

# Higher Education Budget and Policy Update



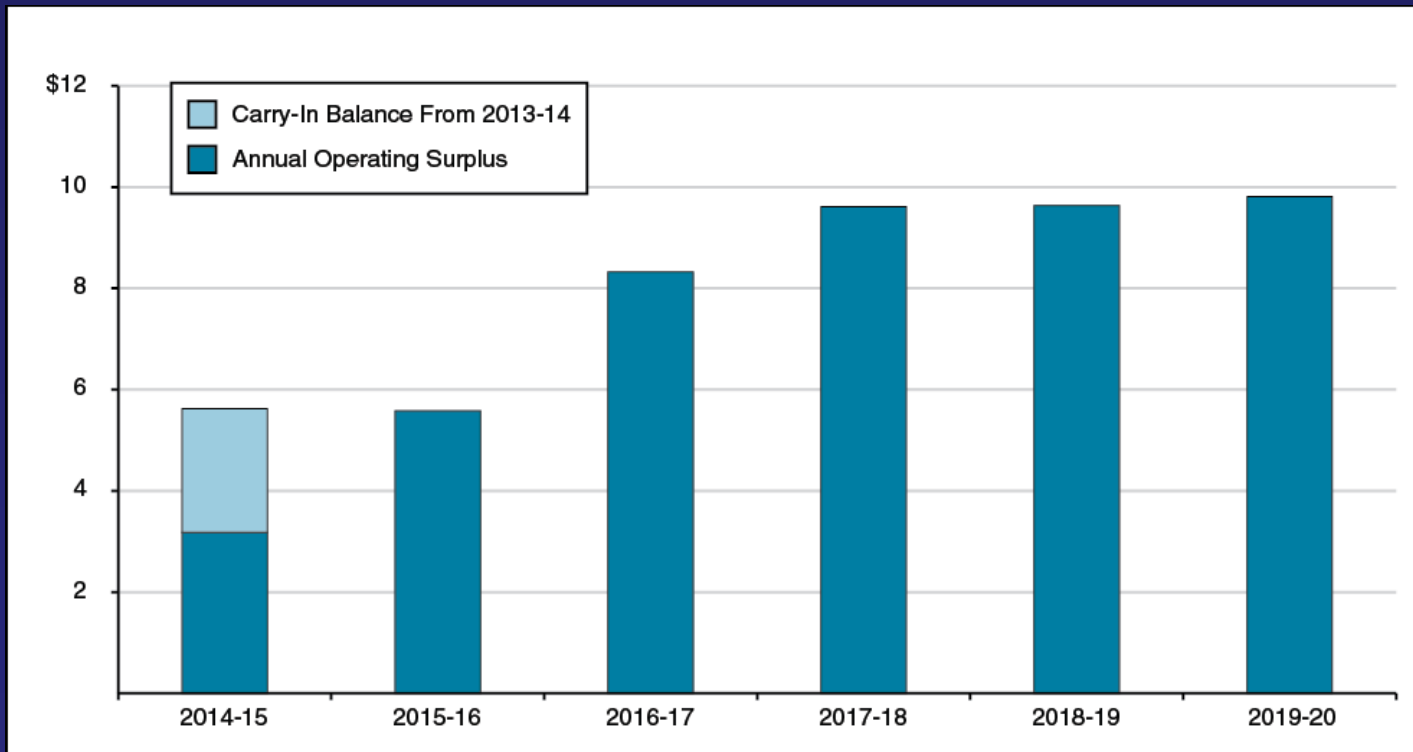
**Legislative Analyst's Office**

Presented to:  
CCC All Financial Aid Directors' Meeting  
April 2, 2014

# The State's Overall Fiscal Situation

# Operating Surpluses Projected Throughout Forecast Period

General Fund and Education Protection Account Combined  
(In Billions)



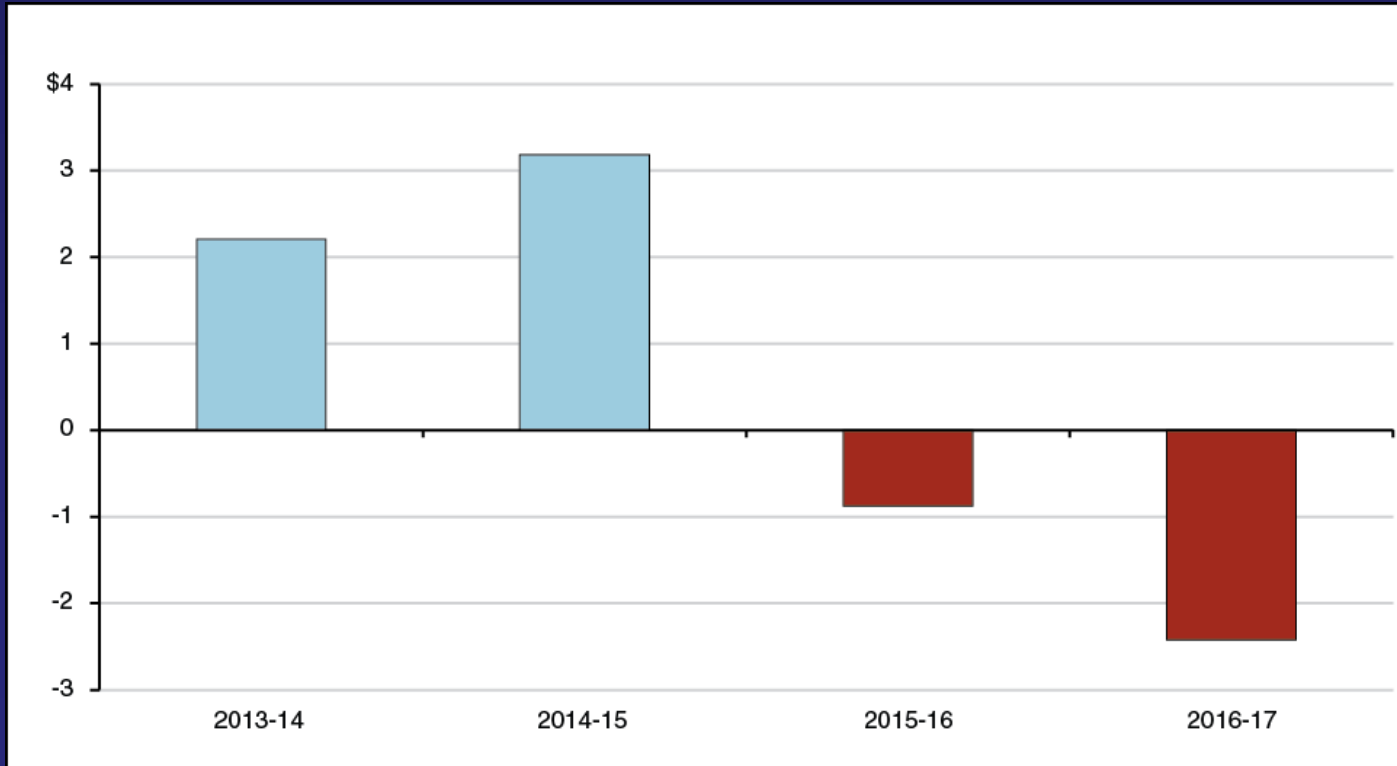
# What Is Not Included in Projections

---

- **Inflation Adjustments (Unless Statutorily Required)**
- **Paying Off Budgetary Liabilities**
- **Paying Off Various Unfunded Retirement Liabilities**
- **Policy Proposals**

# Operating Deficits Return Under Hypothetical Recession Scenario

General Fund and Education Protection Account Combined  
(In Billions)



# An Approach to Using Possible Surpluses

General Fund and Education Protection Account Combined  
(In Billions)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
<b>LAO Operating Surpluses</b>	<b>\$2.4</b>	<b>\$3.2</b>	<b>\$5.6</b>	<b>\$8.3</b>	<b>\$9.6</b>	<b>\$9.6</b>	<b>\$9.8</b>
<b>Prepare for Next Downturn</b>							
Build \$8 billion reserve by 2016-17	2.4	1.9	1.9	1.9	—	—	—
Pay off remainder of “wall of debt”	—	—	1.2	2.3	3.1	—	—
<b>Pay for Past Commitments</b>	—	0.5	1.0	1.5	2.0	2.5	3.0
<b>Maintain Existing Programs</b>	—	0.4	0.6	1.2	1.8	2.5	3.2
<b>Create New Commitments</b>	—	0.5	1.0	1.5	2.0	2.5	3.0

# 2014-15 State Budget

# Fiscal Environment Much Improved

---

- **Economy: Continued Moderate Growth**
  - California personal income growth of 5.4 percent in 2014.
  - California employment growth of 2.2 percent in 2014-15.
- **Revenues: Strong Growth in General Fund Revenues**
  - Strong personal income tax growth.
  - Solid sales tax growth.



# Where Is the New Money Going?

---

- **Paying Down Debt**

- Proposition 98 deferrals, deficit financing bonds.

- **Additional Spending**

- Proposition 98.
- University and financial aid funding increases.
- One-time spending for deferred maintenance.

# Rainy-Day Reserve Proposal

---

- **Various Proposals to Build Up Reserves**
  - ACA 4: based on above average revenue growth.
  - Governor: based on “excess” capital gains.
- **Attempting to Address State’s Highly Volatile Revenue Structure**

# The Positives

---

- **Pays Down Debts**
- **Limits New Commitments**
- **Builds Up Reserve Over Time**
- **Highlights Infrastructure Issues**

# Concerns

---

- **Higher Education**
  - Funding not tied to priorities.
- **No Set-Aside for Unfunded Liabilities**

# Higher Education Budget

# Governor's Proposal for Universities

---

- **Unallocated Base Increases**
- **No Enrollment Targets**
- **California State University's (CSU's) Support and Capital Budgets Merged**
- **Performance and Sustainability Plans**
- **Tuition Freeze**

# LAO Alternative

---

- **Traditional Workload Budget**
  - Specify enrollment targets and fund enrollment growth, if needed.
  - Fund inflation and other cost increases.
  - Target funding for state priorities.
  - Budget CSU capital projects explicitly.
- **Share of Cost Tuition Policy**

# Governor's Financial Aid Proposals

---

- **Fund Increased Cal Grant Costs**
- **Fund Phase-In of Middle Class Scholarships**
- **Fix Unintended Consequence of Cal Grant Renewal Eligibility Change**
- **Use Student Loan Operating Fund and Federal Funds to Offset General Fund Costs**



# LAO Recommendations:

---

- **Adopt Cal Grant Augmentation**
- **Adopt Eligibility Change**
- **Prioritize Middle Class Scholarship Awards and Set Time Limit Comparable to Other Aid Programs**

# Major Higher Education Issues

# Key Areas of Focus for Legislature

---

- **Financial Aid**
- **Performance and Accountability**
- **Enrollment (Assembly)**
- **Capital Projects**
- **Oversight of Private Postsecondary Schools**

# Cal Grant Bills

---

## ■ **Assembly Bills**

- **Additional competitive awards and two-year averaging (AB 1976, Quirk-Silva).**
- **Adjustments to institutional eligibility standards (AB 1538, Eggman) and process (AB 1590, Wieckowski).**
- **Additional disclosures (AB 330, Chau).**
- **Mandate for Electronic Grade Point Average Submission (AB 2016, Ting).**
- **Expanded high school entitlement window (AB 2566, Weber).**

# Cal Grant Bills (Continued)

---

## ■ Senate Bills

- Tax Credit and special fund for access award (SB 174 and SB 798, De León).
- Cal Grant C for long-term unemployed (SB 1028, Jackson).
- Renewal awards at ineligible institutions (SB 1149, Galgiani).

# Other Bills

---

## ■ Financial Aid

- Pay It Forward/Pay It Back (AB 1456, Jones-Sawyer).
- State approval for GI Bill Eligibility (AB 2099, Frazier).
- Model contracts for Electronic Aid Disbursement (SB 845, Correa).

# Other Bills

---

- **Various Higher Education Areas**
  - California Community College baccalaureate degree pilot (SB 850, Block).
  - Four-year, \$12,000 degree pilot (AB 1924, Logue).
  - Academic preparation programs and priority enrollment (AB 1977, R. Hernandez).
  - Special session courses (AB 2153, Gray).
  - Oil severance tax law (SB 1017, Evans).
  - Education bond act (AB 2235, Buchanan).

**Visit the LAO website at:  
[www.lao.ca.gov](http://www.lao.ca.gov)**