

## Information Item

### *California Student Aid Commission*

#### Update on the Governor's Proposed 2014-15 Budget

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The Governor released his proposed 2014-15 State Budget on January 9, 2014. The Governor's budget of \$154.9 billion includes \$106.8 billion in General Fund. The budget estimates a surplus of funds based on the projected increased revenue due to a windfall from volatile capital gains and the temporary Proposition 30 tax revenues. The Governor makes it clear in his proposal that maintaining the stability of the past year will require fiscal restraint. By making targeted expenditures, the 2014-15 Governor's Budget proposes to build upon last year's investments in K-12 education, higher education, and health and human services. The Governor also proposes that \$1.6 billion be used to strengthen California's Rainy Day Fund.

There major changes proposed for 2014-15 include funding for the implementation of the Middle Class Scholarship Program and baseline adjustments for the Cal Grant Program, including the second year of the Dream Act Program. Charts showing our proposed budget are included in Tabs 1.a. and 1.b. Highlights of the 2014-15 Commission budget are provided below. Staff will provide additional analysis at the meeting.

#### **Cal Grant Program**

The funding for the Cal Grant program is based on Commission staff projections and the award amounts indicated below:

- The maximum Cal Grant A and B tuition/fee award amount at the University of California (UC) and California State University (CSU) remains at the 2013-14 level - \$12,192 and \$5,472, respectively.
- The maximum Cal Grant A and B award amount at non-public institutions reflects the changes enacted in Senate Bill 1016 as noted below:
  - ❖ \$8,056 for new students at private, non-profit institutions, and private, for-profit institutions that are accredited by the Western Association of Schools and Colleges (WASC) (an 11% reduction from the \$9,084 maximum in 2013-14)
  - ❖ \$4,000 for new students at private, for-profit institutions that are not WASC.
  - ❖ Renewal students: Renewal award recipients at private, for-profit and non-profit institutions will continue to receive an award amount of \$4,000 to \$9,223 depending on when they received their first award.

- The maximum Cal Grant B access award for new and renewal students remains at \$1,473 based on the proposed continuation of the 5 percent reduction of award levels imposed by the Governor's veto of the 2012-13 budget.
- The maximum Cal Grant C award amounts for new and renewal students reflect the proposed continuation of the 5 percent reduction of award levels imposed by the Governor's veto of the 2012-13 budget:
  - Tuition/Fee: \$2,462
  - Books and Supplies: \$547
- The Cal Grant Program will continue to be funded from the General Fund as well as other funds as noted below:
  - The funding from the Temporary Assistance for Needy Families (TANF) will increase by \$3.2 million from \$541.7 million to \$544.9 million.
  - The funding from the Student Loan Operating Fund, through contributions from ECMC, will decline from \$98.1 million to \$60 million. This amount will be adjusted in the May Revision to reflect the actual amount provide by ECMC.
- A General Fund increase of \$14.9 million in 2014-15 is being proposed to allow students who have previously been denied a Cal Grant renewal award for financial reasons (such as their income rose above eligibility levels) to reapply for the program no more than three academic years after receiving their original award (if their incomes fall below the income threshold in that timeframe). We will be analyzing the trailer bill language when it becomes available.

### **Middle Class Scholarship Program**

The budget includes \$107 million for the first year of implementation of the program which provides scholarships to UC and CSU students in amounts up to 40% of the mandatory systemwide tuition and fees for families with incomes up to \$150,000. The program will be phased in over four years, with \$107 million in 2014-15, \$152 million in 2015-16, \$228 million in 2016-17, and \$305 million in 2017-18.

### **Commission Operations**

The 2014-15 budget reflects authorized salary increases and the elimination of one limited term position associated with the implementation of the Middle Class Scholarship Program. No new resources were provided.

### **Employee Compensation**

Thirteen of the state's collective bargaining contract agreements reached in the summer of 2013 included salary increases tied to the concept of a revenue-based "trigger." Per the contracts, the ability to provide the 2014-15 salary increases is based on the Director of Finance's determination at the 2014-15 May Revision that revenues are sufficient to fully fund existing statutory and constitutional obligations, existing fiscal policy, and the cost of the trigger-based salary increases. For the majority of these contracts, if the trigger is pulled, employees will receive a salary increase of 2 percent in 2014-15 and

2.5 percent in 2015-16. If the trigger is not pulled, employees will receive a 4.5 percent salary increase in 2015-16.

The Budget assumes the necessary conditions for the trigger-based salary increases in 2014-15 will be met and therefore includes \$173.1 million (\$82.4 million General Fund) to fund them. A final determination will be made at the May Revision based on the latest revenue projections and updated expenditure information available. Additionally, the Administration is extending the same general salary increases negotiated for the majority of rank and file members described above to unrepresented state managers and supervisors to avoid salary compaction issues.

## **Higher Education Proposals**

In the 2014-15 Governor's Budget Summary, the Governor indicates that his proposed budget invests in the state's higher education system to maintain the quality and affordability of one of California's greatest strengths by:

- Providing stable funding growth over multiple years and eliminates the need for further tuition increases.

By developing multiyear sustainability plans and focusing on reducing the time it takes a student to successfully complete a degree, the universities can ensure their systems are financially viable over the long term.

- Tying increased funding to getting students their degrees in a timely manner, not just admitting more students.

The community college and the university systems must work together to develop innovative and ambitious approaches so students can successfully complete their degrees, and the Budget includes grant funding to encourage these innovations.

- Expanding community colleges' recent efforts to improve student success, with a particular focus on achievement in underrepresented student groups.

The Administration's long-term plan moves away from funding higher education based on enrollment targets. The Governor's budget indicates that, by itself, enrollment-based funding does not encourage 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 given the state's investment.

The following excerpts from the Governor's Budget Summary 2014-15 provide a summary of the major budget proposals for higher education.

- **Multi-Year Investment**

Higher education continues to be a high priority for investment because widely accessible, high-quality higher education drives the innovation that fuels California's ever-evolving, dynamic economy. Nevertheless, as the state reinvests in higher education, it cannot fund the business-as-usual model of providing instruction at its higher education institutions. Both UC and CSU proposed budgets for 2014-15 that

call for increases in state funding of 10 percent, compared to the 5 percent General Fund increase the Administration committed to in its long-term funding plan. The Administration's long-term plan moves away from funding higher education based on enrollment targets. By itself, enrollment-based funding does not encourage 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 given the state's investment. Instead, it builds upon the existing institutional infrastructure, allowing public universities and colleges to continue to deliver education in the high-cost, traditional model.

The Administration continues to support the four-year investment plan started in 2013-14. The plan calls for growing General Fund support for UC and CSU by 5 percent in 2014-15 and by 4 percent in each of the subsequent two years. The continuation of the multi-year plan is predicated on the UC Regents and the CSU Board of Trustees adopting three-year sustainability plans that set targets for key measures, within resource assumptions provided by the Department of Finance. Institutions will be expected to implement reforms to improve student success and to realize institutional efficiencies.

In combination with the General Fund increases and realizing the savings of current efficiency efforts (e.g., UC's Working Smarter Initiative and CSU's Systemwide Administrative Efficiencies), the Administration expects the universities to maintain current tuition and fee levels through 2016-17. State funding for the CCCs will increase by 11.4 percent in 2014-15.

- Student Success

It is expected that community colleges funding will continue to grow significantly over the next several years as Proposition 98 resources continue to rebound. The Budget focuses this increased funding to support student success and to prioritize expanded access in districts where there is the greatest unmet need in the primary missions of the CCCs: providing basic skills and remedial education, workforce development and training, and preparing students to transfer to four-year universities.

- Innovation

To meet future demands for higher education within the reality of the state budget, the state's public higher education segments are expected to create innovative cost-effective approaches to delivering quality higher education for more students.

To encourage higher education entities to take innovative and ambitious actions locally and integrate their efforts across campuses and segments, the Administration proposes to use \$50 million in one-time General Fund for the Awards for Innovation in Higher Education program. These incentive awards will recognize models of innovation in higher education that: (1) significantly increase the number of individuals in the state who earn bachelor's degrees, (2) allow students to earn bachelor's degrees that can be completed within four years of enrollment in higher education, and (3) ease transfer through the state's education system, including by recognizing learning that has occurred across the state's education segments or elsewhere.

## **Next Steps for the Budget**

The next steps for the budget typically include the following steps.

- Over the next four months, both houses of the Legislature will convene a series of budget hearings to consider the Governor's proposals and hear testimony from Department of Finance, the Legislative Analyst's Office and state agency representatives.
- On May 14, the Governor will issue his revised budget proposal based on revised tax revenue estimates.
- The Legislature will have additional budget hearings to discuss the May Revise.
- The Assembly and the Senate will then craft their separate budget bills. If there are any differences between the two bills, a conference committee made up of members from both houses will meet to reconcile the differences.
- The constitution requires the Legislature to pass a balanced budget bill to the Governor by midnight on June 15th.
- The Governor has until June 30th to sign the budget for implementation on July 1.

**Responsible Person(s):** Janet McDuffie, Chief  
Administration and External Affairs Division

**CALIFORNIA STUDENT AID COMMISSION  
2014-15 PROGRAM (LOCAL ASSISTANCE) BUDGET  
Per Governor's Proposed Budget  
(\$ in millions)**

Exhibit 1.a

PROGRAM	2013-14 Budget *	2014-15			
		CSAC Projections		Governor's Proposed Budget	
		Adjustments	Total	Adjustments	Total
<b>Cal Grants</b>					
Entitlement	\$1,545.4	\$89.9	\$1,635.3	\$14.9	\$1,650.2
Competitive	\$104.6	\$9.4	\$114.0	\$0.0	\$114.0
Cal Grant C	\$5.8	\$0.6	\$6.4	\$0.0	\$6.4
<b>Subtotal Cal Grants</b>	<b>\$1,655.8</b>	<b>\$99.9</b>	<b>\$1,755.7</b>	<b>\$14.9</b>	<b>\$1,770.6</b>
<b>Other Programs</b>					
APLE	\$20.7	(\$0.1)	\$20.6	\$0.0	\$20.6
CAL-SOAP	\$7.7	\$0.0	\$7.7	\$0.0	\$7.7
Chafee Foster Youth	\$11.6	\$0.0	\$11.6	\$0.0	\$11.6
Grad APLE	\$0.1	\$0.0	\$0.1	\$0.0	\$0.1
Child Development	\$0.1	\$0.0	\$0.1	\$0.0	\$0.1
Law Enforcement	\$0.1	\$0.0	\$0.1	\$0.0	\$0.1
Middle Class Scholarship	\$0.0	\$107.0	\$107.0	\$0.0	\$107.0
SNAPLE - NF	\$0.7	\$0.1	\$0.8	\$0.0	\$0.8
CNG EAAP	\$2.5	\$0.0	\$2.5	\$0.0	\$2.5
Cash for College	\$0.3	\$0.0	\$0.3	\$0.0	\$0.3
John R. Justice Grant	\$0.1	\$0.0	\$0.1	\$0.0	\$0.1
<b>Subtotal Other Programs</b>	<b>\$43.9</b>	<b>\$107.0</b>	<b>\$150.9</b>	<b>\$0.0</b>	<b>\$150.9</b>
<b>TOTAL LOCAL ASSISTANCE</b>	<b>\$1,699.7</b>	<b>\$206.9</b>	<b>\$1,906.6</b>	<b>\$14.9</b>	<b>\$1,921.5</b>

FUNDING SOURCES	2013-14 Budget *	2014-15			
		CSAC Projections		Governor's Proposed Budget	
		Adjustments	Total	Adjustments	Total
<b>Cal Grants</b>					
General Fund	\$1,016.0	\$194.0	\$1,210.0	(\$44.3)	\$1,165.7
Student Loan Operating Fund	\$98.1	\$0.0	\$98.1	(\$38.1)	\$60.0
Federal Trust Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Reimbursement	\$541.7	\$0.0	\$541.7	\$3.2	\$544.9
<b>Other Programs</b>					
General Fund	\$14.7	\$107.0	\$121.7	\$0.0	\$121.7
Student Loan Operating Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Federal Trust Fund	\$14.8	\$0.0	\$14.8	\$0.0	\$14.8
Reimbursement	\$14.4	\$0.0	\$14.4	\$0.0	\$14.4
<b>All Programs</b>					
General Fund	\$1,030.7	\$301.0	\$1,331.7	(\$44.3)	\$1,287.4
Student Loan Operating Fund	\$98.1	\$0.0	\$98.1	(\$38.1)	\$60.0
Federal Trust Fund	\$14.8	\$0.0	\$14.8	\$0.0	\$14.8
Reimbursement	\$556.1	\$0.0	\$556.1	\$3.2	\$559.3

\*The 2013-14 Budget includes the current year projections assumed in the Governor's Proposed 2014-15 Budget.

**CALIFORNIA STUDENT AID COMMISSION  
2013-14 and 2014-15 STATE OPERATIONS BUDGET  
Governor's Proposed Budget  
(\$ in thousands)**

	2013-14	2014-15	
	Budget	Proposed Budget	Adjustments <sup>1/</sup>
<b>Operations Budget</b>			
Personal Services	\$10,250	\$10,452	\$202
Operating Expenses	\$2,053	\$1,749	-\$304
<b>TOTAL</b>	<b>\$12,303</b>	<b>\$12,201</b>	<b>-\$102</b>
<b>Funding Sources:</b>			
General Fund	\$11,544	\$11,442	-\$102
Federal Trust Fund	\$258	\$258	\$0
Reimbursements	\$501	\$501	\$0
<b>TOTAL</b>	<b>\$12,303</b>	<b>\$12,201</b>	<b>-\$102</b>

	2013-14	2014-15	
	Budget	Proposed Budget	Adjustments <sup>1/</sup>
<b>Position Authority</b>			
Permanent	115.5	114.5	-1.0
Temporary Help	2.2	2.2	0.0
<b>TOTAL</b>	<b>117.7</b>	<b>116.7</b>	<b>-1.0</b>

<sup>1/</sup> **Major Adjustments**

Adjustments include changes to staff benefits and the elimination of one limited term position