HIGHER EDUCATION

MAJOR ISSUES (February 1994)

%***Proposed Higher Education Budgets Are Incomplete.*** Given that the budget is silent on many important points (such as enrollment and fees), we developed alternative budget proposals for the major higher education segments. We identify principles to guide the Legislature in taking a balanced approach toward the twin goals of providing student access and maintaining program quality. (See page F-13.)

%***Provide for Reasonable Student Fee Increases and Related Financial Aid.*** As part of our alternative budget proposals, we recommend undergraduate fee increases of 10 percent at the University of California (UC) and the California State University (CSU), with higher fees for graduate students, and a $2 per credit unit fee increase at the California Community Colleges (CCC). These are significantly lower than those proposed by the UC and the CSU, and by the Governor for the CCC. We also recommend providing related financial aid. (See pages F-30, F-49, F-63, and F-70.)

%***Hold the Segments Accountable for Enrollments.*** For the UC, we recommend the Legislature adopt the UC's projected enrollment level. For the CSU, we recommend a 4,000 full-time-equivalent (FTE) student increase over the current year, based on historical participation rates. For the CCC, we recommend a reduction of 5,571 in state-funded FTE students below the current year, due to declining enrollments. (See pages F-35, F-53, and F-66.)

%***Focus on Higher Education Outcomes.*** We recommend that the Legislature begin to focus more directly on outcomes of higher education, rather than the inputs or processes. We recommend three specific steps the Legislature could take immediately, using available data, to monitor outcomes rather than inputs: (1) establish a four-year degree pledge program, (2) require reporting on degrees conferred in relationship to the state's work-force needs, and (3) require reporting on degrees conferred in relationship to statutory goals on diversity. (See page F-16.)

%***Budget for Faculty Productivity Increases at the UC.*** We recommend a permanent increase in the student-faculty ratio from 17.6 to 18.7. The proposed level is consistent with actual experience at the university the last two years. This increase would result in future annual savings of approximately $55 million. (See page F-34.)

%***Redirect Excess Gains From Teaching Hospitals for Critical Campus Needs.*** We find that UC teaching hospitals' net gains exceed the amount needed by approximately $40 million. We recommend that these excess gains be reallocated to the UC campuses to fund critical campus needs. (See page F-32.)

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OVERVIEW

The budget proposes modest increases for all higher education segments.

The budget proposes General Fund expenditures of $5.1 billion for higher education in 1994-95. This is $480 million, or 10 percent, more than estimated expenditures in the current year. Including local property taxes, the budget proposes spending of $6.4 billion, which is $210 million, or 3.4 percent, more than estimated expenditures in the current year.

Figure 1 shows that higher education expenditures from the General Fund have increased by $30 million since 1987-88, representing an average annual increase of less than 0.1 percent. When these expenditures are adjusted for inflation, General Fund spending decreased over this time period by an average of 3.1 percent annually. The share of General Fund spending allocated to higher education has declined from 16 percent to 13 percent over this period.

Higher education expenditures from the General Fund, local property taxes, and loan funds have increased by $700 million since 1987-88, an average annual increase of 1.7 percent. Adjusted for inflation, spending has decreased an average of 1.5 percent annually.

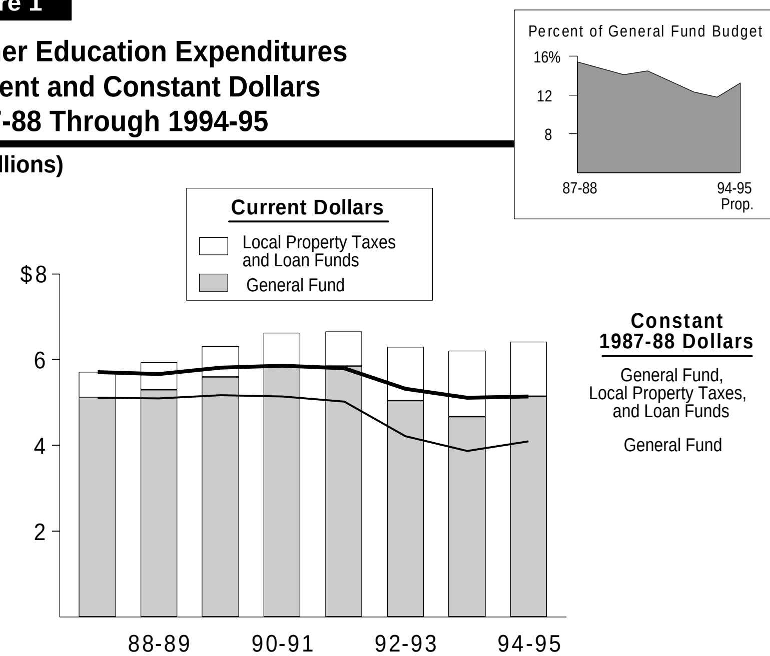
SPENDING BY MAJOR PROGRAMS

Figure 2 shows spending from the General Fund, local taxes, and loan funds in detail. The figure shows that the budget proposes modest increases for each segment of higher education.

Figure 1

Higher Education Expenditures Current and Constant Dollars 1987-88 Through 1994-95

(In Billions)



For the University of California (UC) and the California State University (CSU), the budget proposes increases of $58 million (3.2 percent) and $57.6 million (3.9 percent), respectively. These proposed increases would come after three consecutive years of General Fund reductions. The figure does not show fee revenues. The budget does not propose specific fee levels, though the budget indicates that fee increases will need to be considered. (We discuss the issue of fees later in this analysis.)

For the California Community Colleges (CCC), the budget proposes to increase support from the General Fund in 1994-95 by $298 million (32 percent) and from combined General Fund, property tax revenues, and loan funds by $33 million (1.3 percent). The budget proposes to raise fees from $13 per credit unit to $20 per credit unit.

MAJOR BUDGET CHANGES

Figure 3 presents the major budget changes resulting in a net increase of $480 million in General Fund spending for higher education. For the UC and the CSU, the largest proposed General Fund increase ($38 million each) is for salary-related expenditures. While the budget document does not specify how the salary increases would be allocated, the proposed funding at each segment is sufficient for a 2.5 percent salary increase for faculty and staff beginning July 1, 1994.

Figure 2

Higher Education Budget Summary
General Fund, Local Property Taxes, and Loan Funds
1992-93 Through 1994-95

(Dollars in Millions)

	Actual 1992-93	Estimated 1993-94	Proposed 1994-95	Change From 1993-94	
				Amount	Percent
University of California					
General Fund	$1,878.5	$1,792.6	$1,850.6	$58.0	3.2%
California State University					
General Fund	$1,490.1	$1,488.5	$1,546.1	$57.6	3.9%
California Community Colleges—local assistance					
General Fund (Proposition 98)	$1,260.2	$878.0	$1,217.2	$339.2	38.6%
General Fund (non-Proposition 98)	8.3	41.4	0.4	-41.0	-99.0
Local property taxes	1,010.4	1,358.2	1,270.9	-87.3	-6.4
Subtotals	($2,278.9)	($2,277.6)	($2,488.6)	($210.9)	(9.3%)
General Fund loan	241.0	178.0	—	-178.0	-100.0
Totals	**$2,519.9**	**$2,455.6**	**$2,488.6**	**$32.9**	**1.3%**
Hastings College of the Law					
General Fund	$12.0	$11.5	$11.8	$0.3	2.9%
California Maritime Academy					
General Fund	$6.6	$6.4	$6.8	$0.4	6.0%
Student Aid Commission—local assistance					
General Fund	$142.8	$200.3	$223.7	$23.4	11.7%

Funding for debt service costs on previously authorized lease-revenue bonds also accounts for a significant portion of the net General Fund increases at the UC and the CSU—$13 million and $23 million, respectively. For the community colleges, the budget proposes $10 million for these costs.

Figure 3

Higher Education
Proposed Major General Fund Changes for 1994-95

University of California	**Requested:**	**$1.9 billion**	
	Increase:	**$58 million**	**(+3.2%)**

+
- $38 million for salary-related increases
- $13 million for debt costs on lease-revenue bonds

California State University	**Requested:**	**$1.5 billion**	
	Increase:	**$58 million**	**(+3.9%)**

+
- $38 million for salary-related increases
- $23 million for debt costs on lease-revenue bonds

California Community Colleges—Local Assistance	**Requested:**	**$1.2 billion**	
	Increase:	**$298 million**	**(+32.4%)**

+
- $178 million to support services funded in 1993-94 from a one-time loan
- $87 million net increase due to proposed property tax shift ($151 million) and property tax growth (-$64 million)
- $40 million to backfill for a current-year property tax shortfall
- $32 million for statutory enrollment growth
- $23 million due to revisions in financial aid estimate
- $10 million for technology infrastructure development
- $10 million for debt costs on lease-revenue bonds

−
- $53 million due to a proposed $7 per credit unit fee increase
- $36 million for enrollment declines

Other Programs

+
- $20 million to the Student Aid Commission to augment the Cal Grants financial aid program
- $39 million for higher education general obligation bonds

The budget proposes increases totaling $265 million at the community colleges related to funding source shifts. There is a General Fund increase of $178 million to support services that were funded by a one-time $178 million loan in the current year. The budget also reflects a General Fund increase of $87 million related to decreases in colleges' net property tax revenues. This figure represents the net effect of (1) an increase of $151 million to backfill a proposed property tax shift from the colleges to local governments and (2) a decrease of $64 million to reflect estimated growth in property tax revenues.

The other major increases at the community colleges include (1) $40 million to backfill in 1994-95 estimated current-year property tax shortfalls (these losses are not backfilled in the current year), (2) $23 million to provide additional financial aid related to the current fees, and (3) $10 million to fund a new technology infrastructure proposal. These are offset by a $53 million net decrease related to a proposed fee increase from $13 per credit unit to $20 per credit unit. Finally, a proposed $32 million increase for statutory enrollment growth in the budget year is more than offset by a proposed $36 million decrease related to enrollment declines in prior years.

ENROLLMENT

Figure 4 shows student enrollment at each of the segments. It shows that budget reductions since 1991-92 have affected enrollment at the UC and the CSU. The change at the CSU has been particularly significant. In 1991-92, CSU full-time-equivalent (FTE) enrollment was 270,729. For 1993-94, the budget estimates an enrollment of 246,520. This is a decline of 24,209, or 8.9 percent, over this two-year period. The UC's enrollment declined from 156,371 in 1991-92 to 151,713 in 1993-94, which is a 4,658, or 3 percent, decrease.

For the second year in a row, the administration does not propose budget-year enrollment levels for the UC and the CSU. Later in this *Analysis*, we discuss UC and CSU enrollment levels and their relationship to the state's Master Plan for Higher Education.

The community colleges have also experienced significant declines in total enrollments since 1991-92. Enrollment declined from 952,654 in 1991-92 to 887,905 in 1993-94, which is a 64,749, or 6.8 percent, decrease. (Although total enrollments have declined significantly, state-funded enrollment has increased slightly. We discuss the implications of the gap between state-funded and total enrollments in more detail later in this *Analysis.*) The budget proposes state-funded enrollments of 880,240 FTE students in 1994-95, which represents an increase of 6,206, or 0.7 percent, from the funded current-year level. This is the net effect of an increase of 11,398 students due to adult population growth of 1.3 percent and a decrease of 5,192 FTE students to reflect declines in enrollments of BA degree holders.

Figure 4

Higher Education
Full-Time Equivalent (FTE) Students
1991-92 Through 1994-95

	1991-92	1992-93	Estimated 1993-94	Proposed 1994-95
University of California				
Undergraduate	116,398	114,386	112,900	Open
Postbaccalaureate	899	747	576	Open
Graduate	26,511	26,374	25,967	Open
Health sciences	12,563	12,770	12,270	Open
Totals	**156,371**	**154,277**	**151,713**	**149,713**
California State University				
Undergraduate	232,170	221,363	212,529	Open
Postbaccalaureate	18,136	16,983	14,564	Open
Graduate	20,423	20,013	19,427	Open
Totals	**270,729**	**258,359**	**246,520**[a]	**Open**
California Community Colleges				
State-funded	862,269	874,034	874,034	880,240
Non-state-funded	90,385	53,331	13,871	Open
Totals	**952,654**	**927,365**	**887,905**	**Open**
Hastings College of the Law	1,271	1,253	1,242	1,220
California Maritime Academy	425	475	475	475

[a] This is the estimate contained in the budget document. The CSU estimates current-year enrollment at 247,500.

STUDENT FEES

Figure 5 presents student fee levels from 1991-92 through 1994-95. The budget does not propose specific fee increases for the UC and the CSU but does indicate that the administration "stands ready to discuss fee increase proposals." For the community colleges, the budget proposes an increase in fees from $13 per credit unit to $20 per credit unit. For the CSU and the CCC, increasing student fees requires legislation.

Figure 5

Higher Education Student Fees 1991-92 Through 1994-95

	1991-92	1992-93	1993-94	Proposed 1994-95
University of California				
Undergraduate/graduate	$2,274	$2,824	$3,454	Open
Medicine/law	2,650	3,200	3,830	Open
California State University	$936	$1,308	$1,440	Open
California Community Colleges[a]	$120	$300	$390	$600
Hastings College of the Law	$2,650	$3,200	$3,830	Open
California Maritime Academy	$978	$1,370	$1,507	Open

[a] 1992-93 fees are as of January 1, 1993.

From 1991-92 through 1993-94, fees have increased significantly at all three segments. Student fees rose at the UC by $1,180 (52 percent), at the CSU by $504 (54 percent), and at the CCC by $270 (225 percent). Despite these large increases, the UC estimates that its current undergraduate resident student fees are $400 less than the average fee of the four public universities with which the UC compares itself on faculty salaries. The budget estimates that current CSU fees are $1,160 lower than the average fee of the 15 public universities with which the CSU compares itself on faculty salaries. The budget also shows that California's current community college fees are still the lowest in the nation.

HIGHER EDUCATION

CROSSCUTTING ISSUES

HIGHER EDUCATION ALTERNATIVE BUDGET PROPOSALS

The budget's proposals for the University of California (UC) and the California State University (CSU) are silent on key decisions, such as the level of student fees and enrollment levels. We developed alternative budget proposals for these agencies, the Student Aid Commission (SAC), and the California Community Colleges (CCC) based on principles we identify to guide the Legislature in taking a balanced approach toward the twin goals of providing student access and maintaining program quality.

For the second year in a row, the proposed budgets for the UC and the CSU are incomplete. They do not include proposed fee levels or schedule related financial aid. They do not specify proposed enrollment levels. They do not include expenditures needed to protect the state's investment. For the SAC, no detail is provided on the proposed allocation of a $20 million General Fund increase.

Also, for the second year in a row, the CCC budget includes a proposal for significant fee increases that we believe would be unacceptable to the Legislature.

During consideration of the 1993-94 higher education budget, the Legislature lowered fee increases considerably from those proposed by the segments and the Governor, provided financial aid to offset the fee increases, attempted to meet Master Plan enrollment goals, and provided funds for merit salary adjustments. Over the past several years, the Legislature has also expressed concern that critical needs (such as deferred maintenance) be funded and that the segments align faculty workload to provide courses needed for normal progress to degree.

Based on these recent legislative actions, and in order to assist the Legislature with its deliberations this year, we have developed proposed 1994-95 budgets for the UC, the CSU, the SAC, and the CCC. We propose specific fee increases, financial aid spending, and enrollment levels.

We discuss our recommendations for each segment in detail in our analysis of each individual agency. As shown in Figure 6, the basic goals we used in developing the proposals include:

- Provide funds to recognize the costs of continuing the current program.
- Add funds for critical needs in the areas of deferred maintenance, instructional equipment, and library purchases.
- Impose reasonable fee increases and provide funds to cover related financial aid needs.
- Impose greater fee increases for graduate students.
- Use non-General Fund resources to the maximum extent possible.
- Require productivity increases.
- Establish enrollment levels in consideration of the Master Plan for Higher Education and hold segments accountable for these enrollment levels.

In developing our alternative budgets, we took as a starting point the administration's proposed funding level for higher education. As has been true in previous years, additional enrollment and other information will become available in the spring. Also, the amount that can be allocated to these agencies may change due to changes in the condition of the General Fund and the rest of the budget. Thus, we may suggest modifications to the plan later to reflect such updates.

Figure 6

Principles for Proposed Alternative Higher Education Budgets

Fund the continuing costs of the current program

- Provide for increased costs related to faculty and staff salaries, merit salary adjustments, and operating expenses
- Fund the maintenance costs of new space
- Backfill for the loss of one-time funding sources
- Recognize savings from workload reductions at the CCC

Address critical funding needs

- Provide funds for deferred maintenance, instructional equipment, and library purchases

Impose reasonable fee increases and provide related financial aid

- For undergraduate students at the UC and the CSU, impose a 10 percent fee increase
- For community college students, increase fees from $13 to $15 per credit unit
- For graduate students, impose greater fee increases
- Allocate a portion of increased fee revenues for financial aid
- Provide sufficient funding for the Cal Grants Program (which serves undergraduate students) to offset the impact of the proposed 10 percent fee increase at the UC and the CSU

Maximize the use of non-General Fund resources

- At the UC, redirect excess teaching hospital gains towards campus programs
- At the CSU, redirect continuing education revenues for the benefit of both continuing education and regular students

Require productivity increases

- Increase the budgeted student-faculty ratio at the UC to provide for reasonable increases in faculty productivity

Maximize access

- Establish enrollment levels, basing them on consideration of the Master Plan for Higher Education
- Hold the segments accountable for enrollment levels

HIGHER EDUCATION OUTCOME MEASURES

An abundance of information is provided annually to the Legislature and Governor by each segment of higher education and by the California Postsecondary Education Commission (CPEC). Most of this information focuses on educational and financial inputs or processes, such as the number of students enrolled, expenditures per student, and the number of course sections offered, rather than outcomes. The outcome data that are reported are often either lost in a sea of information or reported without analysis of the implications for decision-making.

We recommend that the Legislature begin to focus more directly on the outcomes of higher education, rather than the inputs or processes. If the Legislature can develop measures that accurately and reliably gauge these outcomes, it could hold the segments accountable for their performance. Ultimately, the Legislature would be able to implement performance budgeting, where budget debate would center around the "products" of higher education rather than how different types of expenditures are scheduled. In this manner, the Legislature could focus on the most important policy and fiscal issues facing the segments and avoid "micro-managing" the day-to-day operations of the universities.

There are a wide array of measures the Legislature could use to monitor higher education outcomes. Many would require development of data over a period of years. We have identified three specific steps the Legislature could take immediately, using available data, to move in the direction of monitoring outcomes rather than inputs. Specifically, we recommend that the Legislature require:

- The adoption of a four-year degree pledge program on each UC and CSU campus to foster the campuses to improve, on their own, the management of faculty workload.
- The CPEC to analyze trends in degrees conferred in relation to trends in the state's work-force needs.

- The CPEC to report trends in degrees conferred by ethnicity in relationship to the Legislature's statutory goals.

We discuss these recommendations in the three sections that follow:

Four-Year Degree Pledge

We recommend that the Legislature require each UC and CSU campus to establish "four-year degree pledge" programs by 1995-96 for students who wish to complete their degree in four years.

Background. The Legislature has expressed considerable interest in faculty teaching workload. In part, this interest was in reaction to reports from students unable to take courses needed for graduation. Based on the latest available information, 31 percent of the UC's regularly admitted freshmen graduate in four years. The CSU reports that 24 percent of first-time freshmen graduate in five years. (The CSU does not have data available on four-year graduation rates.) In response to these reports, the Legislature requested the UC and the CSU to place greater emphasis on courses needed for normal progress to degree.

Specifically, the Legislature adopted language in the *Supplemental Report of the 1992 Budget Act* that expressed its intent that UC faculty increase average teaching loads in order to improve, among other goals, the availability of courses required for normal progress to degree. Supplemental report language adopted in 1993 further directed the UC to increase teaching and teaching effectiveness by reformulating systemwide guidelines for faculty teaching loads. The 1993 supplemental report also directed the CSU to maintain the number of courses needed for normal progress to degree in 1993-94 in comparison to 1992-93 despite a projected enrollment decline of 10,000 students. Chapter 776, Statutes of 1993 (SB 506, Hayden), expressed the Legislature's intent that courses required for normal progress to a baccalaureate degree be provided in sufficient numbers at the University of California.

Shift to Outcome Measures. These past efforts have required the segments to review how they manage their faculty resources. It is difficult to tell, however, whether they have led to improved student access to courses needed for normal progress to degree. We have identified one way in which the Legislature could directly measure the success of these efforts—and motivate the campuses to provide the necessary courses required for normal progress to degree. The measure that we believe is relevant and reliable is graduation in four years for all students who wish to complete their degree in four years.

Four-Year Degree Pledge Programs. Two CSU campuses already have four-year degree pledge programs in place—Northridge and Dominguez Hills. For example, at Northridge, the campus pledges to provide specialized advice to students and guarantees that students in this program will be able to take the courses they need to graduate in four years. The students, in turn, agree to meet with the advisors and to follow the agreed upon courses of study.

We believe that requiring campuses to offer four-year degree pledge programs would focus (1) the campuses' attention on management of faculty resources and (2) the students' attention on completing the mutually agreed-upon program.

To implement a pledge program, the campuses would first need to develop systems to ensure that courses required for progress to degree are offered in sufficient numbers and in the necessary sequence for a four-year program completion. This, in turn, would require close review of required and elective course offerings each semester or quarter and appropriate shifts in faculty. The pledge program would require the campuses to focus attention on assuring that students receive appropriate advice. The campuses would have an interest in helping these students meet the goal of graduation in four years because this is the outcome measure that it reports to the Legislature. Thus, the input variables that the Legislature has been trying to influence directly, such as shifting resources to teaching and increasing faculty time spent in advising, would be accomplished by the campuses internally as they strive to graduate in four years all students who maintain their standing in the pledge program.

We do not know how many students would eventually enter a four-year pledge program. There may be many students who for various reasons cannot or choose not to graduate in four years. This information in itself will be useful to the Legislature because it will clarify students' graduation expectations. Consideration could be given to an extended pledge period (beyond four years) in certain disciplines or for students choosing to attend on a part-time basis. Thus, the benefit could be extended to a greater number of students.

We believe that the four-year pledge is a relevant and reliable outcome measure that will direct appropriate actions on the campuses to realign faculty workload. The Legislature can easily monitor yearly progress through reports on the number of students in each class as students move from freshmen through senior year. These reports could also include the reasons why students fail to meet their goals.

Accordingly, we recommend that the Legislature adopt supplemental report language requesting the UC and the CSU to establish four-year degree pledge programs on each campus by 1995-96. We will provide specific supplemental language during budget hearings.

Degrees Conferred and Work-Force Needs

We recommend that the CPEC report on specific information on higher education degrees conferred and relate this information to the work-force needs of the state in its annual Chapter 741 report.

Background. Chapter 741, Statutes of 1991 (AB 1808, Hayden), directs the CPEC to submit a report to the Legislature and Governor that provides information to the citizens of the state on the significant indicators of performance of the public colleges and universities. This statute identifies the following types of information to be considered for inclusion in the report: (1) the retention rate of students, (2) the proportion of lower-division instructional courses taught by tenured and tenure-track faculty, (3) the minimum number of hours per semester required to be spent by faculty in student advisement, and (4) placement data on graduates. Chapter 741 requires the CPEC to provide its first report by November 15, 1994, and each November 15 thereafter.

We believe that this year's Chapter 741 report should include an analysis of degrees conferred by the segments in relationship to the work-force needs of the state. For the CCC, the analysis should also cover certificates conferred and completion of vocational training programs. We believe that this analysis is desirable because the universities' degree outcomes may not be in balance with the state's work-force needs. As an example, later in this analysis, we recommend a shift in UC medical resident programs from nonprimary care specialties to primary care specialties in order to better meet the state's health work-force needs. The campuses, in this case, are not responding to changes in the state's need for additional primary care physicians.

Currently, the segments and the CPEC routinely provide a wealth of information on trends in degrees conferred by discipline. Figures 7 and 8 show the trends in CSU and UC undergraduate degrees conferred by discipline between 1980-81 and 1991-92. Shown in the top portion of each figure are disciplines that show increases exceeding the growth in overall degrees conferred, while the bottom portion shows disciplines experiencing less than average growth. For example, the number of undergraduate degrees conferred by the CSU in communications increased by 71 percent between 1980-81 and 1991-92. This significantly exceeds the increase of 28 percent in all degrees conferred. In contrast, the number of undergraduate engineering degrees conferred by the UC increased by 1.9 percent between 1980-81 and 1991-92. This is significantly less than the 50 percent increase in all degrees conferred.

There are also data available on degrees and certificates conferred and completion of vocational training programs at the CCC. We are

Figure 7

California State University
Undergraduate Degrees Conferred, by Discipline
1980-81 and 1991-92

			Change	
	1980-81	**1991-92**	**Amount**	**Percent**
Disciplines with above-average growth				
Computer and information sciences	517	1,170	653	126.3%
Interdisciplinary studies	2,850	5,514	2,664	93.5
Letters	1,708	3,039	1,331	77.9
Communications	1,749	2,988	1,239	70.8
Psychology	2,275	3,511	1,236	54.3
Social sciences	3,784	5,255	1,471	38.9
Mathematics	396	540	144	36.4
Architecture and environmental design	355	483	128	36.1
Business and management	9,900	13,255	3,355	33.9
Engineering	2,876	3,793	917	31.9
Disciplines with below-average growth				
Area studies	76	88	12	15.8
Foreign languages	477	501	24	5.0
Education	2,911	3,001	90	3.1
Biological sciences	1,486	1,479	-7	-0.5
Fine and applied arts	2,358	2,298	-60	-2.5
Public affairs and services	2,668	2,468	-200	-7.5
Home economics	1,005	854	-151	-15.0
Health professions	2,466	1,999	-467	-18.9
Physical science	767	567	-200	-26.1
Agriculture and natural resources	1,369	862	-507	-37.0
Totals	**41,993**	**53,665**	**11,672**	**27.8%**

currently reviewing these data and will provide additional information during budget hearings as appropriate.

Neither the segments nor the CPEC, however, relate this information to the state's work-force needs. We recommend that the CPEC include an analysis of the trend in degrees conferred in relationship to available information on the state's work-force needs in its November 1994 Chapter 741 report. For the CCC, the report should also cover certificates conferred and completion of vocational training programs. We also recommend that the CPEC provide recommendations as called for based on its analysis.

Figure 8

University of California
Undergraduate Degrees Conferred, by Discipline
1980-81 and 1991-92

			Change	
	1980-81	1991-92	Amount	Percent
Disciplines with above-average growth				
Letters	1,258	2,687	1,429	113.6%
Social sciences	4,506	8,034	3,528	78.3
Psychology	1,571	2,747	1,176	74.9
Interdisciplinary studies and other	2,484	3,975	1,491	60.0
Mathematics	370	581	211	57.0
Disciplines with below-average growth				
Foreign languages	426	635	209	49.1
Business and management	923	1,356	433	46.9
Computer and information sciences	325	449	124	38.2
Biological sciences	2,886	3,926	1,040	36.0
Fine and applied arts	1,248	1,540	292	23.4
Engineering	1,900	1,937	37	1.9
Agriculture and natural resources	749	756	7	0.9
Physical science	642	628	-14	-2.2
Architecture and environmental design	309	285	-24	-7.8
Education	136	112	-24	-17.6
Totals	**19,733**	**29,648**	**9,915**	**50.2%**

Ethnic Diversity of Higher Education Graduates

We recommend that the CPEC report on higher education degrees conferred by ethnicity and relate this information to the Legislature's stated diversity goals.

The Legislature has clearly articulated outcome measures and time lines with regard to the ethnic diversity of baccalaureate degrees conferred. Specifically, Resolution Chapter 209, Statutes of 1974 (ACR 151, Vasconcellos), requested the UC, the CSU, and the CCC to prepare a plan that would provide for addressing and overcoming, by 1980, ethnic, economic, and gender under-representation in higher education enrollment as compared to the ethnic, economic, and gender composition of recent high school graduates. Resolution Chapter 68, Statutes of 1984 (ACR 83, Chacon), enlarged on the ACR 151 mandate and focused attention on degrees conferred rather than students enrolled. Resolution Chapter 68 requested the public segments to sufficiently strengthen and reorganize the necessary academic and support services so that, by 1995, the income and ethnic composition of baccalaureate degree recipients from California colleges and universities is at least equal to the income and ethnic composition of high school graduates in 1990.

Resolution Chapter 68 also required the community colleges to expand and reorganize necessary academic and student support services as well as expand the necessary cooperative activities with the four-year institutions, so that by 1990 the income and ethnic composition of students completing vocational technical programs or transferring from community colleges into four-year institutions is at least equal to the income and ethnic composition of students enrolling in community colleges.

Data on baccalaureate (undergraduate) degrees conferred by ethnicity and gender are readily available. So is information on the ethnic and gender diversity of public high school graduates. However, rarely are data on undergraduate degrees conferred directly related to the composition of high school graduates. More often data are reported on the makeup of university enrollments. Sometimes these data are accompanied by information on retention rates for various student populations.

Figure 9 shows degrees conferred by ethnicity and gender for the UC and the CSU for 1980-81 and 1991-92, as reported by the segments. This figure also shows the ethnic and gender diversity of public high school graduates in 1990, as reported by the CPEC. If the UC and CSU are to meet the provisions of Resolution Chapter 68, the number of African-American and Chicano/Latino graduates will need to increase significantly. Programs to diversify the ethnic and gender diversity of the campuses have been ongoing since the mid-1970s. We recommend that the Legislature focus attention on degrees conferred as the appropriate outcome measure to assess the systems' success in meeting Chapter 68's provisions. This will leave the systems the task of directing its internal efforts to meet the desired outcomes.

We are currently reviewing data available from the community colleges and will provide additional information related to this goal during budget hearings as appropriate.

Accordingly, we recommend that the Legislature adopt supplemental report language requesting the CPEC to include data and analysis on degrees conferred by ethnicity, gender, and income in comparison to the appropriate population of high school graduates in its November 1994 Chapter 741 report. For the CCC, the report should also cover certificates conferred and vocational training completed.

Figure 9

California State University (CSU) and University of California (UC) Undergraduate Degrees Conferred, by Ethnicity and Gender 1980-81 and 1991-92

	CSU		UC		1990 Public High School Graduates
UC Reporting Category	**1980-81**	**1991-92**	**1980-81**	**1991-92**	
African-American	5.3%	4.0%	2.8%	3.9%	7.4%
Chicano/Latino	7.2	10.4	4.8	10.1	23.3
Asian-American/Pacific Islander	7.5	11.7	11.8	18.9	11.1
Filipino	1.3	2.6	0.8	3.1	2.9
American Indian	1.3	0.9	0.6	1.0	0.8
White	77.4	70.4	79.1	63.1	54.6
Totals[a]	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total degrees granted	41,993	53,665	19,733	29,648	236,034
Total reported in ethnicity distribution	31,922	48,004	16,532	27,157	236,034
Men	48.9%	44.1%	51.4%[b]	47.4%	49.0%
Women	51.1	55.9	48.6[b]	52.6	51.0

[a] Percentages may not add to totals due to rounding.

[b] Gender data are not available from the UC for 1980-81. Percentages shown are for 1981-82.

HIGHER EDUCATION

DEPARTMENTAL ISSUES

UNIVERSITY OF CALIFORNIA (6440)

The University of California (UC) includes eight general campuses and one health science campus. The budget proposes General Fund expenditures of $1.8 billion. This is an increase of $58 million, or 3.2 percent, from estimated current-year expenditures. The General Fund increases are proposed for salary adjustments, additional payments on lease-purchase revenue bonds, and price increases. The budget does not propose an enrollment level nor does it propose a specific student fee increase. The budget does indicate that the administration "stands ready to discuss fee increase proposals."

ALTERNATIVE BUDGET PROPOSAL

We recommend that the Legislature take a variety of actions in line with the principles we identify.

As indicated in an earlier section, we developed budget proposals for the UC, the California State University, the Student Aid Commission, and the California Community Colleges. Figure 6 shows the goals we used in development of the proposal. Figure 10 shows our proposal for the UC in detail, compared to the Governor's proposal. As the figure shows, our recommendations result in a net increase of $5 million above the level proposed by the Governor. This additional $5 million would be redirected from a $20 million increase proposed by the Governor for the Student Aid Commission. In sections below, we discuss individual recommendations for each item where our proposed funding level differs from the Governor's funding level.

Figure 10

University of California
Proposed 1994-95 General Fund Budget Changes
Governor's Budget and Legislative Analyst's Office

(Dollars in Millions)

	Governor's Budget	Legislative Analyst's Office
1993-94 Expenditures (revised)	$1,792.6	$1,792.6
Cost increases for existing program		
Salary-related increase	$38.1	—
Faculty salary increase (2.5 percent on 7/1/94)	—	$22.7
Staff salary increase (2.5 percent on 7/1/94)	—	23.0
Merit salary increases (full year)	—	28.6
New space	—	9.6
Annuitant benefits	0.8	0.8
Price increase	6.4	10.0
Additional lease payments on revenue bonds	12.7	12.7
Subtotals	$58.0	($107.4)
Critical funding needs		
Deferred maintenance	—	$25.0
Library books and materials	—	5.0
Instructional equipment replacement	—	10.0
Subtotals	—	($40.0)
Fee and financial aid changes		
Undergraduate fee increase (10 percent)	—	-$40.7
Graduate student fee increase (varied)	—	-34.8
Increase in student financial aid	—	24.9
Subtotals	—	(-$50.6)
Non-General Fund resouces		
Redirected funds from teaching hospitals	—	-$40.0
Productivity increase		
Student-faculty ratio changes (results in long-term savings)	—	$6.2
1994-95 Expenditures (proposed)	$1,850.6	$1,855.6
Change from 1993-94		
Amount	$58.0	$63.0
Percent	3.2%	3.5%
Enrollment	Open	149,713

Faculty and Staff Salary Increases

We recommend expenditures of $45.7 million to provide a 2.5 percent salary increase for UC faculty and staff on July 1, 1994.

The Governor's Budget provides $38.1 million for unspecified salary-related purposes. The $38.1 million is sufficient to provide a 2.5 percent salary increase for General Fund supported faculty and staff on July 1, 1994 . Our recommended amount of $45.7 million is $7.6 million higher than the budget total of $38.1 million. Our figures are higher because we include in our base calculation all General Fund and student fee supported positions, while the calculation used as the basis for the budget includes only General Fund supported positions. The salary increase would apply to all employees, and therefore we believe the accurate figure is the one we identify.

In addition to expenditure of salary-related funds provided in the budget, the UC plans to restore a current-year across-the-board salary reduction of 3.5 percent on July 1, 1994, from a redirection within its own budget. The UC indicates that this salary restoration will be funded primarily from its latest early retirement program.

Faculty Salaries in Comparable Universities. The California Postsecondary Education Commission (CPEC) estimates that UC faculty salaries lag behind comparable universities in the current year by approximately 7.7 percent. The CPEC estimates that this lag will increase to 13 percent in 1994-95 in the absence of a faculty pay increase. The lag varies by academic rank, with UC assistant professors showing a current lag of 4.7 percent and a projected lag of 9.1 percent, while top-ranked professors, earning an average of $75,000, show a lag of 9.1 percent in the current year and 14 percent in 1994-95. Given the state's fiscal situation, we believe that the increase of 2.5 percent that we propose is reasonable. With this increase, the UC faculty salary lag will be reduced from the projected 13 percent to approximately 10 percent. The faculty salary lags reported by the CPEC already assume restoration of the 3.5 percent reduction in the current year.

Merit Salary Increases

We recommend an expenditure of $28.6 million to provide full-year merit salary increases for faculty and staff.

The Governor's Budget does not address the need for merit salary increases. We believe that merit increases are an essential component of employee compensation. A merit system is a key element in the retention and recruitment of faculty and staff.

Maintenance of New Space

We recommend an expenditure of $9.6 million to operate and maintain new space to be occupied in 1994-95.

We estimate that 1.5 million square feet of new space will be occupied in 1994-95 by programs eligible for state-funded operation and maintenance. The cost of operating and maintaining this space is $9.6 million. The Governor's Budget does not address the need for these funds. Lack of support for ongoing maintenance in the long run increases deferred maintenance. As shown later, the UC's current deferred maintenance backlog totals approximately $348 million.

Price Increase

We recommend an expenditure of $10 million for price increases in operating expenses and equipment.

Our recommended amount of $10 million is based on the same percentage increase as that proposed by the Governor—2 percent. Our recommended amount, however, is $3.6 million higher than the budget amount because we include in our base calculation all General Fund and student fee supported activities, while the calculation used as the basis for the budget includes only General Fund supported activities. The price increase will apply to all activities, and therefore we believe the accurate figure is the one we identify.

Deferred Maintenance

We recommend the expenditure of an additional $25 million to help reduce the estimated $142 million backlog of currently critical deferred maintenance projects.

The Governor's Budget does not propose any funding changes for deferred maintenance. In the current year, the budget includes approximately $10.5 million for deferred maintenance. In addition, the regents have set aside approximately $2 million from their share of federal overhead receipts for deferred maintenance.

In 1989-90 the UC's deferred maintenance backlog was approximately $265 million, of which $82 million was classified as “priority one.” By 1992-93 the backlog had increased to $348 million, an increase of 31 percent. The backlog of priority-one projects increased to $142 million, an increase of 73 percent. Priority-one projects are defined as those requiring “immediate action to return a facility to normal operation, stop accelerated deterioration, or correct a cited safety hazard.”

Figure 11 shows the deferred maintenance backlog by campus as of 1992-93.

Figure 11

University of California Deferred Maintenance Backlog 1992-93

(Dollars in Millions)

Campus	Priority Category[a] Priority One	Priority Two	Priority Three	Total
Berkeley	$46.5	$43.6	$30.4	$120.5
Davis	20.4	13.9	5.4	39.7
Irvine	1.4	3.8	3.4	8.6
Los Angeles	31.6	11.9	4.9	48.4
Riverside	9.4	10.2	4.9	24.5
San Diego	14.8	8.0	4.5	27.2
San Francisco	3.8	17.1	23.6	44.4
Santa Barbara	10.8	4.5	5.3	20.6
Santa Cruz	3.2	6.0	2.9	12.1
Agricultural field stations	0.3	1.1	0.2	1.7
Totals	**$142.3**	**$120.0**	**$85.5**	**$347.7**

[a] *Priority-one projects* require immediate action to return a facility to normal action. *Priority-two projects* are projects that will become critical within a year if not corrected expeditiously. *Priority-three projects* include conditions requiring reasonably prompt attention to preclude predictable deterioration or potential downtime and the associated damage or higher costs if deferred further.

We recommend an increase of $25 million as a first step in addressing the most critical deferred maintenance projects. The funds for this purpose would come from a redirection from teaching hospital excess gains (discussed later in this analysis).

Instructional Equipment Replacement

We recommend the expenditure of an additional $10 million for instructional equipment replacement (IER) to reduce the current shortfall.

The Governor's Budget does not propose any funding changes for IER. In the current year, the budget includes approximately $31 million for IER. This is one-half of the IER need as determined by the IER formula adopted by the Legislature in 1984. The accumulated shortfall since 1990-91 is $109 million, including the current shortfall of $31 million. We believe that state-of-art equipment is essential for instruction, especially in engineering and the sciences, because of rapid technological advances requiring expensive, high-demand equipment. An additional $10 million can be used to address the most critical areas.

The funds for this purpose would come from a redirection from teaching hospital excess gains (discussed later in this analysis).

Library Books and Materials

We recommend the expenditure of an additional $5 million for library books and materials.

The Governor's Budget does not propose any funding changes for library books and materials. In the current year, the budget includes approximately $53 million for library books and materials. The UC estimates that the current-year amount falls short of the amount needed by approximately $24 million. The addition of the $5 million we recommend would forestall this shortfall from increasing in 1994-95.

The funds for this purpose would come from a redirection from teaching hospital excess gains (discussed later in this analysis).

Undergraduate Student Fee Increase

We recommend that undergraduate student fees be increased by $345 (10 percent)—from $3,454 to $3,799.

The Governor's Budget does not propose a specific fee increase for 1994-95 but does indicate that the administration "stands ready to discuss fee increase proposals." Since the budget was introduced, the regents have approved an undergraduate fee increase of $620 (18 percent).

We recommend an increase in the mandatory undergraduate student fee of $345 (10 percent). This increase is consistent with the maximum allowed under current law, Ch 572/90 (SB 1645, Dills). We believe that this is a reasonable increase given the state's fiscal condition and the system's relative fee levels.

Figure 12 shows fees (including the mandatory fee and campus-based fees) in 1993-94 for undergraduates and graduates. It indicates that UC undergraduate fees are approximately $400 below the UC's four public comparison universities. Assuming that these universities increase their fees in 1994-95, UC undergraduate fees will continue to be well below charges at comparable universities.

Figure 12

University of California
Resident Student Fees and Tuition by Discipline
Relative to Comparison Universities
1993-94

	University of California (UC)				
	Mandatory Fee Level	Average Campus-Based Fee	Total	Comparison Universities[a]	Amount Above UC
Undergraduate	$3,454	$273	$3,727	$4,132	$405
General graduate	3,454	703	4,157	5,294	1,137
Medicine	3,830	705	4,535	9,881	5,346
Dentistry	3,454	509	3,963	8,875	4,912
Veterinary medicine	3,454	533	3,987	7,838	3,851
Law	3,830	595	4,425	7,728	3,303
Business	3,454	731	4,185	7,926	3,741

[a] The UC's four public comparison universities include the University of Illinois (Champaign-Urbana), the University of Michigan (Ann Arbor), the State University of New York (Buffalo), and the University of Virginia.

We estimate that gross revenues prior to financial aid offsets from a fee increase of this amount would be approximately $40.7 million.

Graduate Student Fees

We recommend that graduate student fees be increased by amounts ranging from $500 to $2,000 above the basic fee increase for undergraduates.

The Governor's Budget does not propose a specific fee increase for graduate students. We recommend that all graduate students pay the basic increase of $345 that we recommend for undergraduates, plus an additional $500. In addition, we recommend that currently enrolled graduate students in selected professional programs (medicine, dentistry, veterinary medicine, law, and business) be charged an additional $1,000 above the basic increase and new graduate students in these selected professional programs be charged an additional $2,000 above the basic increase of $345.

In 1990 the Legislature requested the UC to charge an additional amount above fees charged to all students for professional students in medicine and law. The UC has been charging these students an additional $376. We believe that our recommendation is consistent with the Legislature's previous action regarding the additional charges for medical and law students, and is sound for the following reasons:

- Graduate programs, as a rule, cost more per student than undergraduate programs, due to the specialized nature of the instruction and the typically low student-faculty ratios.
- A greater portion of the benefits from graduate education accrues to the individual directly, because specialized knowledge is more likely to translate into higher income than is the general knowledge acquired as an undergraduate.
- Low student charges at the graduate level create incentives for overinvestment in graduate education.

We also believe that the state's charges for graduate studies should not be so high as to disadvantage California in relationship to other states in competition to attract highly qualified students. To examine this issue, we reviewed graduate studies charges at comparable public universities. Figure 12 shows that UC charges for general graduate students are $1,100 below the average charge at the UC's four comparable public universities. The difference is much greater for selected professional programs that we target in our recommendation. For example, UC charges for students enrolled in medical degree programs are $5,300 below the average charge, while UC charges for business (MBA) students are $3,700 below the average charge at comparable universities. Thus, we believe that increases in the range we recommend should not adversely affect the UC's ability to attract highly qualified students.

Student Financial Aid

We recommend the expenditure of $24.9 million for additional student financial aid for needy students to offset our recommended fee increases.

This aid amount is equal to 33 percent of the total fee increase and should be sufficient to offset our recommended fee increase for needy students. Later in this analysis, we recommend that the Legislature set aside new funds within the Student Aid Commission budget to offset our recommended fee increase for Cal Grant award winners.

Teaching Hospitals Redirection

We recommend redirection of $40 million of teaching hospital net gains to fund campus-based programs.

Background. Last year we concluded that the UC teaching hospitals had net gains that exceeded the amounts needed for equipment and capital outlay purposes. We recommended that the UC reallocate teaching hospital net gains in excess of 4 percent of net operating revenues from the hospitals to the campuses, and dedicate the funds to pay off an anticipated operating budget loan that the UC was planning to incur. The Legislature adopted this recommendation through the *Supplemental Report of the 1993 Budget Act.* The action resulted in the UC using $43 million in excess hospital gains to avoid a private loan in the same amount to balance its 1992-93 budget.

The 4 percent figure was developed based on the amount needed by the teaching hospitals to meet their equipment and capital outlay needs. The figure was based on trends among the five teaching hospitals over the period 1986-87 through 1990-91.

At that time, the large gains at the hospitals were a new development. Our analysis showed that beginning in 1991-92, the teaching hospitals experienced higher-than-expected gains primarily attributable to the passage of Ch 279/91 (SB 855, Robbins), which provides supplemental Medi-Cal payments (effectively, all from federal funds) for inpatient hospital services provided by hospitals that serve a disproportionate share of Medi-Cal or other low-income patients. The UC's Davis, Irvine, and San Diego hospitals benefit from this statute. Figure 13 shows teaching hospital gains as a percent of net operating revenue for 1986-87 through 1993-94. It illustrates the positive impact Chapter 279 had on the three recipient hospitals.

Figure 13

University of California
Teaching Hospital Net Gain (Loss)
As a Percent of Net Operating Revenue
1986-87 Through 1993-94

	Davis	Irvine	San Diego	Los Angeles	San Francisco	Totals
1986-87	1.9%	0.6%	4.5%	5.4%	5.4%	3.9%
1987-88	2.4	1.9	1.1	8.3	3.8	4.1
1988-89	3.8	-0.2	3.8	7.6	5.1	4.6
1989-90	6.0	0.5	3.3	5.9	4.4	4.4
1990-91	6.9	3.1	3.0	3.2	3.4	3.9
Average	4.6%	1.2%	3.2%	5.9%	4.3%	4.2%
1991-92	10.8%	5.8%	7.1%	4.0%	7.7%	7.1%
1992-93	10.1	10.3	4.2	4.4	5.3	6.6
1993-94 (projected)	8.5	13.8	0.2	4.1	4.1	5.7

Revision to Estimate of Equipment and Capital Outlay Needs. Based on discussions during hearings last spring and further analysis this fall, we have revised upward—from 4 to 5 percent—our estimate of the amount needed to fund equipment and capital outlay. To develop our revised figure, we relied on the performance of the Los Angeles and San Francisco hospitals, because these two hospitals did not experience sudden swings in gains during this period and have fared reasonably well in meeting their equipment and construction needs.

Hospitals Continue to Generate Excess Gains. The 1991-92 net gain for all five teaching hospitals was $118 million (7.1 percent). The net gain for 1992-93 was $115 million (6.6 percent), and the projected net gain for 1993-94 is $102 million (5.7 percent). These exceed the 5 percent threshold amount needed for equipment and capital outlay purposes.

Because the gains exceed the amount needed, we recommend that the excess be redirected for campus purposes. Requiring the UC teaching hospitals to redirect gains exceeding 5 percent makes available approximately $28 million from gains experienced in 1992-93 and, based on current projections, would make an additional $12 million available at the close of the 1993-94 budget year. We recommend that this $40 million be reallocated to the campuses. The $40 million is a one-time reallocation that corresponds to our recommendations to spend $40 million in additional funds for deferred maintenance, instructional equipment replacement, and library book purchases.

Student-Faculty Ratio Change

We recommend the expenditure of $6.2 million related to changes in the UC's student-faculty ratio (SFR). Ultimately, this change will avoid future enrollment-related costs of approximately $55 million annually.

Traditionally, the UC has developed its budget based on a policy of providing an SFR of 17.6. However, due to recent faculty reductions related to budget reductions and early retirements, the UC projects its actual SFR will be 19.2 in 1994-95. To restore the SFR to 17.6, the UC would have to hire 666 faculty members at a cost of approximately $70 million, including related instructional costs.

We recommend that the UC's budgeted SFR be increased to 18.7 on a permanent basis. We furthermore recommend that the Legislature take action to add faculty in order to achieve this level by 1995-96. To accomplish this objective, we recommend (1) an expenditure of $6.2 million in 1994-95 to add 85 faculty positions and (2) an additional expenditure of $9 million in 1995-96 to add 120 faculty positions. Figure 14 shows our SFR proposal in detail.

Figure 14

University of California
Legislative Analyst's Proposal on Student-Faculty Ratio
1994-95 and 1995-96

	Enrollment Excluding Health Sciences	Faculty	Student-Faculty Ratio		Additional Faculty	Cost (in Millions)
			Budget Policy	Actual		
1994-95 (UC estimate)	137,481	7,175	17.6	19.2	—	—
1994-95 (proposed)	137,481	7,260	18.7	18.9	85	$6.2
1995-96 (proposed)	138,000	7,380	18.7	18.7	120	9.0

There is no single analytical approach to determine the appropriate SFR for the UC. The actual SFR in the current and preceding two years was between 18.6 and 18.7. Our recommendation to increase the SFR on a permanent basis from 17.6 to 18.7 is based on what we believe to be a reasonable increase in faculty productivity. In last year's *Analysis,* we cited several areas, including a reallocation of faculty time from other activities to teaching, improvement in course management, and expanded use of educational technology, that could lead to better use of faculty resources. According to data from the UC, an SFR of 18.7 would place the UC in the middle of the range of its comparable public universities.

Ultimately, this action would result in a savings of approximately $55 million annually.

Specify Enrollment Levels

We recommend that the Legislature specify an enrollment level for 1994-95 and adopt related Budget Bill and supplemental report language.

Prior to 1992-93, the relationship between the budget and enrollment was clearly defined. As enrollments changed, dollars were added or subtracted from the budget based upon agreed-upon cost formulas. In 1992-93, the relationship between the budget and enrollment disappeared. Faced with significant General Fund reductions and student fee increases of 40 percent and 20 percent for the UC and the California State University (CSU), respectively, the Governor and Legislature deleted Budget Bill language in the 1992 Budget Act that provided for funding adjustments in the event of fluctuations in enrollment.

The language deleted in 1992 had been included in the annual Budget Act since 1970. Its aim was, in part, to hold the segments accountable for maintaining enrollments as planned, thereby maintaining the integrity of the budget process. In its 1991 Budget Act form, the language provided that the UC and CSU budget would be adjusted upward in an amount not to exceed $6 million in the aggregate for both systems if undergraduate enrollments exceeded the budgeted level by 2 percent or more. If systemwide undergraduate enrollments were under the budgeted level by more than 2 percent, funds were to be taken away. In both cases, the Director of Finance was to verify the enrollments and provide a 30-day notice to the Legislature prior to any action being taken. Additional funding ultimately rested with the passage of a deficiency bill by the Legislature.

We recommend that the Legislature reestablish the relationship between the budget and enrollment by (1) establishing target enrollment levels for 1994-95 in supplemental report language and (2) readopting Budget Bill language from the 1991 Budget Act that would adjust the budgets if actual enrollments vary from this target by more than 2 percent. This would reestablish funding on the basis of the student-faculty ratios adopted by the Legislature. Our 1994-95 enrollment estimate is 149,719 students—the same as the UC's.

In addition, we recommend the adoption of the same supplemental report language as adopted last year directing the UC to (1) continue in the budget year to accept all applicants who are fully eligible under the Master Plan and (2) provide 30-day written notice to the Legislature (prior to implementation) if the UC decides not to accept all Master Plan eligible students for 1995-96. This language ensures legislative review prior to any change in Master Plan acceptance practices.

OTHER ISSUES

UC Medical Residents

We recommend the adoption of legislation requiring the UC to ensure specific increases in the number and percentage of medical residents enrolled in primary care and family practice specialties by 1998-99 and 2001-02.

The issue of appropriate balance between primary and nonprimary care residents and the number and support levels for family practice programs has been a long-time legislative concern. Since 1978-79 the Legislature (with concurrence from the UC administration) has directed the UC to reduce the number of nonprimary care residents while maintaining a specific number of family practice residents. The Legislature has also taken a variety of actions related to the allocation of medical resident funds among family practice programs. Although the Legislature and the UC administration have agreed to various plans to increase the number of primary care residents while reducing the number of nonprimary care residents, the changes have not been fully implemented on the individual campuses.

In 1992 the Legislature passed AB 3593 (Isenberg), which would have required the UC to ensure that, by 1995-96, 50 percent of UC medical residents are in primary care specialties and that 20 percent of all medical residents are in family practice. This bill specified a maximum penalty of $8 million annually if the UC failed to meet these provisions.

The Governor vetoed AB 3593, citing concerns about reallocations within primary care specialties, but requested that the UC prepare a plan that could be implemented beginning in 1993-94 to "significantly enhance the number of family practice residencies." The veto message concludes that if these efforts fall short of the goal of increasing the number of family practice residencies, the Governor would be willing to revisit the issue in legislation.

Assembly Member Isenberg introduced AB 1855 in March 1993, which would impose the same requirements as AB 3593, but with a target date of 1996-97 rather than 1995-96. This bill has passed the Assembly and, at the time this analysis was prepared (late January), was being considered in the Senate Education Committee.

UC's June 1993 Medical Resident Plan. In June 1993, the UC submitted a medical resident enrollment plan in response to the Governor's request. In August 1993, at the request of the Senate Education Committee, our office reviewed the plan and provided our comments and recommendations in a letter to the committee.

In our review, we found the UC's plan to be generally responsive to the Legislature's concerns, as expressed in AB 3593 and AB 1855. The plan provides that by 2001-02 the UC will enroll (1) 54 percent of the UC's medical residents (both state-supported and non-state-supported) in primary care programs and (2) 18 percent of all medical residents in family practice. Thus, in comparison to the goals set forth in AB 3593 and AB 1855, the UC's plan (1) provides a longer phase-in period, (2) sets a higher goal for the proportion of residents in primary care, and (3) sets a lower goal for the proportion of residents in family practice programs. The UC's plan provides that the redistribution of medical residents will be accomplished without additional state support for new medical residents.

Although we found the plan generally responsive, we identified problems in two areas and recommended that the Legislature request the UC to change the plan. The areas are (1) the plan for phasing in the proposed changes and (2) the methodology for estimating the number of residents.

- ***Phase-In Plan Unrealistic.*** The UC proposes to reduce nonprimary care residents by an average of around 9 per year during the first six years of the plan (through 1998-99) and an average of around 130 per year during the last three years. Given that it takes five to six years to complete a nonprimary care residency, this proposal to accelerate the reduction so dramatically in the last three years is unreasonable. More nonprimary care residents need to be reduced earlier if the UC intends to meet the goals. We recommend a reduction of 345 nonprimary care residents by 1998-99, an average of around 58 per year.

- ***Methodology for Counting Residents.*** The UC chose to exclude from its resident count all 170 state-supported residents at the Drew Medical School and 124 extended-year residents (residents enrolled to meet a UC campus requirement but enrolled beyond the minimum number of years required by the Accreditation Council on Graduate Medical Education). We found no compelling reason to exclude these students from the overall residency counts. The effect of excluding these trainees is to make it easier for the UC to meet the target goals for placement of students in primary care and family practice.

Because the UC has not implemented past agreements with regard to changes in medical resident enrollment, we also recommended that the Legislature adopt legislation to specify the goals outlined in the UC's June 1993 report, modified to reflect the two changes we suggested. We recommended that this bill language:

- Specify the following goals for medical resident enrollment for 1998-99: (1) not less than 16 percent in family practice, (2) not less than 50 percent in primary care, and (3) a total enrollment of no more than 4,544.
- Specify the following goals for medical resident enrollment for 2001-02: (1) not less than 18 percent in family practice, (2) not less than 54 percent in primary care, and (3) a total enrollment of no more than 4,492.●Provide that the UC meet these goals without seeking additional state support.
- Specify the methodology for counting residents.
- Specify that the UC provide annual progress reports and special reports on the actual practice field of its graduates in internal medicine and general pediatrics and the level of financial support provided for each family practice residency program.

Our August letter to the Senate Education Committee included suggested bill language with regard to each of our recommendations.

Governor's Action in October 1993. In October 1993, the Governor sent a letter to the UC indicating where he felt the UC plan could be strengthened. Most issues in the letter are the same ones we identified. For example, the Governor's letter cited as the most critical issue the timetable for achieving the planned increases in primary care residents and concurrent reductions in nonprimary care training. The Governor requested the UC to develop a memorandum of understanding between the UC and the administration that incorporates resolution of the identified issues by December 17, 1993.

At the time this analysis was prepared (January 1994), UC administrators and officials from the Office of Statewide Health Planning and Development (OSHPD) had met on several occasions. However, there is no memorandum of understanding nor any proposal from the administration or the UC to alter the UC plan in the critical areas cited in the administration's October letter.

Previous Recommendations Still Valid. We have not seen any new proposal from the Governor nor the UC based on discussions this fall. We continue to believe and recommend that the Legislature adopt legislation with the provisions we recommended in our August 1993 letter to the Senate Education Committee.

Federal Overhead Receipts

We withhold recommendation on the proposed allocation of federal overhead receipts pending further information.

The budget estimates that the UC will receive $257.6 million in federal overhead receipts in both 1993-94 and 1994-95. Based on current policy, $113.5 million of these receipts will be used to offset the UC's General Fund budget. This represents 55 percent of the total receipts after allowance for grant administration and related activities.

Background. The UC is the primary research university in the state. Its annual research program is approximately $1.5 billion in the current year, of which 73 percent ($1.1 billion) is federally funded. In recognition of the university's costs related to utilities, building amortization, grant administration, and certain indirect costs, the federal government pays the UC a negotiated "overhead allowance" on each grant. The percentage of overhead paid on each grant varies due to unique differences.

Prior to 1967, federal overhead receipts were not of significant magnitude, consequently, the university retained all overhead receipts. By 1967 the magnitude of overhead receipts began to grow dramatically, and the state sought to share the federal income. Sharing by the state was justified on the basis that state tax dollars paid for much of the UC's physical plant and personnel (especially faculty salaries); consequently, the state should share in the income derived from such an investment. On the other hand, the UC argued that it should continue to receive a major share of the income to pay its direct costs of grant administration and maintain its entrepreneurial incentive to acquire additional grants. A memorandum of understanding was negotiated in 1967 by the Department of Finance and approved by the Legislature that provided for the state and the UC to share overhead receipts on a 50/50 basis after allowance for administration and related activities. This memorandum was amended in 1979 to increase the state's share to 55 percent. The UC share provides the funding source for the Regents' Opportunity Fund.

Recommendation Last Year. Last year during budget conference committee hearings, we recommended as part of a package of changes affecting the UC that the state share of federal contract and grant overhead receipts be increased from 55 percent to 75 percent. We recommended that the $41 million freed up as a result of this recommendation be redirected to address critical funding needs at the UC. This recommendation was not adopted; the Legislature instead chose to provide an augmentation of $50 million to address these funding needs.

Our recommendation was based primarily on the state's legitimate claim to receive reimbursement for costs it had earlier incurred. For 1993-94, however, our recommendation was also based on the proposed use of Regents' Opportunity Fund monies. Figure 15 shows actual and estimated overhead receipts, and revenues to the Regents' Opportunity Fund, for selected years. It indicates that approximately two-thirds of the UC's portion of federal overhead receipts in 1993-94 was earmarked for research funding. We believed that a reallocation of overhead receipts to address other critical needs within the UC was justified, because the UC's overall research budget increased between 1990-91 and 1992-93 by 14 percent while the UC's General Fund budget decreased by 12 percent and student fees increased by 74 percent.

Figure 15

University of California Regents' Opportunity Fund Revenues and Expenditures Selected Years

(Dollars in Millions)

	1980-81	1985-86	1990-91	1992-93	1993-94 Budgeted	1993-94 Revised
Revenues						
Federal overhead receipts	$74.2	$132.8	$205.8	$233.2	$257.6	$235.9
Direct administrative costs	-14.8	-26.4	-40.9	-46.4	-51.3	-46.9
Available for allocation	$59.4	$106.4	$164.9	$186.8	$206.3	$189.0
State share (55 percent)	-32.7	-58.5	-90.7	-102.7	-113.5	-103.9
Regents' Opportunity Fund (45 percent)	$26.7	$47.9	$74.2	$84.1	$92.8	$85.1
Expenditures						
Research						
Operating	$6.9	$11.4	$14.2	$15.0	NA	NA
Capital outlay	—	7.7	22.3	25.2	NA	NA
Subtotals	($6.9)	($19.1)	($36.5)	($40.2)	($66.3)	NA
Instruction	7.0	10.6	11.2	13.9	11.4	NA
Institutional support	8.1	16.1	19.5	18.4	13.2	NA
Student and faculty affirmative action	0.1	2.9	2.9	5.7	2.5	NA
Deferred maintenance	2.0	2.3	1.7	2.9	2.0	NA
Others	5.8	0.8	—	—	—	NA
Provision for cost increase	—	—	—	—	—	NA
Totals	**$29.9**	**$51.8**	**$71.8**	**$81.1**	**$95.4**	**NA**

The Current Situation. We continue to believe that it would be reasonable to increase the state's share of federal overhead receipts on a permanent or temporary basis, and to use these funds to address critical problems on the campuses. At this time, however, the amount available for reallocation is not certain. The UC reports that overhead receipts may be down in the current and budget years. As shown in Figure 15, the UC projects that overhead receipts for 1993-94 will be about $22 million below the 1993 Budget Act estimate. If the 1993-94 amount is down, it is likely that the 1994-95 estimate will also be too high.

Under current budget practice, the state share is scheduled as a General Fund offset in the UC budget. Consequently, the UC, not the state, is at risk if it experiences a shortfall in overhead receipts. Thus, the UC will have to reduce or reallocate its budget to maintain the budgeted offset of $113.5 million for 1993-94 and 1994-95.

We are continuing to monitor the UC's 1993-94 federal overhead receipts and anticipate having a firmer estimate and a recommendation during budget hearings.

Department of Energy Management Fee

We withhold recommendation on the proposed allocation of the Department of Energy (DOE) management fee, pending additional information.

The UC manages three DOE laboratories, two in California at Livermore and Berkeley, and one in Los Alamos, New Mexico. The combined federal budget for the three laboratories is $2.5 billion in the current year. The federal government pays the UC a management fee for oversight of the laboratories. This management fee is divided on the same basis as federal overhead receipts based on the same legislatively approved 1979 memorandum mentioned in the previous section. The state share is 55 percent, and the UC retains 45 percent after allowances for administrative expenses.

The regents' 1994-95 budget indicates that the UC has altered the sharing arrangement based on its renegotiated agreement with the DOE. Figure 16 shows that while the management fee increased from $13 million to $30 million, between 1991-92 and 1993-94, the state share did not increase. While Figure 16 shows this change starting to take effect in 1992-93, the proposal was not presented to the Legislature last year because the UC was still in negotiations with the DOE.

We have brought this matter to the UC's attention and pointed out the fact that the UC cannot change the 1979 agreement unilaterally. The agreement is between the state and the UC, not between the state and the DOE. At the time this analysis was written (January 1994), we were awaiting a response from the UC. We withhold recommendation pending this response.

Chapter 776 Progress Report

As mentioned earlier, Ch 776/93 (SB 506, Hayden) expressed the Legislature's intent that courses required for normal progress to a baccalaureate degree be provided in sufficient numbers at the UC. Chapter 776 requires the Legislative Analyst to review and analyze the annual reports the UC submits on reallocation of faculty workload. After considerable discussion with the UC on its 1993 report, we suggested several changes to the upcoming 1994 report to improve its usefulness. Among these were (1) using student credit hours as a more equitable measure of faculty workload, (2) providing separate counts of undergraduate and graduate course offerings, (3) improving the accuracy of faculty counts, and (4) providing data on how the campuses evaluate the need for additional courses to allow students to make better progress to degree. The UC's 1994 faculty workload report is due to the Legislature by February 1, 1994. We will comment on it during budget hearings.

Figure 16

University of California
Distribution of Department of Energy Management Fee
1990-91 Through 1994-95

(Dollars in Millions)

	1990-91	1991-92	1992-93	1993-94	1994-95
Management fee	$12.7	$13.0	$25.8	$30.0	$30.0
Direct administrative costs	-2.5	-2.6	-4.5	-5.0	-5.0
Available for allocation	$10.2	$10.4	$21.3	$25.0	$25.0
State share					
Amount	$5.6	$5.7	$5.7	$5.7	$5.7
Percent	55.0%	55.0%	26.8%	22.8%	22.8%
Regents' share					
Amount	$4.6	$4.7	$15.6	$19.3	$19.3
Percent	45.0%	45.0%	73.2%	77.2%	77.2%

CALIFORNIA STATE UNIVERSITY (6610)

The California State University (CSU) includes 20 campuses. The budget proposes General Fund expenditures of $1.5 billion. This is an increase of $58 million, or 3.9 percent, from estimated current-year expenditures. The General Fund increases are proposed for salary adjustments, additional payments on lease-purchase revenue bonds, and price increases. The budget does not propose an enrollment level nor does it propose a specific student fee increase. The budget does indicate that the administration "stands ready to discuss fee increase proposals."

ALTERNATIVE BUDGET PROPOSAL

We recommend that the Legislature take a variety of actions in line with the principles we identify.

As indicated in an earlier section, we developed budget proposals for the University of California (UC), the CSU, the Student Aid Commission, and the California Community Colleges. Figure 6 shows the goals we used in development of the proposals. Figure 17 shows our proposal for the CSU in detail, compared to the Governor's proposal. As the figure shows, our recommendations result in a net increase of $5 million above the level proposed by the Governor. This additional $5 million would be redirected from a $20 million increase proposed by the Governor for the Student Aid Commission. In sections below, we discuss individual recommendations for each item where our proposed funding level differs from the Governor's funding level.

Faculty and Staff Salary Increases

We recommend expenditures of $38.4 million to provide a 2.5 percent salary increase for CSU faculty and staff on July 1, 1994.

The Governor's Budget provides $38.4 million for unspecified salary-related purposes. The $38.4 million is sufficient to provide a 2.5 percent salary increase for General Fund supported faculty and staff on July 1, 1994.

Current-Year Salary Increases Contrary to Legislative Intent. In the current year, the Legislature provided $17 million each to the UC and the CSU from the General Fund for the estimated full-year costs of

Figure 17

California State University
Proposed 1994-95 General Fund Budget Changes
Governor's Budget and Legislative Analyst's Office

(Dollars in Millions)

	Governor's Budget	Legislative Analyst's Office
1993-94 Expenditures (revised)	$1,488.5	$1,488.5
Cost increases for existing program		
Salary-related increase	$38.4	—
Faculty salary increase (2.5 percent on 7/1/94)	—	$22.7
Staff salary increase (2.5 percent on 7/1/94)	—	15.7
Merit salary increases (full year)	—	19.1
New space	—	3.0
Price increase	5.2	5.2
Additional lease payments on revenue bonds	23.3	23.3
Elimination of one-time expenditures	-9.3	-9.3
Subtotals	($57.6)	($79.7)
Critical funding needs		
Deferred maintenance	—	$5.0
Library books and materials	—	1.0
Instructional equipment replacement	—	5.0
Subtotals	—	($11.0)
Fee and financial aid changes		
Undergraduate fee increase (10 percent)	—	-$47.0
Graduate student fee increase	—	-7.4
Increase in student financial aid	—	18.1
Subtotals	—	(-$36.3)
Non-General Fund resources		
Redirected funds from continuing education	—	-$5.0
Enrollment increase		
Add 4,000 students	—	$13.2
1994-95 Expenditures (proposed)	$1,546.1	$1,551.1
Change from 1993-94		
Amount	$57.6	$62.6
Percent	3.9%	4.2%
Enrollment	Open	251,500

merit salary adjustments (MSAs). For the CSU, the Legislature also adopted language in the *Supplemental Report of the 1993 Budget Act* stating legislative intent that the CSU negotiate MSAs for faculty and encouraging such negotiations for staff as well. The Legislature also adopted Budget Bill language requiring 30 days' notice to the fiscal committees and the Joint Legislative Budget Committee if the CSU used General Fund monies for employee compensation (including MSAs). The language further required the CSU to report on a proposed funding source if any additional funds would be required in 1994-95 to continue compensation increases. The Governor vetoed the Budget Bill language.

The UC used its funds for full-year MSAs. Contrary to legislative direction, the CSU did not. Specifically, the CSU used the funds for partial-year MSAs and across-the-board 3 percent salary increases. The MSAs are funded beginning in March or April 1994 (depending on the bargaining unit involved), and the salary increases take effect in April 1994. The CSU indicates that it will need $46 million in 1994-95 to cover the full-year costs of the MSAs and salary increases granted in the current year, or $8 million more than the amount proposed in the 1994-95 budget for salary-related purposes.

Recommendation. We recommend expenditures of $38.4 million to provide funds equivalent to a 2.5 percent salary increase for CSU faculty and staff on July 1, 1994. This is consistent with our recommendation for the UC. As a practical matter, due to its current-year actions, the CSU has already committed all of these funds plus an additional $8 million to annualize the increases granted in the current year. We have requested the CSU to identify how it plans to fund the additional $8 million cost in the absence of an augmentation. If the Legislature wishes to maintain salary and MSA equity between the UC and the CSU, it should deny any augmentation request or student fee increase to fill this gap created by the CSU.

Faculty Salaries in Comparable Universities. Prior to the agreements to provide 3 percent faculty salary increases and MSAs, the California Postsecondary Education Commission (CPEC) estimated that CSU faculty salaries would lag behind comparable universities by 12 percent in 1994-95 in the absence of a faculty pay raise. With the 3 percent current-year increase and MSAs, the CPEC estimates that the lag will be reduced to 6.8 percent.

Merit Salary Increases

We recommend an expenditure of $19.1 million to provide full-year merit salary increases for faculty and staff.

The Governor's Budget does not address the need for merit salary increases. We believe that merit increases are an essential component of employee compensation. A merit system is a key element in the retention and recruitment of faculty and staff.

Accordingly, we recommend an expenditure of $19.1 million to provide full-year merit salary increases for faculty and staff.

The CSU might argue that it could use a portion of these funds to fill the $8 million gap we discussed above. Because the current-year salary increase was contrary to legislative intent and in order to treat the UC and the CSU consistently on salary increase issues, however, we recommend that the Legislature direct the CSU to use the $19.1 million for MSAs, not for any other purpose. Specifically, we recommend that the following supplemental report language be adopted in Item 6610-001-001:

> It is the intent of the Legislature that $19.1 million be used to provide 1994-95 full-year merit salary adjustments.

Maintenance of New Space

We recommend an expenditure of $3 million to operate and maintain new space to be occupied in 1994-95.

The CSU estimates that 470,000 square feet of new space will be occupied in 1994-95 by programs eligible for state-funded operation and maintenance. The cost of operating and maintaining this space is $3 million. The Governor's Budget does not address the need for these funds. Lack of support for ongoing maintenance in the long run increases deferred maintenance. As shown below, the CSU's current deferred maintenance backlog totals approximately $327 million.

Deferred Maintenance

We recommend the expenditure of an additional $5 million to help reduce the estimated $35 million backlog of critical deferred maintenance projects.

The Governor's Budget proposes $3.2 million (General Fund) for deferred maintenance, the same as the current-year amount. In addition, the trustees have set aside $2 million in 1993-94 for deferred maintenance from other funds.

For 1993-94 the CSU's deferred maintenance backlog is approximately $327 million. The backlog of priority-one projects is $35 million. Priority-one projects are generally defined as those requiring “immediate action to return a facility to normal operation, stop accelerated deterioration, or correct a cited safety hazard.”

Figure 18 shows the deferred maintenance backlog by campus as of 1993-94.

Figure 18

California State University Deferred Maintenance Backlog 1993-94[a]

(Dollars in Millions)

	Priority Category[b]		
Campus	**Priority One**	**Priorities Two and Three**	**Total**
Bakersfield	$0.3	$9.6	$10.0
Chico	1.8	17.0	18.8
Dominguez Hills	2.2	4.6	6.8
Fresno	1.1	16.4	17.5
Fullerton	1.4	13.8	15.1
Hayward	1.2	9.1	10.4
Humboldt	3.1	7.5	10.6
Long Beach	3.7	20.4	24.1
Los Angeles	1.2	16.4	17.6
Northridge	2.9	17.2	20.1
Pomona	2.4	15.7	18.1
Sacramento	1.7	15.7	17.4
San Bernardino	0.5	8.9	9.5
San Diego	4.0	30.6	34.6
San Francisco	1.0	22.8	23.8
San Jose	1.5	35.0	36.4
San Luis Obispo	3.6	20.4	24.0
San Marcos	—	—	—
Sonoma	0.4	6.8	7.2
Stanislaus	1.0	3.7	4.8
Totals	**$35.1**	**$291.7**	**$326.8**

[a] Detail may not add to totals due to rounding.

[b] *Priority-one projects* require immediate action to return a facility to normal action. *Priority-two projects* are projects that will become critical within a year if not corrected expeditiously. *Priority-three projects* include conditions requiring reasonable prompt attention to preclude predictable deterioration or potential downtime and the associated damage or higher costs if deferred further.

We recommend this funding increase as a first step in addressing the most critical deferred maintenance projects. The proposed increase would address roughly the same proportion of priority-one projects as we address for the UC.

Instructional Equipment Replacement

We recommend the expenditure of an additional $5 million for instructional equipment replacement (IER) to reduce the current shortfall.

The Governor's Budget does not propose any funding changes for IER. In the current year, the CSU estimates it will spend $4.8 million for IER. This is roughly one-sixth of the IER need as determined by the IER formula adopted by the Legislature in 1984. The accumulated shortfall since 1990-91 is $98 million including the current shortfall of $26 million. We believe that state-of-art equipment is essential for instruction, especially in engineering and the sciences, because of rapid technological advances requiring expensive, high-demand equipment. An additional $5 million can be used to address the most critical areas. (Later, we recommend that this amount be funded from a redirection of continuing education funds.)

Library Books and Materials

We recommend the expenditure of an additional $1 million for library books and materials.

The Governor's Budget does not propose any funding changes for library books and materials. In the current year, the budget includes approximately $21 million for library books and materials. The CSU estimates that the current-year amount falls short of the amount needed by approximately $9 million. The addition of the $1 million we recommend would address a portion of the shortfall.

Undergraduate Student Fee Increase

We recommend that undergraduate student fees be increased by $144 (10 percent)—from $1,440 to $1,584.

The Governor's Budget does not propose a specific fee increase but does indicate that the administration "stands ready to discuss fee increase proposals." The CSU Trustees have approved an undergraduate fee increase of $342 (24 percent). We recommend an increase in the mandatory undergraduate student fee of $144 (10 percent). This increase is the same as the percentage increase we propose for UC undergraduate fees. We believe that this is a reasonable increase given the state's fiscal condition and the relative level of CSU fees. CSU undergraduate fees (including the mandatory fee and campus-based fees) in 1993-94 are approximately $1,160 below the CSU's 15 public comparison universities. Assuming that these universities increase their fees in 1994-95, CSU undergraduate fees will continue to be well below charges at comparable universities.

We estimate that gross revenues prior to financial aid offsets from a fee increase of this amount would be approximately $40.7 million. (Later, we recommend that enrollments be increased; thus, the total fee revenues at the recommend enrollment level are $47 million.)

CSU Document Incorrectly Cites State Fee Policy. In its budget request to the Department of Finance, the CSU states that 1994-95 will be the "second year of a planned four-year phase-in" of a policy adopted by the trustees in March 1993 that calls for fee revenues to support one-third of the cost of education at the CSU. The CSU's budget document further states that its fee policy "has been developed to replace the current policy which was established in 1985 (by Ch 1523/85 [SB 195, Maddy]) and modified in August 1990 (by Ch 572/90 [SB 1645, Dills])." We raise this issue to clarify that, while the trustees may have adopted a policy that ties fee increases to a percentage of the cost of education, the Legislature has not. In its deliberations on the 1993 Budget Act, the Legislature rejected the CSU's proposal to raise fees by 37 percent (the amount needed in the first year of the phase-in), and instead enacted a 10 percent fee increase.

Graduate Student Fees

We recommend that graduate student fees be increased by an additional $250 above the basic fee increase for undergraduates.

The Governor's Budget does not propose a specific fee increase for graduate students. We recommend that all graduate students pay the basic increase of $144 proposed for undergraduates, plus an additional $250.

The basis for our recommendation is:

- Graduate programs, as a rule, cost more per student than undergraduate programs, due to the specialized nature of the instruction and the typically low student-faculty ratios.
- A greater portion of the benefits from graduate education accrues to the individual directly, because specialized knowledge is more likely to translate into higher income than is the general knowledge acquired as an undergraduate.
- Low student charges at the graduate level create incentives for over-investment in graduate education.

We also believe that the state's charges for graduate studies should not be so high as to disadvantage California in relationship to other states in competition to attract highly qualified students. This is unlikely to be an issue at the CSU since graduate fees at the CSU are at least $1,160 below graduate fees at the CSU's 15 public comparison institutions. (The CPEC plans to provide updated graduate fee gap estimates by the time of budget hearings.)

Student Financial Aid

We recommend the expenditure of $18.1 million for additional student financial aid for needy students to offset our recommended fee increases.

This aid amount is equal to 33 percent of the total fee increase for our recommended enrollment level and should be sufficient to offset our recommended fee increase for needy students. Later in this analysis, we recommend that the Legislature set aside new funds within the Student Aid Commission budget to offset our recommended fee increase for Cal Grant award winners.

Use Continuing Education Funds For Instructional Equipment

We recommend that $5 million in continuing education funds be used for instructional equipment replacement for the benefit of both continuing education and regular students.

The budget provides $82.9 million from the Continuing Education Revenue Fund (CERF) in 1994-95 for continuing education, which includes a variety of self-supporting instructional activities such as extension and summer classes, and concurrent enrollments. This amount is $8.2 million (11 percent) more than estimated current-year expenditures. (The difference from current-year expenditures reflects the most recent information available and does not tie to the Governor's Budget.)

According to the CSU, the proposed 1994-95 continuing education budget reflects the level of revenues that are projected to be available. A detailed expenditure plan will not be available until spring 1994.

In the current year, an estimated 21,394 students are enrolled in continuing education. A similar enrollment level is anticipated for 1994-95.

Current law and CSU policy provide that the CERF, which is supported by fees from students attending continuing education classes, shall be used for the support and development of self-supporting instructional programs. Thus, for example, they cannot be redirected to support education generally at the CSU. However, the funds may be used to support projects that will benefit both continuing education and other students as long as the "benefits to continuing education . . . (are) commensurate with the level of CERF expenditures."

This is an important consideration because in the current year, about 17 percent of the continuing education students are enrolled in regular classes on a space-available basis. An additional 49 percent are enrolled in summer session classes, which meet in regular classrooms. Thus, at least two-thirds of the continuing education students use the same classrooms and instructional equipment as regular students. To date, however, the CERF has made only minor contributions towards purchasing equipment for use in regular classrooms.

We recommend that $5 million in available CERF funds be used for this purpose. We believe it would be possible to spend these funds in ways that meet the "benefits commensurate with expenditures" test described above. For example, the funds could be used to replace computers and related equipment that serve both continuing education and other students. This would leave almost $78 million for the remaining costs of providing continuing education programs. The $78 million would allow continuing education expenditures in 1994-95 to increase at roughly the 4 percent rate that we propose for the CSU budget generally.

Enrollments at the CSU

We recommend that the Legislature direct the CSU to increase its enrollment by 4,000 students in 1994-95.

The CSU estimates that it will serve roughly 247,500 students in the current year. The budget contains no enrollment proposal for 1994-95.

Current-year enrollments are roughly 30,000 students below the number served in 1990-91. This decline occurred during a period of little change in the population groups that typically attend the CSU. For example, the number of high school graduates and persons aged 18 to 35 (the major age group enrolled at the CSU) have shown only slight increases between 1990-91 and 1993-94. Thus, the vast majority of the change is due to changes in "participation rates," that is, the proportions of (1) eligible students who enroll and (2) existing students who continue their education at the CSU.

The decline in participation rates is probably due to a number of factors, including course section reductions (and their impact on students being able to graduate in a timely manner) and other enrollment management techniques implemented by the CSU, fee increases, and declines in the economy generally. It also appears that the timing of some decisions was a factor. For example, this past spring the CSU called for a 37 percent fee increase. Although the actual fee increase enacted in June was 10 percent, it is likely that some students made their enrollment decisions before the actual fee increase was known.

The CSU believes it can increase participation rates if funding is provided for additional students by undertaking significant outreach efforts. Based on the higher participation rates that occurred through 1990-91, and constraints due to the "pipeline" of existing students (for example, senior enrollments can only be increased significantly after freshmen and transfer enrollments are increased), we believe an increase in the number of full-time-equivalent (FTE) students in the range of 4,000 to 10,000 is reasonable.

We recommend that the CSU be directed to enroll an additional 4,000 FTE students for a total enrollment of 251,500. While this is at the low end of the range we identified, it is the level that can be accommodated within the funding parameters we outlined earlier in this section. We propose $13.2 million to add 204 faculty positions to serve these students.

Specify Enrollment Levels

We recommend that the Legislature specify an enrollment level for 1994-95 and adopt related Budget Bill and supplemental report language.

Prior to 1992-93, the relationship between the budget and enrollment was clearly defined. As enrollments changed, dollars were added or subtracted from the budget based upon agreed-upon cost formulas. In 1992-93, the relationship between the budget and enrollment disappeared. Faced with significant General Fund reductions and student fee increases of 40 percent and 20 percent for the UC and the CSU, respectively, the Governor and Legislature deleted Budget Bill language in the 1992 Budget Act that provided for funding adjustments in the event of fluctuations in enrollment.

The language deleted in 1992 had been included in the annual Budget Act since 1970. Its aim was, in part, to hold the segments accountable for maintaining enrollments as planned, thereby maintaining the integrity of the budget process. In its 1991 Budget Act form, the language provided that the UC and CSU budget would be adjusted upward in an amount not to exceed $6 million in the aggregate for both systems if undergraduate enrollments exceeded the budgeted level by 2 percent or more. If systemwide undergraduate enrollments were under the budgeted level by more than 2 percent, funds were to be taken away. In both cases, the Director of Finance was to verify the enrollments and provide a 30-day notice to the Legislature prior to any action being taken. Additional funding ultimately rested with the passage of a deficiency bill by the Legislature.

We recommend that the Legislature reestablish the relationship between the budget and enrollment by (1) establishing target enrollment levels for 1994-95 in supplemental report language and (2) readopting

Budget Bill language from the 1991 budget that would adjust the budgets if actual enrollments vary from this target by more than 2 percent. Our proposed 1994-95 enrollment level for the CSU is 251,500 students, an increase of 4,000 over 1993-94.

We will provide the budget committees our suggested Budget Bill and supplemental report language prior to hearings on these issues.

OTHER ISSUES

CSU Proposal to Establish a New Campus at Fort Ord

The CSU proposal to establish a new campus at Fort Ord in Monterey County raises significant fiscal and policy issues.

The CSU plans to establish the system's twenty-first campus on the grounds of Fort Ord in Monterey County. The CSU is expected to receive title to about 1,300 acres of the former army base from the federal government this spring, and plans to begin serving about 2,000 students (1,000 full-time-equivalent students) in fall 1995.

The CSU trustees have requested $15 million in 1994-95 for related planning purposes. The budget proposes no funds for this purpose.

The proposed establishment of the new campus raises significant fiscal and policy issues for the Legislature. Please see our analysis of the CSU's higher education capital outlay program for a detailed discussion of these issues.

Operating Funds Should Not Be Used for Capital Outlay

We recommend that, consistent with legislative action on the 1993 Budget Act, the Legislature eliminate proposed Budget Bill language that would allow the CSU to use operating funds for noncritical capital outlay purposes.

The proposed Budget Bill contains language that would allow the CSU to use operating funds for noncritical capital outlay purposes. Specifically, the language exempts the CSU from Control Section 6.00. This control section prohibits state agencies from using more than $20,000 in support funds for capital outlay purposes, except for projects costing up to $250,000 that the Department of Finance (DOF) deems critical. In such cases, the DOF is required to report to the Joint Legislative Budget Committee 30 days prior to bid requests stating the factors that “make the project so critical that it must proceed using support funds.”

Last year, the Legislature rejected an identical proposal.

We see no reason why operating budget funds should be used for capital outlay unless the DOF determines the project is critical. We also note that the UC and all other state agencies are subject to Control Section 6.00, and we see no reason why the CSU should be treated in a different manner. Accordingly, we recommend that the Legislature again reject the proposed exemption.

Employer Contributions for Health Benefits

We recommend that the Legislature delete proposed Budget Bill language in the CSU support budget related to employer contributions for health benefits as a technical matter and consider this issue instead elsewhere in the budget.

The proposed Budget Bill contains new language exempting the CSU from Control Section 4.00, which specifies the state's contributions towards health benefit premiums for active and retired employees. According to staff at the Department of Finance, the language was added to provide the CSU additional flexibility in its collective bargaining process.

We concur that the CSU should have some additional flexibility in the bargaining process, but we believe that this flexibility should be provided through modifications to Control Section 4.00 rather than through a complete exemption from the section. Thus, as a technical matter, we recommend that the proposed Budget Bill language in Item 6610-001-001 be deleted. Please see our analysis of Control Section 4.00 for our recommendations regarding additional CSU flexibility.

CSU Retirement-Related Savings

We recommend that the Legislature reduce General Fund support of CSU retirement contributions by $700,000 to conform various retirement-related benefits to those of other state agencies. (Reduce Item 6610-001-001 by $700,000.)

In our analysis of the Public Employees' Retirement System (PERS), we identify three areas where CSU benefits differ from those provided to other state employees (active and retired): (1) retirement benefits for newly hired employees, (2) health benefits for retired employees eligible for Medicare, and (3) the necessary period of state service to become vested for post-retirement health care paid by the state. The different treatment provided to the CSU in these areas imposes added costs on the state and is not justified on an analytical basis. To conform to our PERS recommendations, we recommend that the Legislature reduce General Fund support for CSU by $700,000 in 1994-95. (Please see our analysis of PERS issues for a detailed discussion of CSU retirement-related issues.)

Course Sections Needed for Progress to Degree

The CSU estimates that about 1,000 fewer courses were taught in fall 1993 than in fall 1992.

The *Supplemental Report of the 1993 Budget Act* contains language stating legislative intent that the number of course sections needed by CSU students for normal progress to degree not be reduced in 1993-94 compared to 1992-93 due to budget constraints. The language further states that the number of course sections can be reduced if the reduction is (1) the result of greater efficiency in course offerings, (2) in areas not needed by students for normal progress to degree, or (3) the result of programmatic changes being implemented over time by the campuses. Finally, the language requires (1) the CSU to report to the legislative fiscal committees and the Joint Legislative Budget Committee by December 15, 1993 on the number of course offerings in the fall 1993 compared to fall 1992 and (2) the Legislative Analyst to review the CSU report in the analysis of the 1994-95 budget.

At the time this analysis was prepared (late January), the CSU had not formally submitted the required report to the Legislature. The CSU has, however, provided us the information informally. The fall 1993 information is still subject to some changes as data are verified.

Figure 19 shows the course section information provided by the CSU. As the figure indicates, about 1,000 fewer course sections were taught in fall 1993 compared to fall 1992. Based on historical patterns, it is likely that the full-year drop in course sections will be somewhat less than 2,000.

Figure 19

California State University Numbers of Course Sections Fall 1992 and Fall 1993

	Fall 1992	Estimated Fall 1993	Change From 1992 Amount	Change From 1992 Percent
Bakersfield	788	672	-116	-14.7%
Chico	2,945	2,807	-138	-4.7
Dominguez Hills[a]	2,120	1,981	-139	-6.6
Fresno	3,180	2,880	-300	-9.4
Fullerton	2,760	2,614	-146	-5.3
Hayward	1,493	1,568	75	5.0
Humboldt	1,877	1,817	-60	-3.2
Long Beach	3,913	3,645	-268	-6.8
Los Angeles	2,253	2,058	-195	-8.7
Northridge	3,420	3,658	238	7.0
Pomona	2,604	2,463	-141	-5.4
Sacramento	3,501	3,482	-19	-0.5
San Bernardino	1,460	1,386	-74	-5.1
San Diego	3,518	3,782	264	7.5
San Francisco	3,551	3,514	-37	-1.0
San Jose	4,231	4,159	-72	-1.7
San Luis Obispo	2,922	3,037	115	3.9
San Marcos	261	342	8	31.0
Sonoma	1,350	1,164	-186	-13.8
Stanislaus	905	996	91	10.1
Totals	**49,052**	**48,025**	**-1,027**	**-2.1%**

[a] Includes statewide nursing program.

Six campuses increased the number of course sections taught, while 14 campuses reduced the number taught. It is not clear why the number of course sections offered increased at five of the six campuses. (The sixth campus, San Marcos, is a new and expanding campus.) Anecdotal evidence suggests, however, that at least some of the campuses made focused efforts to increase the number of course sections available.

The CSU indicates that decreases in course sections were due for the most part "to budget shortfalls and can be attributed to greater efficiency in course offerings (fewer small classes) and to programmatic, i.e., curricular, changes." The CSU notes, however, that "no formal surveys as to specific reasons for the campus estimates of course sections were completed." Thus, the CSU information does not indicate whether some of the courses eliminated were needed for progress to degree.

Even if the Legislature had detailed information on which course sections were deleted, and why, it would be difficult to determine whether the reductions are affecting students' progress to degree. This is because data on course sections do not directly measure how long it takes students to obtain their degrees and what barriers they encounter.

In the future, we believe the Legislature needs information on outcome measures as a way of holding the higher education segments accountable. Elsewhere in this analysis, we recommend that the Legislature begin to focus on specific outcome measures, including the number of students who want to graduate in four years who are actually able to do so.

CALIFORNIA COMMUNITY COLLEGES (6870)

The California Community Colleges (CCC) provide instruction to approximately 1.4 million adults at 107 colleges operated by 71 locally governed districts throughout the state. The system offers academic and occupational programs at the lower-division (freshman and sophomore) level, basic skills education, and citizenship instruction.

The proposed 1994-95 CCC budget is $2.9 billion. Of this amount, $1.2 billion is from the General Fund, $1.3 billion is from local property tax revenues, and the remaining support is from student fees and a variety of other sources.

ALTERNATIVE BUDGET PROPOSAL

We recommend that the Legislature take a variety of actions in line with principles we identify.

As indicated earlier in this section, we developed budget proposals for the University of California (UC), the California State University (CSU), the Student Aid Commission, and the CCC. Figure 6 shows the goals we used in development of the proposal. Figure 20 shows our proposal for the CCC in detail, compared to the Governor's proposal. As the figure shows, our recommendations result in a net reduction of $20 million below the level proposed by the Governor. These funds would be available for other General Fund priorities. The funds could be used for Proposition 98 or non-Proposition 98 programs, because the budgeted level of spending for Proposition 98 programs exceeds the minimum funding level established by the State Constitution.

In sections below, we discuss individual recommendations for each item where our proposal differs from the Governor.

Capture an Additional $34 Million in Declining Enrollment Savings

We recommend that the Legislature reduce General Fund apportionments by $34 million because community college enrollments are declining significantly.

Figure 20

Community Colleges Local Assistance Proposed 1994-95 Budget Changes

(Dollars in Millions)

	Governor's Budget		Legislative Analyst	
	General Fund (Proposition 98)	All Funds[a]	General Fund (Proposition 98)	All Funds[a]
1993-94 Expenditures (revised)	$878.0	$2,662.2	$878.0	$2,662.2
Cost increases for existing programs				
Replace loan funding	$178.0	—	$178.0	—
Property tax shift and increase	87.3	—	87.3	—
Replace one-time funds	41.3	—	41.3	—
Backfill current-year property tax shortfall	40.8	40.8	40.8	$40.8
Increase base level of financial aid	23.3	—	23.3	—
Additional lease payments on revenue bonds	9.8	9.8	9.8	9.8
Other changes	1.9	2.2	1.9	2.2
Subtotals	($382.3)	($52.8)	($382.3)	($52.8)
Critical funding needs				
Deferred maintenance	—	—	$5.0	$5.0
Instructional equipment replacement	—	—	5.0	5.0
Subtotals	—	—	($10.0)	($10.0)
Fee and financial aid changes				
Increase fees to $20 per credit unit	-$124.6	—	—	—
Increase fees to $15 per credit unit	—	—	-$35.8	—
Financial aid and administration	71.6	$4.7	19.3	$1.2
Other changes	—	13.4	—	13.4
Subtotals	(-$53.0)	($18.1)	(-$16.5)	($14.6)
Enrollment changes				
Statutory growth	$32.2	$32.2	$32.2	$32.2
Recapture funds not allocated for growth	-21.1	-21.1	-41.1	-41.1
Recapture declining enrollment savings	-15.2	-15.2	-49.6	-49.6
Subtotals	(-$4.1)	(-$4.1)	(-$58.6)	(-$58.6)
Augment and expand programs				
Technology infrastructure development	$10.0	$10.0	—	—
Investments in innovation	2.0	2.0	—	—
Other programs	2.1	2.1	2.1	2.1
Subtotals	($14.1)	($14.1)	($2.1)	($2.1)
1994-95 Expenditures (proposed)	$1,217.2	$2,743.0	$1,197.3	$2,683.2
Change from 1993-94				
Amount	$339.2	80.8	319.3	20.9
Percent	38.6%	3.0%	36.4%	0.8%
State-funded full-time equivalent students		880,240		868,463

[a] Includes Proposition 98 and non-Proposition 98 General Fund, loans, property taxes, and student fees.

The budget proposes a General Fund decrease of $15.2 million related to enrollment declines. Under current law, the state is allowed to reduce the community college budget to reflect the impact of enrollment declines. For enrollment declines in 1992-93 related to sharp increases in fees imposed on BA degree holders in January 1993, the law provides for a "grace period" in 1993-94, and then allows for the full amount of the decline to be recaptured evenly over a three-year period beginning in 1994-95. The law allows the state to recapture funding associated with other types of enrollment declines in 1992-93 and all types of declines in other years evenly over a three-year period, with no "grace period."

Enrollment Declines. As Figure 4 in our overview of higher education shows, actual full-time-equivalent student (FTES) enrollments at the community colleges have declined from 952,654 in 1991-92 to an estimated 887,905 in 1993-94. This represents a decrease of 64,749 FTES, or 6.8 percent. The 64,749 FTES reduction includes a 15,181 FTES reduction in BA holders in 1992-93. The remaining 49,568 reduction comes from non-BA holders in 1992-93 and from all students in 1993-94. The figure also shows that state-funded enrollments have stayed relatively steady over this time period, despite the reduction in workload. This is primarily because the state has not made funding reductions commensurate with the reductions in enrollment. In 1992-93 no funding reductions were made because it was the first year of the declines. In 1993-94 the Legislature did not implement the declining enrollment adjustment authorized in current law. This issue was not raised until late in the budget process.

Community colleges have had actual enrollments that exceed funded enrollments for a number of years. They accommodate these "overcap" students by either obtaining supplementary funding sources or managing their resources in a way that allows them to serve more students with available funding, for example, by increasing class sizes.

Budget Proposal. The budget proposal would "recapture" $15.2 million in apportionment funding associated with the 1992-93 reduction in BA-holder enrollment, consistent with the timetable in current law. The budget does not propose to recapture funding associated with enrollment declines among non-BA holders in 1992-93 or among any students in 1993-94.

Funding Should Be Reduced. We believe that community colleges funding should be reduced to account for the full workload reduction they have experienced—not just the workload reduction associated with BA holders in 1992-93. Current law provides for a phased approach in implementing any declining enrollment adjustments, in order that the colleges may have time to adjust their operations to lower funding levels. We believe these provisions are more than sufficient to mitigate the adverse effects of funding reductions. By comparison, the state recaptures all declining enrollment savings in K-12 school districts in the year after the declines occur.

Accordingly, we recommend that the Legislature recapture funding related to non-BA holder enrollment in 1992-93 and for all students in 1993-94, for an additional General Fund savings of $34.4 million. Our estimate is based on reducing funding proportionately to reductions in workload (excluding fully fee-supported workload) over a three-year period, as provided in current law.

As discussed in a later section, the funds freed up as a result of this recommendation are almost sufficient to offset the $37 million cost for reducing the proposed fee increase at the community colleges from $7 to $2.

Allocation of Reductions. The Chancellor's Office indicates that current law does not specify how apportionment reductions related to enrollment declines are to be allocated among districts. The declines could be allocated (1) across all districts in proportion to their total enrollments, (2) to districts with enrollment declines based on district-specific enrollments, or (3) based on some combination of the two methods.

We believe that allocating reductions across all districts would unfairly penalize districts that have experienced little or no declines. Accordingly, we recommend that the Legislature adopt Budget Bill language specifying that the apportionment reductions shall be based on district-specific FTES declines. We will provide appropriate language at the time of hearings.

Deferred Maintenance

We recommend the expenditure of an additional $5 million to help address an estimated $200 million backlog in deferred maintenance.

The Governor's Budget proposes $8.7 million for deferred maintenance, the same funding level as provided in the current year. The community colleges have an estimated deferred maintenance backlog of $200 million.

We recommend the expenditure of an additional $5 million as a first step in reducing the backlog. Existing Budget Bill language provides that the funds shall be subject to a local community college matching requirement and that the highest-priority projects shall be funded first.

Instructional Equipment Replacement

We recommend the expenditure of an additional $5 million for instructional equipment replacement (IER).

The Governor's Budget does not contain funds for IER. The Budget Act last included a separate allocation for this purpose in 1990. The community colleges estimate an annual funding need of $42 million.

Based on our site visits it is clear that IER funds are needed to ensure that the colleges have up-to-date equipment. For example, we observed job training courses using equipment that no longer actually exists in the work place. The additional $5 million could be used to address the most critical funding needs. Consistent with language in the 1990 Budget Act, we recommend the enactment of Budget Bill language requiring a 25 percent local funding match. This language would have the effect of ensuring increased funds for this purpose.

Student Fee Increase

We recommend that student fees be increased from $13 per credit unit to $15 per credit unit, rather than to $20 per credit unit as proposed in the budget.

The Governor's Budget proposes to increase student fees from $13 per credit unit to $20 per credit unit. Over the past two years, the Legislature has acted to minimize student fee increases at the community colleges.

In the long run, it may be reasonable to significantly increase community college fees. Currently, California community college fees are the lowest in the nation. In fact, fewer than five states have fee levels in the current year that are at or below the proposed $20 per credit unit fee level. (Please see our *Analysis of the 1993-94 Budget Bill* for a detailed discussion of community college fee issues.)

However, given the impact of recent fee increases and legislative concerns that fee increases be gradual and predictable, we believe the increase proposed in the Governor's Budget is too high. Accordingly, we recommend a fee increase of $2 per credit unit for 1994-95. We believe this is a reasonable increase given the state's fiscal condition and the relative level of CCC fees.

Savings Underestimated by $20 Million

We recommend that the Legislature reduce funding for apportionments by $20 million, to reflect the actual level of savings available.

The budget proposes to reduce apportionments funding by $21 million because the CCC did not use these funds for their intended purpose in the current year—to fund increased enrollments based on adult population growth.

The 1993 Budget Act included a total of $41 million for growth. Instead of using these funds for growth, the CCC used them primarily to backfill a $40 million property tax shortfall. The budget proposal reduces $21 million of these funds.

The budget provides a $40 million General Fund increase to backfill the property tax shortfall in 1994-95. Thus, we see no reason why the remaining $20 million should stay in the budget. Accordingly, to reflect the actual level of savings available, we recommend that funding for apportionments be reduced by $20 million.

Legislature Needs Better Information on Expected 1994-95 Enrollment Changes

We recommend that by April 15, the CCC, the Department of Finance (DOF), and the California Postsecondary Education Commission (CPEC) jointly report on projected 1994-95 community college enrollment levels.

The budget provides $32.2 million for enrollment growth based on projected 1994-95 adult population growth of 1.32 percent. However, the community colleges have recently released a report projecting enrollment declines of 3 percent in 1994-95.

The Legislature needs to know how community college enrollments are projected to change in 1994-95 in order to determine whether growth funding is needed. Accordingly, we recommend that, prior to April 15, the CCC, the DOF, and the CPEC jointly report at budget hearings on the anticipated 1994-95 enrollment changes. We may modify our growth funding recommendation depending on this report. (We note that both the CCC and the DOF concur that significant enrollment declines have already occurred; thus, this recommendation does not affect our recommendations related to declining enrollment.)

Proposals May Have Merit But Need Time to Develop

We recommend that the Legislature delete $12 million from the General Fund for technology infrastructure development and an innovation fund, because the proposals are premature.

The budget proposes to provide $12 million for two new purposes: (1) $10 million for technology infrastructure development and (2) $2 million for a new fund to be used for investments in innovation. We discuss these proposals below.

Technology Infrastructure Development ($10 Million). In the current year, the community colleges have received $200,000 in planning funds from the federal Department of Commerce to prepare a strategic plan to develop a network that "facilitates voice, video, data, and image transmission." The plan, to be submitted to the CCC Board of Governors in March 1995, will cover various technology issues, such as distance learning and student and faculty information access.

We believe the proposed funding increase is premature because the plan will not be completed until March 1995. Thus, the Legislature will not know what it is "buying" until that time. Also, the funds cannot be allocated until after the plan is complete because the Board of Governors needs to review it before determining expenditure priorities for the funds. Furthermore, we believe the CPEC should review the CCC plan before allocation of the funds to ensure coordination with the other higher education segments. To allow sufficient time for this review and without regard to the merits of the proposal, we recommend that the proposed $10 million from the General Fund be deleted.

Investments in Innovation ($2 Million). In 1991 the CCC Board of Governors established a Commission on Innovation, composed primarily of business leaders and higher education experts, to explore how the community colleges could accommodate student growth and help students "obtain the higher levels of knowledge and skills they will need . . . in the 21st Century." In October 1993, the commission released its final report, which makes numerous recommendations about a wide variety of areas including student assessments, transfers, economic development, instructional practices, and technological infrastructure.

One of the commission's major recommendations is to create a permanent, system-level fund to "provide the essential seed money for colleges to revamp their instruction and curriculum, provide better student services, and improve college efficiency and productivity." The budget document states that the $2 million proposed augmentation "will allow the Chancellor to begin to build an incentive program for expanding innovation efforts statewide."

The Budget Bill contains language specifying that expenditure of the funds is contingent on enactment of legislation that establishes the purposes and procedures to be used in allocating the funds. Several major policy issues need to be considered before an innovation fund is created. The issues include whether other existing funds should be combined within the innovation fund and which of the Commission's recommendations should be implemented first. We believe these issues should be considered in separate legislation and, without regard to the merits of the proposal, recommend that the Legislature delete the proposed $2 million in the budget.

Specify Enrollment Levels

We recommend that the Legislature specify a state-funded enrollment level for 1994-95 and adopt related supplemental report language.

In the current year, the community colleges have allocated funds based on an estimated 874,034 state-funded FTES.

In previous years, the Legislature has approved the community college budget based on its support of certain enrollment levels. Over the past two years, however, the relationship between the funded enrollment levels assumed by the Legislature and the funded enrollment levels used by the CCC for allocation purposes has disappeared. The levels used by the CCC have been significantly lower than levels assumed by the Legislature. For example, in the current year, the Legislature provided funds for enrollment growth of approximately 14,000 FTES compared to 1992-93. The CCC did not allocate these funds for enrollment. Instead, they were used primarily to backfill property tax shortfalls.

We believe that the Legislature should hold the community colleges accountable for the level of state-funded enrollment that it specifies. Recognizing that the community colleges funding level may change in mid-year due to changes in local property tax and student fee revenues, we recommend that the Legislature specify the enrollment level target in supplemental report language and require the community colleges to report on the reasons for any changes in FTES and funding per FTES that occur during the budget year.

Our proposed 1994-95 state-funded enrollment level is 868,463, a decrease of 5,571 compared to estimated state-funded enrollments in the current year. This figure is the current-year funded enrollment plus 11,398 FTES associated with providing growth funds and a reduction of 16,969 associated with our recommended level of declining enrollment reductions.

We will provide the budget committees suggested supplemental report language prior to hearings on community college enrollments.

OTHER ISSUES

Impact of Fee Increases on Enrollment

The CCC Chancellor's Office issued a report titled *1993 Report on Fee Impact* in December 1993, which analyzes spring 1993 enrollment data.

According to the fee impact study, enrollment declines have occurred primarily because of fee increases in 1992-93 and 1993-94 and course section reductions in 1993-94. Other factors, such as population increases, have mitigated the declines.

Fee Increases. The 1992 and 1993 Budget Acts and related legislation funded community colleges in part by raising student fees. In January 1993, the regular fee increased from $6 to $10 per credit unit and the fee for BA degree holders increased from $6 to $50 per credit unit. An existing ten-unit cap on fees was also removed at that time (previously students only had to pay for the first ten units of credit per semester). In fall 1993, the regular fee was increased from $10 per credit unit to $13 per credit unit. In our discussion below, we focus on the impact of the regular fee increases. (Please see our *Analysis of the 1993-94 Budget Bill* for a discussion of the impact of the BA degree fee.)

The CCC fee impact study finds that, among a sample of students without BA degrees who enrolled in fall 1992, only one-third cited fees as a major reason why they did not return in spring 1993. Another one-third had completed their work or transferred.

Enrollment declines among non-BA degree holders were significant for:

- Full-time students whose enrollment costs increased due to the elimination of the ten-unit cap.
- Students over age 20 who are more likely to be financially independent of their parents and have lower incomes. The study finds that enrollment declines for those under age 20 are lower because these younger students tend to view the community colleges as a less expensive alternative to the UC and the CSU.
- Continuing students who were accustomed to the previously lower fees.

The report also finds that, for non-BA degree holders, enrollments decreased somewhat more among Hispanic and African-American students than among white and Asian-American students, "consistent with the lower incomes (less ability to pay) of minority students generally found in other studies."

Factors Mitigating the Declines. The study estimates that the enrollment decreases would have been higher based on historical trends except for the following offsetting factors:

- Financial aid, which offsets the fee increases for about 25 percent of non-BA degree holders. (The study indicates, however, that additional students most likely qualify for financial aid. The proposed 1994-95 budget provides an additional $23 million for this purpose related to the current $13 per credit unit fee.)
- Increases in the population generally.
- Increases in the number of unemployed persons, who traditionally enroll for job training.

Reductions in Course Sections. The fee impact study notes that the number of course sections is estimated to decline by roughly 4,000 sections in 1993-94. The *Supplemental Report of the 1993 Budget Act* contains language requiring the CCC Chancellor's Office to provide more detailed information on course section reductions in 1993-94 to the Legislature by December 15, 1993. The language also requires the Legislative Analyst to review the report in the analysis of the 1994-95 budget.

The Chancellor's Office anticipates that it will complete the required report this spring. We will report to the Legislature on the report's findings, as appropriate.

The Legislature Needs Specific Budget Information

We recommend that the Legislature adopt supplemental report language requiring the community colleges to provide specific funding and enrollment information needed to evaluate the annual budget.

Over the past two years, the community colleges apportionments process has grown significantly more complex. This is due to a number of factors, including the adjustments for property tax and student fee revenue shortfalls, various enrollment changes, and new fee and financial aid laws. The result has been that the Legislature cannot readily determine answers to certain basic questions, such as the following:

- What enrollment level is state-funded in the current year? How does this compare with prior years?

- How has funding per FTES from all Proposition 98 related sources changed? How has funding per FTES from general-purpose apportionments funds changed?
- At a given apportionments funding level, how many students will be served?
- If funding levels decline after the budget is enacted, what will be the impact on enrollments? Conversely, if enrollments decline, what will be the impact on the amount of funds needed?

The Legislature needs the above information in order to make informed decisions about the community colleges budget. The information would be useful to the Department of Finance as well as it develops the budget proposal. Accordingly, we recommend that the Legislature adopt supplemental report language requiring the CCC Chancellor's Office to report on these issues annually, beginning November 1, 1994. We will provide recommended supplemental report language at the time of budget hearings.

STUDENT AID COMMISSION (7980)

The Student Aid Commission (SAC) provides financial aid to students through a variety of grant, loan, and work-study programs. The proposed 1994-95 SAC budget is $597 million, which represents a $25 million (4.4 percent) increase compared to estimated current-year expenditures. The commission receives about two-thirds of its funding from federal funds. Most of the remaining funding is from the General Fund, of which the vast majority is for the Cal Grants Program.

The SAC Budget Should Be Considered Within the Overall Higher Education Context

We recommend that $10 million of the proposed $20 million General Fund unallocated increase for the SAC be used for specific Cal Grants increases and that the remaining $10 million be redirected to the UC and the CSU to maintain the state's investment in those segments.

The budget provides $224 million from the General Fund to the SAC for local assistance. This represents a $23 million, or 12 percent, increase compared to estimated current-year expenditures.

Of the increased amount, $3 million is necessary to fund changes in the mix of Cal Grant students. The remaining $20 million is for an unallocated increase in the Cal Grant Program. An unknown portion of this $20 million would be needed to offset fee increases imposed on Cal Grant recipients who attend the UC and the CSU. As indicated earlier, the budget does not propose specific fee increases at either segment. At the time this analysis was prepared, the SAC had submitted proposed spending alternatives for the $20 million augmentation that generally provide for increases in the Cal Grant award amounts and in the numbers of awards provided.

We recommend approval of the $3 million proposed to fund changes in the mix of Cal Grant students. We also recommend approval of $10 million of the proposed $20 million augmentation because these funds are needed to offset the effect of specific fee increases we recommend at the UC and the CSU. (We recommend a fee increase of 10 percent for undergraduates. Please see our analysis of the UC and the CSU.)

We recommend that the remaining $10 million in augmentation funds proposed in the SAC budget be transferred to the UC and the CSU. While there is clearly a high unmet demand for student financial aid, we believe the state also needs to maintain its investment in the UC and the CSU by funding specified enrollment levels and meeting critical needs such as in the areas of deferred maintenance and instructional equipment.

Potential General Fund Deficiency in 1993-94

The SAC estimates a potential General Fund deficiency in 1993-94 of up to $9 million associated with the Cal Grants Program.

Every year, the SAC makes Cal Grant commitments in amounts exceeding the funding that is actually available. This is based on past experience that not all students will use the full amount of their awards. In the current year, however, it appears that "retention" rates among Cal Grant recipients are higher than usual, thereby creating a General Fund deficiency in the Cal Grants Program.

The Legislature's main alternatives for addressing the deficiency are to provide funding for it, reduce the current-year award amounts proportionately, or do some combination of the two. To prevent an ongoing funding problem beginning in 1994-95, the Legislature could reduce the number of new awards provided and/or direct the SAC to reduce some or all the award amounts.

The actual deficiency level will be determined by updated student retention data, which will be available in the spring. We will report to the Legislature, as appropriate, once the information becomes available.

Administrative Budget and Workload Increasing Significantly

Over the past two years, the SAC's administrative costs have increased by $7.5 million, or 27 percent, due primarily to increases in guaranteed student loans, changes in federal laws, and implementation of the automated Financial Aid Processing System (FAPS).

The SAC is the state guarantee agency for the Guaranteed Student Loan Program, which provides federally backed low-interest loans to postsecondary education students. The commission's responsibilities include monitoring lending institutions to assure that they comply with federal policies and providing services necessary to collect outstanding loans. These administrative activities are financed by the Guaranteed Loan Reserve Fund (also called the Loan Fund). The Loan Fund is supported by (1) insurance premiums paid by students receiving guaranteed student loans, (2) administrative cost allowances provided by the federal government, and (3) investment earnings. State law prohibits the use of General Fund monies for Loan Fund activities.

From 1992-93 through 1994-95, the SAC's administrative budget has increased from $27.8 million to $35.3 million. This is a $7.5 million, or 27 percent, increase. Roughly 90 percent of these amounts are from the Guaranteed Loan Reserve Fund and 10 percent are from the General Fund. During this same time period, the number of personnel-years (PYs) at the SAC has grown from 304.9 to 393.8, which represents an increase of 88.9 PYs, or 29 percent.

These increases reflect three major changes:

- ***Increases in Guaranteed Student Loans.*** In 1994-95 the SAC projects that it will guarantee about $1.7 billion in Stafford and Plus/SLS loans (two types of federal student loans). In 1992-93 the SAC guaranteed $1.2 billion in loans. This represents an increase of $452 million, or 38 percent. The increase in the dollar value represents a rough proxy for the increase in workload. Comparison data on a better workload measure—the number of guaranteed loans—were not available at the time of this analysis (late January).

- ***New Federal Requirements.*** New federal laws require the SAC to (1) negotiate "lender of last resort" agreements with lenders for students who cannot obtain loans through local lenders, (2) provide more opportunities for student borrowers to appeal their default status and get fiscal relief if their schools close, (3) provide guarantees for a new loan program, and (4) collect and distribute various additional data to the federal government, students, credit bureaus, lenders, and schools.

- ***FAPS Implementation.*** The FAPS was not originally designed to handle the major increases in financial aid transactions that have recently occurred or the numerous changes enacted by recent federal legislation. Workload throughout the SAC has been increased due to the need to update the FAPS, verify data as they are transferred from manual or other automated systems, and correct various implementation "bugs."

Long-Term Fiscal Situation Uncertain. The recently enacted federal laws have affected the SAC's revenues as well as its workload. Specifically, the new laws (1) reduce revenues from loan insurance premiums and (2) authorize the federal Department of Education (USDE) to reduce or eliminate administrative cost allowances.

The USDE has not yet provided the detailed information necessary for the SAC to complete long-term revenue projections. However, the SAC has drafted best- and worst-case scenarios using the information currently available. Under the best-case scenario, the loan fund is likely to remain solvent and annual administrative expenditures will be covered by revenues. Under its worst-case scenario, the USDE uses its discretionary authority to eliminate administrative cost allowances. Under this assumption, the loan fund is likely to remain solvent, but by 1997-98 annual administrative expenditures will exceed annual revenues by at least 10 percent.

Conclusion. The SAC's workload has significantly increased and changed recently. Because many of the changes were required by the federal government, the Legislature has had little control over them. Given the importance of the federal government to much of the SAC's operations and future uncertainties about funding from the loan fund, the Legislature may wish to revisit the commission's mission. As we discuss in the next section, additional information will be available this spring to assist the Legislature in its consideration of the SAC's activities.

Draft Reports Raise Significant Automation and Management Issues

We recommend that the SAC report at budget hearings on how it plans to address significant concerns raised by independent reports on the Financial Aid Processing System (FAPS) and on the SAC management structure.

Two draft reports by independent consultants were discussed at the January 27 SAC meeting—an MGT report on SAC management and a Deloitte Touche report on the FAPS system. The MGT management report provided information on the many changes that have occurred recently at the SAC (which we discussed above) and suggested that the SAC might be able to adjust more quickly to changes in federal financial aid programs if it were not a state agency. Both the MGT study and a separate Deloitte Touche report raised numerous serious concerns about FAPS. These include issues of poor system design, the use of inaccurate data, and communications problems between the SAC, schools, and lenders. The MGT report finds that the SAC "must address and fix shortcomings of FAPS as soon as possible in order to restore the confidence of its staff and customers in the agency's short-term and long-term capability to provide excellent services."

The final reports on these issues will be available this spring. We recommend that the SAC report at budget hearings on how it plans to address the reports' findings.

Ongoing SAC Appeal of $49 Million Federal Audit Finding

We recommend that the SAC provide an update at budget hearings on its appeal of a major federal audit.

In summer 1993, the USDE concluded that the SAC owed $49 million from the loan fund to the federal government related to various audit exceptions. Specifically, the USDE found that the SAC did not provide sufficient oversight over some loan claims and did not process claims and pay lenders for defaulted loans in a timely manner.

At the time of this analysis, the SAC was appealing the USDE's findings. Most importantly, the SAC claims that much of the $49 million figure is based on projections from inadequately small and statistically invalid samples. We recommend that the SAC report at budget hearings on the progress of its appeal.

LIST OF FINDINGS AND RECOMMENDATIONS

		Analysis Page
8.	**Price Increase.** Recommend an expenditure of $10 million for price increases in operating expenses and equipment.	F-28
9.	**Deferred Maintenance.** Recommend the expenditure of an additional $25 million to help reduce the estimated $142 million backlog of currently critical deferred maintenance projects.	F-28
10.	**Instructional Equipment Replacement (IER).** Recommend the expenditure of an additional $10 million for IER to reduce the current shortfall.	F-29
11.	**Library Books and Materials.** Recommend the expenditure of an additional $5 million for library books and materials.	F-30
12.	**Undergraduate Student Fee Increase.** Recommend that undergraduate student fees be increased by $345 (10 percent)—from $3,454 to $3,799.	F-30
13.	**Graduate Student Fees.** Recommend that graduate student fees be increased by amounts ranging from $500 to $2,000 above the basic fee increase for undergraduates.	F-31
14.	**Student Financial Aid.** Recommend the expenditure of $24.9 million for additional student financial aid for needy students to offset our recommended fee increases.	F-32
15.	**Teaching Hospitals Redirection.** Recommend redirection of $40 million of teaching hospital net gains to fund campus-based programs.	F-32
16.	**Student-Faculty Ratio Change.** Recommend the expenditure of $6.2 million related to changes in the UC's student-faculty ratio (SFR). Ultimately, this change will avoid future enrollment-related costs of approximately $55 million annually.	F-34
17.	**Specify Enrollment Levels.** Recommend that the Legislature specify an enrollment level for 1994-95 and adopt related Budget Bill and supplemental report language.	F-35
18.	**UC Medical Residents.** Recommend the adoption of legislation requiring the UC to ensure specific increases in	F-36

	Analysis Page
the number and percentage of medical residents enrolled in primary care and family practice specialties by 1998-99 and 2001-02.	
19. **Federal Overhead Receipts.** Withhold recommendation on the proposed allocation of federal overhead receipts pending further information.	F-39
20. **Department of Energy Management Fee.** Withhold recommendation on the proposed allocation of the Department of Energy (DOE) management fee, pending additional information.	F-42

California State University

21. **Alternative Budget Proposal. Augment Item 6610-001-001 by $5 Million.** Recommend that the Legislature take a variety of actions (numbers 22 through 33) in line with the principles we identify.	F-44
22. **Faculty and Staff Salary Increases.** Recommend expenditures of $38.4 million to provide a 2.5 percent salary increase for CSU faculty and staff on July 1, 1994.	F-44
23. **Merit Salary Increases.** Recommend an expenditure of $19.1 million to provide full-year merit salary increases for faculty and staff.	F-46
24. **Maintenance of New Space.** Recommend an expenditure of $3 million to operate and maintain new space to be occupied in 1994-95.	F-47
25. **Deferred Maintenance.** Recommend the expenditure of an additional $5 million to help reduce the estimated $35 million backlog of critical deferred maintenance projects.	F-47
26. **Instructional Equipment Replacement (IER).** Recommend the expenditure of an additional $5 million for IER to reduce the current shortfall.	F-49
27. **Library Books and Materials.** Recommend the expenditure of an additional $1 million for library books and materials.	F-49

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28.	**Undergraduate Student Fee Increase.** Recommend that undergraduate student fees be increased by $144 (10 percent)—from $1,440 to $1,584.	F-49
29.	**Graduate Student Fees.** Recommend that graduate student fees be increased by an additional $250 above the basic fee increase for undergraduates.	F-50
30.	**Student Financial Aid.** Recommend the expenditure of $18.1 million for additional student financial aid for needy students to offset our recommended fee increases.	F-51
31.	**Use Continuing Education Funds for IER.** Recommend that $5 million in continuing education funds be used for IER for the benefit of both continuing education and regular students.	F-51
32.	**Enrollments at the CSU.** Recommend that the Legislature direct the CSU to increase its enrollment by 4,000 students in 1994-95.	F-52
33.	**Specify Enrollment Levels.** Recommend that the Legislature specify an enrollment level for 1994-95 and adopt related Budget Bill and supplemental report language.	F-53
34.	**CSU Proposal to Establish a New Campus at Fort Ord.** The CSU proposal to establish a new campus at Fort Ord in Monterey County raises significant fiscal and policy issues.	F-54
35.	**Operating Funds Should Not Be Used for Capital Outlay.** Recommend that, consistent with legislative action on the 1993 Budget Act, the Legislature eliminate	F-54

	Analysis Page
proposed Budget Bill language that would allow the CSU to use operating funds for noncritical capital outlay purposes.	
36. **Employer Contributions for Health Benefits.** Recommend that the Legislature delete proposed Budget Bill language in the CSU support budget related to employer contributions for health benefits as a technical matter and consider this issue instead elsewhere in the budget.	F-55
37. **CSU Retirement-Related Savings. Reduce Item 6610-001-001 by $700,000.** Recommend that the Legislature reduce General Fund support of CSU retirement contributions by $700,000 to conform various retirement-related benefits to those of other state agencies.	F-56
38. **Course Sections Needed for Progress to Degree.** The CSU estimates that about 1,000 fewer courses were taught in fall 1993 than in fall 1992.	F-56

California Community Colleges

39. **Alternative Budget Proposal. Reduce Item 6870-101-001 by $19.9 Million.** Recommend that the Legislature take a variety of actions (numbers 40 through 47 below) in line with principles we identify.	F-59
40. **Capture an Additional $34 Million in Declining Enrollment Savings.** Recommend that the Legislature reduce General Fund apportionments by $34 million because community college enrollments are declining significantly.	F-59
41. **Deferred Maintenance.** Recommend the expenditure of an additional $5 million to help address an estimated $200 million backlog in deferred maintenance.	F-62
42. **Instructional Equipment Replacement.** Recommend the expenditure of an additional $5 million for instructional equipment replacement.	F-63

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43. **Student Fee Increase.** Recommend that student fees be increased from $13 per credit unit to $15 per credit unit, rather than to $20 per credit unit as proposed in the budget.	F-63
44. **Savings Underestimated by $20 Million.** Recommend that the Legislature reduce funding for apportionments by $20 million, to reflect the actual level of savings available.	F-64
45. **Legislature Needs Better Information on Expected 1994-95 Enrollment Changes.** Recommend that by April 15, the CCC, the Department of Finance, and the California Postsecondary Education Commission jointly report on projected 1994-95 community college enrollment levels.	F-64
46. **Proposals May Have Merit But Need Time to Develop.** Recommend that the Legislature delete $12 million from the General Fund for technology infrastructure development and an innovation fund, because the proposals are premature.	F-65
47. **Specify Enrollment Levels.** Recommend that the Legislature specify a state-funded enrollment level for 1994-95 and adopt related supplemental report language.	F-66
48. **The Legislature Needs Specific Budget Information.** Recommend that the Legislature adopt supplemental report language requiring the community colleges to provide specific funding and enrollment information needed to evaluate the annual budget.	F-68

Student Aid Commission

49. **Student Aid Commission Budget.** Recommend that $10 million of the proposed $20 million General Fund unallocated increase for the SAC be used for specific Cal Grants increases and that the remaining $10 million be redirected to the UC and the CSU to maintain the state's investment in those segments.	F-70
50. **Potential General Fund Deficiency.** The SAC estimates a potential 1993-94 General Fund deficiency of up to $9 million associated with the Cal Grants Program.	F-71

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51. **Administrative Budget and Workload.** Over the past two years, the SAC's administrative costs have increased by $7.5 million, or 27 percent, due primarily to increases in guaranteed student loans, changes in federal laws, and implementation of the automated Financial Aid Processing System (FAPS).	F-71
52. **Automation and Management Issues.** Recommend that the SAC report at budget hearings on how it plans to address significant concerns raised by independent reports on the Financial Aid Processing System (FAPS) and on the SAC management structure.	F-73
53. **Ongoing SAC Appeal of $49 Million Federal Audit Finding.** Recommend that the SAC provide an update at budget hearings on its appeal of a major federal audit.	F-74