

HIGHER EDUCATION

Due to the State's significant budget shortfall, the Governor's Budget proposed to suspend the provisions of the Higher Education Compact (Compact) to help achieve fiscal balance. The May Revision protects education funding and makes additional resources available to the University of California (UC), the California State University (CSU) and the California Community Colleges (CCC) to ensure affordability, preserve quality and maintain essential levels of access. As discussed in the K-12 section, the Proposition 98 guarantee will be met which will provide additional resources for CCC to meet instructional demand and ensure local property tax declines do not impose hardships on the colleges. While the greater budget gap prevents fulfillment of the Compact, additional General Fund resources are provided to UC and CSU to ensure that fees will not increase beyond the levels agreed to in the Compact, to preserve enrollments in high-state-need instructional programs, and to address cost pressures from required implementation of new Teaching Performance Assessment standards pursuant to Chapter 517, Statutes of 2006. Thus, mandatory undergraduate fees will rise by no more than 7.4 percent for UC students and 10 percent for CSU students. CSU fees will remain the lowest in the nation for comparable public four-year comprehensive colleges and UC fees will remain very competitive with other comparable public research universities.

For the Student Aid Commission (CSAC), the Governor's Budget assumed a current year, one-time revenue adjustment of \$500 million related to the sale or other authorized transaction (Transaction) to maximize the value of CSAC's auxiliary organization, EdFund, pursuant to Chapter 182, Statutes of 2007. The state's selected sale advisor has decided

to withdraw its commitment to help prepare the EdFund Transaction. In addition, there have been numerous changes in the student lending industry and credit pressure on Wall Street. Given these conditions, it is necessary to postpone this transaction to maximize the value of this asset. As the student loan guaranty function is not a core function for state government, a sale will continue to be pursued and completed in 2009-10. Therefore, the May Revision reflects a shift of \$500 million in anticipated revenue from the end of the current year to the 2009-10 fiscal year. Additionally, the May Revision reflects conforming state operations adjustments since decoupling of CSAC and EdFund operations will not occur in the budget year.

For CSAC local assistance programs, the \$80 million Cal Grant workload cost placeholder that was included in the Governor's Budget as a contingency in the event UC and CSU raised fees further is no longer necessary and has been deleted from the budget. The May Revision also proposes that approximately 30-percent of projected Cal Grant costs be shifted from General Fund to Temporary Assistance for Needy Families (TANF) reimbursements from the Department of Social Services to help address the state's TANF Maintenance of Effort (MOE) shortfall. Please refer to the Health and Human services section for more details.

Changes to the Community Colleges budget reflect workload adjustments for revised estimates of local property tax revenues, including relief in the current year, increased funding for enrollment growth, and a policy change to provide more flexibility in categorical spending similar to K-12 categorical programs.

TOTAL FUNDING BY SEGMENT

Total funding at the May Revision for Higher Education reflects a year-over-year increase of \$565.6 million (2.8 percent) which is \$155 million greater than comparable figures in January. General Fund and related Proposition 98 expenditures reflect a year-over-year increase of \$14.2 million which is a reduction of \$76 million from comparable figures in January. This is primarily due to the large shift of GF costs to TANF for a portion of Cal Grants. Absent that, this figure would have increased \$146 million or 1.1 percent. Segment-by-segment figures follow:

- Total funding in 2008-09 for UC increases from year to year by \$179.8 million (3.3 percent), with total General Fund essentially flat compared to 2007-08.

- Total funding in 2008-09 for CSU increases from year to year by \$132.8 million (3 percent), with total General Fund essentially flat compared to 2007-08.
- Total funding in 2008-09 for CCC increases from year to year by \$191.8 million (2.2 percent), with total General Fund and Proposition 98 related sources increasing by \$187.9 million (2.9 percent) excluding carryovers, compared to revised 2007-08.
- Total funding in 2008-09 for CSAC (excludes Ed Fund) decreases from year to year by \$30.4 million (-3.5 percent), with total General Fund decreasing by \$261 million (-31 percent) compared to 2007-08.

UNIVERSITY OF CALIFORNIA

- 2007-08 No Change
- 2008-09 \$98.5 million General Fund

BUDGET YEAR

- The May Revision proposes a General Fund increase of \$98.5 million to maintain funding for UC level from year to year and to limit fee increases to the levels agreed to in the Compact. This funding is also intended to preserve enrollment levels in high-state-need instructional programs and provide resources for implementation of the Teaching Performance Assessment standards for teacher preparation programs required to be implemented in 2008-09 pursuant to Chapter 517, Statutes of 2006 that would otherwise have to be absorbed. Thus, the unallocated portion of the reduction to the workload budget level for UC is reduced to \$201.1 million for a revised total reduction of \$233.4 million.

CALIFORNIA STATE UNIVERSITY

- 2007-08 No Change
- 2008-09 \$97.6 million General Fund

BUDGET YEAR

- The May Revision proposes a General Fund increase of \$97.6 million to maintain funding for CSU level from year to year and to limit fee increases to the levels agreed to in the Compact. This funding is also intended to preserve enrollment levels in high-state-need instructional programs and provide resources for implementation of

the Teaching Performance Assessment standards for teacher preparation programs required to be implemented in 2008-09 pursuant to Chapter 517, Statutes of 2006 that would otherwise have to be absorbed. Thus, the unallocated portion of the reduction to the workload budget level for CSU is reduced to \$172.1 million for a revised total reduction of \$215.3 million.

CALIFORNIA STUDENT AID COMMISSION

- 2007-08 No Change
- 2008-09 -\$303 million General Fund

BUDGET YEAR

The May Revision proposes a net General Fund decrease of \$303 million over the level proposed in the Governor's Budget, as noted below:

- \$223 million of Cal Grant costs are proposed to be shifted from General Fund to reimbursements from TANF federal funds available to the Department of Social Services through an interagency agreement. This proposal is necessary to address a significant shortfall in TANF MOE expenditures. Please refer to the Health and Human Services section for more detail on the overall approach to resolving the TANF MOE shortfall.
- \$80 million savings associated with the elimination of the \$80 million Cal Grant workload cost placeholder from the Governor's Budget that was included in the event UC and CSU increased fees beyond the level anticipated for the workload budget. As discussed, further increases by the UC and CSU governing boards are not anticipated.
- A redirection of the \$1.8 million one-time augmentation proposed in January for restoring shared services from the EdFund is proposed. Although the Transaction is delayed, CSAC will have to relocate to a new building due to termination of their current leased space. Funding is needed to address necessary costs including ongoing additional leased space and telephone system costs, and one-time cost for moving and office furnishings. These costs total approximately \$1.8 million and thus offset the costs anticipated for adding 11 new staff, equipment, software and other technology related costs that would have been necessary to replace shared services from EdFund.

- Reappropriation of state operations savings is proposed to be reserved for unanticipated costs related to CSAC's relocation or other unforeseen costs in 2008-09.

The May Revision also proposes the following Student Loan Operating Fund increases to conform to the delay in the EdFund Transaction:

- \$1 million from the Student Loan Operating Fund (SLOF) is proposed for restoration of the six CSAC positions reduced in January that are dedicated to the oversight of EdFund operations. These positions are proposed on a limited-term basis.
- Additionally, the May Revision restores position authority for the remaining 24 EdFund civil service employees on a limited-term basis and restores over \$779 million to reflect continuously appropriated SLOF expenditures (\$96.4 million) and Federal Student Loan Reserve Fund expenditures (\$682.8 million) for EdFund operations in 2008-09.
- Trailer bill legislation is proposed to remove a potential statutory conflict that may impact the Commission's ability to act as a Lender of Last Resort for the Federal Family Education Loan program to address a potential crisis in the student lending markets resulting from changes in federal law and the concurrent general difficulties in the credit market.

CALIFORNIA COMMUNITY COLLEGES

- 2007-08 -\$69 million General Fund and Proposition 98 Related Sources
- 2008-09 \$236.2 million net General Fund and Proposition 98 Related Sources (with carryovers)

CURRENT YEAR

The May Revision proposes the following Proposition 98-related adjustments:

- The May Revision reflects reductions in estimated property tax revenue of \$74.9 million that are offset by increases of \$5.9 million in fee revenue compared to the 2007 Budget Act estimates. Reappropriations totaling \$69 million, including estimated savings of \$47.3 million from 2006-07 community college apportionments, are provided to backfill the resulting deficit to ensure colleges are not adversely affected by the current year shortfall. This amount will become available in the budget year.

BUDGET YEAR

The May Revision proposes significant ongoing budget adjustments for the CCC that will increase total General Fund and Proposition 98-related sources by a net \$236.2 million compared to the Governor's Budget, including an increase of \$167.2 in ongoing Proposition 98 General Fund and \$69 million in one time sources.

The following ongoing Proposition 98 workload adjustments are proposed to conform to revised estimates of local revenues and other workload changes:

- An increase of \$35.5 million for growth in apportionments, bringing the total growth funding in the budget year to \$95.5 million (1.67 percent), sufficient to serve approximately 20,000 additional students.
- An increase of \$572,000 to restore the reduction proposed in the Governor's Budget to the Foster Care Training program which will preserve approximately \$700,000 of federal matching funds for training foster parents in meeting the needs of this vulnerable population.
- An increase of \$138.7 million to offset the reduction in estimated property tax revenues for 2008-09.
- A decrease of \$6.4 million to reflect an increase in estimated offsetting student fee revenues based on more recent current year data.
- A decrease of \$1.8 million to reflect an increase in offsetting oil and mineral revenues of an identical amount.
- An increase of \$717,000 for the Board of Governor's Fee Waiver program administrative costs to reflect updated estimates of student fee waivers.

Policy-related adjustments for the CCC include the following:

- As mentioned, \$69 million is proposed to be reappropriated to backfill the current year deficit caused by the anticipated property tax shortfall. \$47.3 million is carryover savings from 2006-07 and \$21.7 is appropriated from the reversion account.
- Provisional language is proposed to provide colleges flexibility to transfer funds between categorical programs in two programmatic areas. Specifically, this would allow up to 20 percent of funds to be transferred out of a particular program in order to increase other programs by up to 25 percent within each program area. This flexibility would encompass three part-time faculty staff incentive programs

in one and five student services programs in another. Given the necessity to reduce programs costs, this additional flexibility will allow local priority needs to be better addressed.

- \$2.7 million in reimbursements is proposed to reflect an interagency agreement that is being developed between the California Department of Corrections and Rehabilitation and the Chancellor's Office that would provide training for prison staff that play key roles in the rehabilitation process, consistent with strategies authorized by Chapter 7, Statutes of 2007 and the Expert Panel on Adult Offender Reentry and Recidivism Reductions' report to the Legislature in June, 2007. Of this amount, it is anticipated that \$140,000 would be available to support one position for state operations workload and up to \$2.6 million would support local assistance allocations for colleges to provide the training and development services.