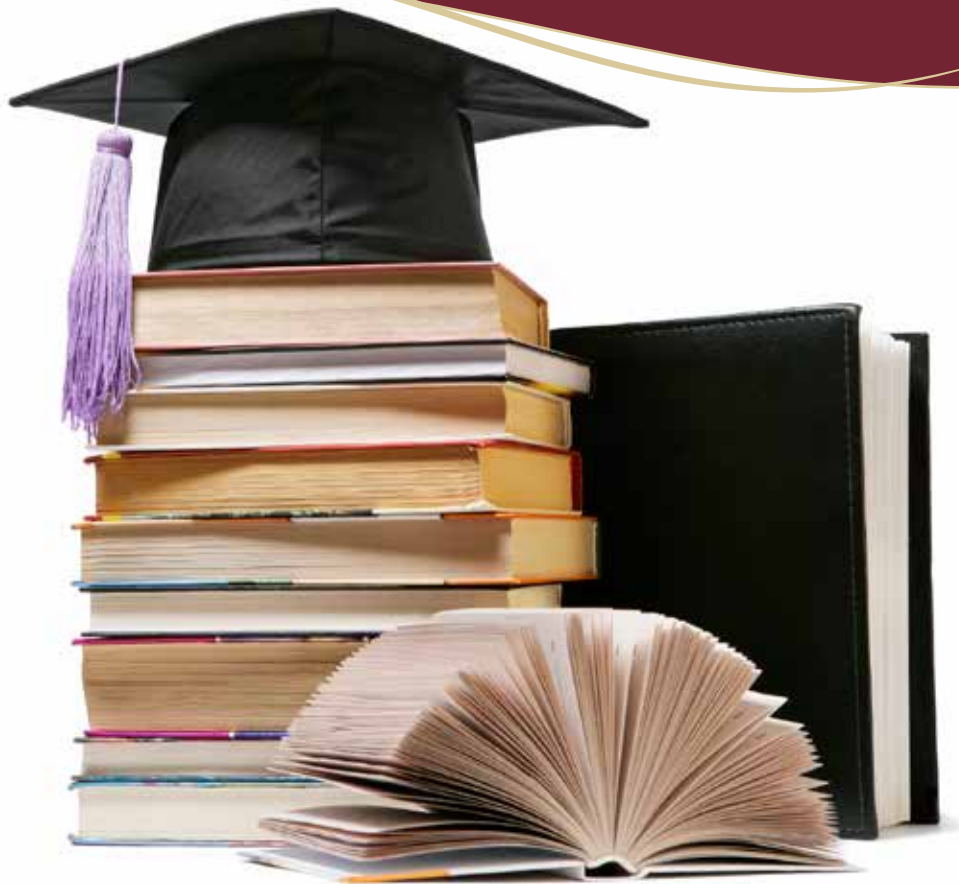


The 2015-16 Budget:

Higher Education Analysis



MAC TAYLOR • LEGISLATIVE ANALYST • FEBRUARY 2015

LAO 

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EXECUTIVE SUMMARY

Overview

Governor’s Budget Includes Significant Increase in Core Funding for Higher Education. The Governor’s budget includes a total of \$21.6 billion in core funding for higher education, \$1.2 billion (6 percent) more than the 2014-15 level. As the Governor assumes tuition rates will be flat in 2015-16, the bulk of the increase is covered by the state. State funding rises from \$13 billion to \$14.1 billion—an increase of \$1.1 billion (9 percent). Under the Governor’s budget, the California Community Colleges (CCC) receive a relatively large increase in core funding (9 percent), though about two-thirds is attributable to a large augmentation for new adult education consortia. The University of California (UC) and California State University (CSU) receive smaller increases (2 percent and 3 percent, respectively).

Performance

State Beginning to Review Segments’ Performance as Part of Budget Deliberations. New performance reports show that the segments’ performance is improving in some areas, but additional improvement is needed. For example, UC’s and CSU’s graduation rates have increased somewhat in recent years, but, at CSU, barely over half of entering full-time freshmen complete a degree within six years, with most of the other half never completing their degrees. At CCC, completion rates are declining, with only 35 percent of the cohort entering in 2009-10 completing a degree, certificate, or transferring within the next four years. Excess-unit taking also remains an issue, particularly at CSU and CCC, with the average CSU graduate taking 7 courses more than required to obtain a bachelor’s degree and the average CCC student generating more than double the required units. To make the new performance reports more useful moving forward, we recommend the Legislature direct each segment to compare its performance to public institutions serving similar students in other states and identify strategies for addressing areas in need of improvement.

Building a Workload Budget

Most Indicators Point to Less Enrollment Demand in the Coming Years. State projections indicate a steady decline in the traditional college-age population over the next five years, with the number of individuals 18 to 24 years of age 300,000 smaller in 2020 compared to 2015. Additionally, the most recent data available on college participation rates shows a small decline. Moreover, both UC and CSU are likely admitting freshman applicants beyond their Master Plan eligibility pools. Furthermore, student demand for community college education tends to dampen during economic recoveries when individuals have more employment opportunities.

Recommend Setting Enrollment Targets. We recommend the Legislature set enrollment targets for the segments to ensure that they provide the level of access the state desires. We recommend setting UC’s resident enrollment target at its current-year level, with a potential cap on nonresident enrollment. Though CSU appears to lack justification for additional freshman slots, CSU reports

denying admission to eligible transfer students. It has not determined, however, how many local transfer students were denied at campuses enrolling nonlocal students. We recommend CSU report certain data by May 1, 2015 that would allow the Legislature to determine if some campuses require growth funding to enroll eligible transfer applicants at their local campus. At CCC, preliminary evidence suggests that enrollment grew by 2 percent in 2014-15, below the budgeted level of 2.75 percent. We recommend waiting until May for an updated estimate of 2014-15 enrollment and then adjusting community college apportionments in the current and budget years accordingly.

Recommend Linking Base Increases With Inflation. For UC and CSU, we recommend the Legislature reject the Governor's proposed unallocated base increases and instead provide base increases linked to expected inflation. We estimate that providing a 2.2 percent cost-of-living adjustment (COLA) to their core funding (state General Fund and tuition revenue combined) would equate to \$126 million for UC and \$94 million for CSU. For community colleges, we recommend the Legislature adopt the Governor's proposed \$92 million COLA but designate another \$295 million in unallocated funds for its highest Proposition 98 priorities.

Recommend Adopting Share-of-Cost Policy to Guide Tuition Decisions. After settling on cost increases, the Legislature needs to decide who should bear what share of those increases. We continue to recommend the state adopt a share-of-cost policy under which cost increases are shared by the state and nonneedy students (as financially needy students would receive aid sufficient to cover their cost increases). Such a policy promotes greater attention and accountability for ensuring that any cost increases are warranted. If nonneedy students' tuition payments were to cover a proportional share of the cost increases, the state share of cost would be \$66 million for UC and \$47 million for CSU.

Assessing UC's Cost Structure

Multiple Issues to Consider, No Easy "Solutions." This year the state is paying particular attention to UC's proposed cost increases. To help inform its discussions, we examined how UC's costs compare with costs at other public universities that also have very high research activity. We found that UC's instructional spending per degree, noninstructional spending, and average faculty salaries were notably higher than the median of the comparison group. Though UC's costs are higher in many regards than costs at other public universities with very high research activity, the Legislature may feel these differences are warranted. For example, UC faces higher wage and living costs than much of the rest of the nation and may be more prestigious than some other research universities. Additionally, the state has not given UC explicit direction on the amount of teaching versus research it expects of faculty. Whereas UC costs would be lower if faculty had a higher teaching load, the state has not directly expressed that it desires less research activity. Moreover, a major determinant of costs at UC, and virtually all other research universities, is the instructional delivery model itself. The state has not directly expressed that it desires UC to change this model, with its primary reliance on faculty members with advanced degrees teaching a relatively small number of students in a physical setting.

INTRODUCTION

In this report, we analyze the Governor’s higher education budget proposals. We begin by providing background on higher education funding and expenditures. We then give an overview of the Governor’s higher education budget. In the next five sections, we analyze core aspects of higher education: (1) performance, (2) enrollment,

(3) operations, (4) facilities, and (5) tuition and financial aid. In each of these sections, we provide relevant background, describe any related Governor’s proposals, assess those proposals, and make recommendations. The final section consists of a summary of the recommendations we make throughout the report.

BACKGROUND

This section provides some background information on higher education in California. Below, we first provide an overview of California’s colleges and universities, their missions, and the students they serve. We next summarize all sources of funding for higher education in California. To provide a historical perspective, we then track core funds (including state General Fund and student tuition revenue) over time. To provide another perspective, we also track all education-related spending regardless of fund source.

California Colleges and Universities

The *Master Plan for Higher Education in California* (first established in 1960 and subsequently amended by various bills over the years) set forth different missions and student populations for the state’s public segments. In addition to public higher education, California has a private sector consisting of many nonprofit and for-profit colleges and universities. Figure 1 provides basic information about each segment and sector, described in more detail below.

California Community Colleges (CCC). The CCC system has a broad mission that



includes providing citizenship and English as a second language courses, basic skills instruction, career technical education that leads to certificates and credentials, and lower division coursework that leads to associate degrees and transfer to baccalaureate institutions. The CCC system is open access—meaning any adult may enroll. The transfer process between the open-access CCC and the more selective public universities is a key component of the Master Plan—ensuring all students have an opportunity to earn a bachelor’s degree from a public university even if they did not qualify for university admission directly from high school. The CCC system consists of 112 colleges in 72 districts located throughout the state. The CCC system currently provides credit instruction to 1.1 million full-time equivalent (FTE) students and noncredit instruction to 66,000 FTE students. A Board of Governors oversees the statewide system and appoints a chancellor to run day-to-day statewide operations at the Chancellor’s Office (located in Sacramento).

California State University (CSU). CSU’s mission is undergraduate education for the top one-third of California public high school graduates as well as graduate education through the master’s degree. CSU currently serves 379,000 FTE students at 23 campuses. Of these students, 89 percent are undergraduates and 11 percent are graduate (including postbaccalaureate) students. Nonresident students account for 5 percent of all students. The system is overseen by a 25-member Board of Trustees, with most of the members appointed by the Governor. The Trustees appoint a chancellor that oversees campus presidents and serves as the head of the CSU Chancellor’s Office (located in Long Beach).

University of California (UC). UC’s mission is research; professional, doctoral, and other graduate education; and undergraduate education for the top one-eighth of high school graduates. UC currently

serves 249,000 FTE students at ten campuses. Of these students, 80 percent are undergraduates and 20 percent are graduate students. Nonresident students account for 15 percent of all students. The university is overseen by a Board of Regents, comprised mainly of members nominated by the Governor. The Regents appoint a president that oversees campus chancellors and serves as the head of the UC Office of the President (located in Oakland).

Hastings College of the Law (Hastings). Hastings currently serves 970 FTE graduate students in law at its one campus in San Francisco. The college is affiliated with UC but is overseen by a separate Board of Directors, consisting mainly of members nominated by the Governor. Hastings’ Board of Directors appoints a dean to oversee the law school.

Private Colleges and Universities. California also has an estimated 1,300 private colleges and universities. These institutions have a variety of missions, ranging from vocational training for specific industries to education in the liberal arts to specialized graduate and professional programs. Approximately 1,100 private schools are for-profit, such as the University of Phoenix and ITT Technical Institute. Nearly 200 are nonprofit schools (often referred to as independent institutions), such as Stanford University and Saint Mary’s College. About 575,000 FTE students in California attend private postsecondary institutions, with enrollment split about evenly between nonprofits and for-profits. About one in five college students in California attends private colleges and universities. California has a slightly smaller private higher education sector compared to the national average.

Funding Sources for Higher Education

Public Higher Education Funded From Several Sources. The state General Fund, student

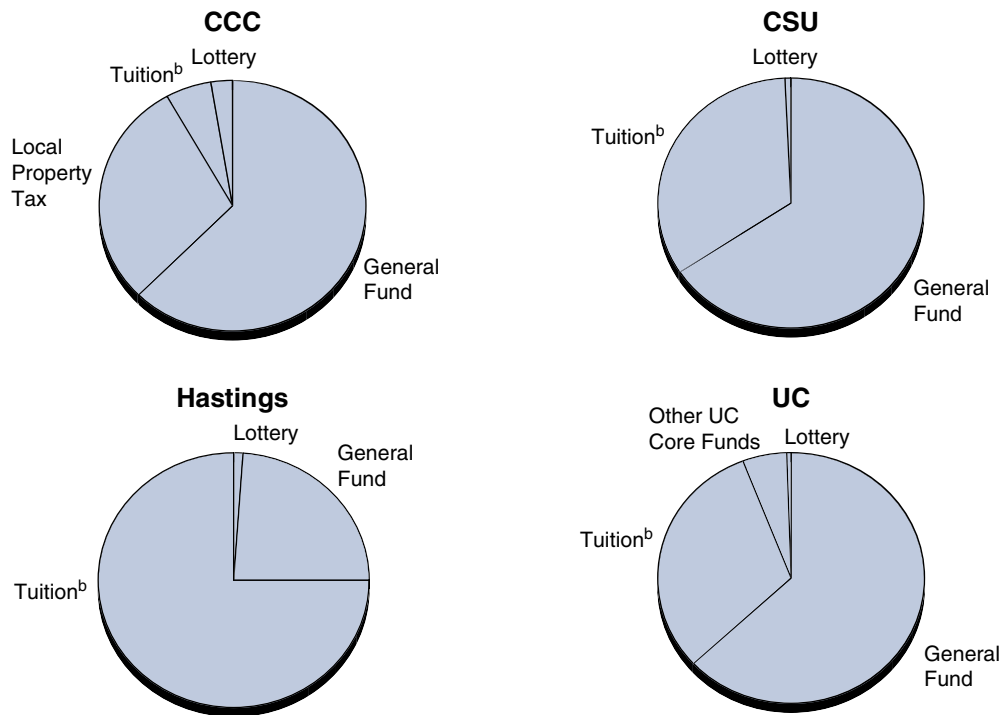
tuition revenue, local property tax revenue, the state lottery, private donations, the federal government, medical center revenue, and auxiliary revenue are the main funding sources supporting public higher education. The first four sources listed are fungible, meaning they can be used for the same purposes. Segments typically use these funds to pay for faculty compensation, instructional materials, academic support, research, public service, and related expenses. The second four sources listed are fungible in some cases but in other cases are legally restricted to supporting certain activities. For example, segments have discretion over the use of some private donations, though many private donors place restrictions on

their donations. Most federal funding supports specific research projects. Medical centers and auxiliary enterprises (such as dormitories, cafeterias, and parking garages) generate revenues that typically are used to cover their costs.

Higher Education Segments Funded From Different Combination of Core Funds. Figure 2 focuses on “core funding,” which typically is defined as state General Fund, student tuition revenue, local property tax revenue, and state lottery funds. (UC has a few other core funds, such as a portion of patent royalty income.) As shown in the figure, the CCC system relies heavily on the state General Fund and local property tax revenue, with only a small share of funding coming from

Figure 2
Segments Rely on Different Mix of Core Funds^a

2014-15



^a Cal Grant tuition payments counted toward state General Fund.
^b Net of tuition discounts and waivers. At CCC, reflects enrollment fees.

student fees. By comparison, UC and CSU rely heavily on state General Fund and student tuition revenue. Neither UC nor CSU receives any local property tax revenue. Hastings relies to the greatest extent on student tuition revenue, with only about a quarter of its core funding coming from the state General Fund. All four segments receive state lottery funds, though these funds comprise less than 2 percent of their core funding.

Financial Aid Funded From Various

Sources. In addition to direct state General Fund appropriations for each segment, the state supports several student financial aid programs. The largest program, the Cal Grant program, currently provides aid to 276,000 California high school graduates and community college transfer students who meet financial, academic, and other eligibility criteria. An additional 56,000 students currently receive awards through competitive grants. (Though historically the state has covered all Cal Grant costs, in recent years it has used federal funds to offset some Cal Grant costs.) Created more recently (2013), the Middle Class Scholarship currently provides tuition discounts to 81,000 higher income students not benefiting from the Cal Grant program. These and a few other smaller student financial aid programs are administered by the California Student Aid Commission (CSAC). In addition to state financial aid, the four segments each provide certain students with institutional financial aid. This aid comes mostly in the form of tuition discounts and fee waivers. The federal government also funds student financial aid in the form of Pell Grants, subsidized student loans, and tax credits and deductions. The segments and the federal government also provide some aid through subsidized work-study programs.

California Institute for Regenerative Medicine Funded With General Obligation Bonds.

Created by California voters in 2004 through Proposition 71, the Institute supports stem cell

research. The Institute does not perform research itself; rather, it solicits research proposals and funds research, training, and new research space throughout the state. Proposition 71 authorized \$3 billion in bonds for the Institute. The state issues the bonds to fund the Institute's operations and then repays the associated debt service from the General Fund.

Private Colleges Mostly Funded With Nonstate Revenues. California's private higher education sector does not receive core funding directly from the state. Private colleges and universities, however, receive some state funding indirectly through student tuition payments funded by the Cal Grant program. This sector also benefits indirectly from federal financial aid programs.

Tracking Core Funding Over Time

Variety of Perspectives on How to Compare Funding Over Time. Funding can be tracked in various ways—for example, by focusing on a single fund source (such as state General Fund) or a combination of fund sources. Funding also can be tracked in the aggregate or on a per-student basis. Additionally, funding can be shown in actual dollars or inflation-adjusted dollars. Each of these decisions can have major implications on the conclusions drawn from the data. For our comparison below, we focus on core funding per student adjusted for inflation (using the state and local government price index).

Comparing Current Funding to 2007-08 Highlights Effects of Recent Recession. With any trend data, the story told also depends heavily on the starting and ending points selected. For instance, comparing current spending with a historical low point versus a historical high point will portray very different pictures. In recent years, the Legislature has expressed interest in comparing current funding to 2007-08 levels to see the effects of the most recent recession. Thus, for our

comparison below, we track funding levels from 2007-08 through 2014-15.

Tracking Core Funding Offers Relatively Comprehensive View of Segments’ Overall Mission.

At all three segments, core funding is used for student-driven workload. This workload is associated with core faculty and the time core faculty spends on instruction, research, and public service. (At UC, core faculty devote considerably more time to research than core faculty at CSU and CCC.) In addition to student-driven workload, UC uses some of its core funding for nonstudent-driven workload—particularly university-sponsored research and outreach programs. For example, UC uses some of its core funding to support off-campus agricultural research stations and provide college preparatory outreach programs for high school students.

Change in Per Student Funding Differs By Segment. As shown in Figure 3, inflation-adjusted per-student core funding in 2014-15 compared to 2007-08 is slightly lower at UC, CSU, and CCC (down 5 percent, 4 percent, and 1 percent respectively). Per-student funding at Hastings (not included in the figure) is up sharply (46 percent). The variation results from different decisions made over this time regarding state General Fund support, tuition revenues, and enrollment. For CCC, core funding (including Proposition 98 funding) is up and enrollment is down, but the resulting per-student increase is not sufficient to keep up entirely with inflation. (CCC funding counts toward the Proposition 98 minimum guarantee. See our publication *The 2015-16*

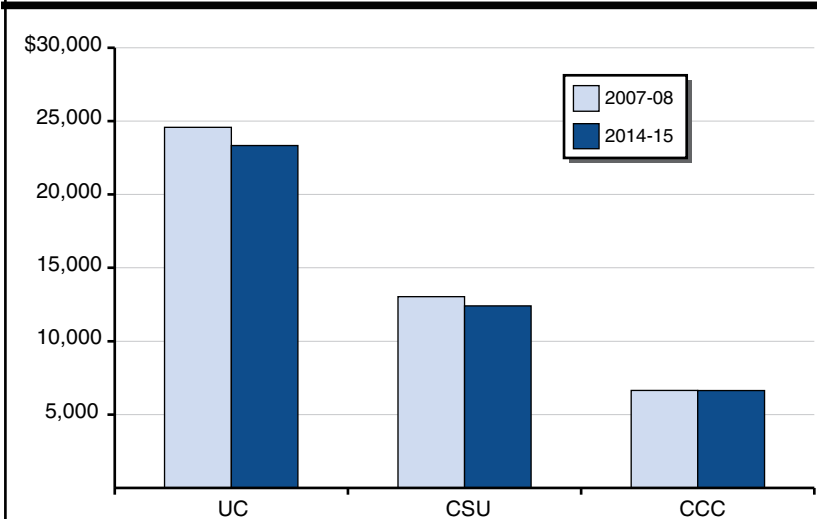
Budget: Proposition 98 Education Analysis for more information on the minimum guarantee.) For UC and CSU, core funding and enrollment are both up, with per-student funding also falling somewhat behind inflation. For Hastings, the sharp increase largely is attributable to a significant drop in enrollment coupled with higher student tuition.

Tracking Spending Over Time

Tracking Spending on Education Offers Somewhat Different Perspective. To offer another perspective on the condition of higher education, we examine education spending patterns from 2007-08 through 2014-15. Three main differences exist between our calculation of *core funding* per student and *education spending* per student:

- We include *spending from all fund sources*, not just core funds. Including noncore funds, such as private donations, provides a broader perspective on educational support (particularly for UC, which raises the greatest amount of private donations among the three segments).

**Figure 3
Core Funding Per Student^a**



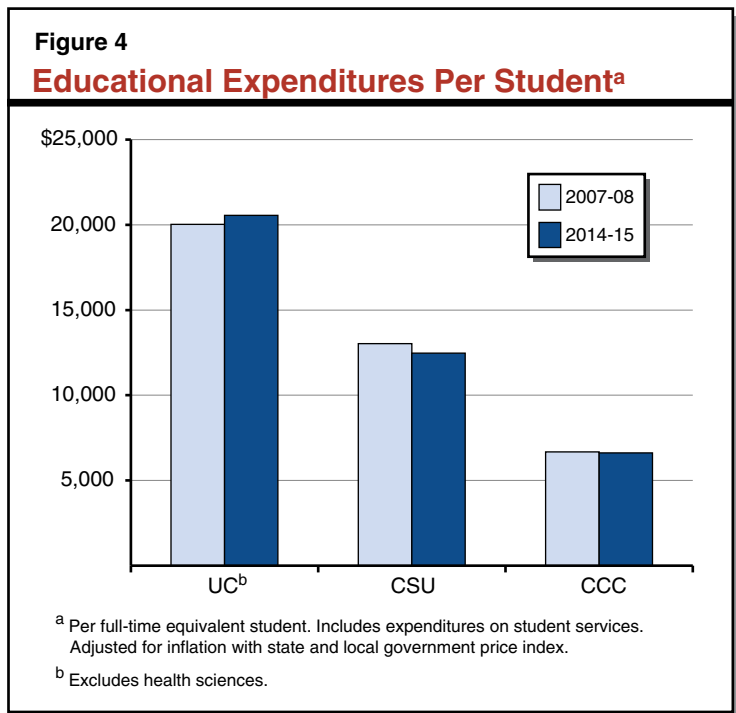
^a Per full-time equivalent student. Excludes funding for debt service and CSU retiree health benefits because figures are not available for 2007-08. Adjusted for inflation using state and local government price index.

- We focus on *education spending*, including all core faculty instruction, research, and public service, as well as a portion of academic support, student services, and other operational costs (such as maintenance and utilities) for undergraduate and graduate education. We exclude all health services spending at UC because spending per student tends to be significantly higher in this area. We also exclude spending on sponsored research, public service, auxiliary enterprises, and other spending not closely tied to undergraduate and graduate education. For instance, we exclude UC’s spending for its teaching hospitals and its off-campus agricultural research stations.
- Third, whereas core funding shows the amount of resources available per student, spending per student shows the amount *actually spent*. The two figures can vary if, for example, a segment chooses not to spend all of its funding in one year (instead putting aside some funds as reserves).

Taken together, education spending per student tends to be somewhat lower than core funding per student at each of the three segments. This is because the effect of including noncore resources is more than offset by the effect of limiting the analysis to actual education expenditures.

Spending Tells Somewhat Different Story for Two of the Four Segments. As shown in Figure 4, inflation-adjusted education spending per student in 2014-15 compared to 2007-08 is

somewhat higher at UC (up 2.6 percent) and slightly lower at CSU (down 4 percent) and CCC (down 0.8 percent). At CSU and CCC core funding and education spending trend almost exactly, with 2014-15 levels slightly lower than 2007-08 levels. The difference between core funding and education spending is more notable at the other two segments. At UC, the notable difference between having core funding *down* by 5 percent and education spending *up* by 2.6 percent likely is explained by UC being able to rely more on noncore university funds. For Hastings, 2014-15 spending is up 60 percent compared to the 2007-08 spending level. The reason education spending at Hastings is up even more than its core funding (60 percent and 46 percent, respectively) likely is due to the law school’s ability to rely more on noncore university funds, such as private donations (similar to UC).



OVERVIEW OF GOVERNOR'S HIGHER EDUCATION BUDGET

Governor's Budget Includes 6 Percent Increase in Core Funding for Higher Education. As shown in Figure 5 (see next page), the largest year-to-year increases come from the state General Fund and local property tax revenue. A portion of the General Fund increase, however, is due to a decline in federal funds that offset General Fund support for the Cal Grant program. The slight dip in net tuition revenues is unrelated to changes in fee levels but rather is due to higher Cal Grant participation. (Cal Grants are funded by the state and cover eligible students' tuition costs.) Under the Governor's budget, CCC receives a relatively large year-to-year increase in core funding (9 percent) whereas UC, CSU, and Hastings receive smaller increases (ranging from 2 percent to 4 percent).

Governor Proposes Major Spending Increases for CCC and Financial Aid. Figure 6 (see page 13) summarizes the Governor's higher education proposals. By far, the largest spending proposal is to fund CCC for new adult education consortia. (We discuss this proposal in-depth in *The 2015-16 Budget: Proposition 98 Analysis*.) Other notable CCC increases relate to enrollment

growth, enhancements to instructional programs, and expansion of student support services. The Governor also increases funding to (1) reflect greater student participation in the Cal Grant program and (2) continue phasing in the Middle Class Scholarship program (begun in 2014-15 and scheduled for full implementation in 2017-18). For the universities, the Governor's only notable proposals are to increase base funding.

Governor Proposes Making UC Adhere to Certain Conditions Prior to Receiving State Funds. The administration stipulates that UC is to (1) not increase tuition, (2) not increase nonresident enrollment, and (3) take action to constrain costs. UC must verify to the Department of Finance (DOF) its compliance with these conditions prior to the release of state funds. (At their November board meeting, the UC Board of Regents approved a 5 percent tuition increase for 2015-16. We discuss issues relating to UC's tuition increase in the box on page 14.) The Governor does not place these conditions on CSU or Hastings, though he has indicated he expects both segments to not increase tuition.

PERFORMANCE

In this section, we provide background on the state's higher education goals and performance measures, review the segments' recent reports on their performance outcomes, and assess these results. We then discuss some underlying causes of poor performance and recommend two legislative actions that would help the state target resources toward improving student outcomes.

Background

State Recently Adopted Broad Goals for Higher Education. Chapter 367, Statutes of 2013 (SB 195, Liu), establishes three goals for higher education. The goals are: (1) improve student access and success, such as by increasing college participation and graduation rates; (2) better align degrees and credentials with the state's economic, workforce, and civic needs; and (3) ensure the

Figure 5**Higher Education Core Funding***(Dollars in Millions)*

	2013-14 Actual	2014-15 Estimated	2015-16 Proposed	Change From 2014-15	
				Amount	Percent
UC					
General Fund ^a	\$2,844	\$2,991	\$3,131	\$140	5%
Net tuition ^b	2,671	2,782	2,782	—	—
Other UC core funds	314	323	323	—	—
Lottery	31	39	39	—	—
Subtotals	(\$5,860)	(\$6,134)	(\$6,274)	(\$140)	(2%)
CSU					
General Fund ^a	\$2,769	\$3,026	\$3,179	\$153	5%
Net tuition ^b	2,145	2,133	2,139	6	—
Lottery	36	59	59	—	—
Subtotals	(\$4,949)	(\$5,219)	(\$5,377)	(\$158)	(3%)
CCC					
General Fund ^a	\$4,622	\$5,019	\$5,443	\$424	8%
Local property tax	2,178	2,321	2,628	307	13%
Fees	412	417	423	6	1%
Lottery	193	186	186	—	—
Subtotals	(\$7,405)	(\$7,944)	(\$8,680)	(\$737)	(9%)
Hastings					
Net tuition ^b	\$33	\$31	\$31	—	1%
General Fund ^a	10	11	12	1	13%
Subtotals ^c	(\$43)	(\$42)	(\$43)	(\$2)	(4%)
CSAC					
General Fund	\$1,063	\$1,627	\$1,940	\$313	19%
SLOF	98	—	—	—	N/A
TANF funds	542	377	286	-91	-24%
Other	29	36	15	-21	-58%
Subtotals	(\$1,731)	(\$2,040)	(\$2,241)	(\$201)	(10%)
California Institute for Regenerative Medicine					
General Fund ^a	\$95	\$271	\$383	\$112	42%
Awards for Innovation in Higher Education					
General Fund	—	\$50	\$25	-\$25	N/A
Totals^d	\$18,904	\$20,361	\$21,601	\$1,241	6%
General Fund	\$11,403	\$12,995	\$14,113	\$1,118	9%
Net tuition/fees ^d	4,080	4,025	3,953	-73	-2
Local property tax	2,178	2,321	2,628	307	13
Other	982	736	624	-112	-15
Lottery	260	284	284	—	—
^a Includes general obligation bond debt service. For CSU, includes health benefit costs for retirees. For CCC, includes state contributions to CalSTRS and Quality Education Investment Act funds. ^b Reflects tuition after discounts and other financial aid from all core funds. In 2015-16, UC, CSU, and Hastings plan to provide \$1 billion, \$657 million, and \$12 million, respectively, in such aid. ^c Hastings typically receives about \$150,000 to \$170,000 in Lottery funds. ^d Does not include UC and CSU tuition paid from Cal Grant awards. Those monies are included in General Fund. SLOF=Student Loan Operating Fund and TANF=Temporary Assistance for Needy Families.					

effective and efficient use of resources to improve outcomes and maintain affordability. The law states the Legislature’s intent that these goals guide state budget and policy decisions for higher education. The law also calls for the creation of performance measures, or “metrics,” to monitor progress toward these goals. A working group with legislative and administration

representatives met with national higher education experts during 2014 to discuss performance metrics. The experts’ main recommendation was for policymakers to adopt a statewide goal for educational attainment and related goals for annual increases in the number of degrees and certificates earned. Segment-specific targets would roll up into these statewide goals.

State Adopted Performance Measures for Universities. In addition to this policy development, the 2013-14 budget package codified a new requirement for UC and CSU to report annually on a number of performance outcomes. The universities are required to report by March 15 of each year their graduation rates, spending per degree, and the number of transfer and low-income students they enroll, among other measures.

Universities Directed to Set Performance Targets. Provisional language in the 2014-15 Budget Act required the UC and CSU governing boards to adopt three-year sustainability plans by November 30, 2014. Required information in the plans includes targets for each of the statutory performance measures referenced

Figure 6
Major Higher Education General Fund Spending Changes^a
(In Millions)

2014-15 Budget Act		\$12,994
Pay down CCC mandate backlog		\$146
Pay down CCC deferrals		94
Fund Cal Grant program growth		69
Extend CCC Career Technical Education Pathways (one time)		48
Recognize Middle Class Scholarship savings		-27
Other		54
Total 2014-15 Changes		\$385
Revised 2014-15 Spending		\$13,378
Fund new adult education consortia		\$500
Increase base funding for UC, CSU, and Hastings		240
Augment CCC student support programs		200
Augment CCC funding (to be specified in May Revision) ^b		170
Fund Cal Grant program growth		129
Pay down CCC mandate backlog		125
Provide CCC apportionment increase		125
Fund 2 percent CCC enrollment growth		107
Provide 1.58 percent CCC cost-of-living adjustment		92
Fund Middle Class Scholarship at statutory level		72
Fund deferred maintenance at UC and CSU		50
Fund certain CCC noncredit courses at credit rate per state law		49
Increase CCC funding for apprenticeships		29
Add one-time funding for Awards for Innovation		25
Backfill federal grant for financial aid outreach and awards		15
Add funding to improve technology used to administer Cal Grants		1
Remove one-time funding for legislative priorities at UC		-4
Remove CCC enrollment restoration funding		-47
Remove one-time funding for Awards for Innovation		-50
Remove one-time CCC funding, including prior-year mandate and deferral payments		-647
Other		-160
Total 2015-16 Changes		\$1,021
2015-16 Proposed Spending		\$14,399

^a Governor’s budget changes the composition of financial aid funding by replacing \$91 million in federal Temporary Assistance for Needy Families funds and \$6 million from the California Loan Authority with General Fund dollars. These shifts have no programmatic impact and are not included above.
^b The Governor’s January budget omitted \$170 million in available Proposition 98 funds. The administration indicates it will budget these funds for specified CCC purposes in the May Revision.

earlier above as well as resident and nonresident enrollment projections for each of the three years (2015-16 through 2017-18). The language directed the universities to base their plans on General Fund and tuition assumptions provided by DOF. Accordingly, the universities provided projections of their likely performance under these assumptions.

Overall, Universities' Targets Somewhat Lackluster. Figure 7 shows the statutory performance measures used for budgeting purposes, along with the segments' corresponding performance targets. (Generally, the data compare the segments' actual performance in 2013-14 with their targets for 2017-18.) As shown in the figure, CSU set modest targets for graduation

UC's Budget Plan

Regents' Budget Assumes Much Higher Spending Than Governor's Plan. The budget the UC Board of Regents adopted in November 2014 includes total spending of \$459 million—\$340 million more than the Governor's proposed base augmentation. Of the \$459 million, UC identifies \$125 million in "mandatory costs," including retirement contributions, health benefit increases, and its faculty merit program; \$179 million for three "high-priority costs" consisting of compensation increases (\$109 million), deferred maintenance (\$55 million), and other high-priority capital needs (\$14 million); \$73 million for institutional financial aid; \$60 million for an "investment in academic quality;" and \$22 million for "enrollment growth" (intended mostly to serve existing students the university believes to be "unfunded").

Regents Adopt Tuition Increase to Pay for Part of Increased Spending. To pay for the increased expenditures above the Governor's level, the university's budget plan relies on a variety of funding sources other than the state General Fund, including a 5 percent systemwide tuition increase (that would apply to resident and nonresident students) and additional private donations. The university estimates the systemwide tuition increase would result in \$98 million in additional revenue (after taking into account institutional financial aid that would provide tuition discounts and fee waivers for financially needy students). The university's budget plan also increases nonresident enrollment, thereby generating additional associated revenues, and builds in some additional administrative cost savings.

UC Plans to Sharply Curtail Resident Enrollment if Systemwide Tuition Remains Flat. The 2014-15 budget required UC to provide a "sustainability plan" to the Department of Finance (DOF) and the Legislature in November 2014. The report had to include UC's plan for expenditures and enrollment using revenue assumptions provided by DOF. The DOF's revenue assumptions included \$119 million in state support and no additional tuition revenue. Under these assumptions, UC reported back to the state that it would maintain the same level of expenditures included in the Regents' budget. To accommodate the higher spending, UC reported it would increase nonresident enrollment by about 3,000 students (8 percent) and decrease resident enrollment by about 4,000 students (2 percent). This would allow the university to fund the expenditure increases because nonresidents pay significant supplemental tuition beyond the systemwide charge that applies to both residents and nonresidents.

Figure 7

UC and CSU Performance Measures and Targets^a

Metric	University of California		California State University	
	Current Performance ^b	Target ^c	Current Performance ^b	Target ^c
CCC Transfer Students Enrolled. Number and as a percent of undergraduate population.	33,715 (19%)	33,358 (18%)	137,797 (36%)	142,226 (36%)
Low-Income Students Enrolled. Number and as a percent of total student population.	76,634 (42%)	60,667 (32%)	170,491 (44%)	167,755 (42%)
Graduation Rates.^d				
(1) 4-year rate—freshman entrants.	62%	66%	18%	19%
(2) 4-year rate—low-income freshman entrants.	56%	60%	11%	11%
(3) 6-year rate—freshman entrants (CSU only).	—	—	53%	55%
(4) 6-year rate—low-income freshman entrants (CSU only).	—	—	46%	48%
(5) 2-year rate—CCC transfer students.	54%	58%	27%	29%
(6) 2-year rate—low-income CCC transfer students.	50%	54%	25%	27%
(7) 3-year rate—CCC transfer students (CSU only).	—	—	63%	68%
(8) 3-year rate—low-income CCC transfer students (CSU only).	—	—	62%	67%
Degree Completions. Annual degrees awarded for:				
(1) Freshman entrants	31,866	36,200	34,254	41,966
(2) CCC transfer students	14,651	15,400	43,741	44,673
(3) Graduate students	17,300	20,000	18,574	19,308
(4) Low-income students	21,469	22,700	40,318	41,302
(5) All students	65,431	72,200	103,637	112,457
First-Year Students on Track to Graduate on Time.				
Percentage of first-year undergraduates earning enough credits to graduate within four years.	51%	51%	48% ^e	54% ^e
Funding Per Degree. Core funding divided by number of degrees for:				
(1) All programs.	\$98,300 (2012-13)	\$112,900	\$36,300 (2012-13)	\$41,100
(2) Undergraduate programs only.	Not reported	Not reported	Not reported	\$50,700
Units Per Degree. Average course units earned at graduation for:				
	Quarter Units		Semester Units	
(1) Freshman entrants.	187	187	139	139
(2) Transfers.	100	100	141	140
Degree Completions in STEM Fields. Number of STEM degrees awarded annually to:				
(1) Undergraduate students.	16,327	18,000	17,020	21,574
(2) Graduate students.	8,700	10,000	3,817	4,105
(3) Low-income students.	7,027	7,400	7,128	7,828

^a Reflects state-adopted performance measures along with the targets set by UC and CSU. Universities' performance targets are based on administration's revenue assumptions for 2015-16 through 2017-18, that is, 4 percent General Fund augmentations and no tuition increases each year.

^b Fall 2014 for enrollment and academic year 2013-14 for completions and units, unless otherwise specified.

^c Fall 2017 for enrollment and academic year 2017-18 for completions and units, unless otherwise specified.

^d For most recent and future cohorts as reported by segments.

^e CSU excludes students not enrolled at the beginning of the second year. Including these students reduces performance by about 8 percentage points. STEM = science, technology, engineering, and math.

rates and degree completions, both overall and for specific disadvantaged groups. For example, CSU set a goal of raising its six-year graduation rate for low-income students from 46 percent to 48 percent by 2017-18. For units per degree (an efficiency measure), CSU projected no reduction in units per degree for freshmen and a reduction of only one unit for transfer students (despite considerable efforts the past few years to streamline the transfer pathway from CCC to CSU). For funding per degree (another efficiency measure), CSU projected becoming less efficient between 2013-14 and 2017-18, with funding per degree set to increase almost \$5,000 per student during period. UC’s goals in these areas were similar, with modest projected improvement in graduation rates, no improvement in units per degree, and a notable increase in funding per degree.

UC and CSU Have Very Different Enrollment Strategies. As required by provisional budget language, UC and CSU also set forth resident and nonresident enrollment targets. Figure 8 compares current enrollment with the segments’ targets under the Governor’s proposed funding levels. As shown in the figure, UC is planning to reduce resident undergraduate enrollment by almost 16,000 students (10 percent) over the period while

more than doubling nonresident undergraduate enrollment. In contrast, CSU is planning to increase both resident and nonresident enrollment by 3 percent.

CCC Recently Revised Accountability System. In 2012, the CCC Student Success Task Force recommended the implementation of a new accountability framework. The framework replaces previous annual accountability reports required by 2004 legislation. The core of the new framework is the Student Success Scorecard, which contains information on student completion of a degree, certificate, or transfer preparation and several progress indicators (remedial course progression, student persistence for three terms, and completion of 30 units). All measures are reported for all students, separately by age group and race/ethnicity, and separately for college-prepared and remedial students. The scorecard contains both systemwide and district-level data and is publicly available online.

Community Colleges and CCC System Also Required to Adopt Targets. The 2014-15 budget package required each community college and the CCC Board of Governors to adopt goals and targets for student performance by June 30, 2015. The Board of Governors adopted systemwide targets

in July 2014 primarily based on Student Success Scorecard measures, shown in Figure 9. (A particular college’s goals may be more or less ambitious than the systemwide goals.)

State Uses Performance Measures for Determining Institutional Cal Grant Eligibility. In response to concerns about the quality of

**Figure 8
UC and CSU Enrollment Targets
Under Administration’s Revenue Assumptions**

	2014-15	2017-18	Change from 2014-15	
			Amount	Percent
UC				
Resident undergraduate	158,410	142,678	-15,732	-10%
Nonresident undergraduate	23,832	47,939	24,107	101
Graduate/professional	49,892	52,142	2,250	5
Totals	232,134	242,759	10,625	5%
CSU				
Resident	420,271	433,004	12,733	3%
Nonresident	22,274	22,949	675	3
Totals	442,545	455,953	13,408	3%

some postsecondary institutions, California in 2011 adopted eligibility standards for colleges participating in the Cal Grant programs. Colleges with a substantial proportion of their students taking out federal student loans now must meet two Cal Grant eligibility criteria. Specifically, these colleges must maintain student loan default rates below 15.5 percent (measured over the first three years of repayment) and graduation rates above 30 percent. (A statutory amendment temporarily reduced the graduation rate requirement to 20 percent from 2014-15 through 2016-17.)

Performance Not Linked With Base Funding.

As noted, the state’s goals for higher education and associated performance measures are intended to guide state budget and policy decisions, though Chapter 367 does not explain exactly how this is to be accomplished. In 2012 and 2013, the Governor proposed a formula to tie future funding increases for the universities (but not the community colleges) to their success in meeting specific performance targets. The Legislature did not adopt the proposed performance funding formula, opting instead to establish performance measures and reporting

Figure 9
CCC Systemwide Performance Measures and Targets

Metric	Recent Performance ^a	Target
Completion Rate. Completion defined as: (1) earning an associate degree or credit certificate, (2) transferring to a four-year institution, or (3) completing 60 UC/CSU transferable units with a GPA of at least 2.0 within 6 years of entry.	41% for underprepared 70% for prepared 48% overall	Increase rate by 1 percent (of rate) annually.
Remedial Progress Rate. Success in college-level English or math class for students who took remedial English, remedial math, or English as a second language.	31% in math 44% in English	To be determined.
CTE Completion Rate. CTE students who completed a degree, certificate, or 60 transferable units, or transferred.	54%	To be determined.
Associate Degrees for Transfer. Number of these degrees completed annually.	5,365	Increase number by 5 percent annually for 5 years.
Equity Rate. Index showing whether a subgroup’s completion rate is low compared with overall completion rate. An index of less than 1.0 indicates underperformance.	0.78 African American 0.78 American Indian 0.81 Hispanic 0.89 Pacific Islander 1.09 White 1.29 Asian	Increase annually until all indices are 0.80 or above.
Education Plan Rate. Share of students who have an education plan.	To be determined.	To be determined.
FTE Years Per Completion. A measure of efficiency showing amount of instruction, on average, required for each completion. (A student completing 60 units, the standard length of an associate degree or preparation for transfer, would generate two FTE years.)	5.21 for underprepared 2.84 for prepared 4.33 overall	Decrease measure (increase efficiency).
Participation Rate. Number of students ages 18-24 attending a community college per 1,000 California residents in the same age group.	261	Increase participation rate each year.
Participation Among Subgroups. Index comparing a subgroup’s share of enrollment with its share of the state population. An index of less than 1.0 indicates underrepresentation.	0.87 White 1.01 Hispanic 1.01 African American 1.22 Asian	Maintain index above 0.80 for all subgroups.

^a 2012-13 for annual data and 2007-08 cohort for cohort data unless otherwise specified.
CTE = career technical education and FTE = full-time equivalent.

requirements without linking them directly to funding.

Some Targeted Funding Provided in Recent Years to Boost Performance. The Governor and Legislature have funded various initiatives to improve university and community college performance. Most notably, the state has provided large ongoing augmentations in each of the last two years for CCC’s Student Success and Support Program, with funding \$220 million higher in 2014-15 than 2012-13. This program funds assessment, placement, and orientation services for new CCC students, as well as academic counseling and tutoring for both new and continuing students. The program also funds efforts to improve access and outcomes for disadvantaged groups. The 2013-14 budget also included \$17 million for CCC (and encouraged UC and CSU to spend \$10 million each of their base funding increases) toward online initiatives intended to expand students’ access to courses and improve student success. In addition, the 2014-15 budget included \$50 million in one-time funding to promote innovative models of higher education at CCC, CSU, and UC campuses. The 2014-15 budget also included \$3.6 million for the CCC Chancellor’s

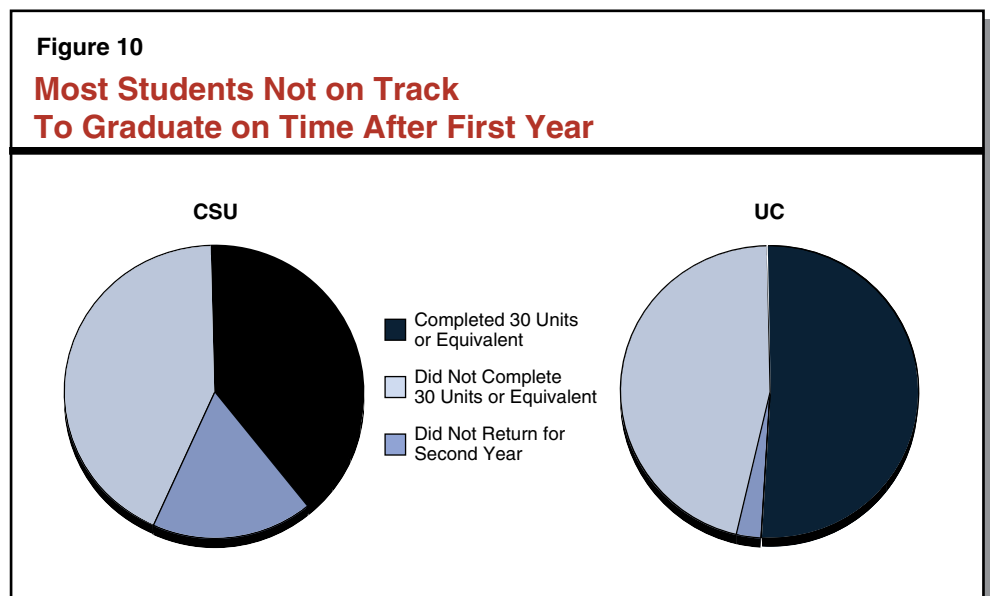
Office to offer greater assistance to community colleges seeking to improve their performance.

Assessment of Segments’ Performance

This section highlights performance for each segment based on three student performance

measures: progress upon completing their first year, graduation/completion rates, and total unit taking. These three measures tend to be among the most meaningful measures of institutional performance, tapping elements of both effectiveness and efficiency. The segments’ results are from their 2014 performance reports, as their 2015 reports are not due until March 15. Because the segments use internal data that is not directly comparable with publicly available national data, we make only general comparisons with the performance of other institutions.

Most Students Not on Track After First Year. Upon completing their first year, only about half of UC students and 40 percent of CSU students are on track to graduate within four years (measured by the number of units they completed), as shown in Figure 10. This indicator is important because full-time enrollment and early credit accumulation are associated with college completion. CCC does not have a comparable measure for units completed in the first year. Instead, the system measures a “remedial progress rate” indicating the share of students who took remedial courses in math or English and successfully completed a college level



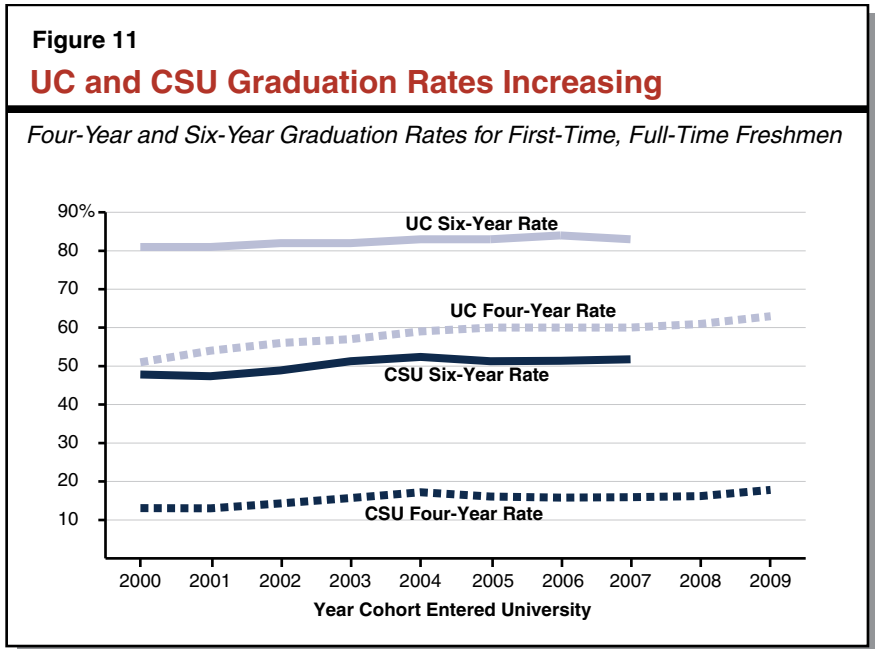
course in the same subject within six years of entering CCC. For the 2007-08 cohort of entering students, the remedial progress rate was 31 percent in math and 44 percent in English. This indicator is important because the vast majority of entering CCC students are unprepared for college-level coursework.

UC and CSU Graduation Rates Increasing. As shown in Figure 11, graduation rates have increased somewhat in recent years at UC and CSU. Although four-year graduation rates are significantly lower than six-year rates at the universities, the four-year rates have been increasing more rapidly. At UC, slightly more than 60 percent of students graduate within four years and slightly more than 80 percent of students graduate within six years. Both UC’s four-year and six-year rates are substantially higher than the average for other public research universities. CSU’s four-year graduation rate is significantly lower than the average for large public master’s universities, whereas its six-year graduation rate is comparable to the average. Even the six-year rate, however, is disappointing—barely over half of entering full-time freshmen complete a CSU degree within six years, and most of the other half never complete their degrees.

CCC Completion Rates Declining Slightly. The community colleges define completion rates somewhat differently from the universities. Instead of measuring the share of entering students who complete a degree within a specified period, CCC measures the success of a “completion cohort.” A student in a completion cohort is one who enters CCC

as a first-time student, enrolls in six units within three years of first enrolling, and attempts at least one math or English course during that period (typically an indicator that the student has some academic goal). A successful completion outcome is earning an associate degree or a credit certificate, transferring to a four-year institution, or becoming “transfer prepared” by successfully completing 60 transferable units with at least a “C” average. (The colleges have a similar completion measure for students pursuing noncredit certificates and credentials.) CCC completion rates tend to rise after state funding increases, as more courses become available for students, and decline following reductions in funding. As Figure 12 shows (see next page), the most recent available completion rates—for cohorts entering CCC before 2010-11—have been declining. Many CCC students enroll part-time and take several years to achieve a completion outcome.

Excess Units a Concern. Students at all three segments tend to take more courses than needed to obtain a bachelor’s degree. CSU’s 2013 graduating class had accumulated an average of 21



semester units (seven courses) beyond the typical 120 semester unit degree requirement. UC’s 2013 graduating class had accumulated an average of seven quarter units (nearly two courses) of UC credit beyond the typical 180 quarter unit degree requirement. CCC students, on average, generate more than four FTE years to complete an associate degree or certificate or prepare for transfer. A student completing 60 units, the standard length of an associate degree, would generate two FTE years.

Examination of Underlying Issues

Causes of Poor Performance Under Review.

All of the segments have been examining to some degree their institutional policies and practices (such as their availability of course sections and support services) as well as various student factors (such as unmet financial need, time dedicated to employment, and students’ academic choices) to determine what might be causing improvement in some areas and lingering performance problems in other areas. In response to its performance issues, CCC has taken the most comprehensive

approach by convening a Student Success Task Force to identify common barriers to student success and recommend solutions. To date, CSU has taken a more targeted approach—conducting a study of courses with high failure rates and providing funds to improve instruction in those courses. UC has not undertaken a systemwide study or implemented systemwide improvement efforts, instead prioritizing select campus-based initiatives. For example, UC Santa Cruz formed an Undergraduate Student Success Team at the request of its provost to develop recommendations for improving undergraduate retention rates, graduation rates, and time to degree at the campus.

Recent Research Provides Some Guidance.

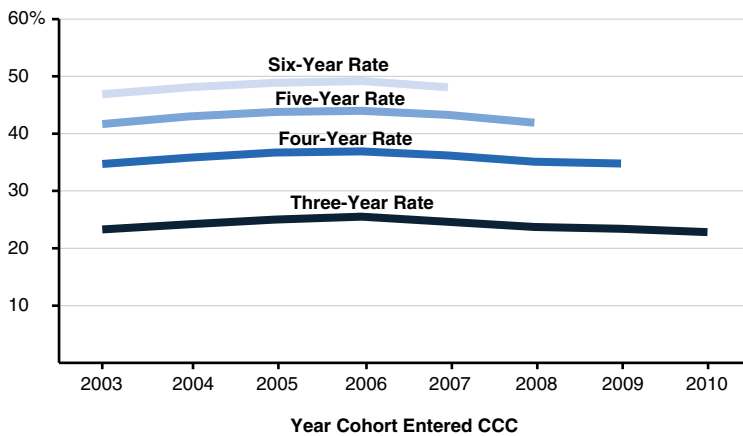
Research studies examining undergraduate students and institutions that perform better than would be expected—given their student demographics and preparation—provide some guidance regarding practices associated with better student learning and completion outcomes, but these studies differ in their findings. The Association of American Colleges and Universities

promotes several “high impact practices” that research has associated with learning gains and graduation. These include first-year seminars and experiences involving regular faculty contact with small groups of students, learning communities in which students take a series of related courses together, writing-intensive courses, undergraduate research, and capstone projects. The advocacy group Complete

Figure 12

CCC Completion Rates Declining Slightly

Share of Cohort Attaining a Degree or Certificate, Transferring to a Four-Year Institution, or Becoming Transfer-Prepared



College America promotes research-based strategies associated primarily with improved college completion. These include guided degree pathways (that is, degree programs with clear requirements and limited choices for students), structured schedules, instructional support for students with remedial needs while they complete mainstream courses, and full-time enrollment. Studies focusing on community college student success, primarily from the Community College Research Center at Columbia Teacher's College, identify a somewhat different set of factors. These include intensive academic planning and advising for students, small class sizes, special supports for students at risk of academic failure, various other support services and student engagement strategies that are well coordinated, and a data-driven focus on retention and graduation rates (along with ambitious goal-setting for these rates). These studies also mention faculty dedication, professional development focused on improving teaching, and a high proportion of full-time instructors, as well as factors that are more difficult to quantify (and replicate), such as the effects of good leadership promoting systemic improvements and a campus culture of using evidence to continuously assess and improve policies and practices.

Segments Currently Implementing Some Initiatives to Improve Performance. The higher education segments have initiated some activities to improve student outcomes. CSU's Student Success Initiative aims to increase degree completion rates and reduce units per degree and achievement gaps. The initiative includes activities that are consistent with both the strategies CSU has identified for overcoming barriers to student success and the recommended practices from recent research. The system is enhancing student

advising, remediation, and a variety of other support services; implementing a data system that will provide timely and useful information to campuses on students' time to degree term-to-term retention; and reducing student-to-faculty ratios. CCC is in the process of implementing the 22 recommendations of its Student Success Task Force, including enhancing student support services and performance measurement and increasing the proportion of full-time faculty in the system.

Next Steps in Using Performance Information

Require Segments to Include External Comparisons. We recommend the Legislature direct each of the segments to compare its performance against external benchmarks—in addition to comparing against its own targets—in its annual performance report. Comparisons should reflect the performance of public institutions serving similar students in other states. If in the future the state identifies targets for the segments, the Legislature could direct the segments to use these targets for comparisons.

Require Segments to Report on Strategies for Improvement. We also recommend the Legislature amend statute to require the segments to include an analysis of current performance and strategies for improving it in their annual performance reports. The analyses could help the Legislature track how each segment is approaching its key performance issues. For example, CSU's analysis could explain why it believes its four-year graduation rates are significantly below those of other large public master's universities, or why students take fewer units in their first year but more units overall than required to graduate. A better understanding of the reasons for poor performance would help the state better target resources toward improving outcomes.

ENROLLMENT

In this section, we first provide background on systemwide resident enrollment at all three segments, covering the state’s eligibility policies, traditional approach to setting systemwide enrollment targets, and enrollment funding calculations. We then summarize and assess the Governor’s resident enrollment proposals and make associated recommendations. We next focus on issues relating specifically to the allocation method the CCC Chancellor’s Office uses to distribute enrollment funding among community colleges campuses. We then turn to nonresident enrollment, particularly exploring the balance of resident and nonresident enrollment at UC.

Background on Resident Enrollment

Eligibility

1960 Master Plan Differentiates Among the Three Segments. The state’s *Master Plan for Higher Education* establishes different eligibility requirements, missions, and costs for each of the three higher education segments. The Master Plan provides the broadest level of access to CCC because it (1) has the broadest mission (including vocational training leading to certificates and credentials, adult education, and instruction leading to associate degrees and transfer) and (2) is the least expensive per student. The universities, by contrast, are more restricted in access because (1) their missions are more narrowly focused on undergraduate and graduate education and (2) they are more expensive per student.

All Adult Californians May Attend Community Colleges. The CCC system is known as an “open access” system because it is open to all Californians 18 years or older. That is, the CCC system has no application process to screen out or

select certain students. While CCC does not deny admission to students, it also does not guarantee access to particular classes.

Master Plan Sets Freshman Eligibility Pools at UC and CSU. The Master Plan calls for UC to draw its incoming freshman class from the top 12.5 percent (one-eighth) of public high school graduates. It calls for CSU to draw its applicant pool from the top 33 percent (one-third) of public high school graduates. The Master Plan also allows the universities to admit resident private high school graduates and nonresident students if these applicants meet similar academic standards as eligible public high school graduates.

Master Plan Establishes Minimum Qualifications for Students Transferring to UC and CSU. The Master Plan calls for UC and CSU to accept qualified transfer students who complete 60 units of transferrable credit at a community college and meet a minimum grade point average (GPA) requirement. The minimum GPA is 2.4 for UC and 2.0 for CSU. The Master Plan also calls on UC and CSU to maintain at least 60 percent of their total enrollment as upper-division to allow room for transfer students (who typically transfer as upper-division students). To achieve this target, the universities typically aim to admit one transfer student for every two freshmen. Though not part of the Master Plan, recent legislation—Chapter 428, Statutes of 2010 (SB 1440, Padilla)—also requires CSU to accept applicants who earn new associate degrees for transfer from the community colleges.

Universities Supposed to Align Admission Policies With Freshman Eligibility Pools. Both universities require freshman applicants to complete a set of high school coursework, including history, math, and science courses, known as “A through G” (A-G). These coursework requirements primarily are intended to prepare students for

college-level work. In 2012-13, 39 percent of high school graduates had successfully completed A-G coursework. UC and CSU have additional admission criteria, including requiring certain test scores and GPAs, such that they are supposed to be drawing from within their respective eligibility pool.

Freshman Eligibility Studies Assess University Compliance With Master Plan. To gauge whether the universities were drawing from their Master Plan pool of public high school graduates, the state in the past funded what were known as “eligibility studies.” As part of these studies, UC and CSU admission counselors would examine a sample of public high school transcripts and determine the number of students the universities would have admitted had these students applied. If the proportion of transcripts eligible for admission was significantly different from 12.5 percent and 33 percent for UC and CSU, respectively, the universities adjusted their admission policies accordingly. For example, UC tightened its admission criteria after an eligibility study conducted in 2003 found it drawing from the top 14.4 percent of public high school graduates.

State No Longer Routinely Conducting Freshman Eligibility Studies. Typically, the state conducted an eligibility study every three to five years but in recent years it has abandoned this longstanding practice. The state last conducted an eligibility study eight years ago (in 2007). In 2014, the Governor vetoed AB 2548 (Ting), which would have funded a new study.

Transfer Eligibility Tracked by UC and CSU. Because the Master Plan sets the minimum admission standards for transfer students, eligibility studies are not needed for them as they are for freshmen. Instead, the universities are able to track whether they are admitting all transfer students meeting the Master Plan’s admission standards.

Master Plan Does Not Include Eligibility Criteria for Graduate Students. Instead, the Master Plan calls for the universities to consider graduate enrollment in light of workforce needs, such as for college professors and physicians.

Segments Differ in Service Regions. Community colleges primarily are intended to serve the educational needs of their surrounding communities, providing access to all students living in the vicinity. Somewhat similarly, each CSU campus has a designated geographic service area comprised of school and community college districts, with applicants from those districts considered to be “local.” CSU campuses are expected to prioritize local applicants for admission over nonlocal applicants. UC, by contrast, is a statewide system, without regional service areas. Though UC guarantees eligible undergraduate students access to the system, it does not guarantee them admission to a particular campus. UC refers eligible students not admitted to their campus or campuses of choice to another campus with room for them (currently, the Merced campus).

Enrollment Demand

Demographic Changes Affect Enrollment Demand. Other factors being equal, an increase in the number of California public high school graduates causes a proportionate increase in the number of students eligible to enter UC and CSU as freshmen. Similarly, increases in the state’s traditional college-age population generally correspond with increases in UC and CSU eligible students since most university students fall into this demographic group. The CCC system enrolls students from a broader age group but its enrollment also is affected by changes in the college-age population and overall adult population in California.

College Participation Rates Another Factor in Enrollment Demand. For any subgroup of the

general population, the percentage of individuals who are enrolled in college is that subgroup's college participation rate. For example, the participation rate of the traditional college-age population is the number of 18 to 24 year olds attending college divided by the total number of 18 to 24 year olds. Other factors remaining constant, if participation rates increase (or decrease), then enrollment demand increases (or decreases).

State Workforce Planning Also Could Affect Enrollment Decisions. The state for decades has viewed university enrollment primarily in terms of undergraduate eligibility and access. As discussed in the "Performance" section of this report, the Legislature recently enacted Chapter 367, which, in addition to access, established a number of other goals related to higher education. These new goals could provide other perspectives on enrollment demand. For example, the state could consider undergraduate enrollment in the context of projected workforce needs. In the past, the state has done this in only selective cases, such as to address nursing shortages.

Enrollment Funding

Higher Education Enrollment Traditionally Funded on a Per-Student Basis. Under the traditional approach to funding enrollment, the state first determines the growth rate in enrollment from the current year to the budget year based on the factors discussed above. It then sets an enrollment target for the budget year specifying how many students it expects each segment to serve. The state typically has set one overall enrollment target for each segment (not separate targets for undergraduate and graduate students or separate targets by academic discipline). If a segment's overall enrollment target increases, then the state decides how much associated funding to provide for enrollment

growth. (As an exception to these practices, the state traditionally has not provided enrollment funding to Hastings. Instead, the state provides unallocated base increases and gives discretion to the school in setting its enrollment level.)

UC and CSU Enrollment Growth Traditionally Funded Based on Marginal Cost Formula. In the case of the universities, the state for decades funded enrollment growth based on the estimated cost of admitting each additional student. It used a marginal cost per student formula. This formula assumed the universities would hire a new professor for roughly every 19 additional students. It linked the cost of the new professor to the average salary of newly hired faculty. The formula also included the average cost per student for academic and instructional support, student services, instructional equipment, and operations and maintenance of physical infrastructure. The marginal cost formula was based on the cost of all enrollment (undergraduate and graduate students and all academic disciplines excluding health sciences).

Enrollment Funding Not Factored Into Recent Budget Decisions for UC and CSU. In recent years, the state has not consistently tied funding for the universities to an enrollment target or marginal cost formula. As shown in Figure 13, the state has not set enrollment targets for UC and CSU in four of the last eight years. Without enrollment-based budgeting, the state and the universities have come to disagree over how many students the state has funded the universities to serve. Both UC and CSU now assert they have more enrolled resident students than funded by the state.

State Continues to Use Enrollment Funding for CCC. The budget annually sets an enrollment target for CCC. State law requires that the system's annual budget request for enrollment growth be based, at minimum, on changes in the adult population and

excess unemployment (defined as an unemployment rate higher than 5 percent). CCC also may request enrollment growth to cover “unfunded” (or over cap) enrollment. The Governor and Legislature do not have to approve enrollment growth at the requested level, however. Their decisions tend to reflect the state’s budget condition—increasing the enrollment target when revenues increase (and the Proposition 98 guarantee rises) and reducing it when revenues fall. The number of FTE students funded depends on the amount of enrollment funding provided and statutory per-student funding rates for credit, noncredit, and “enhanced noncredit” (also known as career development and college preparation) courses. (The latter category consists of noncredit basic skills, English as a second language, and career technical education courses.) The state adjusts these funding rates for any cost-of-living adjustment (COLA) included in the annual budget act.

Governor’s Resident Enrollment Proposals

Proposes No Resident Enrollment Targets for UC, CSU, or Hastings. In his budget summary, the Governor asserts that funding enrollment growth “does not encourage postsecondary institutions to

focus on critical outcomes—affordability, timely completion rates, and quality programs—nor does it encourage institutions to better integrate their efforts to increase productivity of the system as a whole.”

Proposes 2 Percent Enrollment Growth at CCC. As an exception to his views on enrollment funding, the Governor proposes \$107 million for 2 percent enrollment growth (an additional 23,000 FTE students) at CCC. The Governor does not elaborate on why he proposes to fund enrollment at the community colleges despite his misgivings about enrollment-based budgeting for higher education. (As discussed in the box on the next page, the Governor does not designate the \$107 million specifically for enrollment growth in the budget. He also removes language guiding the use of the growth dollars and removes funding for “enrollment restoration.”)

Assessment and Recommendations Relating to Resident Enrollment

Universities

Enrollment Funding a Key State Policy and Budget Tool. Enrollment funding allows

Figure 13

State Has Not Been Using University Enrollment Targets on a Consistent Basis

Full-Time Equivalent (FTE) Students

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
UC								
Enrollment target	198,455	None	None	209,977	209,977 ^a	209,977 ^a	None	None
Actual enrollment	203,906	210,558	213,589	214,692	213,763	211,212	210,986	211,267
Percent change in actual enrollment		3.3%	1.4%	0.5%	-0.4%	-0.5%	-0.1%	0.1%
CSU								
Enrollment target	342,553	None	None	339,873	331,716 ^a	331,716 ^a	None	None
Actual enrollment	353,915	357,223	340,289	328,155	341,280	343,227	351,955	360,000
Percent change in actual enrollment		0.9%	-4.7%	-3.6%	4.0%	-0.4%	2.5%	2.3%

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

Proposed Changes to Community College Enrollment Budgeting

State Budget Traditionally Keeps Enrollment Funds Separate From Other Funding. The state budget typically specifies an amount for enrollment growth within the California Community Colleges (CCC) appropriation and contains language requiring these funds be used only for enrollment growth. In recent years, the budget language has required CCC to give highest priority to expanding enrollment in courses related to transfer, basic skills, and workforce training and refrain from funding certain other types of courses (such as concurrent enrollment courses in dance and personal development). In 2014, the state adopted legislation codifying these enrollment priorities.

State Budget Traditionally Includes Enrollment Restoration Funds. For many years, state policy has been to give community college districts that experience a decline in enrollment a period during which they can earn back or restore that enrollment. According to state law, districts with declining enrollment in one year lose the associated funding the following year, but the system retains it and the districts have three years to earn the funding back. In effect, this creates a set aside these districts can tap if they resume growing. CCC can use these funds for one-time purposes until they are needed by the respective colleges. After three years, the state adjusts CCC apportionments to reflect whatever portion of the restoration funding districts have earned back. Any unearned funds at that time effectively are redirected to other Proposition 98 priorities.

Governor's Budget Departs From Traditional Budgeting Practices. The administration makes three changes to CCC enrollment budgeting, describing each as a technical adjustment. Specifically, the Governor's budget (1) does not specify certain funds for CCC enrollment growth, (2) does not include provisional language restricting their use, and (3) removes \$47 million in restoration funding from CCC apportionments. The administration indicates that it believes enrollment restoration is unnecessary because any enrollment growth a district experiences following a temporary decline in enrollment can be earned back using regular enrollment growth funding.

Not Linking Funding Directly to Enrollment Growth Reduces Transparency. Though we are not concerned about the removal of language prioritizing the types of courses to be supported with enrollment growth monies, as this language is now codified, we are concerned about no longer identifying the amount of enrollment growth funding in the budget and no longer requiring that the amount be used only for this purpose. These changes would allow CCC, instead of the Legislature, to direct the use of any funds not needed for enrollment growth as well as increase the difficulty the Legislature and the public would have in tracking enrollment growth. We recommend the Legislature reject these change and specify the amount and purpose of enrollment growth funding in the budget.

Enrollment Restoration Policy Merits Separate Conversation. We also are concerned that the Governor is describing his decision to remove restoration funds as a technical adjustment. This action conflicts with relatively longstanding state policy. Though the set aside seems less valuable when the state is funding notable enrollment growth, removing the set aside could have unintended local effects. Given the potentially varied local effects, we believe the Legislature would want to have more deliberation on this policy before deleting the associated funds, particularly as it does not reflect a purely technical adjustment and would require a statutory change.

the Legislature to set clear expectations about higher education access. In addition, enrollment budgeting aligns state funding with higher education costs. Though the Governor makes an accurate observation that enrollment funding does not provide incentives for the segments to improve outcomes, the state's interest in improving outcomes could be addressed by monitoring performance. That is, the state need not discard enrollment funding to focus on performance. Rather than choosing one or the other, a balanced budget approach could address the twin goals of access and success (similar to how the Governor treats community colleges).

Current-Year Actual Enrollment the Most Accurate Reflection of Base Enrollment. Given the state did not set enrollment targets in 2013-14 or 2014-15, the base enrollment level it should use for setting 2015-16 enrollment targets is not entirely clear. We believe using UC's and CSU's actual 2014-15 enrollment levels is reasonable. In 2013-14 and 2014-15, the state provided UC and CSU with augmentations, along with discretion in how to use those augmentations. Though UC and CSU chose to grow enrollment at different rates between 2013-14 and 2014-15 (with UC growing 0.1 percent and CSU growing by 2.3 percent), these types of differences presumably were expected when the state granted the universities such broad discretion. Though one could argue that UC and CSU should have served greater or fewer students, neither again was required to serve a set number. Additionally, if the state resumes funding enrollment, using current-year actual enrollment is the most straightforward way of ensuring additional funding results in additional students.

Without More Recent Eligibility Study, Challenging to Evaluate Universities' Admission Policies. Both UC and CSU continue to report on whether they are accommodating all eligible freshman students, with UC asserting that it has

been admitting all eligible students in recent years and CSU stating that it has denied access to over 18,000 eligible freshman applicants. These reports, however, do not accurately reflect eligibility under the Master Plan because UC and CSU have no way of knowing—without a more recent eligibility study—whether the freshman applicants they are admitting or denying fall within the top 12.5 percent and 33 percent of high school graduates, respectively. For example, a student taking A-G who meets the minimum GPA and test scores for university admissions might actually fall outside the universities' eligibility pools.

Evidence Suggests Universities Could Be Drawing From Beyond Their Freshman Eligibility Pools. UC admission data, together with state data on public high school graduates, show that in recent years UC has been admitting about 13 percent of public high school graduates. CSU admission data show the university admitted about 30 percent of all public high school graduates for fall 2014. Had CSU also admitted the 18,000 freshman applicants whom it turned away but considered to be eligible, the university would have admitted about 36 percent of all public high school graduates. Because not all public high school students within the eligibility pools apply to UC or CSU, the universities currently are likely to be drawing from beyond their eligibility pools.

UC Accommodating All Eligible Transfer Students. Similar to its freshman admissions, UC currently is accepting all eligible transfer students who meet the minimum admission standards for transfer students defined in the Master Plan. The university reports, however, that not all eligible transfer students are being accepted into the campus or program of their choice. (This also is true of freshman applicants. As indicated earlier, the Master Plan envisions UC as a state system for which students are granted access somewhere in the system, not necessarily to their campus of choice.)

More Information Needed on CSU Transfer Eligibility. Unlike UC, CSU reports denying admission to 11,800 eligible transfer students in fall 2014. The university has not specified how many of these eligible transfer students were denied access to their *local* CSU campus. In other words, some unknown number of the 11,800 eligible transfer students could be students only choosing to apply to CSU campuses outside their local service area. Since the state historically has viewed eligibility for CSU in terms of access to a *local* campus, more information is needed from CSU to determine to what extent the university is meeting the Master Plan's eligibility goals for transfer students. (See the nearby box for more information on why CSU campuses may deny admission to some local applicants.)

College-Age Population and High School Graduates Expected to Decline. State demographic projections show the college-age population declining by more than 1 percent from 2015 to 2016. State projections also show no change in the number of California public high school graduates in those same years. Other factors being equal, these demographic trends will ease pressure for new enrollment at UC and CSU in the near future. (The college-age population is projected to decline steadily from 2015 through 2020, with the 2020 level 300,000 individuals lower than the 2015 level.)

Change in College Participation Rates Uncertain. The most recent data available on

college participation rates from the federal Department of Education show the percentage of recent California high school graduates attending college decreasing from 65.4 percent in 2008 to 61.7 percent in 2010. Predicting future participation rates based on these past trends is difficult, however, because students' interest in attending college is influenced by a number of factors, including student fee levels, availability of financial aid, and the availability and attractiveness of other postsecondary and employment options—all of which can change moving forward.

Workforce Demand for Bachelor's Degrees Also Uncertain. In recent years, some studies have suggested that states, including California, need to increase the number of bachelor's degrees to meet future demand by employers. These studies come to this conclusion mainly by looking at past trends in the proportion of job holders with a bachelor's degree and extrapolating these trends into the future. For instance, one study concluded that whereas 34 percent of California job holders had a bachelor's degree in 2006, by 2025 this proportion would need to increase to 41 percent based on the historical increase in the percentage of California job holders with a bachelor's degree. At the same time, other studies suggest a surplus of bachelor's degree holders exists. For example, another study found that nationally nearly half of all job holders with bachelor's degrees work in jobs for which they are overqualified.

Some CSU Programs Have Higher Admission Standards. Though CSU functions as a regional system, with students eligible for access to a CSU campus in their general vicinity, the university has experienced problems for many years in granting every student access to their local campus and program of choice. This is because some campuses raise admission standards for certain programs above the systemwide standard. These campuses admit nonlocal students with higher GPAs and test scores over local students with lower GPAs and test scores. Five campuses currently have higher admission standards for every program. Effectively, these campuses deny admission to some local students eligible to attend CSU.

Workforce Demand for Graduate Degrees Difficult to Determine. Workforce sectors can vary in their demand for skilled workers. In examining demand for professional jobs in a few workforce sectors, we have found associated education programs generally had met projected demand. (For example, our office’s recent report, *An Evaluation of CSU Doctor of Physical Therapy Programs*, found these programs met projected demand for physical therapists.) Some evidence suggests, however, that certain regions may have shortages of certain skilled labor. For example, the federal government has designated several northern and inland counties of California as “health professional shortage areas” based on high population to health care professional ratios.

Recommend Setting UC Enrollment Target at Current-Year Level. The university does not appear to be facing significant increased enrollment demand, given the projected demographic declines and the university’s continued ability to accommodate eligible students.

Recommend Requiring CSU to Report on Transfer Eligibility. To better understand CSU’s current capacity for serving eligible transfer students at their local campuses, we recommend the Legislature direct CSU to report by May 1, 2015 on (1) how many eligible transfer students were denied access to their local campuses in fall 2014, and (2) how many nonlocal students were admitted in fall 2014 to campuses denying admission to eligible local transfer students. If the data were to show that the number of nonlocal students CSU was accepting was greater than the number of local students being denied admission, then CSU would not have a corresponding capacity issue. If the data were to show that CSU did have a capacity issue, then the Legislature could provide additional enrollment funding in 2015-16 designated specifically to expanding capacity at those campuses denying admission to more local

transfer students than nonlocal transfer students being accepted.

Community Colleges

CCC Enrollment Largely Driven by Different Factors Than Universities. Though changes in the state’s college-age population affect both university and community college enrollment demand, CCC enrollment demand is affected by various other factors somewhat unique to it. For example, CCC enrollment demand is much more tightly linked with economic conditions. In particular, demand for CCC’s workforce and career technical education courses tends to rise and fall with unemployment. CCC enrollment funding, however, often works counter to economic conditions. That is, unemployment tends to rise during recessions, stimulating enrollment demand, while recessions likely mean a tighter state budget and fewer, if any, funds available for enrollment growth.

CCC Falling Short of Meeting 2014-15 Enrollment Target. The 2014-15 budget funded 2.75 percent enrollment growth for CCC. Preliminary enrollment data suggest that more than half of districts are not meeting this target. Systemwide, enrollment appears on track to grow just under 2 percent. This follows growth of about 1 percent from 2012-13 to 2013-14.

Governor’s Proposal for CCC Enrollment Growth for 2015-16 Reflects Recent Trends. The recent trend in enrollment suggests community colleges likely will be able to achieve growth of about 2 percent in 2015-16. Projecting enrollment demand is difficult, however, and some factors—such as an improving employment rate and a decline in the traditional college-age population—might dampen enrollment demand in some areas of the state.

Recommend Using Updated Information in Spring to Make Final Enrollment Decisions. By the time of the May Revision, the CCC Chancellor’s

Office will have received updated attendance reports from districts. These data will show the extent to which districts are meeting, exceeding, or falling short of their enrollment targets in the current year. At that time, the Legislature will have better information to assess the extent to which colleges will use the 2014-15 enrollment growth funds and their need for an additional 2 percent in the budget year. If the Legislature decides the full amounts are not justified for one or both years, it could use any associated freed-up funds for other Proposition 98 priorities.

Hastings

Decline in Enrollment Matches Sagging Demand for New Attorneys. Enrollment at Hastings reached a high point in 2009-10 at 1,336 FTE students. Since then, enrollment has declined to an estimated 970 FTE students for 2015-16—a drop of 38 percent. Hastings indicates the decline was a strategic move intended to address slackening workforce demand for attorneys.

Funding Not Adjusted to Match Decrease in Enrollment. Because Hastings is not budgeted on a per-student basis, the law school's state budget appropriation has not been adjusted to reflect the decrease in enrollment. Notably, even though enrollment has *decreased* by 38 percent since 2009-10, state funding has *increased* 29 percent over the same time. Even more striking is that, compared to 2007-08, total core funding per student is about 45 percent higher (after adjusting for inflation). Hastings indicates it has used the increased funding per student to cover increased retirement costs and lower its student to faculty ratio from 20:1 to 14:1.

Recommend Setting Hastings Enrollment Target at Current-Year Level. To improve budgeting for Hastings, we recommend the Legislature adopt enrollment targets for the law school. Absent a more comprehensive review of Hastings operations, we recommend setting the

targets at current-year levels. We also recommend the Legislature require Hastings to submit a report by September 30, 2015 with a proposed methodology for funding enrollment growth (and adjusting for enrollment declines) moving forward.

CCC Enrollment Growth Allocation Formula

State Traditionally Sets Parameters for CCC in Allocating Funds Among Colleges. For UC and CSU, the state has a long history of allowing each university's governing board the flexibility to decide how to allocate enrollment growth funding to campuses. In contrast, the state historically has had some involvement in how the CCC Board of Governors allocates funding to community college districts. Below, we discuss recent developments in CCC district allocations and offer guidance to the Legislature moving forward.

Associated Regulations Have Expired. The CCC Chancellor's Office annually determines the distribution of enrollment funds to community college districts. Historically, this distribution has followed an allocation formula approved by the Board of Governors based on standards set in state law. Legislation in 2006, for example, expressed intent that enrollment growth be allocated to districts based primarily on changes in the local adult population as well as district unemployment rates, but it left the implementation details up to the Board of Governors. Since then, CCC regulations governing the allocation of enrollment growth funds have expired and the Board of Governors has not adopted new regulations.

Chancellor's Office Recently Has Distributed Funds Proportionately Among Colleges. As shown in Figure 14, the state began to reduce CCC enrollment funding beginning in 2009-10. The Chancellor's Office responded to this development by cutting districts proportionally to their base funding instead of according to changes in the

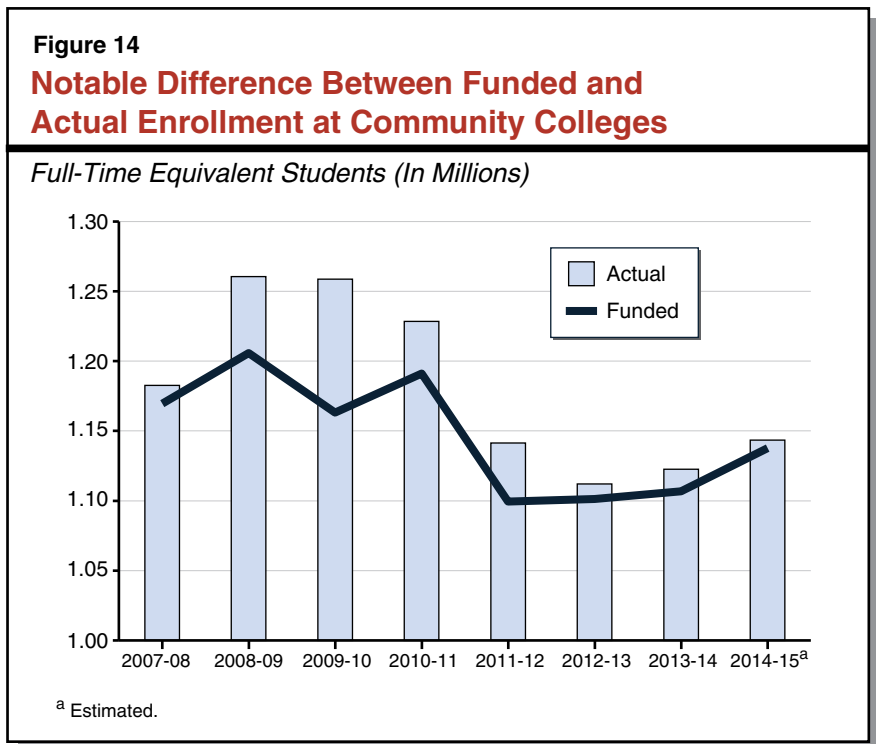
local adult population. That is, if the CCC system received a 2 percent reduction in apportionment funding systemwide, then the Chancellor’s Office reduced funding for each district by 2 percent. Likewise, the Chancellor’s Office has been restoring enrollment growth funding to districts by equal proportion in recent years. (To ensure full use of enrollment growth funding, the Chancellor’s Office has reallocated amounts from districts not growing at the funded rate to districts exceeding this rate.)

CCC Chancellor’s Office Required to Develop New Enrollment Growth Allocation Formula. Budget legislation for 2014-15 required the Chancellor to develop (and the Board of Governors to adopt) a new formula for allocating enrollment funding to districts, effective 2015-16. The legislation specified several factors to include in the new formula, with the intention that the resulting allocation would reflect each local community’s need for educational services. In response, the Chancellor’s Office developed a new allocation model. (The Board of Governors has not yet adopted the model.)

Draft Formula Uses Five Factors to Set District Growth Rates. Under the draft funding allocation model, CCC would determine a district’s enrollment growth funding using five factors: (1) percent of district’s adult population without a bachelor’s degree, (2) percent of district’s population that is unemployed, (3) percent of district’s enrolled students receiving Pell Grants, (4) percent of district’s college-age population

enrolled in the district, and (5) unfunded FTE students as a percent of funded FTE students. For each of the first four factors, CCC would compare the district rate with the statewide rate. A difference of 1 percentage point or less would count as 1 whereas a difference of 10 percentage points or more would count as 10. Each of the five factors would be weighted equally, accounting for 20 percent of the index. The index itself would range from 1 to 10 and represent the percent growth to be allocated to the district. This growth rate would be applied to the district’s current-year funding level to derive an enrollment growth dollar amount. (All results then would be prorated given the total enrollment growth funding available.) Figure 15 (see next page) describes the draft model for a hypothetical district.

Draft Model Does Not Include All Required Factors and Emphasizes Institutional Over Demographic Factors. The legislation gives CCC some discretion to select the factors it uses in the formula, but requires it to consider several primary



factors. As shown in Figure 16, the draft model does not line up exactly with statutory guidance. Specifically, the legislation lists the number of individuals younger than 25 years of age without a bachelor’s degree and the number of persons within a district’s boundaries who are in poverty and have limited English skills as primary factors. The draft model does not contain these three measures. (As a proxy for poverty, the model uses the number of enrolled students who have Pell Grants. This factor, however, does not necessarily represent the underlying demographics of the district.) While excluding these statutory factors, the model adds two factors that statute does not require: a district’s unfunded enrollment and the share of residents it enrolls.

Model Does Not Capture District’s Need Relative to Total Need. The process for determining a district’s relative need for enrollment growth funds also differs between the statutory requirements and the model. The legislation is

quite specific about how CCC should calculate each district’s relative need for enrollment funding. It calls for the system to (1) calculate each district’s share of statewide need, using the factors discussed above; (2) determine each district’s share of current statewide enrollment; and (3) calculate the difference between these shares. The system would allocate enrollment growth funds to each district according to this difference. The draft model compares district and state factors, but arguably does not get at relative need because it constrains the differences to a range of one to ten and considers only differences in rates without considering the size of a district’s population. Likewise, it does not take into account each district’s share of statewide enrollment.

Results of Trial Run Show Gaps Between Need and Demand. Recently, the Chancellor’s Office completed a trial run of the new formula that illustrates how current-year growth would have been allocated among districts had the model been

Figure 15
Draft CCC Enrollment Growth Allocation Model Uses Five Factors to Set District Growth Rates

Illustration Using Hypothetical District

Factor	District Rate	Statewide Rate	Difference	Index Factor ^a
Educational Attainment				
Percent of individuals in district age 25 or older without a bachelor's degree	74.0	62.0	10.0 ^b	2.0
Unemployment				
Percent of individuals in district age 16 or older who are unemployed	12.3	9.3	3.0	0.6
Poverty				
Percent of enrolled students receiving a federal Pell Grant	31.2	20.7	10.0 ^b	2.0
Participation				
Number of in-district students enrolled per 1,000 district population	4.2	5.2	1.0 ^b	0.2
Unfunded Students				
Three-year average unfunded FTES, as percent of funded FTES	—	—	1.0 ^b	0.2
Sum of Index Factors (Percent Growth for District)				5.0
Current District Enrollment Funding				\$10,000,000
District Enrollment Growth Allocation^c				\$500,000

^a Difference between district and state rates multiplied by 0.2. Each of the five factors is weighted equally in the formula.
^b Formula limits range of results so that final growth rate will be between 1 percent and 10 percent. A difference less than 1 is treated as 1 and a difference greater than 10 is treated as 10.
^c District allocations may be prorated to match available enrollment funding.
 FTES = full-time equivalent student.

used. Growth rates for individual districts in the model ranged from 1 percent (a floor established in the model) to more than 6 percent. The results show that enrollment need as determined by the new formula aligns poorly with enrollment demand in some districts. A number of districts that have experienced high growth in the current year, such as Pasadena, would have been underfunded, while other districts with lower growth or declining enrollment, such as College of the Desert, would have been significantly overfunded (resulting in unused enrollment funding in those districts and systemwide).

Results Not Unexpected, but Raise Implementation Challenges. One of the goals of the 2014 legislation was to direct enrollment funds to underserved areas—that is, areas with high need for community college enrollment relative to their current share of statewide enrollment. By definition, this requires some districts with relatively low college participation to increase

enrollment demand. This could be challenging for a district whose population has traditionally had low college-going rates or other barriers to college awareness and participation. The Governor and Legislature presumably intended for these districts to stimulate enrollment demand, such as by improving outreach and offering courses in subjects and at times and locations that better meet the needs of underserved groups. Increases in enrollment likely would be gradual, however, requiring the system to balance creating new demand and meeting existing demand as districts adjust their enrollment capacity.

New Funding Formula Could Lead to Course Offerings Outside CCC’s Primary Mission. Another challenge in implementing a new formula is that districts could be tempted to offer courses outside of CCC’s primary mission if they cannot fill their enrollment slots. Colleges eliminated many courses outside of core areas during budget reductions, and state law specifies that enrollment

Figure 16

Draft Model Veers Somewhat From Statutory Guidance

	Statutory Factors	Draft Model
Demographic and Economic Factors		
Low educational attainment		
Population ages 25 to 64 without a bachelor's degree	✓	✓
Population younger than age 25 without a bachelor's degree	✓	
Unemployment	✓	✓
Poverty	✓	
Limited English skills	✓	
Institutional Factors		
Minimum base amount	✓	✓
Prior-year funding	✓	✓
Unfunded students		✓
Share of population enrolled		✓
Enrollment of students with a Pell Grant		✓
Institutional effectiveness	✓ ^a	

^a Requires CCC to consider a college's effectiveness in serving students from high-need neighborhoods, beginning in 2016-17.

growth funding go toward increasing the number of FTE students in courses that support CCC's primary mission. Nonetheless, colleges have some discretion regarding what they offer and how they categorize certain courses.

Adjustments to Formula Could Mitigate Problems. The state gave the Chancellor's Office and Board of Governors considerable latitude in developing the formula. Other CCC formulas for allocating funds among districts include components that balance a district's size and current services with desired expansion, as shown in Figure 17. For example, a recently developed formula for allocating student equity funds to districts uses a combination of overall enrollment and enrollment of specific groups, as well as each district's poverty and unemployment rates. Likewise, CCC formulas for allocating student support funds use a variety of measures that balance current services with indicators of need for additional services. Furthermore, CCC could smooth the transition to a new funding model by phasing in changes over time. For example, the formula could assign a gradually increasing weight to the new factors in the formula while gradually decreasing the weight for current enrollment patterns.

Recommend Directing Chancellor's Office to Develop Alternative Formulas and Implementation Plans. Given the concerns noted above, we recommend the Legislature direct the Chancellor's Office at spring budget hearings to develop one or more alternative growth allocation models that better balance need, capacity, and demand. We further recommend the Legislature direct the Chancellor's Office to consult with DOF, legislative staff, and other stakeholders when developing the alternatives, and to include consideration of how the new formula factors could be phased in. We recommend requiring the Chancellor's Office complete this work before May 1.

Nonresident Enrollment

Nonresident Enrollment Traditionally Not Factored Into State Budget Decisions. The state's funding approach to enrollment traditionally only considered resident students. This is because the state does not provide funding for nonresident students. As a result, each segment has had discretion to set nonresident enrollment levels.

UC Has Largest Percentage of Nonresident Students. Currently, nonresidents make up 15 percent of all students at UC, 5 percent of all students at CSU, and 4 percent of all students at CCC. UC also has experienced the largest growth in nonresident students in the recent past, particularly among undergraduates. (Most nonresident graduate students are able to establish residency after one year, thereby limiting their numbers.) UC undergraduate nonresident enrollment increased from about 7,100 students in 2007-08 to an estimated 25,000 students in 2014-15. Nonresidents' share of the UC undergraduate student body tripled during this time, from 4.5 percent to 13.7 percent.

UC Nonresident Students Generate More Revenue Than Cost of Education. In addition to paying the resident tuition charge, UC nonresident students pay a supplemental tuition charge. Total nonresident tuition charges are about \$35,000. The university, however, estimates that it spends on average about \$18,000 (from core funds) per student for educational activities. UC asserts that the excess funding generated by nonresidents is used to cross-subsidize services for California resident students. Since 2007-08, the UC system has allowed individual campuses to retain the revenue associated with nonresident supplemental tuition. (Prior policy had been to collect the revenue centrally and distribute it back out to all campuses based on systemwide priorities.)

UC Campuses Taking Different Approaches to Nonresident Enrollment. As shown in Figure 18 (see next page), the Berkeley campus has *increased* nonresident undergraduate enrollment in the recent past while *decreasing* resident undergraduates. In contrast, the Santa Cruz campus has *decreased* nonresident undergraduates while *increasing* resident undergraduates. A number of factors could account for differences in the resident to nonresident ratio. Berkeley, which is a more selective campus, likely has greater ability to attract more applicants from outside of the state. Berkeley also might have higher costs relative to Santa Cruz and has decided to partly pay for these by generating more nonresident tuition. Cost

differences across campuses could be attributable to a different mix of programs (with the sciences being more expensive to operate) as well as higher faculty compensation.

Nonresident Enrollment Growth at UC Raises Three Key Questions. First, to what extent are nonresident students displacing resident students? Though it appears some campuses (like Berkeley) are substituting nonresidents for residents, UC asserts it never was funded by the state to serve the displaced residents. Holding UC accountable for resident displacement is difficult without a clear indication from the state on what it expects from the university in terms of resident enrollment. Second, should the state view nonresident enrollment at a systemwide

Figure 17

Comparing Factors Used in Various CCC Funding Allocation Formulas

	Enrollment Growth (Statutory Factors)	Enrollment Growth (Draft Model)	Adult Education Consortia (Proposed)	Student Equity Plans ^a	Student Success and Support Program ^a
Demographic and Economic Factors					
Population			✓		
Immigrant population			✓		
Low educational attainment	✓	✓	✓		
Unemployment	✓	✓	✓	✓	
Poverty	✓			✓	
Low adult literacy or Limited English skills	✓		✓		
Institutional Factors					
Minimum base amount	✓	✓			✓
Prior-year funding	✓	✓	✓		
Enrollment				✓	✓
Unfunded FTES		✓			
Share of population enrolled		✓		✓	
Enrollment of students With a Pell Grant		✓		✓	
Enrollment of students from low-attainment areas				✓	
Volume of specific services provided					✓
Institutional effectiveness	✓ ^b		✓		

^a These programs primarily enhance services to existing students and thus are more focused on an institution's current enrollment.
^b State law requires CCC to consider a college's effectiveness in serving students from high-need neighborhoods, beginning in 2016-17.
 FTES = full-time equivalent students.

level or by campus? Traditionally, the state has set enrollment expectations only systemwide, allowing UC flexibility to manage enrollment internally. Third, what is the optimal balance of residents and nonresidents? As a public university, UC is supposed to focus on meeting the educational needs of the state’s residents. The university might experience difficulty focusing on residents if it comes to rely too heavily on nonresident tuition.

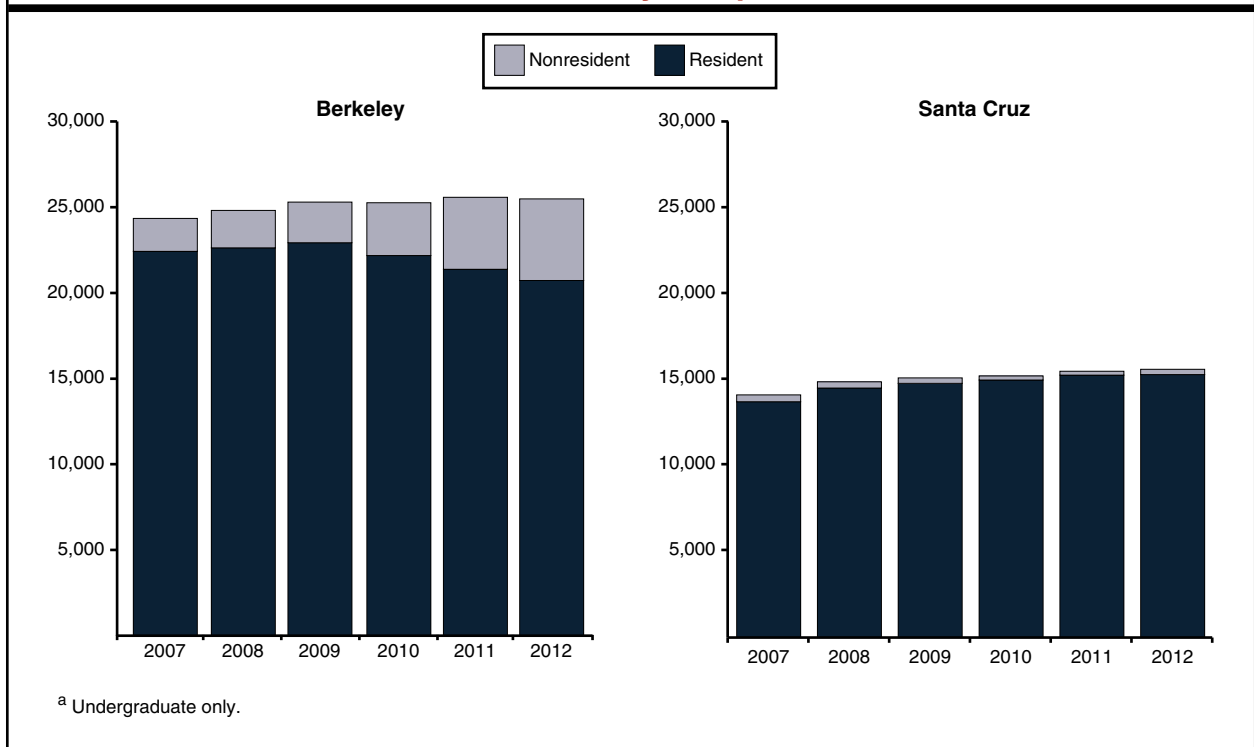
Governor Proposes to Make Base Increase for UC Contingent on Keeping Nonresident Enrollment Flat. The Governor requires UC to not increase nonresident enrollment above 2014-15 levels in order to receive his proposed \$119 million base augmentation (discussed in the “Operations” section of this report). This means UC could enroll no more than an estimated 37,400 nonresident students (25,000 undergraduates and 12,400 graduates) in 2015-16.

Governor’s Proposal Might Not Protect Resident Access to UC. Presumably, the intent behind the Governor’s proposal is to prioritize access to UC for California residents. As discussed earlier however, the Governor proposes no enrollment target for *resident* students. As a result, placing a cap on nonresident students might not achieve this objective. For example, UC still could respond to the Governor’s proposal by decreasing *resident* enrollment. In fact, UC recently submitted a report to the state indicating it would reduce resident enrollment if it did not receive additional funding beyond what the Governor included in his budget.

Recommend Legislature First Focus on Resident Enrollment. Though the recent increases in nonresident enrollment raise several concerns, we recommend the Legislature first determine its priorities for *resident* enrollment. To the

Figure 18

Nonresident Enrollment Trends Differ by Campus^a



extent UC serves as many *resident* students as the Legislature desires, some concerns about nonresident enrollment will be mitigated (such

as displacement). If the Legislature has additional concerns about nonresident enrollment, then it also could consider a cap such as the one proposed by the Governor.

OPERATIONS

In this section, we provide background information on how higher education operations are funded in the state budget. We then summarize the Governor’s proposals for higher education operations, assess those proposals, and provide associated recommendations. (We discuss enrollment, which also relates to operations, in the “Enrollment” section of this report. We discuss two other areas related to operations, debt service and maintenance, in the “Facilities” section of this report.) We next discuss two of the Governor’s targeted proposals—one relating to a CCC student support program and one relating to a CSU student support initiative. At the end of this section, we address recent concerns raised by the Governor regarding UC’s costs.

Background

State Has Moved Away From Traditional Approach to Funding Operations. Historically, the state funded higher education operations by providing all segments with (1) base budget increases to cover inflationary costs, (2) increases for specific cost areas (such as debt service and retirement), and (3) targeted funding for specific state priorities (such as for student support services or high school outreach programs). The state has moved away from this basic budget model for UC, CSU, and Hastings to different degrees in recent years. As shown in Figure 19, the state’s 2014-15 budget included base funding increases for each of the segments, but it took different approaches among the segments to funding debt service, retirement, and targeted programs. Below, we discuss in more detail the traditional budgeting approach and recent changes to it.

Figure 19

State Currently Funds Operational Costs Differently Across Segments^a

2014-15

	Base Increases ^b	Debt Service	Pensions	Retiree Health Care	Targeted Funding
California Community Colleges	✓	✓	✓		✓
California State University	✓	✓ ^c	✓ ^d	✓	
Hastings College of the Law	✓	✓			
University of California	✓				

^a A “check” indicates the state provides this specific type of funding in the annual budget act.

^b Base increases for CCC linked to inflation index. Base increases for UC, CSU, and Hastings not linked to inflation.

^c State no longer provides separate funding for general obligation bond debt service. Governor plans to stop providing separate funding for lease revenue debt service starting in 2018-19.

^d State only provides separate funding for CSU retirement costs attributable to changes in the employer contribution rate for payroll as of 2013-14.

Base Augmentations Historically Provided to Maintain Purchasing Power. Traditionally, the state has provided UC, CSU, CCC, and Hastings with base augmentations to cover general cost increases. These augmentations have been intended to cover inflationary increases for salaries and benefits, utilities, supplies, and other operational expenses. These augmentations have allowed the segments to maintain their purchasing power, thereby retaining at least their prior-year level of operations. For CCC only, state law requires a certain COLA be applied annually to apportionment funding. The CCC statutory COLA is linked to a price index of goods purchased by state and local governments. Though state law does not require UC, CSU, and Hastings to be granted an automatic COLA each year, the state typically has provided a COLA to their base funding levels.

In Recent Years, University Base Increases Not Linked to Inflation. As part of the Governor's multiyear budget plan for UC, CSU, and Hastings, the Governor has been setting base growth rates far in advance. For example, back in 2013-14, the Governor indicated he would grow university funding from 2015-16 to 2016-17 by 4 percent (regardless of what inflation might be for that particular period).

Other Budget Adjustments Also Provided to Account for Changes in Operational Costs. The state also traditionally has adjusted the segments' budgets to account for a few other changes in operational costs. Most notably, the state traditionally provided adjustments to account for changes in pension costs, retiree health benefits, and debt service. The state traditionally funded these areas separately because they do not track with inflation. In recent years, the state nonetheless has stopped funding retirement costs separately for UC and Hastings, instead expecting these segments to pay for any retirement cost increases from their base augmentations. The state currently provides

separate funding for part of CSU's retirement costs. (The state still covers retiree health benefit costs as well as employer pension contribution rate increases for CSU's 2013-14 payroll level. CSU must cover from its base budget employer pension costs for any payroll growth above the 2013-14 level.) The state continues to fund CCC pension costs separately from base augmentations. As discussed in the "Facilities" section of this report, the state uses different approaches among the segments for funding capital and debt service costs.

Targeted Funding Provided for Specific Operational Priorities. The state also designates specific amounts of funding for certain state priorities, such as student support programs. Historically, the state budget included targeted funding for about a dozen state priorities at the universities, but in recent years the state has largely discontinued this practice. Currently, virtually all state funding for UC, CSU, and Hastings is unrestricted. In contrast, as shown in Figure 20, the state continues to fund dozens of CCC categorical programs, including programs that provide students with academic counseling, care for their children while attending class, and assistance if they have a disability.

Base Budget Proposals

Provides \$119 Million Unallocated Base Increases for Each UC and CSU. These base augmentations equate to a 1.9 percent and 2.3 percent increase in UC's and CSU's core funds. Similarly, the Governor provides Hastings with a \$1 million increase that equates to a 2.5 percent increase in its core funds. For UC, the Governor stipulates that the university is to (1) keep tuition at 2011-12 levels and (2) not increase nonresident enrollment. (A third condition regarding constraining costs is discussed below.) The proposed budget language requires UC to submit a report to the Governor and Legislature verifying the

university has met these conditions prior to the release of state funds. Though not specified in budget language, the Governor also expects CSU and Hastings to keep tuition flat.

Requires UC to Take Action to Constrain Costs. UC’s base increase also is conditioned on the university reporting to the Governor and

Legislature that it has taken action to reduce its cost structure. To this end, the Governor recently convened a committee to examine the university’s cost structure. The committee consists of the Governor and the UC President. It is supported by staff of their respective offices. The committee is not expected to meet in public and has not identified

Figure 20
Community College Categorical Programs

(Dollars in Millions)

Program	2013-14	2014-15	2015-16	Change From 2014-15	
	Actual	Revised	Proposed	Amount	Percent
Adult Education Block Grant	—	—	\$500.0	\$500.0	N/A
Student Success and Support Program	\$99.2	\$199.2	299.2	100.0	50%
Student equity plans/implementation ^a	—	70.0	170.0	100.0	143
Disabled Students Program	84.2	114.2	114.2	—	—
Extended Opportunity Programs and Services	88.6	88.6	88.6	—	—
Financial aid administration	67.5	69.4	69.4	—	—
CTE Pathways Initiative ^b	48.0	48.0	48.0	—	—
Energy efficiency projects	50.0	39.0	39.6	0.6	1
CalWORKs student services	34.5	34.5	34.5	—	—
Mandate block grant	33.3	32.8	32.5	-0.3	-1
Apprenticeship (community colleges)	7.2	7.2	31.4	24.3	338
Part-time faculty compensation	24.9	24.9	24.9	—	—
Economic and Workforce Development	22.9	72.9	22.9	-50.0	-69
Telecommunications and technology	15.8	21.8	21.8	—	—
Apprenticeship (school districts)	15.7	15.7	20.5	4.8	31
Student Success for Basic Skills Students	20.0	20.0	20.0	—	—
Nursing grants	13.4	13.4	13.4	—	—
Online/technology initiative	16.9	10.0	10.0	—	—
Foster Parent Education Program	5.3	5.3	5.3	—	—
Fund for Student Success	3.8	3.8	3.8	—	—
Part-time faculty office hours	3.5	3.5	3.5	—	—
Campus child care support	3.4	3.4	3.4	—	—
Technical assistance program ^a	—	2.5	2.5	—	—
Equal Employment Opportunity	0.8	0.8	0.8	—	—
Transfer Education and Articulation	0.7	0.7	0.7	—	—
District financial oversight	0.6	0.6	0.6	—	—
Part-time faculty health insurance	0.5	0.5	0.5	—	—
Academic Senate	0.5	0.5	0.5	—	—
Adult education planning grants ^c	25.0	—	—	—	—
Physical Plant and Instructional Support	30.0	148.0	—	-148.0	-100
Totals	\$716.2	\$1,051.1	\$1,528.4	\$531.3	51%

^a The Governor’s budget reflects these amounts in the Student Success and Support Program.

^b For 2013-14, Proposition 98 General Fund. For 2014-15, non-Proposition 98 General Fund. For 2015-16, Proposition 98 General Fund from prior-year settle-up payment.

^c Planning grants are available for expenditure over 2013-14 and 2014-15 fiscal years.

CalWORKs = California Work Opportunity and Responsibility for Kids and CTE = Career Technical Education.

a date by which it will release its final findings publicly.

Provides \$92 Million COLA and \$125 Million Unallocated Base Increase for CCC. The COLA is calculated pursuant to a formula in state law that uses a state and local price index for government agencies. The preliminary COLA estimate for 2014-15 is 1.58 percent. (The rate will be locked down using data the state receives in late April.) The Governor proposes the \$125 million unallocated base increase to account for additional operating expenses in the areas of “facilities, retirement benefits, professional development, converting part-time to full-time faculty, and other general expenses.”

Provides \$170 Million for CCC Purposes to Be Specified in the Spring. The Governor’s budget inadvertently omitted designating how \$170 million in available Proposition 98 funds would be spent. The administration indicates it will designate these funds for specific CCC purposes in the May Revision.

Funds Retirement Cost Increases at CSU and CCC. The Governor’s budget assumes an increase of nearly \$61 million from the state General Fund for CSU pension costs in 2015-16. The increase primarily is related to changes in actuarial assumptions that have prompted an increase in employer contribution rates at CSU. (Consistent with recent state practice, the Governor provides no funding for CSU retirement costs due to payroll growth from the 2013-14 level.) In addition, the budget assumes an increase of \$441,000 for CSU retiree health costs in 2015-16 due to increases in both the number of retirees and the cost of retiree health insurance premiums. (The increase would have been larger but was offset by savings in the current year from a state audit that found ineligible dependents and excluded them from the program.) The budget also provides \$34 million (non-Proposition 98 General Fund) for increased

CCC employer pension contributions under the California State Teachers’ Retirement System. (The state provides no direct appropriation for community college districts’ retiree health care costs.)

Omits Funding for Retirement Costs at UC and Hastings. The Governor does not designate any funding in his budget for retirement costs at these two segments. UC estimates its pension costs will increase by \$18 million in 2015-16, while Hastings expects its costs will increase \$107,000. Both increases are due to payroll growth, not employer contribution rate changes.

Assessment of Base Increases

Funding Cost Increases Through Unallocated Approach Raises Concern. The Governor provides each segment with an unallocated base augmentation not linked to a specific purpose. That is, he remains silent on the objective of the base increases for UC, CSU, and Hastings, and he does not convey the objective of the unallocated base increase for CCC clearly. (The associated CCC language identifies myriad possible uses, without ensuring that the funds actually are spent on those identified priorities.) In contrast, the traditional COLA he provides the community colleges is associated with a specific purpose. This COLA is widely understood to cover increased general operating expenses—such as for faculty and staff salaries and classroom materials—as measured by an inflation index specified in statute. Because the Governor does not clearly articulate the justification for the four unallocated base increases, assessing whether the augmentations are needed and whether any monies provided would be spent on the highest state priorities is difficult.

Funding COLA Provides More Transparency and Budgetary Accuracy. A reasonable case could be made that the Governor intends for the universities’ and Hastings’ unallocated base

increases to function as COLAs. For example, both universities' governing boards adopted budgets in November 2014 that assume additional state funds for general cost increases. Moreover, the base increases provided by the Governor are in the ballpark of the COLA he provides to the community colleges. A more transparent approach for the universities and Hastings would link funding with expected costs by providing increases based on an inflation index. Such an approach would be consistent with the way the state in the past has budgeted for UC, CSU, and Hastings, and the way it currently budgets for schools and community colleges. Furthermore, the approach itself (replacing unallocated base increases with a COLA and other targeted appropriations) likely would help foster a clearer dialogue regarding the amount required to fund higher education.

Governor's Focus on Costs at UC Has Merit . . . The higher education delivery model at UC has a few basic attributes that result in high costs. Most importantly, the model is based on a faculty member with an advanced degree teaching a relatively small number of students in a physical setting. In addition, faculty at research universities like UC tend to have lower teaching loads compared to institutions that focus less on research. Universities with a very high research focus like UC also have relatively expensive facilities given the additional need for laboratories and state-of-the-art technology. Another factor that contributes to the high cost structure at UC (and virtually all other higher education institutions) is the practice of measuring educational attainment by the amount of time a student spends in school rather than more refined measures of learning.

. . . But Legislature Not Included in Cost Discussions. Though the Governor's focus on UC's costs is laudable, one major concern with his approach to tackling the issue is that he has not invited the Legislature to participate in the

discussion. As a result, the Legislature lacks a specific proposal from the Governor related to reducing costs at UC. The administration indicates it plans to release preliminary information from the committee's work at the next UC Board of Regents meeting in March. At the end of this section of the report, we provide more background information on UC's costs for the Legislature to consider while it awaits the results of the committee.

Inconsistent Treatment of Retirement and Debt Service Costs Across Segments. The Governor continues the state's practice over the last several years of funding the segments differently for retirement costs. He proposes providing CSU and CCC with funds specifically to cover part or all of their retirement cost increases while expecting UC and Hastings to cover these cost increases using their unallocated base augmentations. He also treats the segments differently in terms of debt service, providing CCC and Hastings funding for these costs but not UC and CSU. This approach diminishes budgetary accuracy, consistency, and transparency.

Base Budget Recommendations

Reject Unallocated Increases and Instead Provide COLA for UC, CSU, and Hastings. Based on the state and local government price index, inflation is 2.2 percent from 2014-15 to 2015-16. We estimate applying a 2.2 percent COLA to the base state appropriations for UC, CSU, and Hastings would cost \$66 million, \$47 million, and \$212,000, respectively. (We base our calculation on the main state General Fund appropriation for each of the segments. We exclude pension and lease revenue debt service costs from CSU's base since the Governor funds these separately.)

Adjust COLA Depending on Share of Cost Policy. As we discuss in the "Tuition and Financial Aid" section of this report, we recommend the Legislature adopt a policy whereby the state and students share cost increases. If the Legislature

were to maintain the current share of cost, it would provide the COLA on the General Fund share (described above) and assume a tuition increase to cover the COLA for the student/tuition share of the core budgets. (Under the state's Cal Grant program, financially needy students would receive larger grants to cover the tuition increase. Only students without financial need would pay the higher tuition charge.) Alternatively, if the Legislature were to assume flat tuition in 2015-16 and cover the cost of the COLA on the state and student shares of the segments' budgets, it would cost the state \$126 million, \$94 million, and \$886,000 for UC, CSU, and Hastings, respectively.

Approve COLA for CCC. We recommend the Legislature approve a COLA for community colleges. As indicated earlier, the Legislature will know the final COLA rate and associated funding requirement by the end of April. Applying a COLA to CCC apportionments is consistent with the state's treatment of many other Proposition 98 programs.

Consider How Best to Use \$295 Million in Unallocated Proposition 98 Funds. Consistent with our recommendations for the universities, we recommend the Legislature identify any augmentations above growth and COLA for specified high priorities. Given the Governor's package includes a \$125 million unallocated CCC base increase and another \$170 million in Proposition 98 funds currently not allocated, the Legislature has a considerable amount of funding available to dedicate to its priorities. The Legislature could consider increases for ongoing or one-time purposes. (One-time initiatives would help minimize the risk of cutting ongoing programs in 2016-17 were the stock market or economy to sour.) Regardless of whether the initiatives are ongoing or one time, we recommend the Legislature use the Proposition 98 funds to help meet overarching state education goals, such as streamlining transfer pathways or funding CCC deferred maintenance.

Adopt Governor's Proposals on Pension

Costs. We recommend the Legislature adopt the Governor's proposal to fund increased retirement costs at CSU and CCC, as the estimates appear accurate and the state traditionally has covered these cost increases separately. Though we continue to have concerns about the differential treatment of retirement costs across the segments, the state's recent budget practice has been to fund retirement costs for UC and Hastings from within their inflationary base increases.

Student Success and Support

We now turn to one of the Governor's targeted spending proposals relating to student services at the community colleges.

Student Success and Support Program (SSSP) Focuses on Improving CCC Student Outcomes.

In response to several recent reports and CCC outcome data, the Legislature has shown strong interest the past few years in improving CCC student outcomes. One part of its efforts to improve in this area has been to require that all students complete orientation and assessment and develop education plans (unless specifically exempted). To make this possible, the Governor and Legislature have provided large funding increases for campuses to hire additional counselors and advisers and develop technology-based strategies for improving student success. In addition to their interest in improving overall success, policymakers have expressed concern about outcome disparities among various subgroups of CCC students. Budget legislation in 2014 required each district to develop a student equity plan by January 2015 to identify and address any such disparities. The 2014-15 budget designated \$70 million in SSSP funds for this purpose. (The Board of Governors established student equity plans in 1996 regulations, but the plans were not required by statute and the state did not provide designated funding for them until

2014. Our office will provide additional guidance to the Legislature regarding this component of SSSP during the spring, after we have an opportunity to review the plans.)

Rapid Augmentations Proving Difficult to Absorb. Funding for SSSP doubled in 2013-14 (growing from \$49 million to \$99 million) and almost tripled in 2014-15 (growing from \$99 million to \$269 million, with \$70 million of that amount designated for student equity plans). In part due to the lead time necessary to hire counselors and other student support personnel, community colleges have been unable to fully expend these funds in the years they were appropriated. A six-month extension approved by the Chancellor's Office, along with some reallocation to districts that could use funds more quickly, permitted colleges to spend most of the 2013-14 funds. The Chancellor's Office plans to approve a similar extension for 2014-15 funds.

Governor Proposes \$200 Million Augmentation for SSSP. With the \$200 million augmentation, total funding for SSSP would rise to \$469 million. Of the proposed augmentation, the Governor designates half for general SSSP purposes—increasing assessment, placement, and orientation for new students, as well as academic counseling and tutoring for both new and continuing students. The proposed increase would bring total funding for these SSSP services to \$299 million. The CCC Chancellor's Office would allocate these funds based in part on the number and types of support services each district provides. The Governor designates the remaining \$100 million to implement local student equity plans, bringing the total for this purpose to \$170 million. The Chancellor's Office would allocate these funds based in part on measures of disadvantage, such as a district's poverty and unemployment rates and the number of low-income students enrolled. Community

colleges could provide some of the same types of activities under both components of the proposed SSSP augmentation but could include additional support and outreach activities under the second component and further target these activities to disadvantaged groups.

Governor's Approach Narrowly Focused. As we noted last year when the Governor proposed additional SSSP funding, we remain concerned that the Governor's approach to fostering student improvement is too narrowly focused. As state and national research has shown, some types of students can benefit from different support services—for example, some students benefit considerably from initial orientation services whereas other benefit more from ongoing academic counseling. Additionally, some students can benefit from multiple types of support (orientation, academic counseling, tutoring, and help processing financial aid applications). Currently, the state authorizes specific types of support for CCC students through seven categorical programs. The various support programs are not necessarily coordinated with each other. As shown in Figure 21 (see next page), the Governor's budget augments only SSSP, providing no augmentation for the remaining six support programs.

Recommend Creating CCC Student Support Block Grant. We recommend the Legislature approve the \$200 million augmentation but not limit it only to the kinds of student support services offered through SSSP. Instead of limiting the funds only for SSSP, we recommend the Legislature consolidate the seven CCC student support programs into a new Student Support block grant. The Legislature could incorporate the goals of the various programs—including meeting needs of specific subgroups of students and offering specific types of services—into state goals for the block grant. Total funding for the block grant would be \$691 million in 2015-16. By combining funding for

these programs into one block grant, community colleges would be able to allocate funding in a way that best meets the state’s goals and the needs of their students—without being bound to specific existing programmatic requirements. With this funding, for example, districts could provide students with assessment, orientation, counseling, financial aid advising, child care, tutoring and other activities designed to help them—without having to apply separately to programs and meet separate

programmatic and reporting requirements. (This consolidation also would reduce state-level administrative work, thereby likely freeing up several positions and a few hundred thousand dollars in non-Proposition 98 General Fund within the Chancellor’s Office budget.)

Adopt Allocation Formula for Block Grant Funding. Were the Legislature to take the block grant approach, we recommend adopting a new formula for allocating associated funding to

Figure 21
Seven CCC Categorical Programs Provide Student Support Services

(In Millions)

Categorical Program	2013-14	2014-15	2015-16	Change From 2014-15	
	Actual	Revised	Proposed	Amount	Percent
Student Success and Support Program. Funds assessment, orientation, and counseling (including educational planning) services for CCC students. Includes designated funding to identify and address disparities in access and completion for various subgroups of CCC students. Also provides \$2.5 million beginning in 2014-15 for technical assistance to community colleges that demonstrate low performance in student outcomes or other areas of college operations.	\$99.2	\$271.7	\$471.7	\$200.0	74%
Extended Opportunity Programs and Services. Provides various supplemental services (such as counseling, tutoring, and textbook purchase assistance) for low-income and academically underprepared students.	88.6	88.6	88.6	—	—
Financial Aid Administration. Funds staff to process federal and state financial aid forms and assist low-income students with applying for financial aid.	67.5	69.4	69.4	—	—
CalWORKs Student Services. Provides child care, career counseling, subsidized employment, and other supplemental services to CCC students receiving CalWORKs assistance. (These services are in addition to those provided to all CalWORKs recipients by county welfare departments.)	34.5	34.5	34.5	—	—
Student Success for Basic Skills Students. Funds counseling and tutoring for academically underprepared students as well as curriculum and professional development for basic skills faculty.	20.0	20.0	20.0	—	—
Fund for Student Success. Consists of three separate programs: two programs that provide counseling, mentoring, and other services for CCC students from low-income or historically underrepresented groups who seek to transfer to a four-year college; and one program for students who attend high school on a CCC campus.	3.8	3.8	3.8	—	—
Campus Child Care Support. Funds child care centers at 25 community college districts. (This child care is unique to these 25 districts and not part of the state’s CalWORKs child care program.)	3.4	3.4	3.4	—	—
Totals	\$317.0	\$491.4	\$691.4	\$200.0	41%

CalWORKs = California Work Opportunity and Responsibility to Kids.

districts. Specifically, we recommend that block grant funds be allocated to districts primarily on a per-student basis, with some allowance potentially made for districts with high percentages of financial aid recipients or students with other indicators of need. The Legislature also could consider a district's performance—such as meeting goals for improving overall outcomes and reducing disparities in achievement—as a factor in the allocation of student support funds.

Awards for Innovation

We now turn to the second of the Governor's targeted spending proposals.

Awards for Innovation Funded in 2014-15.

The 2014-15 budget provided \$50 million in one-time funding to promote innovative models of higher education at UC, CSU, and CCC campuses. Campuses with initiatives to increase the number of bachelor's degrees awarded, improve four-year completion rates, or ease transfer across segments could apply for awards. Campuses could apply on their own or in collaboration with other campuses. Award applications were due January 9, 2015. A committee of seven members—five Governor's appointees representing DOF, the three segments, and the State Board of Education, as well as two legislative appointees selected by the Speaker of the Assembly and the Senate Rules Committee—will make award decisions.

State Received 57 Applications From 52 Campuses. Of the campuses applying, 29 were community colleges, 15 were CSU campuses, and 8 were UC campuses. (CSU Monterey Bay, CSU San Marcos, College of the Canyons, Foothill College, and Saddleback College each submitted two applications.) More than half of applications (39) involve partnerships with other educational institutions. These partnerships include, for example, a CSU or a UC collaborating with several community colleges to improve transfer

between those institutions. Other applications involve regional partnerships with elementary and secondary schools to improve academic preparation. Factoring in the partner institutions, the applications encompassed 77 community colleges, 22 CSU campuses, 10 UC campuses, 84 elementary and secondary schools, and 8 private higher education institutions.

State to Award Funds in the Coming Months.

Staff to the committee (provided by DOF) currently are reviewing the applications, and the committee expects to make award decisions by mid-March. The committee will evaluate applicants with a point system based on (1) activities the applicants engaged in to meet one or more of the program's three goals prior to January 2014 (10 points); (2) changes, improvements, or new policies enacted after January 2014 (15 points); and (3) anticipated activities after January 2015 (10 points). The committee will not base award allocations on any projected future costs of these activities because the campus initiatives are expected to be financially sustainable without any ongoing grant funding. Instead, award winners will have discretion in how they use award funds, including whether to share these funds with partner institutions. The DOF has indicated its intent to set the minimum award amount at \$2.5 million, effectively limiting the total number of possible winners to 20 applicants. The award winners must submit information to the committee outlining how they will spend the funding, and the committee has stated that it intends for award recipients to use their funding in relation to the three goals. In addition, the committee will require recipients to report on the effectiveness of their initiatives by January 1, 2018 and January 1, 2020.

Governor Proposes \$25 Million to Improve Four-Year Graduation Rates at CSU. For 2015-16, the Governor proposes \$25 million in one-time awards to CSU campuses that are implementing

initiatives to improve four-year graduation rates. This proposal is much narrower than the 2014-15 award program—focusing only on CSU and only on one of the three goals of the 2014-15 program. Awards, however, would be competitive and award decisions would be made using the same committee structure as used for the first-year awards.

Awards for Innovation Proposal Raises Several Concerns. First, the proposal does not identify the causes of low graduation rates at CSU. As stated earlier in the “Performance” section of this report, CSU currently is investigating the underlying causes of poor performance, including: lack of preparation among entering freshmen, low retention rates from freshmen to sophomore year, poor fee and financial aid incentives, weak incentives to take 15 units per term, students working excessive hours, lack of access to required courses, or other problems. The Governor’s approach to innovation awards appears to tackle a single symptom—that is, low graduation rates—without more comprehensively and systematically addressing underlying issues. Second, we have doubts that small amounts of one-time funding will provide sufficient incentive for CSU campuses to refocus efforts on improving graduation. The proposal targets campuses that have already implemented efforts to improve graduation rates. It is likely that campuses will submit proposals of initiatives that they would have implemented with or without the opportunity to earn additional funding.

Reject Proposal to Provide \$25 Million for CSU Awards. If the Legislature still wishes to use the \$25 million one-time funding in the higher education budget, it could target the funding to other priorities, like deferred maintenance, that are one-time in nature.

A Review of UC Costs

Governor Calls for Review of UC’s Cost Structure. Traditionally, the state has funded UC

on an incremental basis. That is, each year, the state proposes changes on the margin to UC’s base due to increasing enrollment, inflation, or other reasons. This year, the Governor has called for an examination of UC’s overall cost structure, thereby expanding the scope of the state’s routine budgetary review from incremental funding changes to the university’s entire base budget. Evaluating any state agency’s base budget is a large undertaking—particularly so for an agency as large, complex, and decentralized as UC. To help the Legislature start to develop a better understanding of UC’s base budget, we provide an overview and describe major factors affecting UC’s costs below.

State Classifies UC Expenditures Into Eight Main Areas. Figure 22 describes these areas. Three areas directly correspond to the university’s core mission: instruction, research, and public service. Five areas support these core operations: academic support, student services, institutional support, operation and maintenance of plant, and student financial aid. These classifications generally track those used by the federal Department of Education. (In addition, the state classifies expenditures separately for teaching hospitals, federal energy laboratories, and auxiliary programs, such as student housing. Typically, however, the state tends to focus only on the three core programs and the five programs that directly support them.)

UC Spends Far More on Instruction Than Other Areas. As shown in Figure 23 (see next page), UC’s largest expense is for its instructional program (\$6 billion), followed by research (\$4.1 billion). Because of the way expenditures are tracked, however, some spending on research actually shows up as instruction. This is because all faculty salary expenditures are assigned to the instruction program. In reality, faculty spend much of their time conducting research (and a lesser amount of time performing public service).

As a result, the Governor’s budget over-reports instructional spending while it under-reports research spending. Nonetheless, this approach is consistent with the way the federal government and other higher education institutions report instructional and research expenditures.

Instructional Spending Per Degree Higher at UC Than Comparable Universities. Figure 24 (see page 49) shows instructional spending per degree at UC versus the median for other comparable universities, defined as public universities with very high research activity. The figure is based on data reported to the federal government’s Integrated Postsecondary Education Data System (IPEDS). The figure separates universities with and without medical schools because medical schools tend to have far more expensive instructional programs. Six of the nine UC campuses have instructional

spending per degree higher than the median of the comparison group. Notably, spending per degree at the Los Angeles campus is more than double the median of universities with medical schools, while spending per degree at the Berkeley campus is 37 percent more than the median of universities without medical schools.

Many Challenges in Interpreting Spending Data Across Institutions. Many challenges exist in comparing spending across universities with the data available from the federal government. For example, universities can vary greatly in terms of their program mix, with universities geared toward more expensive disciplines (such as the sciences) tending to have higher costs. While our figure accounts for one such difference in program mix (medical schools), others certainly exist. Another reason costs might differ is due to

Figure 22

UC Has Eight Main Operational Areas^a

Instruction

Includes direct costs associated with the instruction of students, such as salaries and benefits of faculty and teaching assistants, as well as educational materials. Includes all costs for teaching faculty, even though these faculty devote significant time to research. Includes general campus instruction as well as health sciences. Excludes teaching hospitals.

Research

Includes direct costs of research, such as for organized research units at individual campuses, agricultural research stations, and grant research funded by the federal government and others sponsors.

Public Service

Includes programs and services for communities external to the university’s campuses, such as partnerships with elementary and secondary schools and applying research findings to the surrounding community.

Academic Support

Includes libraries, museums, galleries, and vivaria.

Student Services

Includes social and cultural activities, supplemental educational services (such as tutoring), counseling, financial aid administration, admissions administration, and student health services.

Institutional Support

Includes executive management, fiscal operations, general administration, and public relations.

Operation and Maintenance of Plant

Includes maintenance of buildings, grounds maintenance, utilities, and security and safety.

Financial Aid

Includes tuition discounts and waivers, grants, scholarships, and other student aid.

^a UC also operates teaching hospitals, auxiliary programs (such as student housing and parking facilities), and federal energy laboratories. Traditionally, the state has not focused on these operational areas.

regional cost variations. California, in particular, has higher wage and living costs than many other states. A third challenge is that the federal data on instructional spending includes spending for continuing education programs, typically evening programs offered by universities to the general public. (Though included in the federal database, these programs make up a small percentage—about 5 percent—of instructional spending at UC.)

Faculty Salaries Contribute to Higher Costs at UC. Despite the challenges in comparing overall spending per degree across universities, evidence suggests one primary reason for the difference likely is attributable to faculty salaries. The federal IPEDS data show that the average faculty salary for professors at UC is much higher than the average faculty salary at other public universities with very high research activity. Figure 25 (see page 50) shows the average faculty salary for full professors at UC compared to other public universities with very high research activity. Many factors could explain why faculty salaries are higher at UC. Most notably, faculty at UC likely are regarded as more desirable and therefore can command a higher salary. For

instance, many UC campuses compete for faculty with wealthy, prestigious private universities, such as Harvard and Stanford. Regional differences in faculty salaries also might contribute to higher faculty salaries in California.

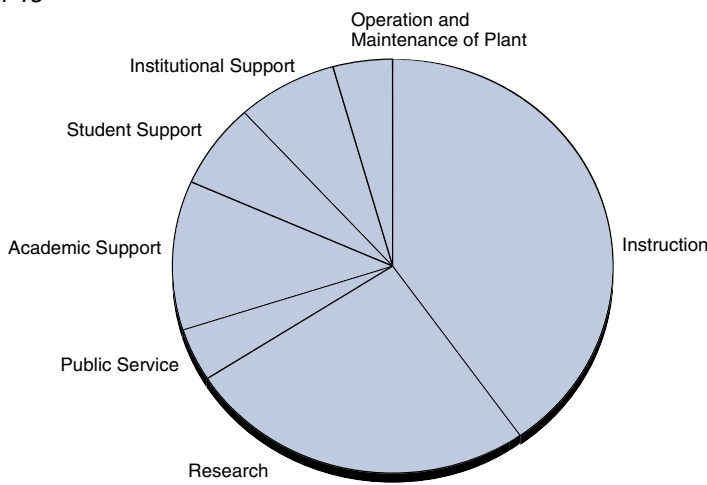
Little Information on How Faculty Workload Affects UC’s Costs. Faculty workload also is an important consideration in understanding a university’s cost structure. UC indicates it currently does not track faculty workload—that is, it does not know the average number of courses a faculty member teaches nor does it not know the average amount of time faculty members devote to teaching versus research. Some related data, however, exist. For example, the federal IPEDS data show that UC’s student-to-faculty ratio is about on par with other public universities with very high research activity. Four UC campuses have a higher ratio than the median, four campuses have a lower ratio, and one campus is right at the median (18 students per faculty member). Though somewhat useful as a metric, two institutions with the same student-to-faculty ratio could have very different teaching loads depending on class sizes. One institution

might require faculty to teach two courses a term but have very large class sizes and rely heavily on teaching assistants. Another institution might require faculty to teach four courses a term but have relatively small class sizes. The student-to-faculty ratio would be the same at the two campuses, but faculty at the first campus likely would be spending considerably more time on research than faculty at the second campus. Institutions with faculty who devote more time to

Figure 23

Largest Share of UC Spending Dedicated to Instruction^a

2014-15



^a Excludes teaching hospitals, auxiliary programs, federal energy laboratories, and student financial aid.

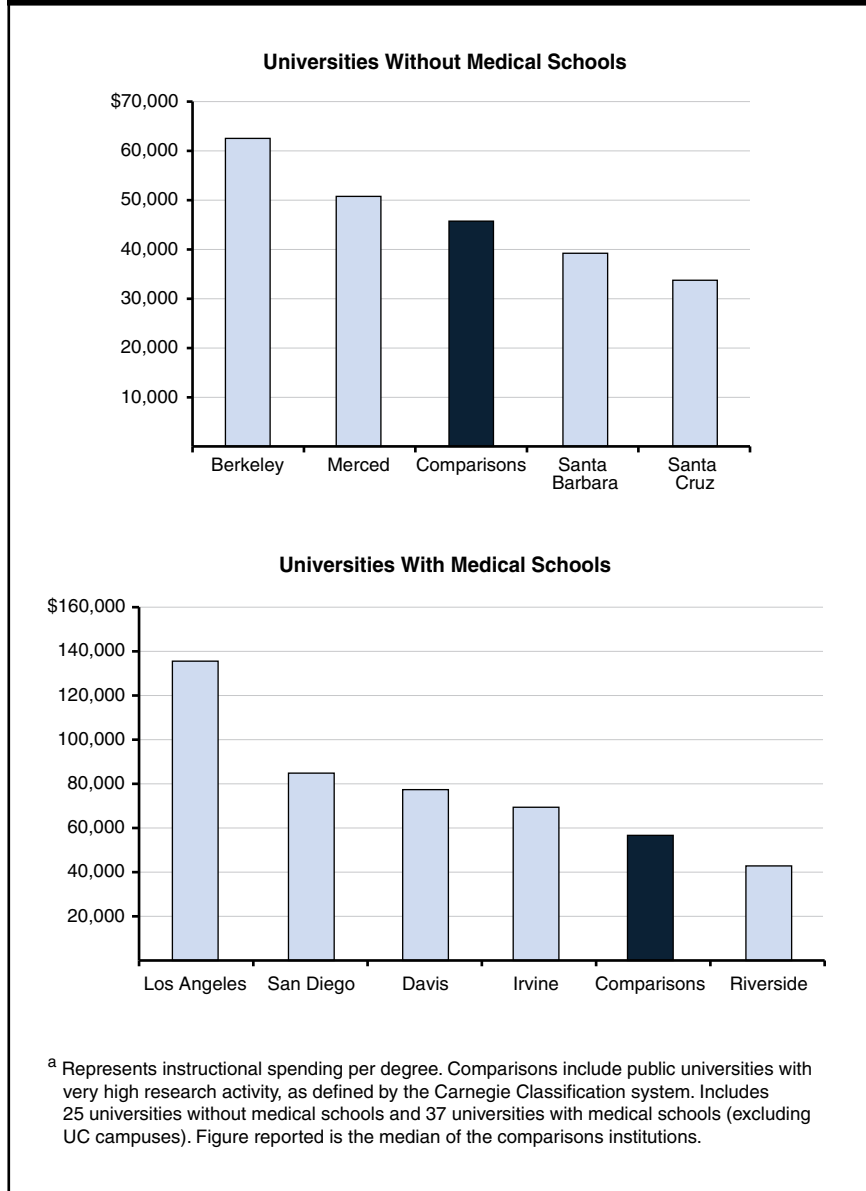
instruction have lower instructional costs. By comparison, institutions with faculty who devote more time to research may have more inventions and theoretical advancements. To date, the state has not set forth explicit expectations regarding how much of each of these services—instruction versus research—it desires, though these decisions have important fiscal and programmatic effects.

Noninstructional Costs Per Degree Also High at UC. If costs for research, public service, academic support, student services, and institutional support are factored into the cost per degree, UC campuses compare to other public research universities in the same manner as for instructional costs. That is, UC campuses tend to have higher costs than the median. (The federal government no longer tracks operation and maintenance separately because it allocates those costs to the other programs. We exclude financial aid because it largely reflects foregone revenue not available for programmatic purposes.) Teasing out the precise reasons for higher noninstructional costs is even more challenging than for instructional costs, but some of the explanation might be similar with regards to higher salaries in California and differences in workloads.

Instructional Delivery Model Heavily Influences Costs. UC’s instructional delivery model (as with the delivery model at virtually all other research universities) strongly influences costs. In recent years, some higher education institutions have begun exploring alternatives to the traditional model. For example, some institutions have begun relying significantly on online instruction to expand access to courses and reduce operational

Figure 24

Instructional Spending Higher at UC Than Other Public Research Universities^a



(and facility) costs. Some institutions also are placing greater emphasis on competency-based learning. Under this model, students are allowed to gain course credit based on their mastery of a subject, whether through an assessment of their prior learning or a demonstration of knowledge and skills acquired at the institution. This approach potentially can reduce the amount of time students must spend in the classroom, thereby reducing operational (and facility) costs per student. To date, the state has set forth few explicit, clear expectations regarding UC’s delivery model and future changes to it.

UC Recently Releases Report Disaggregating Costs of Education by Type of Student. One longstanding challenge in understanding educational costs at UC has been the lack of information on costs for different types of students. To acquire more information in this area, the 2013-14 budget required biennial reports from

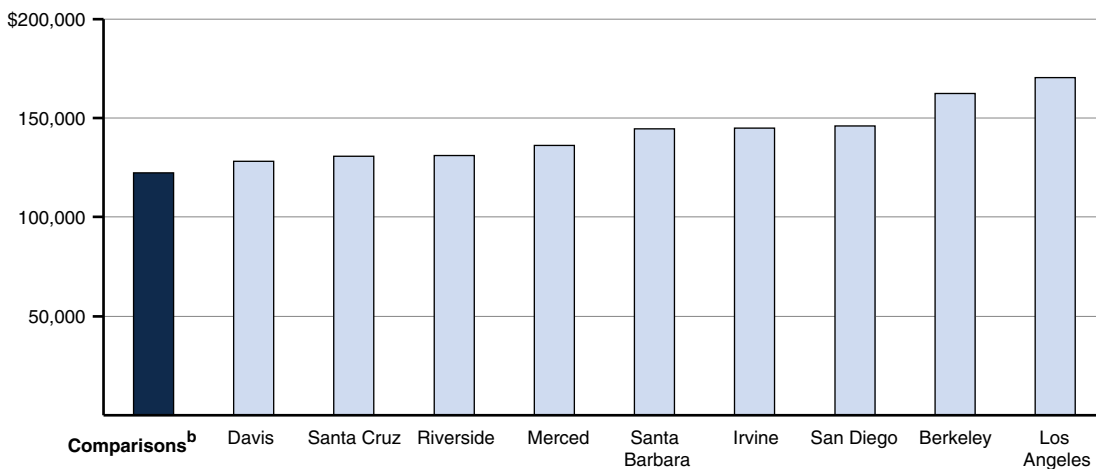
UC beginning October 1, 2014, on the cost of education, broken out by undergraduate, graduate academic, and professional education. The reports also are to disaggregate costs by (1) science, technology, engineering, and mathematics (STEM) disciplines; (2) health sciences; and (3) all other disciplines. UC submitted its first report on February 17, 2015. Moving forward, the information in the report will be another valuable tool for the Legislature to use to understand UC’s cost structure.

UC Pension Costs a Notable Issue. Unlike most pension systems in California, UC’s pension plan was superfunded for about 20 years starting in the late 1980s. This means that the system had over 100 percent of the assets needed to pay future benefits. At its peak around 2000, for example, the plan had assets totaling 154 percent of the amount needed to pay the cost of future benefits earned as of that date. Due to the plan’s exceptional funding

Figure 25

Faculty Salaries Higher at UC Than Other Public Research Universities^a

2013



^a Average salary for full professor. Excludes medical faculty.

^b Comparison institutions include public universities with very high research activity, as defined by the Carnegie Classification system. Figure reported is the median of the comparison institutions.

status, the UC Regents allowed a “funding holiday” for nearly two decades during which neither UC nor its employees were required to contribute to the retirement plan. (The funding holiday also resulted in the state discontinuing funding to UC for retirement costs for instructional and certain other staff.) Effective July 1, 2009, the UC Regents adopted a funding policy to reinstate contributions to UC’s retirement plan. Under UC’s funding policy, contributions to the plan have been gradually ramped up. In 2015-16, total funding for the plan will be 22 percent of pay—8 percent from employees and 14 percent from UC. UC’s employer contributions to the plan have increased from \$44 million in 2009-10 to an estimated \$406 million in 2015-16.

UC Pension Benefits Different in a Few Notable Ways From Recent State Pension Legislation. Recently, the Legislature enacted Chapter 296, Statutes of 2012 (AB 340, Furutani), and Chapter 297, Statutes of 2012 (AB 197, Buchanan), to lower the pension benefits for new members of most public retirement systems and require some public employees to contribute more toward their pension. This legislation did not apply to UC. Though UC in recent years also enacted changes to its pension benefit structure, the university’s pension benefits currently differ from the requirements of Chapters 296 and 297 in a few notable ways. In particular, Chapter 296 sets a cap on pensionable income (\$117,000 in 2015) much lower than the cap used by UC (\$265,000 in 2015). A second difference is UC’s plan does not specifically prohibit retroactive increases to pension

benefits whereas Chapter 296 explicitly prohibits such increases.

Legislature Faces Many Overarching Policy Questions Regarding UC Expenditures. First, how should UC be viewed in relation to other research universities in terms of instructional costs? Should the state fund UC faculty salaries comparable to the median of other public research universities, other top-ranked public universities (such as the University of Michigan and the University of Virginia), or wealthy private institutions (such as Harvard or Stanford)? Second, what is the appropriate workload expectation for faculty? How much time should faculty be expected to devote to undergraduate instruction versus graduate instruction and research? Third, should the state seek to change the traditional instructional delivery model, such as through online education?

Funding a Workload Budget for UC Reasonable in 2015-16. The Legislature likely will need time to assess the relative trade-offs involved in any major changes to UC’s cost structure. For instance, changes to the instructional model or the competitiveness of faculty salaries relative to other public universities have major implications for UC’s instructional program. As the Legislature grapples with these overarching policy questions, it could fund a workload budget for UC in 2015-16. That is, it could allow UC to maintain its current program while that program is under review. Providing a COLA, as we recommend above, would allow the university to maintain its current operations at a steady level into the budget year.

FACILITIES

In this section, we first provide background on higher education facilities in California, state financing of higher education capital projects, and

maintenance at the segments. We then describe the Governor’s proposals, assess these proposals, and make associated recommendations.

Background

State Has Vast Array of Higher Education Facilities. As shown in Figure 26, the state’s public higher education system consists of 13,200 buildings (encompassing 290 million square feet) located on 75,000 acres of land spread across the state. These buildings primarily accommodate space for instruction, research, administration, and auxiliary activities (such as student housing and dining). The number of buildings at each segment varies depending on the segment’s mission and student population. Despite its fewer students, UC has the most buildings and greatest amount of space. This is primarily because its mission encompasses research and its campuses tend to have more residential housing. CCC’s mission focuses more narrowly on instruction and its campuses tend to be more commuter-oriented, yet it has nearly as many buildings as UC due to the large number of students its serves. CSU has less space than UC, as it does less research and has more commuters, whereas it has less space than CCC because its student population is notably smaller. With a student population only a fraction of the other three segments’, Hastings also has only a fraction of the infrastructure.

State Also Has Vast Array of Associated Campus Infrastructure. Infrastructure associated with higher education buildings includes roads, water lines, sewer lines, and electrical distribution systems. In most cases, the segment owns and

maintains infrastructure on campus property. For instance, a segment might build the roads and install the water lines serving a new development on campus. The segments do not own or maintain infrastructure running to their property. This infrastructure is owned and maintained by local governments or utility companies. In some cases, segments might pay for various improvements to local government or utility-owned infrastructure to mitigate the impact of their developments.

Capital Outlay

Construction of Facilities and Associated Infrastructure Typically Financed With Bonds.

Both the state and segments can issue bonds to construct and renovate facilities and associated infrastructure. The state and segments tend to use bond financing (rather than paying cash) to spread project costs out over a longer period, thereby tending to make payments more manageable. Traditionally, the state issues two types of bonds for higher education projects: general obligation bonds and lease revenue bonds. General obligation bonds are backed by the full faith and credit of the state and require voter approval. Lease revenue bonds are backed by rental payments made by the segment occupying the facility and only require a majority vote of the Legislature. The debt service on both general obligation and lease revenue bonds is repaid from the General Fund. In addition to these types of bonds, UC, CSU, and Hastings issue

revenue bonds backed by university revenues (such as fees generated by the project built), whereas community college districts issue their own local general obligation bonds, subject to voter approval.

Figure 26
Higher Education Facilities in California^a

	Acres of Land	Number of Buildings	Building Square Footage
University of California	30,000	5,800	130,000,000
California State University	21,000	2,100	88,000,000
California Community Colleges	24,000	5,300	72,000,000
Totals	75,000	13,200	290,000,000

^a Hastings has 3 acres of land, 4 buildings, and 700,000 square feet of building space.

State Funds Only Academic-Related Capital Projects. This primarily includes classroom space and, at UC, research space. It also can include related buildings that support the instructional and research programs, such as administrative facilities. The state does not fund nonacademic buildings such as student housing and dining facilities. Instead, the segments issue university revenue bonds and service the related debt payments using noncore funds. In some cases, the segments also use noncore funds to supplement (or, in some cases, entirely cover) academic projects. For instance, UC routinely issues university revenue bonds for research buildings and uses noncore funds to pay the associated debt service.

State Uses Traditional Capital Outlay Process for Hastings and Community Colleges. Hastings and the community colleges submit capital outlay proposals to the state as part of the regular state budget process. The Governor and the Legislature review the projects as part of the annual budget process and decide which projects to fund. The state typically funds projects included in the final state budget with either general obligation or lease revenue bonds. The state then pays the associated debt service on behalf of the segment. State funding for debt service is kept separate from state funding for the segments' support budgets.

State Recently Granted UC and CSU New Authority for Capital Outlay Spending. Starting in 2013-14 for UC and 2014-15 for CSU, the state granted each university the authority to pledge its state support appropriation to issue bonds for academic facilities and associated campus infrastructure. The state also allows each university to pay the associated debt service using its state support appropriation. Given these changes, the state no longer is issuing bonds for university projects. To use the new authority, state law requires both universities to submit project proposals to DOF and the budget committees of the

Legislature by September 1 for the upcoming fiscal year. State law requires DOF to notify the budget committees by February 1 as to which projects it preliminarily approves. The budget committees then can express any concerns with the projects to DOF and request DOF to approve, modify, or reject projects. The DOF can approve projects no sooner than April 1 for the upcoming fiscal year. (For CSU only, two sets of timelines apply in the current fiscal year: the one outlined above for 2015-16 projects and an expedited process for 2014-15 projects that requires preliminary DOF approval by November 1, 2014 and final approval no sooner than December 1, 2014. This is because 2014-15 is the first year CSU was granted the new authority.)

UC Adapts to New Authority Quickly, CSU Slower to Respond. After UC received the new authority in 2014, its Board of Regents acted quickly to approve projects and submit them to the state for review by the deadlines specified in statute. In contrast, CSU has proceeded more cautiously. Prior to approving projects using the new authority, the Trustees deliberated for several months over the associated consequences. When the Trustees finally did act to use the new authority, they acted in two stages. First, they decided in November 2014 to set aside \$10 million annually from CSU's operating budget for debt service. Second, they decided in January 2015 to approve the associated projects.

State Traditionally Funds Capital Projects in Four Phases. The project proposals submitted by the segments include a high-level description of the project, a cost estimate, and a project schedule. To gain better knowledge about the project and expected costs, the state traditionally first provides funding only for preliminary plans. Preliminary plans provide more specific scope, cost, and schedule information based on design studies. After the segments submit preliminary plans for state review, the state approves funding for working drawings. Working drawings are detailed

architectural plans. The state reviews working drawings and then provides funds for construction. After construction, the state provides funds for equipment. In some cases, the state funds multiple phases of a project at one time.

State Currently Paying \$946 Million in Debt Service on Higher Education Facilities.

As shown in Figure 27, the state expects to spend the most on debt service for UC facilities (\$333 million), followed by CCC (\$325 million), CSU (\$288 million), and Hastings (\$1.1 million). Debt service spending by segment primarily depends on three factors—the number of projects authorized, the cost for each project, and the cost of borrowing for the project (that is, the interest rate). UC projects tend to be more expensive per square foot than CSU and CCC projects.

Maintenance

Facilities Require Maintenance to Keep Them in Working Order. After facilities are constructed or renovated, the segments are supposed to maintain them in good condition and working order. Routine maintenance includes activities like annual roof inspections (and, when needed, minor patchwork) and regular servicing of heating, ventilation, and air conditioning (HVAC) systems. In addition to routine maintenance, scheduled maintenance includes replacing building systems and other infrastructure that have reached the end of their useful life. Examples include replacing an

obsolete electrical system or an old and unreliable HVAC unit. Deferred maintenance occurs when building systems or other infrastructure are at the end of their useful life and need replacement, but such projects have been delayed.

Segments Vary in Approaches to Tracking Maintenance Projects and Building Conditions.

At the systemwide level, UC and CSU do not track maintenance projects, including deferred maintenance. Instead, each university employs a “life-cycle” model to track maintenance that assigns a standard useful life to each building system based on age. For example, the model might assume that a roof lasts 25 years. In reality, however, building systems might need to be replaced earlier or later depending on a variety of factors. In contrast, the CCC Chancellor’s Office maintains a master list of identified maintenance projects compiled by community college districts.

All Segments Report Sizeable Deferred Maintenance Backlogs. The CCC system has identified a total of about \$1 billion in maintenance projects. Though the system cannot separately identify deferred and scheduled maintenance, we estimate that about 90 percent or \$900 million likely relates to deferred maintenance. CSU currently estimates a \$1.8 billion backlog based on its life-cycle model. (Separately, CSU reports having conducted assessments of each campus’s utility infrastructure, with estimated costs totaling nearly \$700 million. The university indicates an

unknown overlap exists between the \$1.8 billion estimate for buildings and the \$700 million estimate for infrastructure.) UC reports billions of dollars in deferred maintenance but does not have a specific estimate at this time.

Figure 27
State Debt Service for Higher Education Facilities

2014-15 (In Millions)

	UC	CSU	CCC	Hastings
General obligation bonds	\$193	\$189	\$260	\$1
Lease revenue bonds	—	99	65	—
University revenue bonds ^a	139	—	—	—
Totals	\$333	\$288	\$325	\$1

^a Includes only the portion of university revenue bonds used for state-allowable facilities. Associated debt-service payments can be made from UC’s main state appropriation.

State Has Different Ways of Funding Maintenance Among the Segments. The state does not designate any funds in its main state budget appropriation for UC, CSU, or Hastings specifically for maintenance. Instead, the state allows these segments to decide how much to spend annually on maintenance. For CCC, the state has a categorical program for maintenance. This categorical program also funds instructional equipment and library materials. It typically requires a one-to-one local match (using apportionments, local bond monies, or other general purpose funds). To access this categorical funding, districts must (1) adopt and submit to the CCC Chancellor's Office a five-year plan of maintenance projects, and (2) dedicate at least half of 1 percent of district apportionment funds for routine maintenance. In addition to categorical funds, CCC districts can use their apportionments (typically for routine maintenance) or issue local general obligation bonds (typically used for scheduled or deferred maintenance).

Maintenance Spending Varies by Segment. For 2014-15, UC, CSU, and Hastings estimate spending nearly \$200 million, \$90 million, and \$1.7 million in building maintenance, respectively. In addition, UC and CSU each report spending nearly \$30 million in grounds maintenance. The 2014-15 state budget provided CCC with \$148 million (one time) for the maintenance, instructional equipment, and library materials program. Data are not available on how much community colleges expect to spend from their apportionments and bonds on maintenance.

Governor's Proposals

DOF Preliminarily Approves 15 UC Projects Totaling \$298 Million. The DOF informed the budget committees of the Legislature of its preliminary approval in a letter dated January 26, 2015. (The letter indicates that DOF currently is seeking more information from UC regarding the

proposed hazardous waste storage facility at Santa Cruz and the proposed science building at San Diego.) Figure 28 (see next page) lists the projects. Eight new projects cost \$218 million whereas \$80 million is associated with seven continuing projects for which the state has already approved earlier phases. (As noted in the figure, UC also plans to use \$136 million in nonstate funds to partially support seven projects.) UC would issue university revenue bonds to pay for the projects and estimates the associated debt service is \$22 million annually. The university would pay for the debt service from its main state budget appropriation.

Trustees Approve \$182 Million in New Projects, DOF Preliminary Approval Still Pending. Figure 29 (see page 57) lists the projects by CSU's designated priority rank. One group of projects totaling \$104 million addresses capital renewal and campus infrastructure improvements at campuses across the system. Separately, the Trustees designated \$78 million for five other projects. (Though CSU has approved all the projects, the university indicates it might not be able finance all \$182 million in projects with the \$10 million it has designated for debt service. If the university cannot finance all projects, it will fund the projects in the priority order shown in Figure 29.) Due to the lateness of the Trustees' action, DOF has not yet submitted its list of preliminarily approved projects to the Legislature. The DOF indicates it might submit a list for approval this spring, even though the statutory deadline expired February 1.

Proposes Funding Construction Phases of Seven CCC Projects. The budget provides \$100 million from general obligation bonds to support the construction phase of these projects. The state authorized earlier phases of the projects in 2014-15. The projects include (1) \$33 million for campus infrastructure replacements at the College of the Redwoods (Eureka campus), (2) \$20 million to make seismic and building code corrections to

Figure 28
UC's 2015-16 Capital Outlay Request

(In Millions)

Project Classification	Campus	Project Description	New or Continuation ^a	Project Phase	2015-16 State Costs ^b	Non-State Funds ^c
Program Expansion	San Diego	Construct a new biological and physical sciences research building.	New	C	\$55.8	\$51.3
Fire Safety and Campus Infrastructure	Irvine	Install building fire sprinkler systems, replace building fire alarms, and upgrade water line.	New	C	35.5	—
Capital Renewal and Program Expansion	Riverside	Replace building systems in an existing science building and construct a classroom addition.	New	P/W/C	34.7	—
Seismic and Fire Safety	Davis	Correct seismic deficiencies at an existing chemistry building and install new fire suppression systems.	Continuation	C	31.1	—
Seismic and Fire Safety	Los Angeles	Correct seismic deficiencies at an existing medical building and install new fire alarm and sprinkler systems.	New	C	25.0	15.0
Seismic and Modernization	San Francisco	Correct seismic deficiencies at an existing science building and reconfigure existing laboratory space for faculty office space.	Continuation	C	21.7	52.0
Program Expansion	Santa Cruz	Construct a new hazardous waste storage facility.	New	P/W/C	19.4	—
Capital Renewal	Berkeley	Replace building systems in an existing classroom building.	New	W/C	19.4	1.1
Capital Renewal	Riverside	Replace building systems in an existing science building.	Continuation	W/C	17.8	—
Program Expansion and Life Safety	Santa Barbara	Construct a replacement assembly hall and demolish an existing one.	New	P/W/C/E	15.8	15.8
Campus Infrastructure	Santa Cruz	Upgrade campus telecommunications infrastructure.	New	C	12.6	0.4
Program Expansion	Merced	Equip a new classroom and academic office building.	Continuation	E	5.0	—
Program Expansion	Santa Cruz	Equip a new coastal biology research building.	Continuation	E	2.0	—
Program Expansion	ANR centers	Add new research and meeting space.	Continuation	C	1.8	0.1
Program Expansion	Riverside	Equip a new hazardous waste storage facility.	Continuation	E	0.4	—
Totals					\$297.9	\$135.7

^a "New" means the state has not yet authorized any project phases. In some cases, the university funded previous phases using noncore funds. "Continuation" means the state has authorized a prior project phase.

^b No additional costs beyond 2015-16 identified.

^c Reflects total nonstate funds for project. All or a portion could be spent after 2015-16.

ANR = Agriculture and Natural Resources (unaffiliated with campuses); P = preliminary plans; W = working drawings; C = construction; and E = equipment.

the L Tower at Rio Hondo College, (3) \$19 million to make seismic and code corrections to a campus center building at Santa Barbara City College, (4) \$13 million to replace an instructional building at El Camino College’s Compton Center, (5) \$8.4 million to construct a new academic facility at Los Rios District’s Davis Center, (6) \$4 million to replace a fire alarm system at Mt. San Jacinto College, and (7) \$1.7 million to renovate Hayden Hall at Citrus College.

Proposes \$37 Million for New Academic Facility at Hastings. The Governor proposes to use lease revenue bonds to pay for the project. Project costs include \$853,000 for preliminary plans, \$2.8 million for working drawings, and \$33 million for construction. The project would construct a new 57,000 square foot facility to replace the main portion of an existing 76,000 square foot academic facility called Snodgrass Hall built in 1953. (Hastings indicates it will request funding in the future for subsequent phases of the project that would demolish the existing structure and renovate a 61,000 square foot annex of Snodgrass Hall.) The

administration indicates that the project is needed to address outdated and aging building systems at Snodgrass Hall, including the HVAC system, roof, and electrical system. The administration also indicates that the current facility is not compliant with current requirements related to accessibility for individuals with disabilities. The administration estimates the annual debt service on the project will be \$2.7 million.

Proposes \$25 Million Each for UC and CSU for Deferred Maintenance. This proposal is part of a broader plan proposed by the Governor to address deferred maintenance at various state agencies. The proposal provides \$125 million to 14 agencies. In order to access their share of the funding, the universities and other included departments would have to submit a list of deferred maintenance projects to DOF. (The proposed budget language currently does not specify a date to submit these lists.) The Joint Legislative Budget Committee would then have 30 days to review the lists before DOF releases the funds.

Figure 29

CSU’s Capital Projects^a

In Order of CSU Priority Rank (In Millions)

Project Classification	Campus	Project Description	Project Phase	2015-16 Costs
Capital renewal and campus infrastructure	All	48 projects upgrading facilities and campus infrastructure. ^b	P/W/C	\$103.7
Seismic	Humboldt	Correct seismic deficiencies at an existing library.	P/W/C	5.4
Seismic	Los Angeles	Correct seismic deficiencies at an existing theater.	P/W/C	1.2
Seismic	Humboldt	Correct seismic deficiencies at an existing theater.	P/W/C	7.6
Campus infrastructure	Los Angeles	Upgrade electrical systems, chillers, and cooling coils.	P/W/C	36.2
Campus infrastructure	Long Beach	Upgrade sewer, storm drain, natural gas, irrigation, and other utility systems.	P/W/C	27.7
Total				\$181.8

^a Approved by the Trustees in January 2015. The Department of Finance has not yet submitted the projects to the Legislature for review.

^b Includes at least one project at each campus. Projects include improvements to building heating and cooling systems, roofing, seismic safety, and campuswide utility infrastructure.

P = preliminary plans; W = working drawings; and C = construction.

Assessment and Recommendations

Capital Outlay

Systemwide Perspective Lacking in Project Prioritization at UC. The university's systemwide Office of the President (UCOP) reports that it allows each campus to determine its capital priorities. The UCOP does not have a process for prioritizing projects across campuses. For example, UCOP neither requires *campuses* to give life safety projects a higher priority than program expansions nor does it prioritize life safety projects over program expansions on a *systemwide* basis. According to UCOP, it gives campuses broad discretion to set their own capital priorities and then tries to show fairness to each campus in selecting projects to propose for state funding.

CSU Headed in Right Direction on Project Prioritization but Refinements Needed. For its campus utility infrastructure assessments, the CSU Chancellor's Office performed assessments and ranked projects on behalf of all campuses. CSU reports that it gave a higher priority ranking to projects that would mitigate risks associated with a campus or partial campus shutdown. Although the priority rankings for utility infrastructure projects generally appear reasonable, some ambiguity remains with CSU's prioritization of other projects included in its capital outlay request. For example, some of the projects on CSU's infrastructure improvements list (such as a \$10 million demolition project at Monterey Bay) do not appear to be associated with mitigating risks of a campus shutdown.

Recommend Legislature Establish Project Priorities for Higher Education Facilities. The Legislature currently lacks its own system to prioritize projects within each higher education segment and among all higher education segments.

We recommend the state set priorities for projects to provide more guidance to the segments. For example, the Legislature could state its priorities for funding projects in the following order: (1) life safety, (2) seismic corrections, (3) modernization, and (4) program expansions. This likely would result in the segments submitting projects in accordance with the state's priorities.

Proposal to Construct Large Lecture Hall at UC Santa Barbara Contrary to State's Interest in Expanding Online Instruction. UC proposes spending \$16 million from university revenue bonds backed with state funding (repaid with an estimated \$1.2 million in annual debt service from UC's main state appropriation) to construct a new 16,800 square foot assembly hall at the Santa Barbara campus. The principal purpose of the new hall would be to accommodate large lecture courses housing over 800 students. This building would replace an existing assembly hall not compliant with current requirements related to accessibility for individuals with disabilities. The existing building also has seismic problems and would be demolished. One concern with the proposal is that it runs counter to the state's expressed priority to expand online instruction, particularly in place of large lecture courses, as most (if not all) students attending large lecture courses do not interact directly with the instructor. (A course with online instruction also may contain a component whereby students interact with instructors in smaller discussion sections located in traditional classroom settings. Many universities increasingly are offering this type of hybrid course, including both online and on-site instruction.) The state's interest in online instruction has stemmed from it wanting to reduce some potentially unnecessary educational costs—particularly reducing facility costs—without diminishing educational quality. Because UC's project proposal appears at odds with the state's direction, we recommend that UC report at budget

hearings in the spring on its efforts to date in expanding online instruction and the resulting reduction in its usage of large lecture hall space.

UC Riverside Proposal Premature. UC proposes spending \$35 million from university revenue bonds (repaid with an estimated \$2.6 million in annual debt service from UC's main state appropriation) to upgrade building systems at an existing science building on the Riverside campus and construct an addition to the existing facility. The proposal states that the budget assumes "an allowance for modest structural upgrades" depending on the results of a forthcoming structural assessment of the building. If structural upgrades are not required, the proposal states the campus would use the allowance for "other priorities." The university states the structural assessment will not be completed until after the state approves the project. We recommend the Legislature reject this proposal without prejudice, given the scope has not yet been fully determined. The scope of the project should be determined *prior* to the state approving a project. UC could take the year to conduct a structural assessment and submit a new proposal next budget year.

Projects Citing Enrollment Growth Not Consistent With State Demographic Projections. Two UC project proposals cite enrollment growth as part of the justification for the projects. Specifically, the university projects enrollment growth over the next several years of 15 percent at the Riverside campus (related to the addition to the science building discussed above) and 21 percent at the San Diego campus (related to a new biological and physical sciences building). As we discuss in the "Enrollment" section of this report, however, state demographic projections show a *decrease* in high school graduates and the traditional college-age population. Moreover, UC could expand enrollment during the summer term to reduce the need for new facilities. (The

university currently enrolls only 16,000 FTES during the summer out of a total 249,000 FTES.) We recommend the Legislature reconsider the need for these two projects in light of its decisions on funding enrollment at UC.

Proposals for New Hazardous Waste Facilities Raise Concerns. Two of UC's project proposals relate to new buildings designed to accommodate an increase in hazardous waste. The university indicates that some of the increase in waste is attributable to increased research activity—which, in turn, is related to new research buildings constructed in the recent past. At the time the state considers funding new research buildings, however, UC's project proposals do not include an estimate of expected costs for new hazardous waste buildings. Moreover, the university constructs some research buildings without state funding and, consequently, without state approval. Moving forward, we recommend the Legislature direct UC to include any future costs related to hazardous waste facilities when it requests state funding for a new research building. We recommend the Legislature also require UC to identify the amount of hazardous waste generated by state-funded versus nonstate buildings. The Legislature could direct UC to use this information to develop guidelines for sharing the cost of new hazardous waste facilities between state and nonstate sources.

Wide Variation in Equipment Costs Across UC Campuses. Two of UC's requests are to equip new buildings containing classroom, research, and office space. Specifically, UC proposes (1) \$5 million from university revenue bonds to equip a 51,000 square foot classroom and academic office building at Merced, and (2) \$2 million from university revenue bonds to equip a 33,000 square foot research, laboratory, and office building at Santa Cruz. This equates to \$97 per square foot to equip the Merced building and \$60 per square foot to equip the Santa Cruz building. Typically, a nonresearch

building like the one at Merced would cost *less* to equip than a research building like the one at Santa Cruz. The proposed cost to equip a faculty office in the Merced building (\$6,200), however, is nearly double the cost to equip a faculty office in the Santa Cruz building (\$3,400). (UC indicates some of the cost difference is due to Santa Cruz repurposing equipment.) The office equipment costs for both the Merced and Santa Cruz buildings appear high relative to the prices charged by a few vendors from whom we requested price information for comparable equipment.

Recommend Establishing Equipment Cost Guidelines. Given the variation in equipment costs among UC campuses and the relatively high costs at all UC campuses, we recommend the Legislature direct UC to develop equipment cost guidelines for its campuses. For instance, the guidelines might specify the maximum amount a campus could spend per faculty office or per square foot for different types of space. The Legislature then could review the cost guidelines, modify any parameters that did not reflect its priorities for equipping facilities, and formally or informally approve them. Equipment guidelines could help control costs as well as allow the Legislature to more easily review and assess equipment costs in the future.

Late Trustee Approval of CSU's Capital Outlay Request Makes Legislative Review More Challenging. Since the Trustees did not officially approve projects until January (a couple of months after the statutory deadline) and DOF has not yet submitted its preliminary list of approved projects (also missing its statutory deadline), the Legislature likely will find reviewing the proposed projects and conducting proper oversight even more challenging. Rather than having to complete its review by April 1, we recommend the Legislature work with the administration to develop a new processing schedule for this year. Consistent with statutory intent, we encourage the administration

to give the Legislature 60 days to review CSU's projects upon receiving the project list submitted by DOF.

Initial Assessment of CSU Projects Mostly Positive. Though the Legislature does not have a formal proposal before it at this time, we obtained information about the projects approved in January and conducted an initial assessment. Overall, the project list generally appears reasonable, as CSU gives priority to maintaining existing infrastructure. Two projects, however, are exceptions. First, CSU proposes a \$10 million project for the Monterey Bay campus to demolish abandoned buildings remaining from Fort Ord, yet has not included detailed information on project costs. Second, CSU proposes an \$85,000 fire alarm replacement for residence halls at the California Maritime Academy. Traditionally, the state has not funded projects related to student housing since this is a self-supporting activity. Whether DOF will include these two projects on its approved list is unknown at this time.

Deferred Maintenance

State Needs a Long-Term Strategy for Deferred Maintenance. As we discussed in our report, *The 2014-15 Budget: Maintaining Educational Facilities in California*, the state's current approach to addressing deferred maintenance at its educational segments has several shortcomings. Specifically, the state lacks (1) budgetary practices to incentivize segments to prioritize maintenance, (2) consistent definitions and adequate data to assess the magnitude of each segment's backlog, and (3) a long-term plan to eliminate the backlogs. To address these concerns, we recommended the Legislature require the segments to develop and submit maintenance plans that include (1) definitions used to classify maintenance projects, (2) a description of the approach used to fund maintenance projects, (3) the annual amount

spent on maintenance, (4) a multiyear expenditure plan to address the backlog (including proposed funding sources), and (5) a plan for how to avoid developing a maintenance backlog in the future.

State Needs More Information on How Universities Will Spend Proposed Funding. As noted earlier, the Governor requests the Legislature approve \$25 million for each UC and CSU for deferred maintenance even though it has not yet received a list of specific projects to be funded. (Under the Governor's proposal, DOF would review the project list and then submit an approved list to the Joint Legislative Budget Committee for

review 30 days prior to the distribution of funds.) As we discuss in our report *The 2015-16 Budget: The Governor's General Fund Deferred Maintenance Proposal*, we are concerned that the funding process proposed by the Governor divorces the decision on the amount of funding to provide from the set of projects to be funded. It also provides the Legislature with less time to review proposed projects than the traditional budget process. Accordingly, we recommend the Legislature require the segments to report at spring budget hearings on the specific projects they propose to address *prior* to approving funding.

TUITION AND FINANCIAL AID

In this section, we first provide background on state tuition policy, the segments' tuition levels, and changes in these levels over time. We then provide background on federal, state, and institutional financial aid programs available to California students. We next describe the Governor's tuition and aid proposals, assess these proposals, and offer associated recommendations.

Background

Tuition

State Currently Does Not Have a Tuition Policy. A tuition policy typically establishes an education charge that applies to all students and sets forth how the charge is to be adjusted over time. Depending on the policy, the tuition charge either explicitly or implicitly represents the share of total education cost to be borne by students, with the remainder of cost subsidized by the state through base funding appropriated to each of the higher education segments. The full tuition charge typically only affects students without financial need, as financial aid policies cover some or all of

the tuition charge for financially needy students. Though California has longstanding policies for assisting financially needy students, it has not had a tuition policy the last several decades.

Share of Cost Borne by Nonneedy Students and the State Fluctuates. Without a tuition policy, the state has neither been specifying a share of education cost to be borne by nonneedy students nor applying such a share consistently across cohorts of students. With a share-of-cost policy, the state and nonneedy students each would bear a specified percentage of education costs. As costs increase (or decrease) over time, the increase (or decrease) would be split between the state and students accordingly. Without such a policy, the Legislature grapples each year in its budget decisions to set the state share of education cost and indirectly the tuition level and corresponding student share.

California's Tuition and Fee Levels Remain Low Compared to Other States. Though tuition and fee levels nearly doubled at the universities and more than doubled at CCC since 2007-08, tuition and fee levels at California's public colleges and

universities remain low compared to other states. As shown in Figure 30, UC's average tuition and required fees for resident undergraduates remain below three of four comparison institutions. CSU's tuition and required fees for resident undergraduates are the second lowest in its comparison group of 16 public universities. At CCC, students pay the lowest fees in the nation—only 43 percent of the national average for community colleges.

Altogether, Public Financial Aid Covers Tuition for Majority of Public College Students. As discussed in more detail below, more than half of undergraduate students at UC and CSU receive aid sufficient to fully cover systemwide tuition and fees. Additional UC and CSU students receive partial tuition coverage from these sources. At CCC, 45 percent of students receive fee waivers accounting for more than 60 percent of all instructional units taken. For students at all segments paying full or partial tuition, up to \$2,500 may be reimbursed through federal tax credits.

Average Student Share of Educational Costs Currently Much Lower Than State Share. Figure 31 (see page 64) identifies the state and student share of educational costs. These costs include general campus instruction, academic support, student services, and administration. We estimate the average student currently pays about a quarter of educational costs at UC and CSU and about 5 percent at CCC. Though the student share of cost increased during the last recession as the segments raised fees, in recent years it has declined due to the state's extended tuition freeze and increases in state funding and financial aid. Consequently, the student share of cost at each segment currently is near pre-recession levels. Though the average share of cost helps track the state and student shares of cost in the aggregate, it is not a meaningful reflection of what any particular student is paying. Whereas a financially

needy undergraduate student pays none of this cost, a full tuition-paying undergraduate student pays 59 percent of average education cost at UC, 44 percent at CSU, and 21 percent at CCC.

Financial Aid

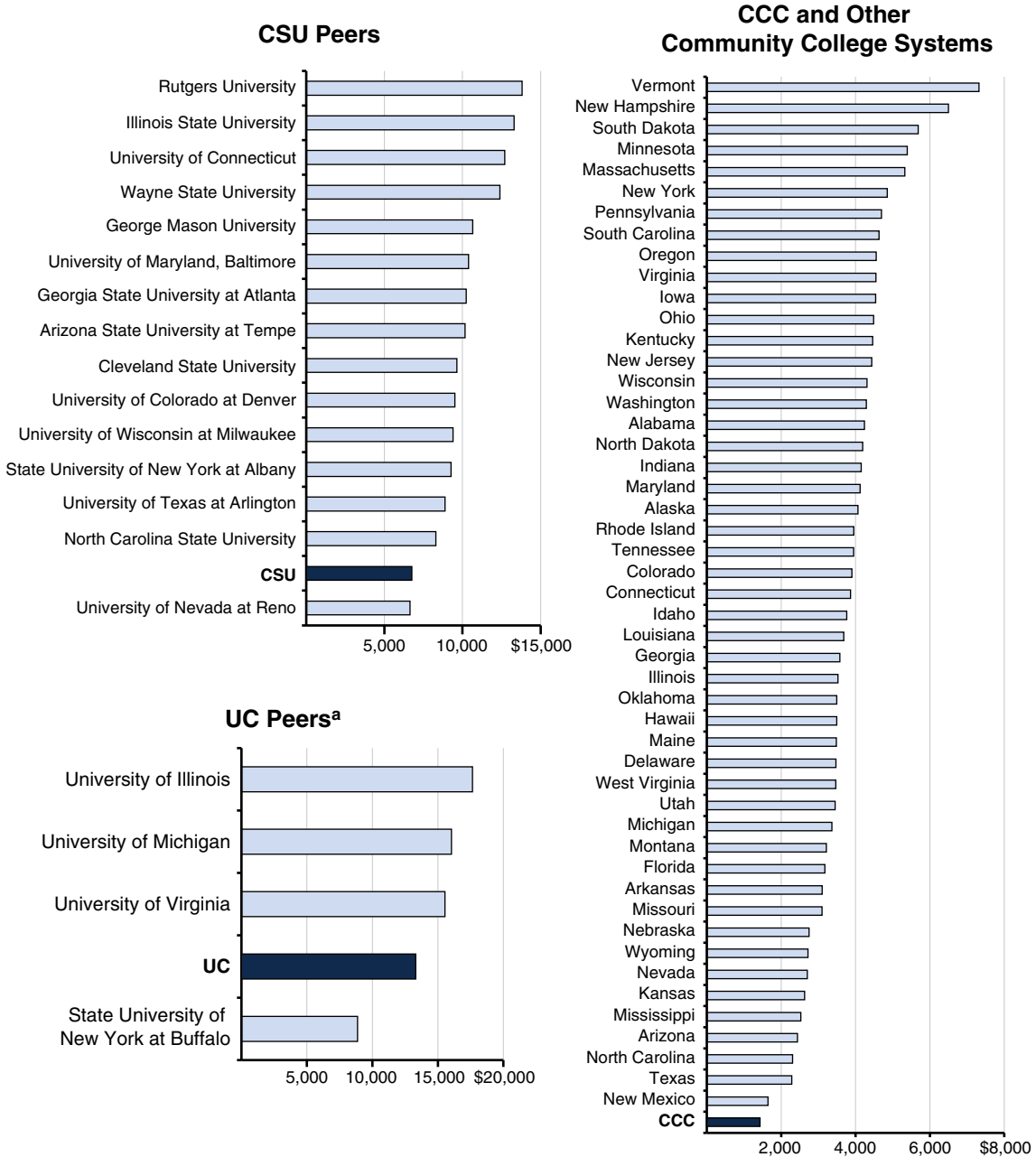
State Administers Several Outreach Programs to Help Students Prepare for College and Apply for Aid. These programs often target middle and high school students from communities and backgrounds with historically low college-going rates. Some programs focus on college preparation, some on how to apply to college, and some on both. The CSAC administers the California Student Opportunity and Access Program (Cal-SOAP) and Cash for College. Cal-SOAP provides services such as advising, tutoring, parent outreach, and college awareness workshops, while Cash for College assists students with filling out federal financial aid forms. In addition to these programs, UC, CSU, and CCC also administer outreach programs. For example, UC's Early Academic Outreach Program assists high school students and their families with filling out college applications, preparing for college entrance exams, and budgeting for college.

Various Sources of Aid Help Students Cover Their Costs of Attendance. About two-thirds of undergraduate students at UC and CSU receive financial aid to help them pay their costs of attendance (including tuition, books and supplies, and living costs). At the community colleges, about 46 percent of students receive aid, and the proportion is higher among students enrolled at least half time. Types of aid include grants, scholarships, and tuition waivers (collectively called gift aid, because students do not have to pay back these amounts); student loans; federal tax benefits; and subsidized work-study programs. Gift aid may be need based (to provide access for students who otherwise might be unable to afford college) or nonneed based (typically scholarships

Figure 30

California Tuition and Fee Levels Among Lowest in Nation

2014-15 Undergraduate Resident Tuition and Fees



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

or other payments based on academic merit, athletic talent, or military service). Major sources of gift aid in California include federal Pell Grants, state Cal Grants, state Middle Class Scholarships, and institutional financial aid programs. Federal student loans may be subsidized (the government pays interest while the student is in school) or unsubsidized. (Students also may access private loans, but these loans tend to have less beneficial terms and conditions.) Federal tax benefits include income tax deductions and credits for tuition and related costs, as well as tax-free growth in tuition savings accounts (including California’s Scholarshare College Savings Plan).

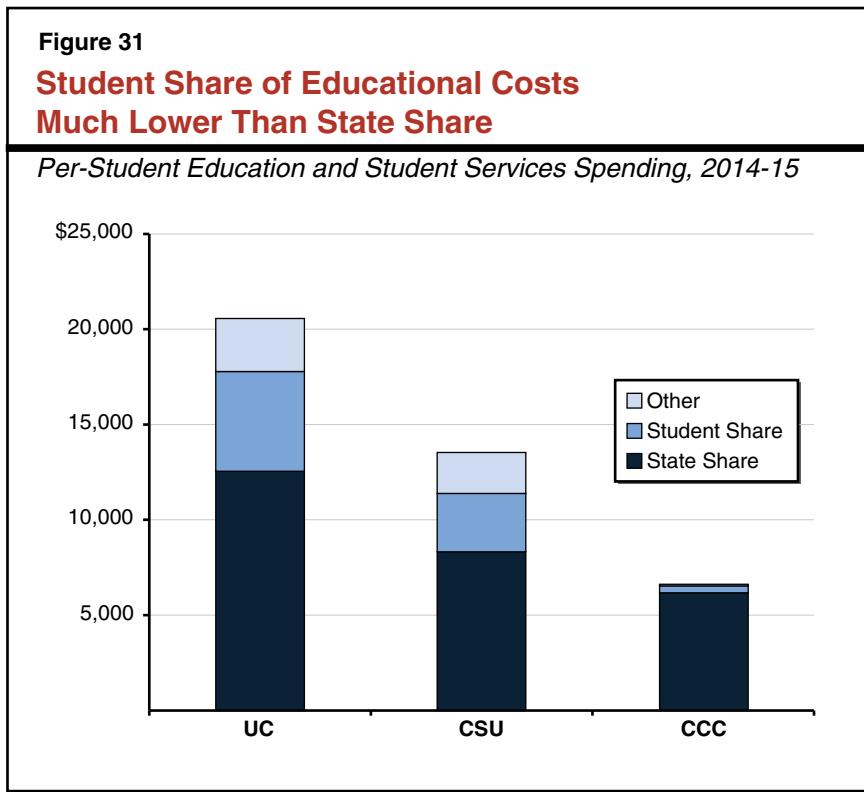
Students’ Financial Need Determined Using Federal Methodology. To be eligible for many federal, state, and institutional financial aid programs, students must complete a common, web-based application form (the Free Application for Federal Student Aid, or FAFSA). The federal Department of Education uses information from

this form, including family income, available assets, and number of children in college, to determine a student’s expected family contribution (EFC) toward college costs. A student’s financial need is the total cost of attendance (including living costs) at a particular campus less his or her EFC. Campuses then combine (or “package”) various types of financial aid to meet as much of each student’s financial need as possible.

About Half of All Financial Aid Comes in Form of Need-Based Gift Aid. Figure 32 displays the major sources of financial aid for students at California’s public institutions. As shown in the figure, California students received an estimated \$11.8 billion from these sources in 2012-13, more than half of it in need-based gift aid. (This is in addition to \$11 billion in nonneed-based subsidies the state provides for all students through direct appropriations to the segments.) For costs not covered by these sources, students typically rely on family income and assets, their own earnings, and

other types of borrowing and savings.

State Provides Need-Based Aid Through Cal Grants. The state’s Cal Grant programs guarantee financial aid awards to California high school graduates and community college transfer students who meet financial need criteria as well as minimum academic criteria. In addition, students who do not qualify for the high school or community college entitlement programs but meet the other eligibility criteria may apply for a limited number of



competitive grants. Awards cover full systemwide tuition and fees at the public universities and up to a fixed dollar amount toward costs at private colleges. The program also offers stipends (known as access awards) for students with family incomes below \$45,900 (for a family of four). Access awards are intended to help cover some living expenses, such as the cost of books, supplies, and transportation. A student may receive a Cal Grant for four years of full-time college enrollment or the equivalent. Figure 33 (see next page) describes the various Cal Grant programs and awards.

Cal Grant Spending Has Continued to Grow, Driven by Increased Participation.

Cal Grant spending nearly doubled from 2007-08 to 2011-12, mostly in response to tuition increases at UC and CSU. (Cal Grant tuition awards rise automatically to offset tuition increases.) Since 2011-12, tuition has remained flat but Cal Grant costs have continued to grow, driven mainly by participation increases. In 2014-15, for example, the estimated number of Cal Grant recipients increased by 12 percent over the prior year. (Implementation of the California Dream Act accounts for about one-eighth of this growth. Beginning in 2013-14, this legislation makes certain

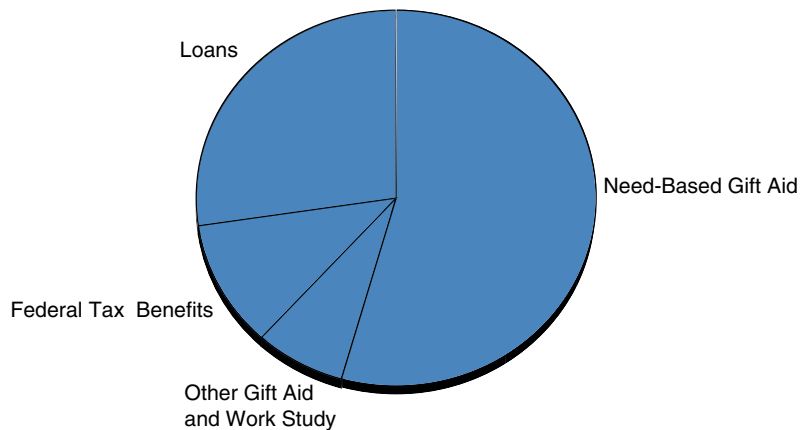
undocumented and nonresident students eligible for state financial aid.)

New College Access Tax Credit Also Funds Cal Grant Access Award. Chapter 367, Statutes of 2014 (SB 798, De Leon), created a new state tax credit for tax years 2014 through 2016. The credit is based on a percentage of the taxpayer’s contribution to a new

**Figure 32
Major Sources of Financial Aid
Received by California’s Public College Students^a**

2012-13 (In Billions)

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



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

College Access Tax Credit Fund (60 percent credit in 2014, 55 percent credit in 2015, and 50 percent credit in 2016). The aggregate amount of tax credits claimable statewide is set at \$500 million each year. Monies deposited in the new College Access Tax Credit Fund first are transferred to the state's General Fund to cover the cost of the credits. Remaining monies then are used for increasing the dollar amount of Cal Grant access awards and covering associated administrative costs. To date, only a very small amount—about \$6 million—has been deposited into the new account. On April 1, the Treasurer will certify the balance in the account

and the amount available for Cal Grants in 2015-16. The CSAC then will estimate the impact of the available funding on the Cal Grant access award level. The administration indicates it will propose an adjustment to the Cal Grant access award level as part of the May Revision. Based on current contributions, we estimate awards will increase about \$10 (from \$1,648 to \$1,658).

State Recently Created Middle Class Scholarships. In a departure from the state's traditional focus on providing need-based financial aid, in 2013-14 it created the Middle Class Scholarship Program for certain UC and

Figure 33

Summary of Cal Grant Program Requirements and Awards

High School Entitlement Program	<p>This program guarantees awards to recent high school graduates who meet income and grade point average (GPA) requirements. Depending on income level, a student may get a Cal Grant A or B award.</p> <ul style="list-style-type: none"> • Students must have a GPA of at least 3.0 for a Cal Grant A award, which covers full systemwide tuition at UC and CSU and provides a fixed amount toward tuition at private California colleges. (For 2014-15, the maximum tuition awards are \$9,084 for students at nonprofit or Western Association of Schools and Colleges-accredited for-profit colleges and \$4,000 for students at other for-profit colleges.) • Cal Grant B awards are for students with greater financial need who have at least a 2.0 GPA. Cal Grant B awards provide up to \$1,648 toward books and living expenses in the first year. Beginning in the second year, the B award is this amount plus tuition support (in the same amounts as Cal Grant A awards).
Transfer Entitlement Program	<p>This program is for graduates of California high schools who transfer from a CCC to a qualifying baccalaureate degree granting institution. Students must also meet financial and academic eligibility criteria, and be under the age of 28 upon transferring. As under the high school entitlement, transfer entitlements include both A and B awards, with the same maximum awards for tuition, books, and living expenses.</p>
Competitive Program	<p>This program is for students who meet the basic income and GPA criteria of the entitlement program (such as income and GPA), but are not recent high school graduates or transfers. A total of 22,500 awards is authorized in statute. Recipients are selected for A and B awards through a competitive process with special consideration for disadvantaged students. Because of limited funding, only about 6 percent of qualified applicants receive awards.</p>
Cal Grant C	<p>This program provides up to \$2,462 for tuition and fees and up to \$547 for other costs for eligible low- and middle-income students enrolled in an occupational, technical, or vocational program that is at least four months long. A total of 7,761 awards is authorized in statute. Funding is available for up to two years or the length of the program, whichever is shorter.</p>

CSU students. The program is designed for undergraduate students who do not have at least 40 percent of their tuition covered by Cal Grants and other public financial aid programs. Specifically, students with family incomes up to \$100,000 qualify to have 40 percent of their tuition covered (when combined with all other public financial aid). The percent of tuition covered declines for students with family income between \$100,000 and \$150,000, such that a student with a family income of \$150,000 qualifies to have 10 percent of tuition covered. The program is to be phased in over four years, beginning in 2014-15, with awards in 2014-15 set at 35 percent of full award levels, then 50 percent, 75 percent, and 100 percent of full award levels the following three years, respectively. Budget trailer legislation provided \$107 million for the program in 2014-15, \$152 million in 2015-16, and \$228 million in 2016-17, with funding for the program capped at \$305 million beginning in 2017-18. The CSAC provides scholarships to eligible students who fill out a federal financial aid application. For the 2014-15 academic year, students have until June 30, 2015 to qualify for an award. For 2015-16, students must submit the federal financial aid application by March 2, 2015. (Given 2014-15 was the first year for students to apply, CSAC extended the deadline considerably beyond the regular application deadline, which is several months prior to the beginning of a new school year.)

Fewer Middle Class Scholarships Awarded to Date Than Anticipated. The 2014-15 state budget provided \$107 million for Middle Class Scholarships. As of early February, CSAC reports having awarded only \$58 million, with another \$8.5 million in applications pending. Of the \$58 million awarded, \$39 million is going to 63,700 CSU students and \$19 million is going to 17,400 UC students.

Universities Offer Institutional Aid. Campuses use institutional financial aid programs, in combination with other sources of aid, to help cover students' costs. Traditionally, UC and CSU have redirected one-third of new tuition revenue to fund these programs. Through its Blue and Gold Opportunity Program, UC guarantees aid to financially needy students sufficient to cover their cost of attendance, assuming a manageable work and loan expectation. UC first applies federal and state aid on a student's behalf and then uses institutional aid to fill any remaining gap. In 2012-13, grant and scholarship recipients at UC received an average of \$16,300 in total gift aid—about \$3,100 more than tuition—meaning that the average aid recipient obtained gift aid for some living costs (and covered the remainder through some combination of savings, work, and borrowing). By comparison, CSU uses its State University Grant program to cover full tuition (after federal and state aid) for most students with family incomes up to about \$75,000. It does not cover other costs of attendance.

CCC Also Offers Institutional Aid. At CCC, the Board of Governors' Fee Waivers fully cover enrollment fees (but not other costs of attendance) for financially needy students. The state indirectly funds the program through CCC apportionment funding. Because the program is based on financial need, not income alone, it has no strict income cap. A student from a family of four with family income of \$100,000 could qualify for a fee waiver depending on the family's savings and other factors. Like the UC and CSU programs, the CCC program does not provide institutional aid in excess of a student's federally determined level of financial need.

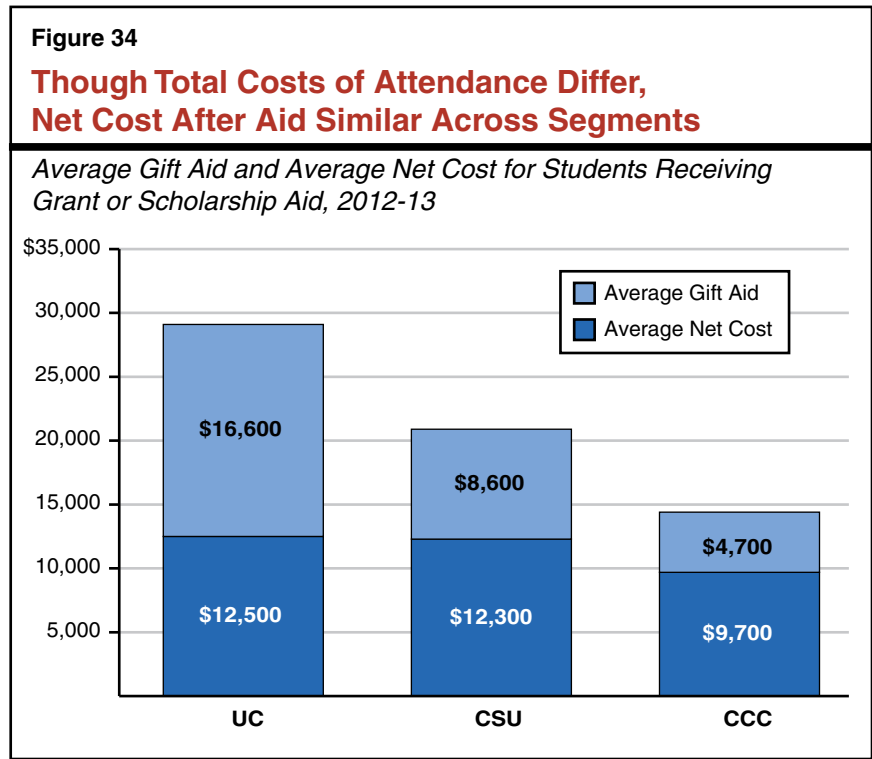
Institutional Aid Growing. Institutional aid spending continues to grow, though at a slower pace than during the past recession. Between 2007-08 and 2011-12, institutional aid spending

nearly doubled at the universities and tripled at CCC, primarily driven by fee increases. Estimates from 2013-14 to 2014-15 show year-over-year increases of 2 percent and 4 percent in institutional aid spending at UC and CSU, respectively, primarily due to larger average grants and increased participation. For CCC, spending on BOG Fee Waivers increased by 7 percent from 2012-13 to 2013-14 due to increased participation. Similar to Cal Grants, a portion of growth in institutional aid programs is related to California Dream Act implementation.

Federal Aid Also Continues to Expand. Major sources of federal gift aid include Pell Grants, veterans’ education benefits, and tax benefits. For Pell Grants, the maximum award increased from \$5,645 in 2013-14 to \$5,730 in 2014-15 (a 1.5 percent increase). For veterans, the Post-9/11 GI Bill, implemented in 2009, has been providing education benefits to an increasing number of military veterans each year. Veterans can receive full tuition coverage at a public college (or about \$20,200 annually toward tuition at a private college) in addition to a book and housing allowance. For tax benefits, the American Opportunity Tax Credit, implemented in 2009 and extended through 2017, expanded the existing Hope Scholarship Credit by increasing the credit individuals can claim (from \$1,800 to \$2,500) and raising the income cap for claiming the credit (from \$60,000 for single filers and \$120,000 for joint filers to \$90,000 and \$180,000, respectively). As a result, the total amount of tax credits claimed tripled within two years.

Net Cost of Attendance About the Same at Three Public Segments. Figure 34 highlights the difference between total cost of attendance and net cost for grant and scholarship recipients at each higher education segment. (As noted earlier, total cost of attendance includes books, supplies, and living expenses as well as tuition.) As shown in the figure, total costs vary significantly, from nearly \$30,000 at UC to less than \$15,000 at CCC, but the net costs to students are more similar across the three segments. This is because financial aid for these students typically covers tuition and fees, the main source of variation in total costs across the segments.

Average Student Debt Still Comparatively Low. In 2012-13, about half of UC and CSU undergraduates graduated with no debt. Nationally, the corresponding figure for students attending four-year public colleges was 40 percent. Among UC and CSU students who borrowed, the average debt upon graduation was about \$20,500 and \$18,500, respectively, compared with about \$25,000



for public four-year college students nationally. About 97 percent of CCC students report no student debt, compared to between 60 percent and 70 percent of community college graduates nationally.

Governor's Proposals

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

Funds Higher Cal Grant Costs. The budget provides \$129 million for higher Cal Grant costs in 2015-16, as shown in Figure 35 (see next page). A portion of this increase is due to growth in new awards in recent years, which results in more renewals in 2015-16. In addition, the second cohort of Dream Act students accounts for about 15 percent of the increase. A reduction in the maximum award for students at private institutions offsets a small amount of the overall increase in Cal Grant costs. The budget also assumes 4 percent growth in the number of new awards for 2015-16 to reflect increased outreach efforts by CSAC to boost the number of eligible students receiving awards.

Continues Implementation of Middle Class Scholarships. The budget provides a \$45 million increase in 2015-16 to fund implementation of Middle Class Scholarships as required under current law. Students will be eligible for up to 50 percent of the full scholarship award (equivalent

to 20 percent of tuition) in 2015-16. The budget also reflects a decrease of \$27 million in 2014-15 due to lower than expected participation in the program.

Provides \$15 Million to Backfill Loss of Federal Funds. In recent years, the state has received a federal College Access Challenge Grant totaling about \$15 million. The state has used the federal grant money to offset General Fund costs for the Assumption Program of Loans for Education (\$7.2 million), the Cal-SOAP program (\$7.2 million), and the Cash for College program (\$328,000). Because the federal grant is expiring, the Governor proposes to provide \$15 million from the state General Fund to maintain support for the three programs.

Assessment and Recommendations

Extended Tuition Freezes Problematic in the Past. The Governor's proposal would extend, for two more years, UC and CSU tuition levels that already have been flat since 2011-12. While this would benefit current students, it could increase volatility for future students. As shown in Figure 36 (see page 71), extended tuition freezes at California's public institutions have been followed by periods of high annual tuition increases. The proposal also would have the negative near-term effects of: (1) reducing the incentive students and their families have to hold higher education institutions accountable for keeping costs low and maintaining quality, and (2) reducing the resources available to support student enrollment. Given the important role of tuition in higher education budgets, the relatively low share of cost now borne by students and their families, and the likely negative consequences of an extended tuition freeze, we do not see a strong justification for having the state bear all higher education cost increases for the next two years.

Recommend Share-of-Cost Policy. Currently, much of the discussion surrounding higher education funding is centered around who should pay for cost increases—students and their families or the state. In our view, an equally, if not more important, question pertains to the overall cost of a college education and how it increases from year to year. One of the main reasons we have long argued for a share-of-cost fee policy is that any cost increases would affect all parties—state taxpayers, the universities, and students—such that all parties have an interest in monitoring costs and

scrutinizing proposed cost increases while keeping an eye on quality and affordability. That is, the first order of such a policy is to shed greater light on overall cost and improve the public dialogue around whether cost increases are appropriate given all competing higher education objectives. A share-of-cost policy also has other benefits, including potentially reducing future volatility in fee levels and resulting in generations of students being treated more equally over time (if the policy were consistently applied).

Figure 35
Cal Grant Spending

(Dollars in Millions)

	2013-14 Actual	2014-15 Revised	2015-16 Proposed	Change From 2014-15	
				Amount	Percent
Total Spending	\$1,677	\$1,905	\$2,034	\$129	7%
By Segment:					
University of California	\$781	\$852	\$900	\$47	6%
California State University	519	621	688	68	11
Private nonprofit institutions	237	255	258	3	1
California Community Colleges	102	132	144	12	9
Private for-profit institutions	38	44	43	-1	-3
By Program:					
High School Entitlement	\$1,334	\$1,516	\$1,641	\$125	8%
CCC Transfer Entitlement	237	242	223	-19	-8
Competitive	100	133	149	16	12
Cal Grant C	6	13	20	7	55
By Award Type:					
Cal Grant A	\$968	\$1,080	\$1,143	\$63	6%
Cal Grant B	703	811	870	59	7
Cal Grant C	6	13	20	7	55
By Award Component:					
Cal Grant A, B, and C Tuition	\$1,442	\$1,603	\$1,706	\$102	6%
Cal Grant B Access (Stipend)	232	296	322	26	9
Cal Grant C Book and Supply	3	5	6	1	26
By New or Renewal:					
New	\$567	\$587	\$603	\$17	3%
Renewal	1,110	1,318	1,430	113	9
By Funding Source:					
General Fund	\$1,037	\$1,527	\$1,747	\$220	15%
Federal TANF	542	377	286	-91	-24
Student Loan Operating Fund	98	—	—	—	N/A

TANF = Temporary Assistance for Needy Families.

Middle Class Scholarship Likely Overfunded.

The Governor’s \$45 million increase brings total funding for Middle Class Scholarships in 2015-16 to the level specified in the implementing legislation (\$152 million). The \$45 million increase is related to the increase in award levels. However, in the current year the program has only used 54 percent of the budgeted amount due to fewer students qualifying for awards than anticipated. Participation in the budget year is likely to be somewhat higher than the current year, as some students in the current year might not have known about the program and therefore not filled out a federal financial aid application. In the budget year, more students likely will become aware of the program and apply for scholarships. (Students, however, will need to meet the earlier March 2 deadline to qualify for 2015-16 awards.) Given these considerations, we believe the program likely is overfunded by tens of millions of dollars. The CSAC reports that campuses still are reporting

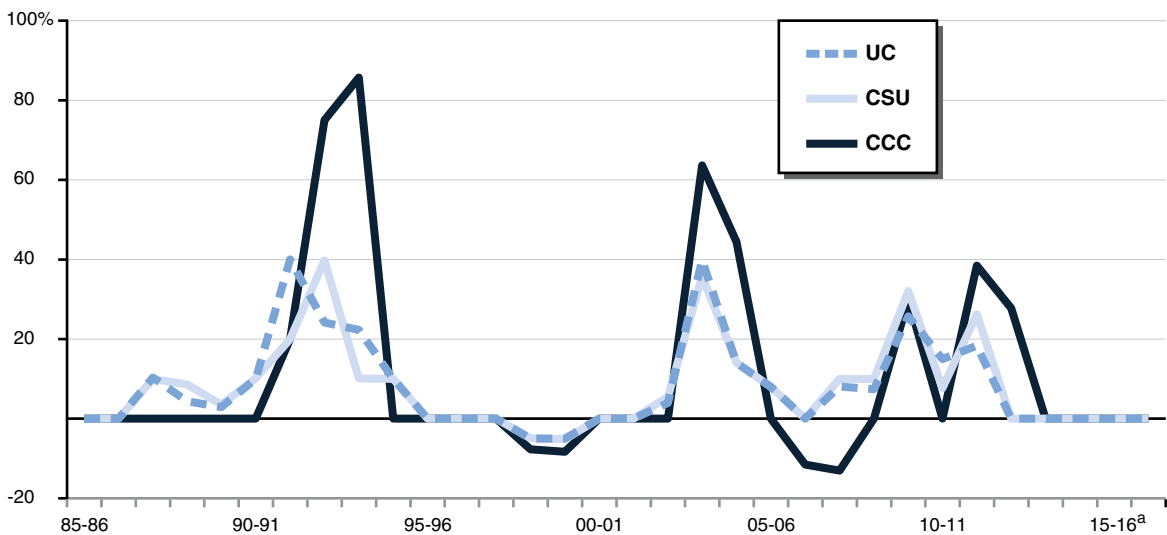
participation data for 2014-15, such that estimating 2015-16 program costs is somewhat premature. We recommend the Legislature direct DOF and CSAC to provide revised estimates of 2014-15 and 2015-16 program costs no later than the May Revision.

More Information Needed on Outreach Program Outcomes. On February 19, 2015, CSAC released an evaluation of the Cal-SOAP program. Based on our preliminary review, we have a few concerns with some of the data and conclusions drawn. Upon reviewing the report in more detail in the coming weeks, we will provide further guidance to the Legislature. The CSAC has not conducted an evaluation of Cash for College. We recommend funding the Cash for College program in 2015-16 but requiring CSAC to report back to the Legislature by January 1, 2016 on program outcomes. This report will help the Legislature determine whether to continue funding the program in 2016-17.

Figure 36

Extended Tuition Freezes Followed by Periods of Steep Increases

Percent Change in Systemwide Tuition and Fees



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

SUMMARY OF RECOMMENDATIONS

- ✓ **Overall Higher Education Spending Plan**
 - Governor's overall spending plan this year is somewhat better tailored than last year to the challenges facing the higher education segments, with an emphasis on addressing costs at UC and performance at CSU.
 - In some ways, the Governor's budget treats the segments differently without solid justification, such as by setting an enrollment target for the community colleges but not the universities.
- ✓ **Performance**
 - Recommend requiring each segment to compare its performance against external benchmarks—in addition to comparing against its own targets—in its annual performance reports. Comparisons should reflect the performance of public institutions serving similar students in other states. (In the future, if the Legislature develops targets for the segments, it could direct the segments to assess their performance relative to those targets.)
 - Require each segment to include in its annual performance report an analysis of its current performance and strategies for improving it.
- ✓ **Enrollment**
 - For UC, set resident enrollment target at current-year level. If the Legislature is concerned about the nonresident enrollment level, it could set a corresponding cap.
 - Require CSU to submit a report by May 1, 2015 on (1) how many eligible transfer students were denied access to their local campuses in fall 2014, and (2) how many nonlocal students were admitted in fall 2014 to campuses denying admission to eligible local transfer students. If certain CSU campuses are denying more local transfer students than admitting nonlocal students, the Legislature could provide enrollment growth funding to those campuses, designating it specifically for serving additional local transfer students.
 - Wait until early May for updated estimate of 2014-15 enrollment at community colleges and then adjust community college apportionments accordingly. Make final 2015-16 enrollment growth decision in light of the revised 2014-15 enrollment level. Use any freed-up funds for other Proposition 98 priorities.
 - Reject proposal to no longer identify the amount of CCC enrollment growth funding in the annual budget act.
 - Eliminating CCC enrollment restoration funds is not a technical adjustment. Consider the merits of the enrollment restoration policy before making corresponding budget decision.
 - Direct the CCC Chancellor's Office to develop, before May 1, one or more alternative enrollment growth funding allocation models that better balance geographical areas' need for educational services, capacity to provide those services, and demand for those services.
- ✓ **Operations**
 - Reject Governor's unallocated base increases for UC, CSU, and Hastings and instead provide a 2.2 percent cost-of-living adjustment (COLA) to their state funding—equating to \$66 million for UC, \$47 million for CSU, and \$212,000 for Hastings. If the Legislature were to assume flat tuition and desire to provide state funding sufficient to cover a COLA also on the tuition part of their budgets, it could instead provide \$126 million for UC, \$94 million for CSU, and \$886,000 for Hastings.
 - Adopt Governor's \$92 million COLA for community college apportionments.
 - Designate the \$125 million unallocated CCC base increase and \$170 million in funds not allocated by the Governor for specific Proposition 98 purposes.
 - Adopt Governor's proposal to provide \$200 million for community college student support services but, instead of limiting funds to only one student services program, create new student support services block grant by consolidating seven existing student services programs.

✓ **Operations (continued)**

- Reject Governor's proposal to provide \$25 million in one-time awards for CSU campuses to improve graduation rates. The Governor's proposal provides a small amount of one-time funds to campuses that already have implemented improvement efforts, without more comprehensively and systematically addressing CSU's underlying performance issues.
- As part of legislative review of UC's cost structure, consider trade-offs involved in changes to UC's instructional delivery model, faculty salaries, faculty teaching and research workloads, and facility costs.

✓ **Facilities**

- Establish state priorities for funding higher education capital projects. Could prioritize projects in the following order: (1) life safety, (2) seismic corrections, (3) modernization, and (4) program expansions.
- Require UC to report at spring budget hearings on its efforts to date in expanding online instruction and the resulting reduction in its usage of large lecture hall space.
- Direct UC to conduct a structural assessment on Pierce Hall at the Riverside campus prior to submitting a new proposal next budget year.
- Reconsider projects at UC San Diego and UC Riverside designed to accommodate enrollment growth. Take into account demographic projections showing a steady decline in the college-age population over the next five years and UC's underutilization of facilities during the summer term.
- Direct UC to identify any future costs related to hazardous waste facilities when it requests state funding for a new research building. Also direct UC to provide information on hazardous waste generated by state and nonstate buildings and develop a policy for sharing associated costs.
- Direct UC to develop cost guidelines for funding equipment and submit them for legislative review by September 1, 2015 (as part of its regular capital outlay submission).
- Ensure the Legislature maintains its 60-day review period upon receiving the preliminary list of CSU's capital projects approved by the Department of Finance. (Statutory deadlines for submittal of projects by CSU and preliminary approval by the Department of Finance have not been met.)
- Require UC, CSU, CCC, and Hastings to develop and submit maintenance plans that include (1) definitions used to classify maintenance projects, (2) a description of the approach used to fund maintenance projects, (3) the annual amount spent on maintenance, (4) a multi-year expenditure plan to address the backlog (including proposed funding sources), and (5) a plan for how to avoid developing a maintenance backlog in the future.
- Require UC and CSU to report at spring budget hearing on the specific maintenance projects they propose to address prior to approving the proposed \$25 million for each university.

✓ **Tuition and Financial Aid**

- Adopt share-of-cost policy that specifies how cost increases at the segments are to be shared between the state and students.
- Direct the Department of Finance and the California Student Aid Commission to provide revised 2014-15 and 2015-16 cost estimates of the Middle Class Scholarship program no later than the May Revision.
- Base funding decision for California Student Opportunity and Access Program on assessment of program evaluation released February 19, 2015.
- Fund Cash for College in 2015-16 but require the California Student Aid Commission to conduct an evaluation of the program and report back to the Legislature by January 1, 2016.

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