

Exhibit 14

Information/Action Item

Update on the 2014-15 State Budget

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. A summary of the proposed changes is provided in Exhibit 14.1. Charts showing our proposed budget are included in Exhibits 14.2. and 14.3.

The Legislative Analyst's Office typically releases an overview of the higher education budget in February. This report was not available at the time this item was prepared. We will provide an update at the meeting.

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. No higher education budget committee hearings have been schedule as of the date this item was prepared.

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

2014-15 Proposed Budget Summary

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.

Restoration of Previous Reductions to the Cal Grant Program

- 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

2014-15 Proposed Budget Summary

incomes fall below the income threshold in that timeframe). The proposed trailer bill language is provided in Exhibit 14.4. We will provide an update on our analysis of the bill at the meeting.

- Exhibit 14.5 provides estimates on the number of students affected and the cost of restoring Cal Grant award amounts to previous levels.

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 system wide 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.

An update on the implementation of the Middle Class Scholarship Program is included in Exhibit 8.

Loan Assumption Programs

The budget continues the phase out the following loan assumption programs for Teachers and Nurses. Only current participants continue to receive benefits as no new awards are authorized in the budget.

- APLE: Assumption Program of Loans for Education
- GRAD APLE: Graduate Assumption Program of Loans for Education
- SN APLE: State Nursing Assumption Program of Loans for Education for Nursing Faculty

College Access Challenge Grant Funding

Created by the federal government in September 2007, the College Access Challenge Grant (Challenge Grant) program provides block grants to 57 U.S. states and territories to promote the enrollment and success of underrepresented students in higher education. During the first two cycles of funding (FY 2008 and FY 2009), California received \$7.7 million each year. Because funding was doubled when the program was reauthorized through FY 2014, California has received \$15 million each year since 2010.

In California, the College Access Challenge Grant (Challenge Grant) funding supports three highly successful, critical initiatives that reach thousands of underrepresented students: the California Student Opportunity and Access Program (Cal-SOAP), California Cash for College, and the Assumption Program of Loans for Education (APLE). The Governor's proposed budget anticipates the continued use of the Challenge Grant funds for these programs at the same level as the current year.

Maintenance of Effort Requirement

To ensure that states expand services rather than use federal funds to displace state spending, the Challenge Grant program has Maintenance of Effort (MOE) requirements regarding funding for public institutions of higher education and for financial aid for

2014-15 Proposed Budget Summary

students attending private institutions of higher education. The rules call for states to provide financial support each year that is equal to the average amount provided over the five preceding state fiscal years.

Last year, the State did not meet the MOE requirement for providing funding to public institutions of higher education. However, we requested and received an MOE waiver and received funding for 2013-14.

We will be working with the Department of Finance (DOF) to obtain information needed to determine if we meet the MOE this year. If a waiver is needed, the submission date is May 31, 2014. USED decisions regarding the approval of the waiver may not be provided until as late as September 23, 2014. We will update the Commission at the April meeting.

2014-15 Challenge Grant Funding Application

States must apply annually for Challenge Grant funding. We typically work with the Governor's Office to prepare the application which contains information on how the State requests to use the funds and the goals we expect to achieve. The 2014-15 application is typically due around July 1.

2015-16 Challenge Grant Funding

The 2014-15 is the final year of the federal Challenge Grant program funds. If Congress does not extend the Challenge Grant program beyond 2014-15, state budget action or legislation to fund Cal-SOAP, California Cash For College, and APLE will be required in the 2014-15 legislative session.

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.
- The budget includes funding for increases in employee salaries based on the following:
 - ❖ 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

2014-15 Proposed Budget Summary

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.

- ❖ Additional appropriation authority will be provided in our budget for the salary and associated benefit increases.

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

2014-15 Proposed Budget Summary

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.

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

PROGRAM	2013-14 Budget *	2014-15			
		CSAC Projections		Governor's Proposed Budget	
		Adjustments	Total	Adjustments	Total
Cal Grants					
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
Subtotal Cal Grants	\$1,655.8	\$99.9	\$1,755.7	\$14.9	\$1,770.6
Other Programs					
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
Subtotal Other Programs	\$43.9	\$107.0	\$150.9	\$0.0	\$150.9
TOTAL LOCAL ASSISTANCE	\$1,699.7	\$206.9	\$1,906.6	\$14.9	\$1,921.5

FUNDING SOURCES	2013-14 Budget *	2014-15			
		CSAC Projections		Governor's Proposed Budget	
		Adjustments	Total	Adjustments	Total
Cal Grants					
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
Other Programs					
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
All Programs					
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 ^{1/}
Operations Budget			
Personal Services	\$10,250	\$10,452	\$202
Operating Expenses	\$2,053	\$1,749	-\$304
TOTAL	\$12,303	\$12,201	-\$102
<u>Funding Sources:</u>			
General Fund	\$11,544	\$11,442	-\$102
Federal Trust Fund	\$258	\$258	\$0
Reimbursements	\$501	\$501	\$0
TOTAL	\$12,303	\$12,201	-\$102

	2013-14	2014-15	
	Budget	Proposed Budget	Adjustments ^{1/}
Position Authority			
Permanent	115.5	114.5	-1.0
Temporary Help	2.2	2.2	0.0
TOTAL	117.7	116.7	-1.0

^{1/} **Major Adjustments**

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

**Proposed Trailer Bill Language to Expand Cal Grant Renewal Award Eligibility
(Amends Education Code Section 69433.6)**

- (a) Cal Grant A awards and Cal Grant B awards may be renewed for a total of the equivalent of four years of full - time attendance in an undergraduate program provided that minimum financial need as defined in paragraph (3) of subdivision (b) of Section 69432.9 continues to exist. Commencing with the 2001 – 02 academic year, the total number of years of eligibility for grants pursuant to this section shall be based on the student’s educational level in his or her course of study as designated by the institution of attendance when the recipient initially receives payment for a grant.
- (b) (1) Commencing with the 2014 – 15 academic year, a recipient who was determined to be ineligible for a renewal award in the 2012 - 13 or 2013 - 14 academic year because he or she exceeded the maximum household income or asset level as established by subdivision (k) of Section 69432.7, or failed to meet the minimum need threshold established in paragraph (3) of subdivision (b) of Section 69432.9, shall be eligible to receive a renewal award if the recipient meets all program eligibility requirements for the program from which he or she was previously disqualified and the recipient has remaining renewal award eligibility. For the purpose of determining a student’s remaining renewal award eligibility, an academic year during which a student was ineligible shall reduce his or her renewal award eligibility by one full - time equivalent year.
- (2) Commencing with the 2015 – 16 academic year, a recipient who is determined to be ineligible for a renewal award because he or she exceeds the maximum household income or asset level as established by subdivision (k) of Section 69432.7, or fails to meet the minimum need threshold established in paragraph (3) of subdivision (b) of Section 69432.9, in the immediately preceding academic year, shall be eligible to receive a renewal award if the recipient meets all program eligibility requirements for the program from which he or she was previously disqualified and the recipient has remaining renewal award eligibility. For the purpose of determining a student’s remaining renewal award eligibility, an academic year during which a student was ineligible shall reduce his or her renewal award eligibility by one full - time equivalent year.
- (bc) For a student enrolled in an institutionally prescribed five - year undergraduate program, Cal Grant A awards and Cal Grant B awards may be renewed for a total of five years of full – time attendance, provided that minimum financial need, as defined in paragraph (3) of subdivision (b) of Section 69432.9, continues to exist.
- (ed) (1) A Cal Grant Program award recipient who has completed a baccalaureate degree, and who has been admitted to and is enrolled in a program of professional teacher preparation at an institution approved by the California Commission on Teacher Credentialing is eligible for, but not entitled to, renewal of a Cal Grant Program award for an additional year of full – time attendance, if minimum financial need, as defined in paragraph (3) of subdivision (b) of Section 69432.9, continues to exist.

Exhibit 14.4

Proposed Trailer Bill Language to Expand Cal Grant Renewal Award Eligibility (Amends Education Code Section 69433.6)

(2) Payment for an additional year is limited to only those courses required for an initial teaching authorization. An award made under this subdivision may not be used for other courses.

(~~3e~~) A student's Cal Grant renewal eligibility shall not have lapsed more than 15 months prior to the payment of an award for purposes of this section subdivision.

**California Student Aid Commission
Cal Grant Program
Restoration of Award Amounts in Budget Year 2014-15
Estimated Students Affected and Additional Cost***

Description	Budget Year 2014-15			
	Estimated Students Affected	Estimated Additional Cost	Estimated Students Affected	Estimated Additional Cost
Restore the Cal Grant A and B maximum award at private schools	To \$9,223		To \$9,708	
Nonprofit schools				
o New paid recipients, from \$8,056	8,850	\$8.8 million	8,850	\$12.5 million
o Renewal paid recipients, from \$9,084 or \$9,223	7,535	\$1.0 million	19,030	\$9.9 million
For-profit schools, accredited by Western Association of Schools & Colleges (WASC)				
o New paid recipients, from \$8,056	2,095	\$1.3 million	2,095	\$1.9 million
o Renewal paid recipients, from \$9,084 or \$9,223	1,080	\$0.2 million	1,660	\$1.0 million
All new paid recipients	10,945	\$10.1 million	10,945	\$14.4 million
All renewal paid recipients	8,615	\$1.2 million	20,690	\$10.9 million
Total paid recipients	19,560	\$11.3 million	31,635	\$25.3 million
Restore the Cal Grant A and B maximum award at other private, for-profit schools	To \$9,223		To \$9,708	
o New paid recipients, from \$4,000	1,820	\$2.2 million	1,820	\$2.4 million
o Renewal paid recipients, from \$4,000 or \$9,223	485	\$2.5 million	645	\$2.8 million
Total paid recipients	2,305	\$4.7 million	2,465	\$5.2 million
Grant B access award				
o New and renewal paid recipients, from \$1,473 to \$1,551	184,200	\$12.6 million		
Restore the Cal Grant C tuition and fee award				
o New and renewal paid recipients, from \$2,462 to \$2,592	1,690	\$0.2 million		
Restore the Cal Grant C book and supply award				
o New and renewal paid recipients, from \$547 to \$576	9,520	\$0.2 million		

* Based on the CSAC Cal Grant Projection model (October 2013)