discussed in more detail in the "Tuition and Financial Aid" section of this report.

Requires UC and CSU to Adopt Sustainability Plans. The Governor proposes budget bill language requiring the UC and CSU governing boards to adopt three-year sustainability plans

by November 30, 2014. Under this proposal, the universities would project expenditures for each year from 2015-16 through 2017-18 and describe changes needed to ensure expenditures do not exceed available resources (based on General Fund and tuition assumptions provided by DOF). The segments also would project resident and nonresident enrollment for each of the three years and set targets for the performance measures approved as part of last year's budget package. (This package included measures of enrollment, student progress, graduation, degrees awarded, funding per degree, and efficiency, with several of the measures disaggregated for undergraduate and graduate students, transfer students, low-income students, and students in science, technology, engineering, and mathematics disciplines.)

Serious Concerns With Governor's Budgetary Approach

Similar to last year, we have serious concerns about the Governor's overall budgetary approach for the universities and recommend the Legislature reject it. Most troubling, the Governor's budget does not link university funding to state priorities. Although the Governor enumerates several higher education priorities in his budget summary (for example, reducing the cost of education and improving affordability, timely completion rates, and program quality), his funding plan includes large unallocated increases tied only to maintaining flat tuition levels. The budget requires the universities to set performance goals, but does not establish state performance expectations or link the universities' funding to meeting these expectations. Further, the Governor's approach to CSU capital outlay takes funding decisions out of the legislative budget process. This overall budgetary approach diminishes the Legislature's role in key decisions and allows the universities to pursue their own interests rather than state-identified priorities.

LAO Alternative

Recommend Budgetary Approach That Designates Funding for Specific Purposes. In our recent publication, *A Review of State Budgetary Practices for UC and CSU*, we recommended the Legislature build the universities' budgets based on enrollment growth, inflation, targeted set-asides, and capital outlay, while assuming that cost increases are shared by students and the state. We further recommended the Legislature incorporate performance measures into its budget decisions. Below, we lay out a specific alternative to the Governor's plan that addresses each of these areas. For enrollment, we recommend funding growth at CSU and keeping enrollment flat at UC. We recommend funding inflationary cost increases at the universities and providing targeted augmentations for debt service, pensions, and retiree health costs. For capital outlay, we recommend rejecting the Governor's proposal to remove CSU capital outlay from the regular budget process. For performance, we recommend the Legislature monitor the universities' performance and use the results to inform budget decisions.

LAO Alternative Plan Provides Higher Support for UC and CSU, but Requires Less State Spending. Altogether, our alternative would provide \$186 million (\$108 million from the state General Fund and \$78 million from increased student tuition) for UC and \$209 million (\$125 million from the state General Fund and \$84 million from increased student tuition) for CSU. In total, our alternative would provide \$62 million more than the Governor's proposal for the universities. Because tuition would cover a share of the increased funding, however, the General Fund increase is \$100 million less than the Governor's proposed General Fund augmentation.

Enrollment

To determine how many enrollment slots to provide at UC and CSU, we consider information about demographic changes, college participation rates, freshman and transfer eligibility, and state workforce needs, as discussed below.

Demographic Projections Show College-Age Population Decreasing. One main factor to consider related to enrollment growth is demographic changes. In particular, changes in the traditional college-age population (comprised of 18- to 24-year olds) and changes in the number of California high school graduates are key drivers of enrollment at the universities. State demographic projections show the college-age population declining by about 1 percent from 2014 to 2015. State projections also show the number of California high school graduates decreasing by about 1.5 percent from 2013-14 to 2014-15. These downward trends suggest no pressures for enrollment growth from demographic changes in the budget year.

College Participation Rates More Difficult to Predict, Assume Remain Flat. Another factor that affects enrollment levels is college participation rates. This is the percentage of individuals in a particular demographic category (such as recent high school graduates or the 18- to 24-year old population) attending college. Increases in participation rates can drive increases in enrollment, while decreases in participation rates can result in less enrollment. The most recent data available on participation rates from the federal Department of Education show the percent of recent California high school graduates attending college decreasing from 65.4 percent in 2008 to 61.7 percent in 2010. Predicting future participation rates based on these past trends, however, is difficult. This is because students' interest in attending college is influenced by a number of factors, including student fee levels, availability of

financial aid, and the availability and attractiveness of other postsecondary options. Without better information to project future participation rates, we assume they remain flat in the near future.

State Lacks Reliable Data on Access. In addition to demographics and participation rates, another factor to consider is whether the universities are providing access to all eligible students. Under the state's Master Plan for Higher Education, students in the top 12.5 percent and 33 percent of high school graduates are eligible to attend UC and CSU, respectively. Because student achievement levels and university admissions policies can change over time, the state in the past periodically conducted eligibility studies to identify the pool of high school graduates from which the universities were drawing. These studies then were used to help guide enrollment decisions. For instance, if UC and CSU were drawing from beyond their freshman eligibility pools, this would indicate that the universities needed to tighten their admissions criteria. Because the state's last eligibility study was conducted in 2007—and the California Postsecondary Education Commission, the state agency that performed the studies, was closed down in 2011—the Legislature lacks a current freshman eligibility study to help guide its enrollment decisions.

UC Reports All Eligible Students Provided Access. Based on current admissions policies, UC indicates it has been admitting all eligible students in recent years. However, the university reports an increase in the number of students admitted to the system but not to the particular campuses to which they applied. These students are offered admission only to UC Merced.

CSU Reports Some Eligible Students Denied Access. Based on its current admissions policies, CSU indicates that about 26,400 students who met CSU's eligibility criteria were denied admission for the fall 2013 semester. These students include an

unknown mix of eligible students denied access to their local campus and eligible students not applying to their local campus. The latter group are students who may have applied only to campuses with high-demand programs outside their local service area.

Mixed Evidence on Need for Enrollment Growth Related to Workforce Needs. Chapter 367, Statutes of 2013 (SB 195, Liu), specified that state budget decisions should take into account several goals. One of the goals that pertains to enrollment decisions is state workforce needs. In recent years, some studies have suggested that states, including California, need to increase the number of bachelor's degrees to meet future demand by employers. These studies come to this conclusion mainly by looking at past trends in the proportion of job-holders with a bachelor's degree and extrapolating these trends into the future. For instance, one recent study concluded that whereas 34 percent of California job-holders had a bachelor's degree in 2006, by 2025 this proportion would need to increase to 41 percent. At the same time, other studies suggest a surplus of bachelor's degree-holders exists. For example, another recent study found that nationally nearly half of all job holders with bachelor's degrees work in jobs for which they are overqualified. Given these conflicting findings, the Legislature may want to proceed cautiously as it begins to consider workforce needs as part of its enrollment decisions.

Available Data Suggest Different Approaches for UC and CSU. We recommend the Legislature weigh the above factors carefully in determining enrollment targets for the universities. Given some factors point in different directions—as well as the gaps in relevant information—the Legislature will need to exercise its professional judgment in crafting an enrollment plan for the universities. Below, we provide enrollment levels for UC and CSU the Legislature could adopt based on the

available information. (In the nearby box, we discuss what enrollment targets the Legislature can use as a base from which to make adjustments, given no target was included in the 2013-14 budget.)

- **Keep Enrollment Flat for UC in 2014-15.**
The available data does not suggest a need to increase enrollment at UC in the budget year. The university continues to admit all

eligible students and demographic trends suggest enrollment demand could decrease slightly in the near future.

- **Increase CSU Enrollment by 2 Percent in 2014-15.** Though demographic trends also point to a decrease in demand for CSU enrollment, the university is

What Should Base Enrollment Targets Be for UC and CSU?

Enrollment Funding Not Used on a Consistent Basis in Recent Years. As shown in the figure below, the state has not included enrollment targets in the state budget on a consistent basis over the last seven years. During this time, the universities both expanded enrollment when the state did not include an enrollment target in the budget and increased enrollment above the state target when one was included. As a result, both the University of California (UC) and California State University (CSU) assert they currently have “unfunded” students that they are serving. The universities believe that unfunded students should not be included in their state enrollment targets until funding is provided for them.

Recommend Using Current-Year Actual Enrollment Levels as Base for Targets. In our view, the concept of unfunded enrollment is unhelpful since in actuality state funding is spread out across as many resident students as the universities enroll. In other words, *all* students currently are supported with state funding. Because the so-called unfunded students already are enrolled at the universities, any funding that the state provides for them would not necessarily be used to expand enrollment. To avoid conflating funding for enrollment growth with funding for other purposes, we recommend the Legislature use current-year actual enrollment levels as the base enrollment target moving forward. If the universities feel that they lack adequate base funding for students they currently are serving, then they could come forward with budget requests in the spring that identify why they require more funding.

Enrollment Targets Not Used on a Consistent Basis in Recent Budgets

Full-Time Equivalent Students

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
UC							
Enrollment target	198,455	None	None	209,977	209,977 ^a	209,977 ^a	None
Actual enrollment	203,906	210,558	213,589	214,692	213,763	211,212	210,986
Percent change in actual enrollment		3.3%	1.4%	0.5%	-0.4%	-0.5%	-0.1%
CSU							
Enrollment target	342,553	None	None	339,873	331,716 ^a	331,716 ^a	None
Actual enrollment	353,915	357,223	340,289	328,155	341,280	343,227	350,000
Percent change in actual enrollment		0.9%	-4.7%	-3.6%	4.0%	-0.4%	2.0%

^a State budget did not require the universities to return money if they fell short of this target.

reporting an inability to accommodate existing eligible students. Determining how much enrollment funding to provide to address this concern is difficult, given a lack of solid information on how many of the denied eligible students have been denied access to their local campus versus another campus in the system. Further complicating matters is an inability to accurately estimate how many of the denied eligible students actually would attend CSU if offered a slot. Taking these factors into consideration, we conclude increasing enrollment by 2 percent (or 7,000 FTE students) is a reasonable approach to address the issue. Further, to ensure that any enrollment growth is used to decrease the number of eligible students being denied admission, we recommend the Legislature include budget bill language requiring CSU to report next year on: (1) the number of eligible students denied admission, including how many of these students were denied admission to their local campus, and (2) the efforts it has made to increase the capacity of impacted campuses and programs.

Recommend Providing \$42 Million for CSU Enrollment Growth. Using the state's historical marginal cost formula, we calculate the state funding rate per CSU FTE student for 2014-15 to be \$5,999. (The CSU recently has published a lower state funding rate, yet we have been unable to replicate the university's calculation.) Using our calculated state funding rate, we estimate state costs of \$42 million for 2 percent enrollment growth at CSU. In addition, because some of these new students would qualify for state Cal Grants, we estimate the associated costs for Cal Grants would increase by about \$8 million.

Recommend Also Setting Out-Year Targets, Funding New Eligibility Study. In our recent publication reviewing state budgetary practices for UC and CSU, we also recommended: (1) setting targets for the year after the budget year to give the Legislature more influence over university enrollment decisions, and (2) funding a new eligibility study to provide updated information for the Legislature to make its enrollment decisions. Given the downward demographic trends in the college-age population, we recommend the Legislature express its intent for enrollment to remain flat at both UC and CSU in 2015-16. (This expectation presumes that the 2014-15 enrollment growth provided to CSU addresses the concern related to eligible students not being able to access their local campuses.) For the eligibility study, the Legislature would have to designate a state agency to perform this task (internally or by contract). These studies involve reviewing transcripts of high school graduates accepted to the universities and typically have included the participation of UC, CSU, and CDE. The last eligibility study conducted in 2007 cost about \$600,000.

Inflation

Prices Expected to Increase 2.2 Percent in 2014-15. In 2014-15, prices for goods and services purchased by state and local governments are expected to increase by 2.2 percent. The state traditionally has augmented the universities' budget to account for such inflation. This allows the universities to maintain their existing programs. In other words, the universities can use this funding to provide employee salary increases (to stay competitive with other employers) as well as to cover increased costs for supplies, materials, and equipment.

Recommend \$68 Million Base Increase for UC. Increasing UC's total core budget by 2.2 percent costs \$118 million. (To perform this calculation, we exclude base funding for retiree health care

and pensions, which we recommend funding separately.) As part of a share-of-cost policy, we assume that the state and students share this cost increase. Currently, state funding makes up about 58 percent of combined state and student funding (excluding institutional financial aid). Based on this ratio, we recommend the Legislature provide UC with a base increase of \$68 million and assume the remaining \$50 million comes from an increase in student tuition.

Recommend \$53 Million Base Increase for CSU. Increasing CSU's total core budget by 2.2 percent costs \$85 million. (We exclude from this calculation funding for debt service, retiree health care, and pensions, which we recommend funding separately.) Similar to our approach for UC, we recommend the state provide its share of cost (62 percent) and students provide the remaining share. Accordingly, we recommend the state provide CSU with a base increase of \$53 million and assume the remaining \$32 million comes from an increase in student tuition.

Targeted Funding

Because some cost increases do not track with inflation, the state traditionally has provided a few separate budget adjustments for certain cost changes.

Recommend \$25 Million for CSU Pension and Retiree Health Care Costs. Pension and retiree health care costs at CSU are expected to increase by \$15.6 million and \$24.3 million, respectively. Because CSU participates in the state's retirement plans, it does not fully control these cost increases. For instance, CSU does not control the employer pension contribution rate or the health care premiums set by the state's retirement system. Because similar factors drive retirement cost increases for CSU and other state agencies, and the state covers these cost increases for other state agencies, we believe covering CSU's increased

retirement costs too is reasonable. Pension and retiree health care cost increases total \$40 million. Based on the state's share of cost for CSU, we recommend the Legislature provide \$25 million and assume the remaining \$15 million comes from an increase in student tuition.

Recommend \$39 Million for UC Pension and Retiree Health Care Costs. Unlike CSU, UC manages its own retirement plans. Though some differences exist between UC's plan and the state's plan, the university has been making changes in recent years that have made them more similar. For instance, starting in 2014-15, the university will increase its employees' contribution rate from 6.5 percent to 8 percent of salary—the same rate currently paid by most state employees. Given these changes, we believe it is reasonable for the state to provide funding for UC's retirement costs at this time. In 2014-15, UC expects its pension and retiree health care costs to increase by a total of \$68 million. (These cost increases primarily are to address an unfunded liability in the pension plan.) Based on the state's share of cost for UC, we recommend the Legislature provide UC with \$39 million and assume the remaining \$29 million comes from an increase in student tuition.

Recommend \$5.3 Million for CSU for Debt Service. In 2014-15, lease-revenue debt-service costs for CSU are expected to increase by \$8.5 million. Because this increase relates to capital projects previously approved by the state, we recommend the Legislature provide funding to cover this cost increase. Based on the state's share of cost for CSU, we recommend the Legislature provide CSU with \$5.3 million and assume the remaining \$3.2 million comes from an increase in student tuition.

Performance

Set Targets, Monitor Performance, and Use Results to Inform Budget Decisions. As we discussed in our recent publication, we recommend

the Legislature require UC and CSU to discuss their performance in specific areas (including student access and success) at budget hearings each spring. The Legislature could use this opportunity to learn more about each university’s performance and develop performance expectations moving forward. We further recommend the Legislature use the information reported at budget hearings regarding whether the universities are meeting state expectations to guide funding decisions. In order to do so, the Legislature would need to work with the universities to identify the reasons why they are or are not meeting expectations.

Focus on Ways to Become More Efficient.

Under our alternative budget, the Legislature would be funding a workload budget—essentially covering cost increases for the universities. Because this workload budgetary approach does not encourage the universities to become more efficient, the Legislature could focus on efficiency through its performance measures, namely funding per degree. To start, we recommend the Legislature work with the universities to identify ways to increase productivity for a certain level of funding. To build upon efforts already in progress, we further recommend the Legislature require the universities to report on the results of their recent efforts to expand online and hybrid course offerings. The

Legislature could then assess whether these new types of courses have succeeded in: (1) expanding access, (2) reducing costs per student, and (3) maintaining educational quality.

Summary of LAO Alternative Budget for UC and CSU

Taken together, we believe that the various aspects of our alternative budget provide a more rational and transparent way to fund the universities than the Governor’s approach. Figure 5 includes the various components of our alternative budgets for UC and CSU and compares them to the Governor’s budget. We discuss the two main implications of our alternative below.

**Figure 5
Comparison of Governor’s Budget and LAO Alternative for UC and CSU**

2014-15		
	UC	CSU
Governor’s Budget		
Unallocated base increases	\$142	\$142
Retiree health	—	24
Pensions	—	16
Debt service	—	9
Totals	\$142	\$191
Student share	—	—
State share	\$142	\$191
LAO Alternative Budget		
Enrollment growth	—	\$76
Inflation ^a	\$118	85
Retiree health	4	24
Pensions	64	16
Debt service	—	9
Totals	\$186	\$209
Student share ^b	\$78 ^c	\$84 ^c
State share ^b	108	125
Difference in General Fund From Governor’s Budget	-\$35	-\$66

^a Inflation adjustment applied to debt-service funding for UC only.
^b Assumes state and student shares same as in 2013-14.
^c Equates to tuition increases of 2.5 percent at UC and 3.3 percent at CSU—in line with inflation. (If the universities wanted to redirect tuition revenues to institutional financial aid programs consistent with past practice, the tuition increases would be 3.8 percent at UC and 5 percent at CSU.)

Compared to Governor, Total Support Higher for Both Universities. As shown in the figure, our plan provides UC with \$186 million in additional support in 2014-15, about \$44 million more than the Governor's proposal. The additional spending under our plan recognizes that certain cost increases, such as for inflation and pensions, will exceed the amount provided by the Governor. Our plan provides CSU with \$209 million in total support, about \$18 million more than the Governor. This is because our plan includes funding for enrollment growth in addition to inflation.

Relatively Modest Increase in UC and CSU Tuition Levels. To generate the additional tuition revenue assumed under our plan, UC would need

to increase tuition by 2.5 percent and CSU by 3.3 percent. (If the universities wanted to generate additional funding for intuitional financial aid consistent with their past practice, they would need to increase tuition by 3.8 percent at UC and 5 percent at CSU.)

Slight Increase in Cal Grant Costs. Because our plan includes 2 percent enrollment growth at CSU, Cal Grant costs likely would increase by about \$8 million. (This is because overall Cal Grant participation likely would increase.) Because UC and CSU would increase tuition under our plan, state Cal Grant costs also would increase as these awards cover full tuition at the universities. We estimate the cost of the higher awards would total about \$30 million.

CALIFORNIA COMMUNITY COLLEGES

In this section, we summarize the Governor's budget for community colleges; discuss his specific proposals related to enrollment growth, student support programs, and the CCC Chancellor's Office; provide our assessment of those proposals; and offer associated recommendations for the Legislature's consideration. (We discuss CCC deferrals, deferred maintenance, and mandates in other 2014-15 budget reports.)

Overview of the Governor's CCC Budget Proposals

Makes Three Notable Changes to the 2013-14 CCC Budget. As shown in the top part of Figure 6, the Governor proposes to increase CCC Proposition 98 spending in 2013-14 by \$202 million to \$6.2 billion. This increase consists of three notable changes: \$163 million to pay down additional CCC deferrals; \$38 million to shift a like amount of redevelopment agency-related revenues to the following fiscal year; and \$9 million to

meet Proposition 30's requirement that CCC basic aid districts receive a minimum of \$100 per FTE student from the Education Protection Account (which, in turn, is backfilled by General Fund).

Proposes to Increase CCC Proposition 98 Funding by \$489 Million (8 Percent) in 2014-15. As shown in the main part of Figure 6, the Governor's budget request for 2014-15 increases Proposition 98 funding for CCC to \$6.7 billion. This is \$489 million (8 percent) over the revised current-year level. As proposed by the Governor, CCC would receive 10.9 percent of total Proposition 98 funding in 2014-15.

Increases Funding for Both Apportionments and Categorical Programs. Figure 7 (see page 18) details Proposition 98 expenditures for CCC programs. As shown in the figure, 2014-15 apportionment funding would total \$5.7 billion, which reflects an increase of \$233 million (4.3 percent) from the revised current-year level. The Governor's budget would increase total

Figure 6**Proposition 98 Spending Changes for Community Colleges***(In Millions)*

2013-14 Budget Act	\$6,032.0
Additional deferral pay down	\$162.7
Redevelopment agency (RDA) shift	38.4
Proposition 30 funds related to basic aid districts	9.3
Technical adjustments	-8.9
Subtotal	(\$201.5)
2013-14 Revised Spending	\$6,233.5
Back Out One-Time Actions	
Deferral pay down	-\$162.7
Maintenance/instructional support	-30.0
Adult education planning grants	-25.0
Technology initiative adjustment	-6.9
Subtotal	(\$224.7)
Technical Changes	
Proposition 39 adjustment	-\$11.0
Shift of funding for QEIA to non-Proposition 98	-48.0
Adjustment to RDA shift	-2.7
Adjustment to mandate block grant	-0.5
Other technical changes	-40.8
Subtotal	(\$103.0)
Policy Changes	
Deferral pay down	\$235.6
Enrollment growth	155.2
Cost-of-living adjustment (0.86 percent)	48.5
Student Success and Support Program	200.0
Maintenance/instructional support	175.0
New technical assistance program	2.5
Subtotal	(\$816.8)
2014-15 Proposed Spending	\$6,722.6

Detail may not total due to rounding.

QEIA = Quality Education Investment Act.

funding for categorical programs to \$900 million, which is \$268 million (42 percent) over the revised current-year level.

Major Proposed Augmentations. The Governor's budget contains several 2014-15 spending proposals for community colleges. His largest proposals include: \$236 million (one-time) to retire all CCC deferrals, \$200 million (ongoing) for the SSSP, \$175 million (one-time) for the

physical plant (maintenance) and instructional support program, and \$155 million for enrollment growth. As discussed later, the Governor also proposes a new CCC Chancellor's Office technical assistance program (\$2.5 million Proposition 98 General Fund and \$1.1 million non-Proposition 98 General Fund).

Requests Additional Categorical Program Flexibility. The Governor proposes to expand CCC flexibility by allowing districts to reallocate up to 25 percent of funds from three categorical programs that target financially needy and/or academically underprepared students to other programs that serve high-need students. These three programs are California Work Opportunity and Responsibility to Kids (CalWORKs), Extended Opportunity Programs and Services (EOPS), and Student Success for Basic Skills Students.

No Change to Enrollment Fee Levels. The Governor proposes no change to the current enrollment fee amount of \$46 per credit unit (or \$1,380 for a full-time student taking 30 units). Community colleges continue to offer noncredit instruction at no charge.

CCC Enrollment

Background

Several Factors Influence CCC Enrollment. Under the state's *Master Plan for Higher Education* and state law, community colleges operate as open access institutions. That is, all persons 18 years or older may attend a community college. (While CCC does not deny admission to students, there is no guarantee of access to a particular class.) Many factors affect the number of students who attend community colleges, including changes in the state's population, particularly among young adults; local economic conditions; the availability of certain classes; and the perceived value of the education to potential students.

Figure 7

Community College Programs Funded by Proposition 98

(Dollars in Millions)

	2012-13 Revised	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
Apportionments					
General Fund	\$3,351.0	\$3,221.4	\$3,360.0	\$138.5	4.3%
Local property taxes	2,240.6	2,232.3	2,326.3	94.0	4.2
Subtotals	(\$5,591.6)	(\$5,453.7)	(\$5,686.2)	(\$232.5)	(4.3%)
Categorical Programs					
Academic Senate	\$0.3	\$0.5	\$0.5	—	—
Adult Education planning grants	—	25.0	— ^a	-\$25.0	-100.0%
Apprenticeship (community colleges)	7.2	7.2	7.2	—	—
Apprenticeship (school districts)	—	15.7	15.7	—	—
CalWORKs student services	26.7	34.5	34.5	—	—
Campus child care support	3.4	3.4	3.4	—	—
CTE Pathways Initiative	48.0	48.0	— ^b	-48.0	-100.0
Disabled Students Program	69.2	84.2	84.2	—	—
Economic and Workforce Development	22.9	22.9	22.9	—	—
EOPS	73.6	88.6	88.6	—	—
Equal Employment Opportunity	0.8	0.8	0.8	—	—
Financial Aid Administration	71.0	67.5	67.9	0.4	0.5
Foster Parent Education Program	5.3	5.3	5.3	—	—
Fund for Student Success	3.8	3.8	3.8	—	—
Nursing grants	13.4	13.4	13.4	—	—
Online/Technology initiative	—	16.9	10.0 ^c	-6.9	-40.9
Part-time Faculty Compensation	24.9	24.9	24.9	—	—
Part-time Faculty Office Hours	3.5	3.5	3.5	—	—
Part-time Faculty Health Insurance	0.5	0.5	0.5	—	—
Physical Plant and Instructional Support	—	30.0	175.0	145.0	483.3
Student Success and Support Program	49.2	99.2	299.2	200.0	201.6
Student Success for Basic Skills Students	20.0	20.0	20.0	—	—
Technical assistance program	—	—	2.5 ^d	2.5	—
Telecommunications and Technology Services	15.3	15.8	15.8	—	—
Transfer Education and Articulation	0.7	0.7	0.7	—	—
Subtotals	(\$459.6)	(\$632.2)	(\$900.2)	(\$267.9)	(42.4%)
Other Appropriations					
District financial-crisis oversight	\$0.6	\$0.6	\$0.6	—	—
Lease-revenue bond payments	63.7	63.6	63.8	\$0.2	0.3%
Mandate block grant	33.3	33.3	32.8	-0.5	-1.5
Mandate reimbursements ^e	—	—	—	—	—
Proposition 39 (grant and loan program)	—	50.0	39.0	-11.0	-22.0
Subtotals	(\$97.6)	(\$147.5)	(\$136.2)	(\$111.3)	(-7.7%)
Totals	\$6,148.8	\$6,233.5	\$6,722.6	\$489.2	7.8%

^a Planning grants are available for expenditure over 2013-14 and 2014-15.

^b Funding of \$48 million provided for this program by the Quality Education Investment Act (non-Proposition 98 General Fund).

^c Funding in 2014-15 reflects ongoing costs for this initiative.

^d The Governor's budget reflects this augmentation in the Student Success and Support Program.

^e A total of \$17,000 is provided in each fiscal year.

CTE = Career Technical Education and EOPS = Extended Opportunity Programs and Services.

Enrollment Funds Allocated by CCC Chancellor’s Office Using Specified Formula. In most years, the state provides the CCC system with enrollment growth funds, which the CCC Chancellor’s Office historically has allocated to districts according to a set formula based largely on year-to-year changes in the local high school graduation and adult population rates. In allocating enrollment funding each year, the CCC Chancellor’s Office sets a limit or “cap” on the maximum number of FTE students each district will be funded to serve. (Districts decide the mix of credit and noncredit instruction they offer.) With some exceptions, a district enrolling students above this cap in a given year generally does not receive funding for the “overcap” students. On the other hand, a district that fails to meet its enrollment target in a given year loses the enrollment funds associated with the vacant slots the following year (though state law gives a declining district three years to earn back the lost funds).

Enrollment Has Fluctuated Notably in Recent Years. Figure 8 displays enrollment trends since 2006-07. As the figure shows, enrollment demand and funding have been highly volatile in recent years. This volatility has stemmed primarily from the state’s economy and budget crisis, as discussed in the nearby box (see page 20).

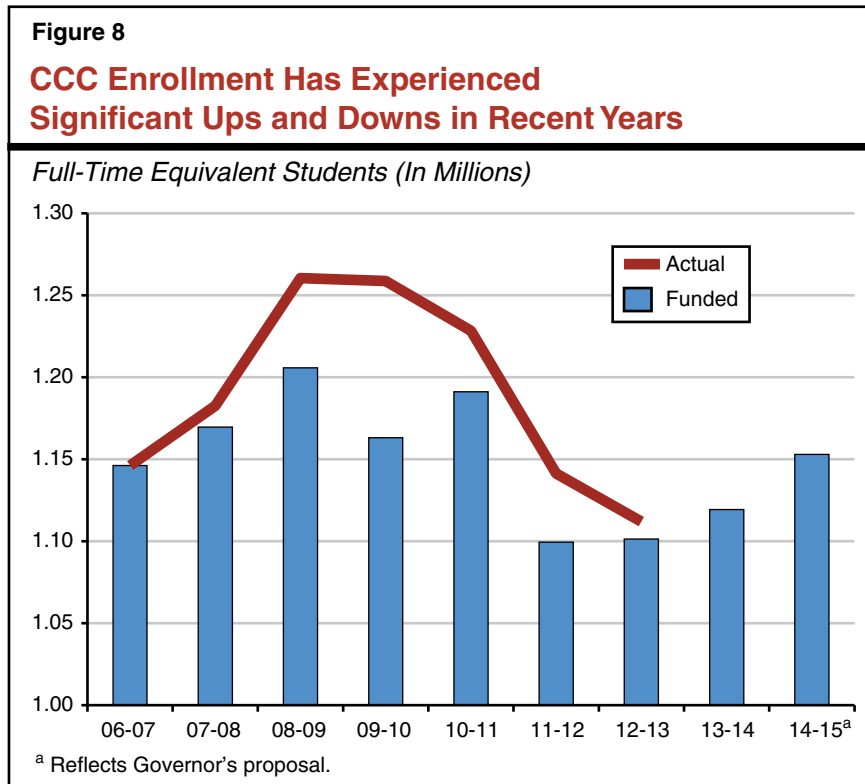
Governor’s Proposals

Proposes Enrollment Growth Funds and Implementation of New

Growth Allocation Formula. For 2014-15, the Governor’s budget proposes \$155 million for 3 percent enrollment growth (an additional 34,000 FTE students). In addition, the budget requires the CCC Chancellor’s Office to develop a new enrollment growth allocation formula for implementation in the budget year. The Governor’s budget summary describes a growth formula that “gives first priority to districts identified as having the greatest unmet need in adequately serving their community’s higher educational needs. All districts will receive some additional growth funding, and over time will be fully restored to pre-recession apportionment levels.”

Assessment

Information to Date Suggests Enrollment Growth Proposal Likely Too High. Though systemwide enrollment was somewhat above the budgeted level in 2012-13, more than a dozen



California Community Colleges (CCC) Enrollment Trends

Recession Brought Surge of Enrollment Demand. After a few years of modest growth during the mid-2000s, CCC enrollment surged beginning in 2007-08. This was due in large part to individuals choosing to attend college at a time of a tight job market. While the state provided enrollment growth funds in both 2007-08 and 2008-09, the amount was insufficient to accommodate the number of students served by the CCC system. By the end of 2008-09, actual enrollment had exceeded the funded level by over 50,000 full-time equivalent students (FTE) students.

2009-10 Budget Reduced Enrollment Funding. The 2009-10 budget included a \$190 million (3.3 percent) cut to CCC apportionments. To maintain the same amount of enrollment funding per student, districts' 2009-10 enrollment targets were reduced in proportion to the reduction in base apportionment funding. As a result, funded enrollment levels for each district declined by 3.3 percent (43,000 FTE student slots) from 2008-09's budgeted level. Despite this reduction, the CCC system ended up serving a similar number of FTE students in 2009-10 as in 2008-09 (in large part by increasing class sizes and funding courses using district reserves). By the end of 2009-10, actual enrollment exceeded funded enrollment by about 95,000 FTE students (about 8 percent of funded FTE students). Additionally, as we discussed in the *2010-11 Budget: Higher Education*, during this time an unknown but likely significant number of individuals attempted to enroll in courses at CCC but were unable to find an available slot.

Growth Monies in 2010-11 Budget Used to Reduce Enrollment Funding Gap. The 2010-11 budget provided community colleges with \$126 million, which the CCC Chancellor's Office allocated to districts on an across-the-board basis to partially restore the cut from the prior year. Because of the large disconnect between funding and enrollments, districts generally did not use this additional funding to increase the number of students served. Rather, the primary benefit of the new funds was to reduce districts' gap between funded and actual enrollment.

2011-12 Budget Brought Second Round of Cuts to CCC. The largest reduction to community colleges came in the 2011-12 budget, when community colleges experienced a \$385 million base apportionment cut. As with the 2009-10 budget, districts' enrollment targets were reduced in proportion to this funding cut. As a result, funded enrollment levels in 2011-12 declined by 7.6 percent, or about 90,000 FTE students systemwide. To accommodate this reduction, districts further cut course section offerings. As we discussed in *The 2012-13 Budget: Proposition 98 Education Analysis*, virtually all types of instruction were affected during this period, with the biggest cuts concentrated in noncredit instruction and courses that were primarily recreational in nature (such as physical education). As a result of these reductions, actual enrollment dropped by 87,000 FTE students in 2011-12.

Recent Growth Funds for Restoration. After the significant base reduction in 2011-12, the *2012-13 Budget Act* and *2013-14 Budget Act* provided \$50 million (0.9 percent) and \$89 million (1.6 percent), respectively, in enrollment growth funds. As in 2010-11, these funds were allocated to districts on an across-the-board basis to give districts an opportunity to restore their share of prior-year reductions. In 2012-13, most community colleges met (or even exceeded) their enrollment target, collectively serving 10,000 FTE students above the funded level.

districts failed to meet their enrollment targets—representing a total of \$41 million in unfilled enrollment slots. Based on our discussions with a number of CCCs, this seems to be an increasing trend, whereby more districts are experiencing less demand and having trouble meeting their enrollment targets. (This reduction in demand may be tied at least in part to adults opting for employment as a result of an improved state economy.) As a result, the CCC system realistically may not be able to achieve 3 percent growth in 2014-15. In recognition of this strong possibility, the CCC Board of Governors (BOG) itself has only requested 2 percent enrollment growth (\$110 million) for 2014-15.

Existing CCC Growth Allocation Formula Is Flawed. We agree with the Governor that CCC’s enrollment growth allocation formula needs to be revised. Some aspects of the existing formula (such as annual changes in local high school graduates) appear to be reasonably associated with enrollment demand within a CCC district. In other ways, however, the formula is problematic. For example, the formula’s inclusion of changes in the adult population takes into account adults of all ages—regardless of whether they are young adults or seniors of retirement age. This lack of differentiation may overstate CCC enrollment demand in areas with growing older-adult populations and understate demand in areas with a comparatively younger adult demographic.

Revised CCC Growth Formula Must Align With Adult Education Initiative. In addition, given the state’s current effort to restructure adult education, the Legislature will want to ensure the formula used to fund CCC enrollment growth is well aligned with the formula used to fund growth in adult education. Between 2013-14 and 2014-15, community colleges and school districts (through their adult schools) are conducting local needs assessments of adult education services (such as

English as a second language instruction) and developing plans for integrating existing programs. The 2013-14 budget package includes intent language for the Legislature to appropriate new Proposition 98 funds in 2015-16 to expand adult education in the state, but the methodology for allocating such funds to adult education providers has not yet been determined. The Legislature will want to ensure the new funding formulas for adult education and apportionments are well tailored to their respective missions.

Recommendations

Use Better Information in Coming Months to Make Decision on Growth Funding. By late February, the CCC Chancellor’s Office will have systemwide and district-level data on enrollment trends in the current year. These data will show the extent to which districts are meeting, exceeding, or falling short of their enrollment targets in the current year. The Legislature will need to carefully assess these data to evaluate the need for an additional 3 percent enrollment growth in the budget year. If it decides the entire \$155 million is not justified, the Legislature could use any associated freed-up funds for other Proposition 98 priorities.

Postpone Implementation of New Formula Until 2015-16 but Request Periodic Updates on Its Development. We recommend the Legislature reject the Governor’s proposal to have a new formula in place for 2014-15 and instead give the CCC Chancellor’s Office a reasonable period of time to develop a new allocation formula. During spring hearings, the Legislature could request the CCC Chancellor’s Office and DOF to share their initial ideas for the new enrollment growth allocation formula. In addition, the Legislature could request the CCC Chancellor’s Office and CDE to provide a list of potential growth allocation factors for adult education. Given the

complexity of these two efforts and the need to ensure coordination, the Legislature likely will want to request additional status updates from the CCC Chancellor’s Office and CDE periodically throughout 2014. (A final plan probably will need to be adopted by December 2014, when preparation for the 2015-16 budget is occurring.)

Release 2014-15 Enrollment Growth Funds on Across-the-Board Basis. Given that a new CCC growth formula and new adult education allocation formula likely will not both be developed for a number of months, we recommend the Legislature direct the CCC Chancellor’s Office to allocate any 2014-15 enrollment growth funds to districts on an across-the-board basis. (The Legislature could use the new formulas thereafter.)

CCC Student Support Programs

Background

In 2013-14, the community colleges are receiving \$632 million in categorical funding. The majority of these categorical monies (about \$400 million in 2013-14) fund various student support services—ranging from financial aid advising to campus child care to specialized assistance for students with disabilities. (The remaining CCC categorical programs serve various purposes unrelated to student support services, such as facilities maintenance and technology initiatives.) Figure 9 lists CCC’s eight student support categorical programs.

Categorical Program Funding Cut in 2009-10. In response to the state’s fiscal condition,

Figure 9

Community Colleges Have Eight Student Support Categorical Programs

Categorical Program	Description
Extended Opportunity Programs and Services (EOPS)	Provides various supplemental services (such as counseling, tutoring, and textbook purchase assistance) for low-income and academically underprepared students. (A subset of EOPS serves welfare-dependent single parents.)
Fund for Student Success	Consists of three separate programs: two programs that provide counseling, mentoring, and other services for CCC students from low-income or historically underrepresented groups who seek to transfer to a four-year college; and one program for students who attend high school on a CCC campus.
Student Success and Support Program	Funds assessment, orientation, and counseling (including educational planning) services for CCC students.
Student Success for Basic Skills Students	Funds activities such as counseling and tutoring for academically underprepared (basic skills) students, and curriculum and professional development for basic skills faculty.
Financial Aid Administration	Funds staff to process federal and state financial aid forms and assist low-income students with applying for financial aid.
CalWORKs student services	Provides child care, career counseling, subsidized employment, and other supplemental services to CCC students receiving CalWORKs assistance. (These services are in addition to those provided to all CalWORKs recipients by county welfare departments.)
Campus child care support	Funds child care centers at 25 community college districts. (This child care is unique to these 25 districts and not part of the state’s CalWORKs child care program.)
Disabled Students Program	Provides educational accommodations (such as sign language interpreters, note takers, and materials in braille) and other specialized support services for students with disabilities.

the 2009-10 Budget Act reduced ongoing Proposition 98 General Fund support for CCC's categorical programs by \$263 million (37 percent) compared with 2008-09. Of this amount, a total of \$181 million (38 percent) was cut from student support categorical programs. Of CCC's eight student support categorical programs, two programs received a base cut of about 50 percent, five programs were cut roughly 40 percent, and one (Financial Aid Administration) received a slight augmentation.

2009-10 Reductions Accompanied by Some Flexibility. To help districts better accommodate these reductions, in 2009-10 the state combined more than half of CCC's categorical programs (including two student support categorical programs) into a "flex item." Through 2014-15, districts are permitted to use funds from categorical programs in the flex item for any categorical purpose. (Such decisions must be made by local governing boards at publicly held meetings.) By contrast, funding for categorical programs that are excluded from the flex item must continue to be spent on specific associated statutory and regulatory requirements. For example, funds in the campus child care program (within the flex item) may instead be spent on CCC's CalWORKs program (outside the flex item), though CalWORKs categorical funds can only be spent for that program.

CCC Task Force Identifies Student Supports as Key Priority. It was during this period of categorical program cuts and flexibility that the Legislature and CCC system began rethinking the role of support services as they relate to student achievement. In response to ongoing concerns about low CCC completion rates, the Legislature passed Chapter 409, Statutes of 2010 (SB 1143, Liu). The legislation required the BOG to adopt and implement a plan for improving student success. It also required the BOG to create a task

force to develop recommendations for inclusion in the plan. In response to the legislation, the board created the Student Success Task Force, comprised of 21 members from inside and outside the CCC system. After meeting for nearly one year, the task force released *Advancing Student Success in California Community Colleges* in December 2011. The report contained a number of recommendations, including establishing statewide enrollment (registration) priorities and creating a CCC "scorecard" that disaggregates student performance outcomes by racial/ethnic group. A key focus of the report was on the need to strengthen support services for students. In particular, the report stressed the importance of helping incoming students identify their specific educational goals as early as possible and develop a course-taking plan to reach those goals. To that end, the task force report highlighted the importance of CCC's Matriculation program, which funds assessment, orientation, and counseling (including educational planning) services.

Legislature Backs New Student Success and Support Program. The BOG endorsed the Student Success Task Force's report recommendations in January 2012 and presented its plan to the Legislature shortly thereafter. In an effort to implement the task force's recommendations on student support, the Legislature passed Chapter 624, Statutes of 2012 (SB 1456, Lowenthal). Chapter 624 contained a number of provisions, including: (1) renaming the Matriculation program the SSSP; (2) requiring the BOG to establish policies around mandatory assessment, orientation, and educational planning for students; (3) calling for additional funding for SSSP; (4) requiring the BOG to develop a new methodology for allocating SSSP funds—from the current allocation model based solely on student enrollment to a new model based on factors such as the number of students

developing an education plan; and (5) requiring each community college to create an SSSP plan. The SSSP plans are to contain information such as how colleges identify students who are “at risk” of academic probation and the strategies colleges use to help these students. The SSSP plans are to be coordinated with colleges’ student equity plans. (Student equity plans, which CCC regulations require each college to develop, identify enrollment and achievement gaps among certain demographic groups and include strategies for closing the gaps.)

2013-14 Budget Augments Funding for SSSP and Other Support Programs. After receiving a 50 percent cut in the 2009-10 budget, the *2013-14 Budget Act* provided a \$50 million increase for SSSP. This increase represented a doubling of base funding for the program. The budget also contained smaller increases for three other student support categorical programs—the Disabled Students Program, EOPS, and CalWORKs.

Governor’s Proposal

Increases Funding for SSSP by \$200 Million. For 2014-15, the Governor proposes a \$200 million augmentation to SSSP, which would triple the current-year funding level for the program. Of the \$200 million, \$100 million would be allocated to districts in support of all students, consistent with existing practice. The remaining \$100 million would be allocated to districts specifically to serve “high need” CCC students. The Chancellor’s Office would be tasked with defining what constitutes high need as well as with developing a methodology for allocating these monies to districts. The Governor’s intent is for districts to use these additional funds to provide supplemental support services—beyond the base services provided by regular SSSP dollars—to reduce any student achievement gaps identified in colleges’ student equity plans. In addition, as a condition of receiving these supplemental SSSP funds, CCCs

must explain in their student equity plans how they will improve coordination among the various student support categorical programs so as to improve service to high-need students.

Gives Partial Flexibility to Three Other Categorical Programs. In addition, the budget would permit districts to reallocate up to 25 percent of funds from three other student support categorical programs (CalWORKs, EOPS, and Student Success for Basic Skills Students) to other programs that serve high-need students.

Assessment

Governor’s Intent to Increase Funding for Student Support Is Laudable . . . Over the past several years, a number of reports have highlighted the relatively low success rates for CCC students. For example, the Institute for Higher Education Leadership and Policy has found that only about one-third of CCC students who seek to transfer or graduate with an associate degree or certificate actually do so. As a result of data such as these, the Legislature has shown a strong interest in improving student outcomes and, through legislation such as Chapter 624 and budget actions, has identified student support services—particularly SSSP—as a key means of improving student success. Given these factors, the Governor’s overarching goal of enhancing student supports is appropriate.

. . . Though Specific Funding Proposal Falls Short of Fully Addressing Student Needs. We have concerns, however, that the Governor’s emphasis on SSSP is too narrowly focused. As state and national research has shown, students often need a variety of support to succeed. Different types of students may need different support services and many students need multiple types of support that extend beyond assessment, orientation, and counseling. For example, a student with a learning disability (such as dyslexia) may require specialized assistance. A

low-income student may need access to financial aid advising and orientation services. Our review of several student equity plans shows strategies that colleges themselves have recommended for implementation (such as the formation of small learning communities and additional professional development) extend beyond SSSP-funded activities. By placing the entire \$200 million augmentation in SSSP, the Governor would limit the ability of CCCs to provide a more comprehensive set of effective services to students.

Additional Flexibility Proposed by Governor Moves In the Right Direction . . . We think the Governor’s stated goal of increasing coordination among CCC’s various student support categorical programs is laudable. As we have pointed out in past analyses, community college categorical programs tend to be highly prescriptive in terms of how funds can be spent. By requiring districts to spend funds for a specific purpose, categorical programs limit local flexibility to direct and combine funding in ways that address student needs most effectively and efficiently. (The Student Success Task Force came to a similar conclusion in its report, writing that “...the current approach results in organizational silos that are inefficient and create unnecessary barriers for students in need of critical services and detract from the need for local colleges to have control and flexibility over their student outcomes and resources.”) Categorical funds also are costly for districts and the CCC Chancellor’s Office to administer. Districts must apply for, track, and report the appropriate use of categorical funds, and the Chancellor’s Office must oversee districts’ compliance with numerous statutory and regulatory requirements. For all these reasons, we agree with the Governor that additional categorical flexibility is needed.

. . . But Specific Proposals Are Too Limited. We are concerned, however, that the Governor’s flexibility proposals do not go far enough. In

particular, by proposing just partial flexibility for CalWORKs, EOPS, and Student Success for Basic Skills Students—and no flexibility for other support programs such as Financial Aid Administration and Fund for Student Success—the Governor’s approach would give community colleges only limited ability to tailor categorical services in ways that meet local needs.

Recommendations

Create CCC Student Support Block Grant.

We recommend the Legislature consider providing greater flexibility to districts. A restructuring approach our office has recommended in the past is to consolidate categorical programs into broad thematic block grants. Block grants ensure that districts continue to invest in high educational priorities, while providing flexibility for districts to structure their programs in pursuit of these goals. For community colleges, we recommend the Legislature consolidate seven of CCC’s eight student support programs (excluding the Disabled Students Program) into a new Student Support block grant. (This consolidation would reduce state-level administrative work, thereby likely freeing up several positions and a few hundred thousand dollars in non-Proposition 98 General Fund within the Chancellor’s Office budget.) If the Legislature were to provide the Governor’s proposed \$200 million augmentation for the block grant (rather than entirely for SSSP), total funding for the block grant would be \$517 million in 2014-15.

By combining funding for these programs into one block grant, community colleges would be able to allocate funding in a way that best meets the needs of their students—without being bound to specific existing programmatic requirements. With this funding, for example, districts could provide “wraparound” services such as assessment, orientation, counseling, financial aid advising, child care, tutoring and other activities designed

to improve student completion. A block grant approach also could help districts operate their services more efficiently, such as by consolidating categorical programs' various counseling functions (now provided through SSSP, Student Success for Basic Skills Students, the Fund for Student Success, and EOPS, among other programs). In addition, a block grant approach would be a more lasting option for providing districts flexibility (as the current flex item is scheduled to sunset at the end of 2014-15.)

Allocating Block Grant Funding. Were the Legislature to take the block grant approach, we recommend adopting a new formula for allocating associated funding to districts. Specifically, we recommend that block grant funds be allocated to districts primarily on a per-student basis, with some allowance potentially made for districts with high percentages of financial aid recipients. For example, the Legislature could provide each district a base amount per student, with a supplemental amount provided for each student receiving a federal Pell Grant. To ease the transition to the new formula, districts could retain in 2014-15 at least the same amount of categorical funding for the seven consolidated programs as they received in 2013-14.

Technical Assistance for Community Colleges

Background

Locally Elected Boards Govern Districts. Under current law, the community colleges are operated by 72 districts. Each district is governed by a locally elected Board of Trustees. The state provides these governing boards with significant autonomy in matters such as determining course offerings, hiring and compensating campus staff, and managing district property.

The BOG and Chancellor's Office Charged With Oversight of Districts. The BOG oversees the statewide system and appoints a Chancellor to run day-to-day operations and make recommendations to the BOG on policy matters. Key responsibilities of the BOG and the Chancellor's Office include:

- Setting and enforcing minimum standards for districts (such as student graduation requirements).
- Allocating state funds to districts.
- Monitoring district compliance with state and federal law.
- Centrally collecting and reporting student data (such as enrollment and graduation rates).

Chancellor's Office Has \$22 Million Budget in 2013-14. The Chancellor's Office is organized into nine divisions (Academic Affairs; Student Services; Workforce and Economic Development; Finance and Facilities Planning; Technology, Research, and Information Systems; Communications; Governmental Relations; Internal Operations; and Legal Affairs). In 2013-14, the Chancellor's Office is budgeted \$22 million (all fund sources) for 154 FTE staff. The Chancellor's Office's largest single funding source is non-Proposition 98 General Fund (\$10.5 million). (As a state agency, the Chancellor's Office does not directly receive Proposition 98 funds.) Other notable funding sources include the federal government and state bond funds.

Several Commissions Have Called for Stronger State-Level Office. Over the years, a number of legislatively created commissions and task forces have called for the BOG and Chancellor's Office to have a stronger role in setting performance expectations for CCCs. For example, past commissions charged with reviewing the state's *Master Plan for Higher Education* have

recommended the Chancellor's Office establish accountability measures (including ones related to student achievement and financial management); evaluate individual district performance based on those measures; and, when warranted, take corrective actions against poorly performing districts. Similarly, in its report the CCC Student Success Task Force recommended the Chancellor's Office set statewide and local student success goals (using the new accountability scorecard), provide technical assistance to colleges, and play a larger coordinating role in the dissemination of best practices throughout the system.

Governor's Proposal

The Governor proposes to create a new system of support for CCC districts. Under his proposal, \$1.1 million would be provided for state operations at the CCC Chancellor's Office and \$2.5 million would be provided as local assistance for CCC districts and colleges.

Proposes Increase of \$1.1 Million for Nine New Positions at Chancellor's Office. The Governor proposes a \$1.1 million non-Proposition 98 General Fund augmentation to add nine permanent positions at the Chancellor's Office. According to the administration, the overarching purpose of these new positions is to enhance the Chancellor's Office's ability to provide leadership and coordinate local technical assistance so as to improve the functioning of the statewide system. These positions would have various roles and responsibilities. Specifically:

- Four positions (one each in Academic Affairs, Student Services, Workforce and Economic Development, and Finance and Facilities Planning) to develop new performance measures for districts and colleges in each of the four areas (such as measures of local fiscal stability for Finance

and Facilities Planning) and identify and disseminate best practices.

- Two positions (one each in Academic Affairs and Student Services) to assist districts and colleges with improving their performance in areas such as transfer and basic skills (remedial) education and student support services.
- Three positions assigned to the Technology, Research, and Information Systems Division to: (1) provide data in support of the above positions, (2) help to develop systemwide and college-level goals for each of the measures in the existing CCC scorecard (such as graduation and transfer rates), and (3) handle the logistics of assembling technical assistance teams (discussed below).

Provides \$2.5 Million for Local Assistance Teams. The Governor's proposal provides an additional \$2.5 million in Proposition 98 General Fund to provide technical assistance to CCCs in the areas of academic affairs, student services, workforce and economic development, and finance. Under the Governor's proposal, districts or colleges could request assistance directly or the Chancellor's Office could initiate an intervention on its own. If they asked for assistance, community colleges would be required to provide a local match (\$1 for every \$2 in state support). If the Chancellor's Office initiated the intervention, no fee or match would be required of CCCs. In either case, the Governor describes a general approach whereby Chancellor's Office staff would contract with teams of community college experts (such as leading faculty and budget officers) to consult with CCCs in need of help. The budget bill includes provisional language that requires the Chancellor's Office to provide an annual report beginning in 2015-16 to

the JLBC and DOF on prior-year expenditures of these funds.

Assessment

As discussed below, while we think the Governor's focus on CCC performance is commendable, we have two primary concerns with his specific proposal.

Governor's Focus on CCC Performance Is Commendable. In recent years, reports, legislative hearings, and press accounts have examined a number of CCC performance issues. For example, a number of studies have highlighted low completion rates by CCC students. Moreover, 12 community colleges currently are on sanction by CCC's accreditor, the Accrediting Commission for Community and Junior Colleges. (One of these colleges, City College of San Francisco, is facing the possibility of losing its accreditation later this year.) Another CCC (Compton Community College) lost its accreditation in 2006 and has yet to earn it back. Given these significant problems, we give the Governor credit for setting performance expectations for the system and attempting to identify ways of helping struggling community colleges.

Existing Funds Already Support CCC Statewide Efforts. Though we think the Governor's overall goal of improving CCC performance is laudable, we are concerned that the Governor's request for new resources duplicates funding the CCC system already receives for state-level activities. Our concern with duplication is greatest in three particular areas.

- ***Workforce and Economic Development.*** As noted above, one of his proposed new positions would be assigned to the Workforce and Economic Development Division. Yet the proposed budget already allows the Chancellor's Office to use up to \$2.3 million (10 percent) of Economic

Development categorical program funds for a variety of state-level leadership, coordination, and technical assistance purposes. It is unclear why an additional position is needed to perform what would appear to be similar or the same functions.

- ***Academic Affairs.*** Likewise, the Chancellor's Office has identified basic skills education as a potentially significant focus of one or more of the proposed new positions in the Academic Affairs Division. Yet the Governor's proposed budget also provides nearly \$1 million from the Student Success for Basic Skills Students categorical program for statewide activities (including professional development and the dissemination of best practices) related to basic skills.
- ***Student Services.*** As regards the Student Services Division, Chapter 624 permits the Chancellor's Office to set aside up to 5 percent of SSSP funds for state administrative purposes. The Governor's proposal to triple funding for SSSP in the budget year would increase the amount available to the Chancellor's Office by several million dollars. (In addition, the Chancellor's Office currently sets aside smaller amounts from certain other student support categorical programs—such as EOPS—for state-level leadership and coordination.)

Unrealistic Timing. Another issue concerns the assumed timing of filling the nine positions and using the local assistance funds. The Governor's budget provides full-year funding for each of the nine Chancellor's Office positions. Given the time it can take to recruit and hire new staff, however, we do not think that it is reasonable to assume any of

these positions will be filled by July 2014. Given the likely lag in ramping up any new program, we also question whether all \$2.5 million in local assistance funding could be spent in the budget year. (In cases like this, the state typically would consider providing half-year funding.)

Recommendation

Recommend Legislature Request DOF and Chancellor’s Office to Provide for More Detail on Need for Additional Resources. In light of the funding the state already provides for similar state-level activities, we recommend the Legislature request DOF and the Chancellor’s Office to provide additional detail at spring hearings on the need both for these positions and the \$2.5 million in local assistance funds. In particular, the agencies should be prepared to explain how CCC is using

General Fund monies already earmarked for statewide purposes, why these current funding streams are insufficient, and how the Governor’s proposed new positions and program would further (and not duplicate) these existing efforts.

Recommend Legislature Consider Funding Any New Positions Using Workload Savings. As discussed earlier in this report, we recommend consolidating a number of student support categorical programs into a block grant. Were the Legislature to take such an action, the Chancellor’s Office’s costs associated with the administration of these programs likely would be somewhat reduced. To the extent the Legislature agrees that at least some of the proposed new positions are warranted, we recommend the Legislature use the resulting workload savings from the categorical consolidation to fund the added costs.

NEW INNOVATION AWARDS

Governor’s Proposal

Proposes \$50 Million (One-Time) for New Award Program. Also included in the Governor’s budget is \$50 million in one-time funding to foster and reward innovation at UC, CSU, and CCC campuses. Proposed budget bill language sets forth three overarching state priorities: (1) significantly increasing bachelor’s degree attainment in the state, (2) shortening time to degree, and (3) easing transfer across segments. Campuses, both individually and in groups, could apply for awards to advance innovative higher education models that achieve these priorities. Applications would be accepted through January 9, 2015—one year from the date the Governor proposed the program.

New Committee Would Award Funds. A committee of seven members—five Governor’s appointees representing DOF, the three segments, and the State Board of Education, and two

legislative appointees selected by the Assembly Speaker and Senate Rules Committee—would make award decisions. In addition to ensuring that proposals meet state priorities, the committee would look for proposals that: reduce the costs of instruction; involve collaboration across campuses, segments, and educational levels; have the support of faculty, students, and other groups affected by the proposal; are replicable and sustainable over the long term; and demonstrate commitment, as reflected by actions taken since January 10, 2014.

Concerns About New Award Program

We have three main concerns about the Governor’s proposal, as discussed below.

Sends Wrong Message. Our most significant concern is that the new program sends a poor message. By earmarking a relatively small amount of one-time funding for individual campuses or

groups of campuses to address state priorities (including those relating to student success and institutional cost-effectiveness), the state seems to be implying this is somehow different from how the segments should be using the remainder of their funding. Presumably, the state intends for the segments' entire core budgets to be dedicated to meeting core public priorities through appropriate, cost-effective means (including new means discovered through ongoing exploration and innovation in teaching strategies and technologies).

Fragments Improvement Efforts. Whereas the state adopted three broad higher education goals last year, the Governor's award proposal independently establishes program priorities without regard to those goals. Most notably, Chapter 367 set forth goals relating to student access and success, institutional effectiveness and efficiency, and alignment of degrees to workforce and civic needs. Chapter 367 called for the state to adopt at least 6 but no more than 12 metrics to measure progress in meeting these goals. It also called for the state to consider the corresponding performance results as part of the annual state

budget process. The Governor's proposal sidesteps this approach and fragments improvement efforts by empowering a small group to make award decisions based on the administration's expressed priorities.

Poor Timing. The Governor indicates the new program is intended to build on last year's efforts to expand the use of technology to remove course bottlenecks and reduce the costs of education. The results of those efforts, however, are not yet clear. Expanding in this area before giving the existing efforts time to show results would be premature.

Recommend Rejecting Proposed New Award Program

For these reasons, we recommend the Legislature reject this proposal. If the Legislature still wishes to use the \$50 million, one-time funding in the higher education budget, it could target the funding to one or more of the state priorities described in the "Universities" and "California Community Colleges" sections earlier in the report.

TUITION AND FINANCIAL AID

In this section, we provide background on tuition and fee levels at the public segments, describe the various financial aid programs for California students, and track key trends in recent years. We then describe the Governor's tuition and aid proposals, assess these proposals, and offer associated recommendations.

Background

Students' Share of Educational Costs Overall Is Much Lower Than State Share. Each year through its budget decisions, the Legislature grapples with the share of college costs to be borne by students and the state. Historically, the state

has paid the vast majority of costs for California's public college students through General Fund and other state support to the institutions, as well as funding for student financial aid programs. During the recent recession, students assumed a larger share of these costs through tuition increases. Tuition and fee levels have nearly doubled at the universities and more than doubled at the CCC since 2007-08. Whereas in 2007-08 students paid 19 percent of educational costs at the universities, by 2011-12 students were paying 31 percent of these costs. At the community colleges, the student share of costs increased from 4 percent in 2007-08 to slightly more than 6 percent in 2012-13 (the year of

the most recent CCC fee increase). In 2013-14, the student share of educational costs declined at all three segments, to 26 percent at the universities and 6 percent at the CCC.

California's Tuition and Fee Levels Remain Low. Despite these large increases, tuition and fee levels at California's public colleges and universities remain relatively low. As shown in Figure 10 (see next page), UC's average tuition and required fees for resident undergraduates remain below three of four comparison institutions. The CSU's tuition and required fees for resident undergraduates are the lowest in its comparison group of 16 public universities. At CCC, students pay the lowest fees in the nation—only 38 percent of the national average for community colleges.

Other Costs of Attendance Relatively High and Rising. Living expenses, including food and housing, transportation, and personal expenses, make up the majority of undergraduate student budgets. These expenses are similar across segments, as shown in Figure 11 (see page 33). These costs are relatively high in California—about 20 percent higher than the national averages.

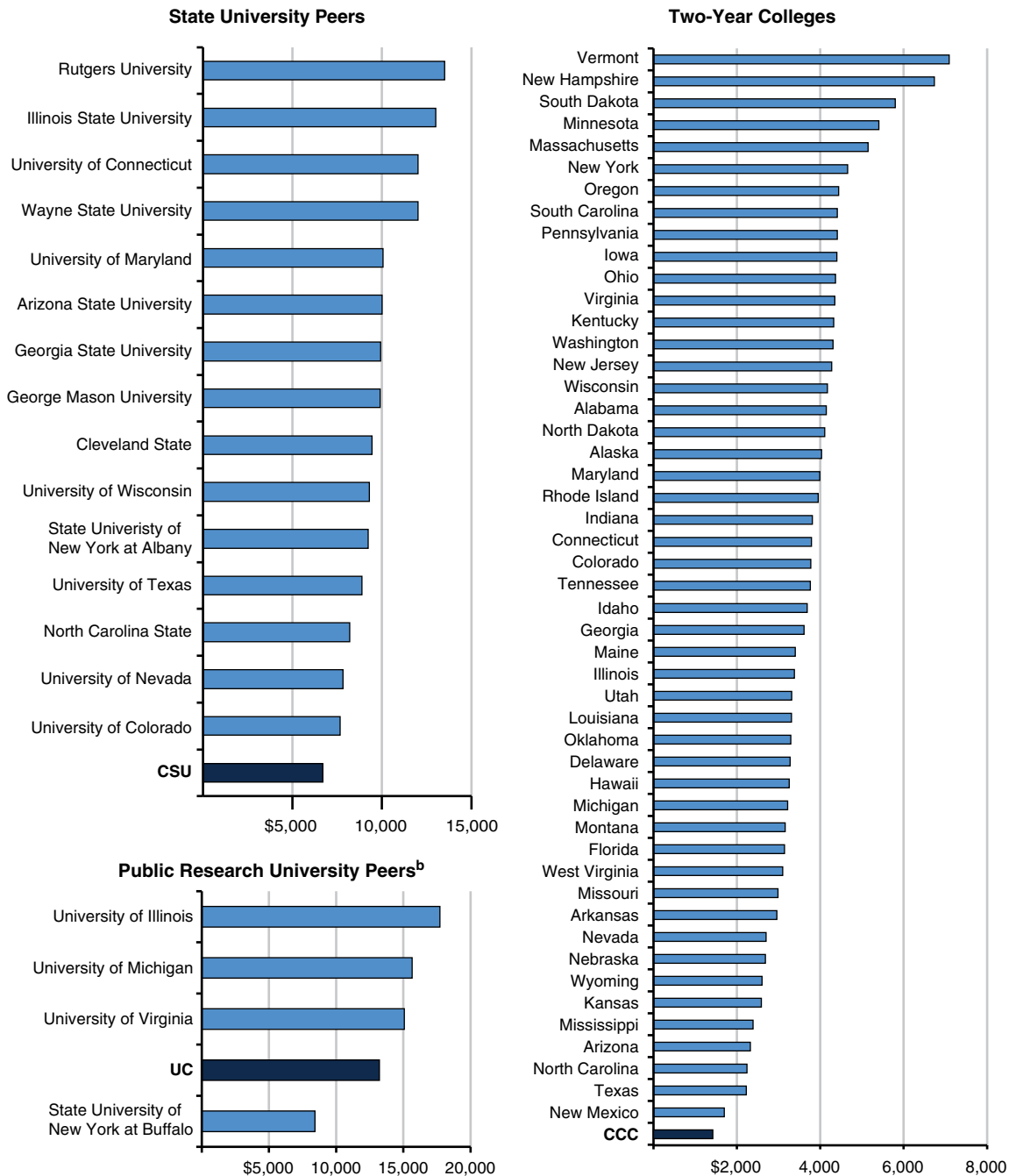
Various Sources of Financial Aid Help Students Cover Their Costs of Attendance. About two-thirds of students at UC and CSU receive financial aid to help them pay their costs of attendance. At the community colleges, about 45 percent of students receive aid, and the proportion is higher among students enrolled half time or more. Types of aid include grants, scholarships, and tuition waivers (collectively called gift aid, because students do not have to pay back these amounts), federal tax benefits, and student loans. Subsidized work-study programs also help support students. Gift aid may be need-based (to provide access for students who otherwise might be unable to afford college) or non-need-based (typically scholarships or other payments based on academic merit, athletic talent, or military

service). Major sources of gift aid in California include federal Pell Grants, state Cal Grants, and institutional financial aid programs. Tax benefits include income tax deductions and credits for tuition and related costs, as well as tax-free growth in tuition savings accounts (including California's Scholarshare College Savings Plan). Federal student loans may be subsidized (the government pays interest while the student is in school) or unsubsidized. Students also may access private loans, but these loans tend to have less beneficial terms and conditions. Figure 12 (see page 34) displays the major sources of financial aid for students at California's public institutions. As shown in the figure, California students received an estimated \$11.8 billion from these sources in 2012-13, more than half of it in need-based gift aid. (This in addition to \$9.3 billion in non-need-based subsidies the state provides for all students through General Fund and Proposition 98 appropriations.) For costs not covered by these sources, students typically rely on family income and assets, their own earnings, and other types of borrowing and savings.

State Provides Aid Through Cal Grants. The state's Cal Grant programs guarantee financial aid awards to California high school graduates and community college transfer students who meet financial, academic, and other eligibility criteria. In addition, students who do not qualify for the high school or community college entitlement programs but meet the other eligibility criteria may apply for a limited number of competitive grants. Awards cover full systemwide tuition and fees at the public universities and a fixed dollar amount toward costs at private colleges. The program also offers cash stipends (known as access awards) for students with family incomes below \$45,900 (for a family of four). A student may receive a Cal Grant for four years of full-time college enrollment or the equivalent. Figure 13 (see page 35) describes the

Figure 10
California Tuition and Fee Levels Among Lowest in Nation

2013-14 Resident Tuition and Fees^a



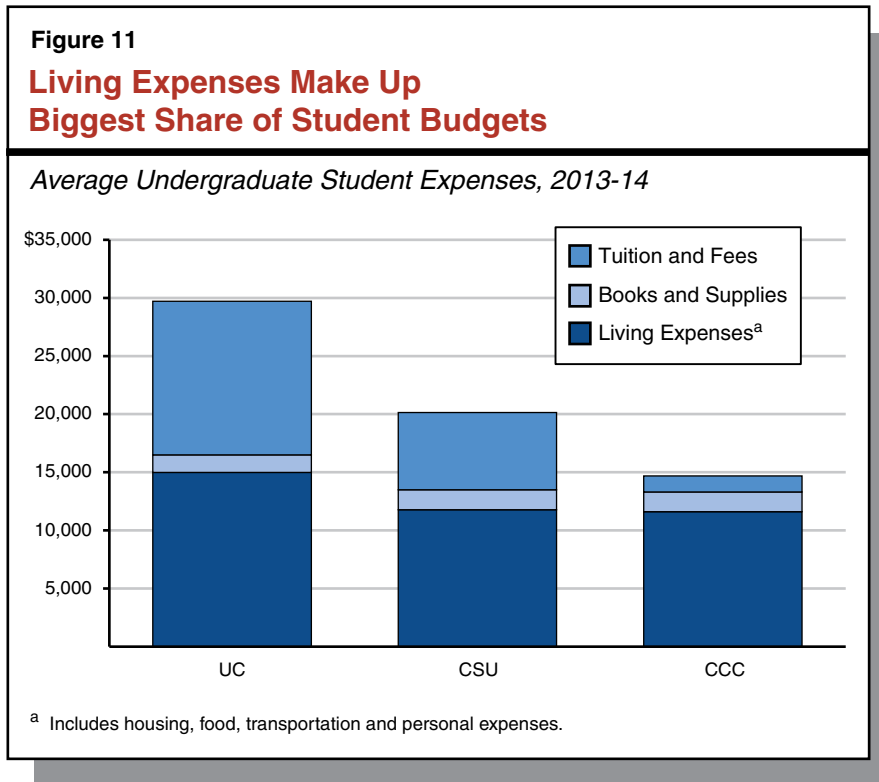
^a Includes average campus-based fees.

^b The Universities of Illinois, Michigan, and Virginia charge different tuition rates by student level and discipline. Amounts shown for these universities are averages of the lowest and highest charges.

various Cal Grant programs and awards.

Cal Grant Spending Has Continued to Grow, Driven by Increased Participation. Cal Grant spending nearly doubled from 2007-08 to 2011-12, mostly in response to tuition increases at UC and CSU. (Cal Grant tuition awards rise automatically to offset tuition increases.) Since 2011-12, tuition has remained flat and growth in Cal Grant costs has been driven mainly by participation increases. In 2012-13, for example, the number of new Cal Grant recipients increased 19 percent over the prior year. (Implementation of the California Dream Act accounts for about one-quarter of the growth. Beginning in 2013-14, this legislation makes certain nonresident students eligible for state financial aid.)

Colleges and Universities Offer Institutional Aid. Campuses use institutional financial aid programs in combination with other sources of gift aid to help cover students' costs. Through its Blue and Gold Opportunity Program, for example, UC guarantees that students with family incomes up to \$80,000 will receive sufficient aid to fully cover tuition. That is, after accounting for federal and state aid, UC uses institutional aid to fill any remaining tuition gap for this group of students. In addition, institutional aid helps cover living expenses for many UC students. (In 2012-13, grant and scholarship recipients at UC received an average of \$16,600 in total gift aid, about \$3,400 more than total tuition and fees.) By comparison, CSU uses institutional aid in combination with



federal and state aid to cover full tuition for most students with family incomes up to about \$75,000. It does not cover other costs of attendance. At CCC, the BOG Fee Waivers fully cover enrollment fees (but not other costs of attendance) for financially needy students.

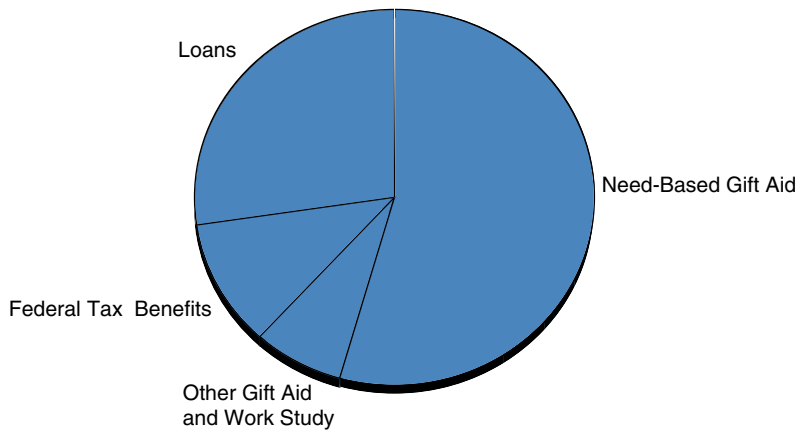
Institutional Aid Also Growing. Institutional aid spending is growing, though at a slower pace than in recent years. Between 2007-08 and 2011-12, institutional aid spending nearly doubled at the universities and tripled at the CCC, primarily driven by fee increases. Estimates from 2012-13 to 2013-14 show year-over-year increases of 3 percent, 3 percent, and 2 percent in institutional aid spending at UC, CSU, and CCC, respectively, primarily due to larger average grants and increased participation. Similar to Cal Grants, a portion of this growth is related to California Dream Act implementation.

Federal Aid Continues to Expand. Major sources of federal gift aid include Pell Grants, veterans' education benefits, and tax benefits. For Pell Grants,

Figure 12
Major Sources of Financial Aid
Received by California’s Public College Students^a

2012-13 (In Billions)

Need-Based Gift Aid	
Federal Pell Grants and supplemental opportunity grants	\$2.8
Institutional grants and waivers	2.2
State Cal Grants	1.5
Subtotal	\$6.4
Other Gift Aid and Work-Study	
Scholarships and fellowships	\$0.7
Non-need-based fee waivers	0.1
Federal and institutional work-study	0.1
Subtotal	\$0.9
Federal Tax Benefits	
Federal tax deductions and credits	\$1.3
Loans	
Subsidized federal student loans	\$1.3
Unsubsidized federal student/parent loans	1.8
Nonfederal loans	0.1
Subtotal	\$3.2
Total	\$11.8



^a Reflects our estimates using multiple data sources, including data from the segments and federal government. Though some of the data shown are readily available for private college students (such as Pell Grants), other data (such as institutional aid) are not.

the maximum award increased from \$5,550 to \$5,645 in 2013-14 (a 1.7 percent increase) and more students met the financial need criteria to qualify for awards. (See nearby box for an explanation of how financial need is determined for most financial aid programs.) For veterans, the Post-9/11 GI Bill, implemented in 2009, has been providing education benefits to

an increasing number of military veterans each year. Veterans can receive full tuition coverage at a public college (or about \$19,000 annually toward tuition at a private college) in addition to a book and housing allowance. For tax benefits, the American Opportunity Tax Credit, implemented in 2009, expanded the existing Hope Scholarship Credit by increasing the credit individuals can claim (from \$1,800 to \$2,500) and raising the income cap for claiming the credit (from \$60,000 for single filers and \$120,000 for joint filers to \$90,000 and \$180,000, respectively). As a result, the total amount of tax credits claimed tripled within two years.

Altogether, Public Financial Aid Covers Tuition for Majority of Public College Students.

Through some combination of Cal Grants, institutional aid, fee waivers, and federal grants, about half of UC and CSU students receive aid sufficient to fully cover systemwide tuition and fees. Additional university

students receive partial tuition coverage from these sources. At the CCC, nearly half of students receive fee waivers accounting for more than 60 percent of all instructional units taken. For students at all segments paying full or partial tuition, up to \$2,500 may be reimbursed through federal tax credits.

Determining Financial Need

To be eligible for many federal, state, and institutional financial aid programs, students must complete a common, web-based application form (the Free Application for Federal Student Aid, or FAFSA). The federal Department of Education uses information from this form, including family income, available assets, and number of children in college, to determine the student’s expected family contribution (EFC) toward college costs. A student’s financial need is the total cost of attendance (including living costs) at a particular campus less his or her EFC. Campuses then combine (or “package”) various types of financial aid to meet as much of each student’s financial need as possible.

Figure 13

Summary of Cal Grant Program Requirements and Awards

High School Entitlement Program	<p>This program guarantees awards to recent high school graduates who meet income and grade point average (GPA) requirements. Depending on income level, a student may get a Cal Grant A or B award.</p> <ul style="list-style-type: none"> • Students must have a GPA of at least 3.0 for a Cal Grant A award, which covers full systemwide tuition at UC and CSU and provides a fixed amount toward tuition at private California colleges. (For 2014-15, the maximum tuition awards are \$8,056 for students at nonprofit or Western Association of Schools and Colleges-accredited for-profit colleges and \$4,000 for students at other for-profit colleges.) • Cal Grant B awards are for students with greater financial need who have at least a 2.0 GPA. Cal Grant B awards provide up to \$1,473 toward books and living expenses in the first year. Beginning in the second year, the B award is this amount plus tuition support (in the same amounts as Cal Grant A awards).
Transfer Entitlement Program	<p>This program is for graduates of California high schools who transfer from a CCC to a qualifying baccalaureate degree granting institution. Students must also meet financial and academic eligibility criteria, and be under the age of 28 upon transferring. As under the high school entitlement, transfer entitlements include both A and B awards, with the same maximum awards for tuition, books, and living expenses.</p>
Competitive Program	<p>This program is for students who meet the basic income and GPA criteria of the entitlement program (such as income and GPA), but are not recent high school graduates or transfers. A total of 22,500 awards are authorized in statute. Recipients are selected for A and B awards through a competitive process with special consideration for disadvantaged students. Because of limited funding, only about 6 percent of qualified applicants receive awards.</p>
Cal Grant C	<p>This program provides up to \$2,462 for tuition and fees and up to \$547 for other costs for eligible low- and middle-income students enrolled in an occupational, technical, or vocational program that is at least four months long. A total of 7,761 awards is authorized in statute. Funding is available for up to two years or the length of the program, whichever is shorter.</p>

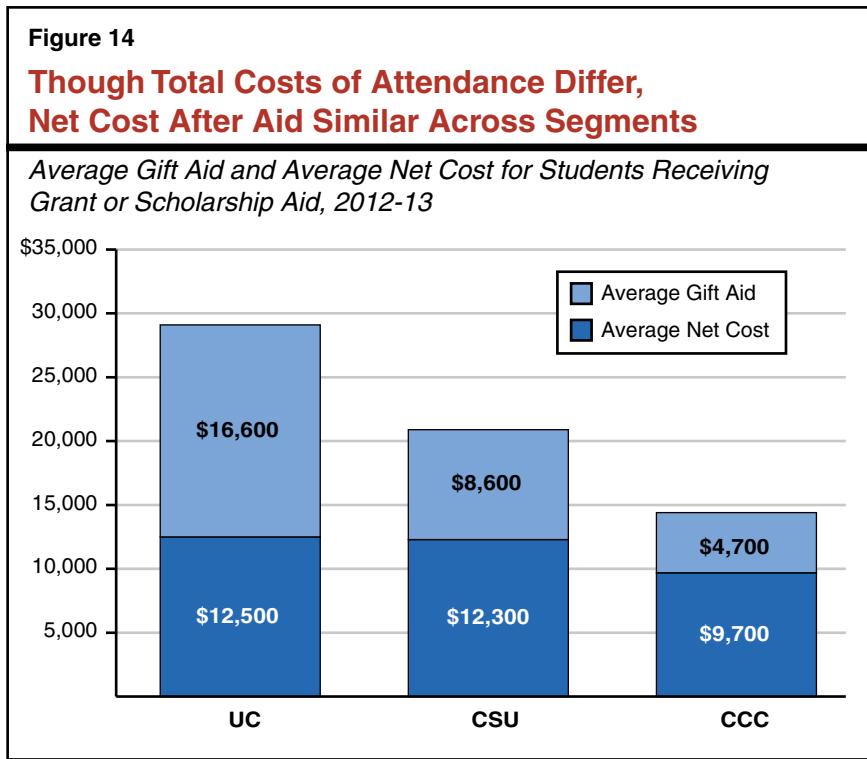
Net Cost of Attendance About the Same at Three Public Segments. Figure 14 highlights the difference between total cost and net cost for grant and scholarship recipients at each higher education segment. As shown in the figure, total costs vary significantly, from nearly \$30,000 at UC to less than \$15,000 at CCC, but the net costs to students are more similar across the three segments. This is because financial aid for these students typically covers tuition and fees, the main source of variation in total costs across the segments.

Average Student Debt Still Comparatively Low. In 2011-12, about half of UC and CSU baccalaureates graduated with no debt. Nationally, the corresponding figure was 42 percent. (The proportion of students with debt varies by campus. For example, nearly two-thirds of UC Merced and UC Riverside graduates had student loan debt compared with 40 percent of UC Berkeley graduates.) Among UC and CSU students who borrowed, the average debt upon graduation was about \$19,800 and \$18,500, respectively, compared

with about \$24,400 for public four-year college students nationally. About 95 percent of CCC students report no student debt, compared to between 60 percent and 70 percent of community college graduates nationally.

State Creates New Middle Class Scholarship Program. To address concerns about high costs for students who do not qualify for need-based financial aid, the 2013 budget package created the Middle Class Scholarship Program. The program will assist UC and CSU undergraduate students who do not have at least 40 percent of their tuition covered by Cal Grants and other public financial aid programs. The program does not require that students have financial need. Instead, it uses family income to determine student eligibility. Specifically, students with family incomes up to \$100,000 qualify to have up to 40 percent of their tuition covered (when combined with all other public financial aid). The percent of tuition covered declines for students with family income between \$100,000 and \$150,000, such that a student

with a family income of \$150,000 qualifies to have up to 10 percent of tuition covered. The program is to be phased in over four years, beginning in 2014-15, with awards in 2014-15 set at 35 percent of full award levels, then 50 percent, 75 percent, and 100 percent of full award levels the following three years, respectively. The budget legislation includes annual appropriations for the program beginning with \$107 million for 2014-15 and capped at \$305 million for 2017-18 and thereafter. (If



the budget appropriation is insufficient to provide the tuition coverage cited above, then the legislation sets forth that scholarships are to be automatically prorated downward.)

Governor's Proposals

The Governor's budget provides \$1.9 billion for student financial aid in 2014-15. This is \$222 million (13 percent) more than the revised current-year level. Funding includes \$1.3 billion from the General Fund, \$545 million in federal TANF funds, and \$60 million from the SLOF. Nearly all the new funding implements current-law provisions. Most notably, the Governor's budget funds increased participation in Cal Grant entitlement programs and launches the already adopted Middle Class Scholarship Program. (As discussed in the nearby box, the Governor's budget also continues funding two financial aid outreach programs.)

Assumes Tuition Flat. Although the Governor acknowledges in his budget summary that college is relatively affordable for California's public college students (due to high public subsidies, relatively low tuition and fees, and robust financial aid programs), he proposes no CCC fee increase and conditions his proposed annual funding increases for the universities on their maintaining tuition at current levels. Under his plan, tuition and fee levels at UC and CSU, which have not increased since 2011-12, would remain flat through 2016-17.

Funds First-Year Implementation of Middle Class Scholarship Program (\$107 Million). The budget provides \$107 million for the first year of scholarship awards under this new program, as described above. Students will be eligible for up to 35 percent of the full scholarship award in 2014-15, or up to 14 percent of tuition amounts at UC and CSU.

Funding for Two Financial Aid Outreach Programs Set to Expire in 2015-16

California Funds Two Relatively Longstanding Financial Aid Outreach Programs. Financial aid awareness and college outreach programs can help inform students and parents about college opportunities. The state oversees two such programs through the California Student Aid Commission (CSAC). Created in 1978, the California Student Opportunity and Access Program is designed to increase postsecondary education opportunities for low-income and underrepresented elementary and secondary school students. The program provides special tutoring, counseling, and information services to participants. Funds support 15 local consortia, each consisting of a local high school and community college. Consortia also include representatives from nonprofit educational, counseling, or community agencies as well as postsecondary education institutions. The second outreach program—California Cash for College—provides free workshops across the state to help students and their parents complete the federal financial aid application.

Recommend Directing CSAC to Report on Programs' Effectiveness. Both programs have been funded at times from the General Fund, the Student Loan Operating Fund, and federal funds. Since 2008-09, they have been supported by the federal College Access Challenge Grant, which is set to expire in 2015-16. We recommend the Legislature direct CSAC to report on outcomes and effectiveness of these programs by October 2014. The Legislature could use this information to determine whether to continue funding these outreach efforts (including whether to backfill with state funds if the federal grant is not renewed).

Higher Net Cal Grant Costs (\$100 Million).

The budget also provides \$100 million for higher Cal Grant costs in 2014-15, as shown in Figure 15. A portion of this increase is due to a surge in new awards in 2013-14, which results in more renewals in 2014-15, as shown in Figure 16. In addition, the second cohort of Dream Act students accounts for about one-quarter of the increase. A reduction in the maximum award for students at private institutions offsets a small amount of the overall increase in Cal Grant costs. As has been the administration’s custom in recent years, the budget does not assume additional growth in the number of new awards for 2014-15. If the segments increase enrollment in 2014-15 or participation continues to grow as it has in recent years, Cal Grant expenses will be greater than budgeted. In addition, the

budget authorizes no new loan assumptions for teachers, nurses, or graduate students, continuing a phase-out of these programs.

Makes One Change to Cal Grant Eligibility (\$15 Million). Under current practice, a Cal Grant recipient must reapply for aid each year. If a recipient’s family income exceeds the Cal Grant income cap in any year, that student is no longer eligible for renewals. The Governor proposes to change this so that students who become ineligible because they exceed the income cap can become eligible again in a subsequent year if their income falls below the cap. The policy would apply only to students who reapply no more than three academic years after receiving an initial award. The DOF estimates the cost for this expansion at \$15 million.

Figure 15
Cal Grant Recipients

	2012-13 Actual	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Number	Percent
By Segment:					
California State University	86,571	97,755	105,247	7,492	8%
California Community Colleges	80,174	89,968	96,028	6,060	7
University of California	60,411	64,892	68,475	3,583	6
Private nonprofit institutions	25,487	27,128	27,909	781	3
Private for-profit institutions	8,074	5,991	7,264	1,273	21
Totals	260,717	285,734	304,923	19,189	7%
By Program:					
High School Entitlement	194,818	210,671	225,364	14,693	7%
CCC Transfer Entitlement	23,448	27,224	27,916	692	3
Competitive	36,020	39,370	42,121	2,751	7
Cal Grant C	6,431	8,468	9,522	1,054	12
Totals	260,717	285,733	304,923	19,190	7%
By Award Type:					
Cal Grant A	92,186	102,943	111,197	8,254	8%
Cal Grant B	162,101	174,321	184,204	9,883	6
Cal Grant C	6,431	8,468	9,522	1,054	12
Totals	260,718	285,732	304,923	19,191	7%
By New or Renewal:					
New	100,282	118,839	118,458	-381	-0%
Renewal	160,435	166,894	186,465	19,571	12
Totals	260,717	285,733	304,923	19,190	7%

Slight difference in total number of recipients among the various categories due to modeling issues.

Assessment and Recommendations

Tuition Freeze Likely Would Have Problematic Near-Term and Long-Term Consequences. The Governor's proposal would extend for three more years UC and CSU tuition levels that already have been flat since 2011-12. While this would benefit current students, it likely would increase volatility for future students. As shown in Figure 17 (see next page), extended tuition freezes at California's public institutions have been followed by periods of high annual tuition increases. The proposal also would

have the negative near-term effects of: (1) reducing the incentive students and their families have to hold higher education institutions accountable for keeping costs low and maintaining quality, and (2) reducing the resources available to support student enrollment. Given the important role of tuition in higher education budgets, the relatively low share of cost now borne by students and their families, and the likely negative consequences of an extended tuition freeze, we do not see a strong justification for having the state bear all higher education cost increases for the next three years.

Figure 16
Cal Grant Spending

(Dollars in Millions)

	2012-13 Actual	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
By Segment:					
University of California	\$721	\$781	\$822	\$41	5%
California State University	437	501	552	51	9
Private nonprofit institutions	222	240	238	-1	-1
California Community Colleges	88	100	107	7	7
Private for-profit institutions	50	35	37	2	6
Totals	\$1,518	\$1,656	\$1,756	\$100	6%
By Program:					
High School Entitlement	\$1,234	\$1,331	\$1,418	\$87	7%
CCC Transfer Entitlement	185	214	217	3	1
Competitive	95	105	114	9	9
Cal Grant C	4	6	6	1	11
Totals	\$1,518	\$1,656	\$1,756	\$100	6%
By Award Type:					
Cal Grant A	\$868	\$985	\$1,059	\$74	7%
Cal Grant B	646	665	691	26	4
Cal Grant C	4	6	6	1	11
Totals	\$1,518	\$1,656	\$1,756	\$100	6%
By New or Renewal:					
New	\$471	\$541	\$525	-\$16	-3%
Renewal	1,047	1,115	1,231	116	10
Totals	\$1,518	\$1,656	\$1,756	\$100	6%
By Funding Source:					
General Fund	\$630	\$1,016	\$1,151	\$135	12%
Student Loan Operating Fund	85	98	60	-38	-64
Federal TANF	804	542	545	3	1
Totals	\$1,518	\$1,656	\$1,756	\$100	6%

TANF = Temporary Assistance for Needy Families.

Recommend Share-of-Cost Policy. For these reasons, we do not think an extended tuition freeze would be in the public’s best longer-term interests. Instead of an extended tuition freeze, we recommend the Legislature adopt a policy that bases tuition and fee charges at each of the public higher education segments on a share of educational costs. Such a policy would provide a rational basis for fee levels and a simple mechanism for annually adjusting them. It would recognize explicitly the partnership between students and the public. Though such a policy would depend on the state providing its share of funding, we believe it would be more likely than the Governor’s proposal to result in moderate, gradual, and predictable tuition increases over time.

Middle Class Scholarships Likely to Be Prorated. Although predicting how many UC and CSU students will apply and qualify for Middle

Class Scholarship awards is difficult, early estimates suggest the statutory appropriation of \$107 million may be insufficient to cover the award levels scheduled for 2014-15. As a result, awards are likely to be prorated downwards.

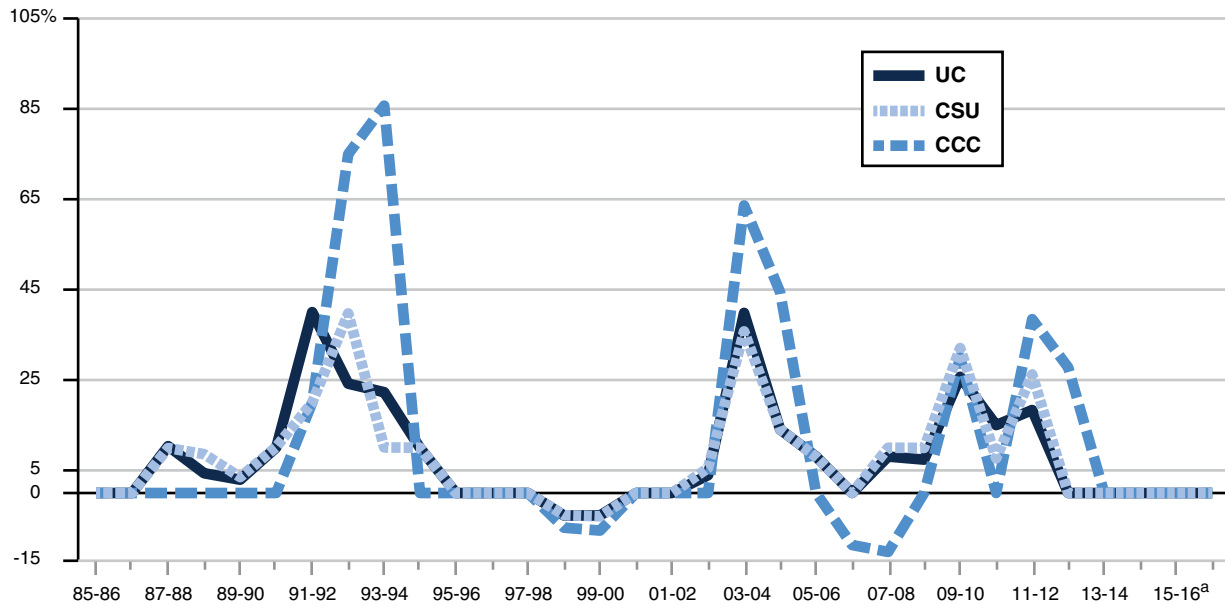
Consider Prioritizing Scholarship Awards. Rather than reducing all awards proportionally, we recommend the Legislature consider adjusting this requirement to prioritize students with greater financial need (based upon the federal need determination described earlier). Students with the highest need could receive the full scheduled award (up 14 percent of UC or CSU tuition for 2014-15) while those with no financial need might receive lesser amounts.

Recommend Time Limit for Middle Class Scholarship Awards. Many financial aid programs, including Cal Grants, provide support for a limited number of years (typically four years of full-time

Figure 17

Extended Tuition Freezes Followed by Periods of Steep Increases

Percent Change in Systemwide Tuition and Fees



^a Governor proposes flat tuition and fees through 2016-17.

enrollment or the equivalent). Such limits provide a strong incentive for students to complete their studies expeditiously. California's nonprofit colleges and universities maintain that Cal Grant recipients at their institutions have higher four-year graduation rates than nonrecipients because of this incentive. For the new Middle Class Scholarship Program, however, the number of years a student may qualify for awards is unlimited. We recommend the Legislature set a statutory time limit, comparable to the Cal Grant limit.

Recommend Adopting Cal Grant Eligibility Change. We see no justification for denying a Cal Grant renewal award to an otherwise eligible recipient who temporarily exceeded financial limits in one of the past few years. We recommend the Legislature adopt the Governor's proposal to permit these recipients to qualify for renewals within three academic years of initially receiving an award.

SUMMARY OF RECOMMENDATIONS

LAO Recommendations

Universities

- ✓ **Governor's Budget Plan.** Reject Governor's overall budget plan, including unallocated base increases, extended tuition freeze, changes to CSU capital outlay review, and omission of enrollment targets.
- ✓ **Alternative Budget.** Build a workload budget that provides UC with \$186 million and CSU with \$209 million—\$44 million and \$18 million more, respectively, than the Governor's plan. Assume state and students share in cost increases, with state support for UC and CSU totaling \$100 million less than Governor's plan. Specifically:
 - **Fund 2 Percent Enrollment Growth at CSU.** Provide \$34 million to increase enrollment by 7,000 full-time equivalent students at CSU. Require CSU to report next year on (1) the number of eligible students denied admission to the system, including their local campus, and (2) efforts to expand enrollment at impacted programs and campuses.
 - **Maintain Flat Enrollment at UC.** Specify UC is to serve the same number of students in 2014-15 as in 2013-14.
 - **Fund Inflation.** Provide \$68 million to UC and \$53 million to CSU to cover expected 2.2 percent inflationary cost increase.
 - **Fund Retirement and Debt Service.** Provide \$29 million to UC and \$30 million to CSU to fund increased costs for pensions, retiree health care, and debt service on state bonds.
 - **Assume Modest Tuition Increase.** Assume tuition increases by 2.5 percent at UC and 3.3 percent at CSU to help cover cost increases.
- ✓ **Performance.** Require UC and CSU to discuss their performance in specific areas (such as student success) at budget hearings each spring, establish state expectations for performance, and use this information to guide funding decisions.

Community Colleges

- ✓ **Enrollment Growth.** Withhold recommendation on Governor's proposal to provide \$155 million (3 percent) enrollment growth pending receipt of updated information on current-year enrollment trends. Postpone implementation of new CCC enrollment growth allocation formula to 2015-16 and release any 2014-15 enrollment growth funds to districts on across-the-board basis. Further recommend the Legislature request CCC Chancellor's Office and California Department of Education to report periodically throughout 2014 on development of funding allocation formula for new adult education initiative.
- ✓ **Student Support Programs.** Reject Governor's proposals to augment funding for Student Success and Support Program (SSSP) and allow partial flexibility for three other student support programs. Instead provide CCCs with substantially more flexibility by consolidating seven student support programs (including SSSP) into block grant.
- ✓ **Technical Assistance Program.** Withhold recommendation on Governor's proposal to create new CCC technical assistance program pending receipt of additional detail on the need for requested positions and local assistance funds. If Legislature agrees with need for new positions in the CCC Chancellor's Office, recommend using administrative savings from creation of block grant (recommended above) to fund added costs.

Tuition and Financial Aid

- ✓ **Tuition.** Reject proposal for extended tuition freeze at the universities. Adopt share-of-cost tuition policy.
- ✓ **Middle Class Scholarship Program.** If funding is insufficient to cover maximum award levels, consider prioritizing awards for students with the greatest financial need. Set a statutory time limit for scholarships, comparable to Cal Grant limit (four years of full-time instruction or the equivalent).
- ✓ **Cal Grant Eligibility Change.** Adopt Governor's proposal to permit students who become ineligible because they exceed the income cap to become eligible again in a subsequent year if their income falls below the cap.

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This report was reviewed by Jennifer Kuhn. The Legislative Analyst’s Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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