Background

The 2008–09 budget proposed by the Governor reduces funding for higher education by $1.1 billion, from a figure based on planned enrollment growth and other workload and eligibility factors. Proposed General Fund spending was derived by first determining the levels of funding generated by applying enrollments and workload for the 2008–09 fiscal year to the costs expected in the 2008–09 fiscal year. A reduction of approximately 10% was then applied to these figures.

The budget proposes the elimination of the Student Aid Commission’s Cal Grant Competitive awards. Renewals will be funded, but the program will be phased out as current participants exit. Cal Grant Entitlement awards and other financial aid programs will continue to be funded for new and continuing participants.

The proposed budget assumes systemwide student fee increases of 10% at CSU and 7.4% at UC. However, Cal Grant aid is increased by $80 million above an initial allocation based on expected growth in the number of eligible recipients and these fee increases on the expectation that UC and CSU will increase fees even further to help offset budget reductions.

Potential Impact of the Reductions

The actions proposed in the budget, while necessary to deal with the state’s massive budgetary shortfall, are likely to adversely impact higher education access and success. The reductions will need to be implemented in a short
period of time, less than 6 months, assuming the budget is approved on time. Campuses must move quickly to plan for absorbing the cuts, and are likely to take short-term actions to help balance their books through the remainder of the current year and budget years. In more ideal circumstances, campuses would have time to re-think long-term strategic plans and programs to adjust their operations to declining state funding.

The budget situation is additionally challenging because most indications are that the state will face revenue challenges beyond the 2008–09 fiscal year. As such, campuses may need to plan on receiving less state funding than their needs would justify for two or more years into the future.

There are no ways to implement higher education budget reductions that will not affect students. Policymakers and systemwide and campus officials are facing the challenge of developing program reductions that do the least damage to current students and to the infrastructure of programs and services that future students, and our state, are so dependent upon.

Priorities for Higher Education

The Commission recognizes that reduced higher education funding will almost certainly be a part of any final budget solution. California’s colleges and universities develop the industries and the workforce that maintain the state as one of the largest economic engines in the world. Solutions to our state’s economic problems will come from students who attend these institutions and then enter the workforce. The Commission is concerned that today’s funding reductions could result in long-term damage to California’s postsecondary education enterprise, which is the state’s most significant avenue for future economic growth and sustainability.

Commission staff recommends that policymakers maintain the following priorities in determining levels of support but only to the extent that fiscal resources demand prioritization.

- **Support students first.** Priority should be given to maintaining funding for programs and services most critical to facilitating student access and success. These include funding enrollments, financial aid, academic support, high-demand course offerings, and other student services.

- **Maximize and expand efficiencies.** Campuses should first look to improve productivity and performance. Campuses regularly review internal activities for effectiveness and efficiency in meeting their goals. The current funding shortfall provides a strong incentive for campuses and the systems to put the results of these reviews into effect. Priority for funding should be given to programs and activities that have been evaluated and proven to be most effective.

- **Minimize increases in student fees.** Increases in fees should occur only as a last resort, if at all. CSU and UC have already presumed some fee increases. Other costs of education, such as books and living costs, continue to grow. The Commission has documented the way that rising costs adversely impact access and success. Late-year increases in student fees can magnify these effects. The systems use institutional financial aid to hold harmless their most needy students, and this should continue. Any further fee increases, coupled with other costs, could jeopardize educational opportunities for many needy and middle-income students.

- **Maintain predictability.** Changes to educational operations should be undertaken with as little disruption as possible. Critical among these are enrollment processes, financial aid program procedures, and other services that assist students in navigating campus and educational program requirements.

- **Build in flexibility.** As the process of making reductions unfolds, new information and ideas will evolve. To the extent possible, campuses should put together options and strategies that allow for reasonable adjustments so they will not have to start from scratch in adapting their plans to unanticipated changes. The less volatility there is as the planning process adapts to change, the more stable and predictable the plan’s impact will be on students and faculty.
The Commission encourages that all other areas of campus and system operations should be evaluated first to generate as great a cost savings as possible. This includes deferring planned expenditures not determined to be of the highest priority and the need to keep direct student costs as low as possible.

**Commission Recommendations**

The Commission will advocate for these priorities during deliberations on specific budget items, including those listed below.

**Enrollment Growth**

The budget funds enrollment growth of 2.5% at UC and CSU and 3% at the community colleges. This amounts to an increase of 5,000 full-time equivalent students at UC, 8,600 at CSU, and 35,000 at the community colleges.

*Budget impact* — The proposed budget-balancing reductions will limit each system’s ability to enroll all qualified students. A complicating factor is that campuses need to make their enrollment decisions for the fall term within the next few months.

*Commission position* — Enrollment restrictions should be among the very last options sought by the campuses. If new enrollments must be restricted, community college transfer students and first-time freshmen should be given priority over re-entry students. The Commission encourages the systems to coordinate enrollment decisions in order to help students who are displaced from one system to another due to enrollment restrictions, cost increases, and other circumstances.

**Student Fee Increases**

UC has proposed an increase of 7.4%, which will raise undergraduate fees for California residents from $6,636 to $7,127. CSU has proposed an increase of 10%, which will raise undergraduate fees from $2,772 to $3,049. No fee increases are proposed at the community colleges, where annual fees for full-time students are $600.

*Budget impact* — The proposed budget assumes that CSU and UC may increase fees beyond the levels previously adopted by the CSU Trustees and UC Regents.

*Commission position* — Resident student fees should not be increased beyond the levels already being discussed. When mandatory campus fees are included, total fees for the 2008–09 academic year rise to $3,799 at CSU and $8,007 at UC.

The Commission recognizes the funding cuts and cost increases facing all three public systems and greatly appreciates each system’s commitment to increasing institutional financial aid to assist needy students. However, the costs of attendance are growing. Even with institutional aid, needy students still must find more money to meet these costs, usually through working longer hours and taking on greater debt. These circumstances put the dream of higher education at increased risk for needy students and their families and for middle-income students who do not qualify for grant aid.

**Unallocated Funding Reductions**

The proposed budget has unallocated reductions of $300 million at UC, $270 million at CSU, and $484 million at the community colleges.

*Budget impact* — The budget provides CSU and UC with flexibility to achieve 90% of the proposed reductions while maintaining their respective missions and functions, and 10% of the reductions for institutional support. Funding for the community colleges from the state operations budget is reduced by $1 million, with the remaining cut coming from Local Assistance funding.
Commission position — The systems should continue, and build upon, their efforts to operate more efficiently. The Commission acknowledges that the systems carry out a wide variety of important functions, and holds as its highest priority functions that provide the most direct and relevant services to the core educational mission. The Commission encourages the systems to reduce spending as necessary in less-critical activities in other areas. Such areas include institutional operations, lower-priority research, public service programs, and any academic support services that least impact students.

Financial Aid
The budget proposed to increase Cal Grant Entitlement award funding, but eliminates new Cal Grant Competitive awards. CSU and UC propose to continue its practice of using up to one-third of the additional revenues generated by fee increases for institutional financial aid.

Budget impact — The budget sets aside additional funding for Cal Grant Entitlement awards on the assumption that CSU and UC will increase student fees more the currently planned. The elimination of Cal Grant Competitive awards will have its greatest impact on students in the community colleges.

Commission position — CSU and UC should direct the greatest amount of student fee revenues available toward institutional financial aid, even beyond the traditional one-third. In the current economy, and with the trend of increasing student debt loads, the Commission is concerned that students will not be able to generate sufficient additional resources through work or borrowing. Institutional aid may need to take on an even greater role in assuring access and success for financially needy students.

The Commission also recommends that Cal Grant Competitive awards be maintained, even if at a lower level. The students served by these grants are mostly older students, who did not enter college directly from high school and who may not qualify for as much federal aid as recent high school graduates.

Student Support Services
The systems provide a variety of programs to support students. These include tutoring and academic counseling, financial aid and related services.

Budget impact — The budget provides CSU and UC flexibility to apply funding reductions as they deem appropriate. For the community colleges, the budget proposes across-the-board reductions averaging 10% for all categorical programs. These programs include Student Financial Aid Assistance, Extended Opportunity Programs and Services, Disabled Students Programs and Services, Matriculation, and Transfer Education and Articulation.

Commission position — The Commission recommends that the systems prioritize services that best facilitate student access and success, while streamlining those services to stay within available resources. For CSU and UC, this would mean prioritizing direct student support services, such as tutoring, counseling, and financial aid. In the community colleges, this would include continuing the student support activities that have proved to be most effective in helping students identify and complete specific courses of study.

The Commission encourages the state and the education systems to re-examine the “categorical” approach to funding student support services. This concept has served the state well in the past, but students often have needs that do not fit into a single program category. The students that these programs are intended to help could be served more efficiently by programs with more flexibility in targeting student needs.