Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Robert Huff
Member, Roderick Wright

Wednesday, January 26, 2011
2:30 p.m.
Room 3191, State Capitol

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ISSUE 1: Higher Education Budget Overview

Speaker: Steve Boilard, Legislative Analyst's Office

Higher Education Core Funding

		2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Estimated	2011-12 Proposed
UC	GF	$3,257.4	$2,418.3	$2,591.2	$2,911.6	$2,524.1
	Tuition[a]	$1,116.8	$1,166.7	$1,449.8	$1,793.6	$1,909.5
	ARRA		$716.5		$106.6	
	Lottery	$25.5	$24.9	$26.1	$30.0	$30.0
	Totals	***$4,399.7***	***$4,326.4***	***$4,067.0***	***$4,841.9***	***$4,463.6***
CSU	GF	$2,970.6	$2,155.3	$2,345.7	$2,682.7	$2,291.3
	Tuition[a]	$916.3	$1,104.5	$1,210.8	$1,254.9	$1,400.7
	ARRA		$716.5		$106.6	
	Lottery	$58.1	$42.1	$42.4	$45.8	$45.8
	Totals	***$3,945.0***	***$4,018.4***	***$3,599.0***	***$4,090.1***	***$3,737.8***
CCC	GF	$4,272.2	$3,975.7	$3,735.3	$3,994.7	$3,599.8
	Fees	$291.3	$302.8	$353.6	$350.1	$456.6
	LPT	$1,970.8	$2,028.8	$1,999.8	$1,892.1	$1,873.5
	ARRA			$35.0	$4.0	
	Lottery	$168.7	$148.7	$163.0	$168.5	$168.5
	Totals	***$6,702.9***	***$6,456.0***	***$6,286.7***	***$6,409.4***	***$6,098.3***
Hastings	GF	$10.6	$10.1	$8.3	$8.4	$6.9
	Fees[a]	$21.6	$26.6	$30.7	$34.2	$35.3
	Lottery	$0.1	$0.1	$0.1	$0.2	$0.2
	Totals	***$32.3***	***$36.8***	***$39.1***	***$42.7***	***$42.4***
CPEC	GF	$2.1	$2.0	$1.8	$1.9	$1.9
CSAC	GF	$866.7	$888.3	$1,043.5	$1,224.3	$577.6
	Other[b]		$24.0	$32.0	$100.0	$976.8
	Totals	***$866.7***	***$912.3***	***$1,075.5***	***$1,324.3***	***$1,554.4***
GRAND TOTALS		**$15,948.7**	**$15,751.9**	**$15,069.2**	**$16,710.2**	**$15,898.5**
	GF	$11,379.6	$9,449.7	$9,725.8	$10,823.5	$9,001.5
	Fees/Tuition	$2,346.0	$2,600.6	$3,044.9	$3,432.8	$3,802.1
	ARRA	$0.0	$1,433.0	$35.0	$217.2	$0.0
	LPT	$1,970.8	$2,028.8	$1,999.8	$1,892.1	$1,873.5
	Lottery	$252.4	$215.8	$231.7	$244.6	$244.6
	Other	$0.0	$24.0	$32.0	$100.0	$976.8

[a]Figures for tuition revenue and fee revenue at UC, CSU, and Hastings College of the Law exclude amounts diverted to financial aid.

[b]Other funds for CSAC include reimbursements from Student Loan Operating Fund and federal Temporary Assistance for Needy Families funding.

ARRA = American Recovery and Reinvestment Act   Source: Legislative Analyst's Office

ISSUE 2: UC and CSU Budget Reductions

Speakers:

- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance
- Johnny Garcia Vasquez, University of California Student Association
- Brandon Sisks CSU Student Representative
- Patrick Lenz, University of California
- Robert Turnage, California State University
- Kevin Woolfork, California Postsecondary Education Commission

Issue. The issue before the Subcommittee is an overview of the UC and CSU budgets and the reductions proposed by the Governor.

Higher Education Core Funding

(dollars in millions)

		2009-10 Actual		2010-11 Estimated		2011-12 Proposed	Change from 2010-11 to 2011-12
University of California							
General Fund	$	2,591.2	$	2,911.6	$	2,524.1	-$387.5
Student Fees	$	1,449.8	$	1,793.6	$	1,909.5	$115.9
ARRA	$	-	$	106.0	$	-	-$106.0
Lottery	$	26.1	$	30.0	$	30.0	$0.0
Total	**$**	**4,067.0**	**$**	**4,841.2**	**$**	**4,463.6**	**-$377.6**
California State University							
General Fund	$	2,345.7	$	2,682.7	$	2,291.3	-$391.4
Student Fees	$	1,210.8	$	1,254.9	$	1,400.7	$145.8
ARRA	$	-		106.0	$	-	-$106.0
Lottery	$	42.4		45.8	$	45.8	$0.0
Total	**$**	**3,599.0**	**$**	**4,089.4**	**$**	**3,737.8**	**-$351.6**

University of California Background. The University of California (UC) was founded in 1868 as a public, state-supported land-grant institution with an independent governing board called the UC Regents. The UC is the primary state-supported academic agency for research and awarding doctoral degrees. It is the primary segment authorized to independently award doctoral degrees and professional degrees in law, medicine, dentistry, and veterinary medicine. The UC draws students from the top 12.5 percent of the state's high school graduates, as well as transfer students who have successfully completed specified college work. In 2010-11 the UC system had enrolled approximately 234,000 undergraduate and graduate Full Time Equivalent Students (FTES).

California State University Background. California State University (CSU) is the largest four-year university system in the country, with 23 campuses and almost 354,000 (FTES) students. Drawing students from the top one-third of the state's high school graduates, as well as transfer students who have successfully completed specified college work, CSU provides bachelor's degrees, master's degrees, and doctoral degrees in education or jointly with UC or private institutions in other fields of study. The CSU grants more than half of the state's bachelor's degrees and one-third of the state's new master's degrees.

Governor's Proposal. Under the Governor's proposed budgets for UC and CSU, both segments would take a General Fund cut of $500 million. However, both segments then receive a backfill of General Fund to replace one-time ARRA funds. Under the Governor's proposal, CSU also would receive an additional $75.2 million General Fund for retirement costs, and both segments receive other small General Fund adjustments. The total General Fund reduction proposed to the UC system is $387.5 million, and $391.4 million to CSU.

Reduction is Unallocated. The General Fund reduction to the UC and CSU segments is unallocated, which means that the Governor has not specified the program areas that are being reduced. Instead, the Governor has provided intent language in *The Governor's Budget Summary*:

> "These reductions are intended to minimize fee and enrollment impacts on students by targeting actions that lower the costs of instruction and administration. The Administration will work with the Office of the Chancellor and the Trustees [and Office of the President and the Regents], as well as stakeholders (including representatives of students and employees), to determine the specific mix of measures that can best accomplish these objectives."

Mitigation of Budget Reduction from Student Fee Revenue. The UC Regents and CSU Board of Trustees approved new student fee increases in November 2010. When the projected net student fee revenue from these increases is taken into account (student fee revenue minus return to aid), the total proposed budget reductions are **$377 million to UC and $351 million to CSU**.

Staff Comment. Budget reductions of the magnitude proposed by the Governor for UC and CSU will be difficult to achieve without impacting the quality of the services students receive. The budget reductions can be achieved through numerous avenues, singly or in combination, including: 1) reduction in student enrollment; 2) increase in student fees; 3) reduction in institutional financial aid; 4) reduction in student services; 5) reduction in instruction costs; or 6) reduction in non-instructional costs such as administration and research. Each of these options, and what they mean for the students and the preparation of qualified advanced degree holders, will be discussed in turn.

Suggested Questions:

1. How do the segments intend to deal with the Governor's proposed reductions?
2. If the segments are provided an unallocated reduction with no direction from the Legislature on how to implement the cuts, when and how will the segments make the decision on where the cuts are coming from?
3. When does Department of Finance anticipate to complete the work with the segments, the stakeholders, and the employees to determine how the budget reductions will be handled?

ISSUE 3: Student Enrollment

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance

Issue. The issue before the Subcommittee is the impact of the proposed reductions on student enrollment and whether or not to include a specific enrollment target in the UC and CSU budgets.

Enrollment Target Background. Traditionally, the Legislature specifies in the Budget Act an enrollment target for both the UC and CSU. The enrollment target is the number of funded Full-Time Equivalent Students (FTES) that the segments are expected to enroll. If the higher education segments enroll more students than their funded FTES, these additional students are not financed by the state and are called unfunded FTES. The Budget Acts of 2008-09 and 2009-10 did not specify enrollment targets because the Legislature wanted to provide the segments with a multitude of options for dealing with the steep budget reductions in those years. The enrollment targets were brought back in the *2010-11 Budget Act*, since that budget increased the funding for both segments.

Segments Response to Budget Cuts Since 2008. Due to the steep General Fund cuts to each of the segments' budgets in 2008-09, the Legislature eliminated the enrollment targets to provide the segments with flexibility to implement their budget cuts by reducing enrollment. Both the UC and CSU had previously enrolled more students than the enrollment target mandated, and attempted to reduce or eliminate those unfunded FTES as General Fund support for the higher education institutions was reduced. The result has been that fewer freshmen have been admitted into the UC and CSU systems. The CSU system also took steps to force "super-seniors" with more than 142 units completed to graduate or leave the system.

Governor Not Proposing Enrollment Target. The Governor's proposed 2011-12 Budget does not contain an enrollment target for either UC or CSU. Instead, the Governor proposes the following language:

> *The university shall develop an appropriate enrollment target for state-supported full-time equivalent students in 2011-12, in consultation with the Administration and the Legislature.*

Enrollment at UC and CSU. The amount of student enrollment is the traditional access issue. The more enrollment spaces provided, the more students receive the opportunity to make college work for them. California funded enrollment growth in 2010-11, but due to budget restrictions did not fund enrollment growth in either 2008-09 or 2009-10. However, UC enrollment grew during this time period despite the decreased funds. CSU intended to severely limit their enrollment in 2010-11, but funds provided by the Legislature allowed the system to maintain enrollment at about even.

Higher Education FTES Totals

	2007-08 (Actual)	2008-09 (Actual)	2009-10 (Actual)	2010-11 (Estimated)	2011-12 (Budgeted)
UC	203,906	210,558	213,589	214,963	209,977
CSU	353,914	357,223	340,303	339,873	339,877

Impact of Budget Reductions. The Governor's office has encouraged UC and CSU to achieve the budget reductions through "targeting actions that lower the costs of instruction and administration" and "minimize fee and enrollment impacts on students". The segments have not yet presented a plan for how they intend to deal with the budget reductions.

Marginal Cost per Student. One possible means for calculating possible impact on enrollment from the proposed cuts is to examine the cost of each new student to the university system, represented by the marginal cost per student. Department of Finance usually calculates the marginal cost per student for purposes of enrollment growth. Department of Finance has not calculated a new marginal cost per student number because there was no enrollment growth proposed for 2011-12. However, using the marginal cost per student figures from 2010-11, the latest year in which growth was funded, it can be calculated that a cut of $308 million at UC is sufficient funding for 30,766 students, and a cut of $208 million at CSU is sufficient funding for 28,473 students.

Staff Comment. It is unclear if the segments can reduce their budgets by $308 million for UC and $208 million for CSU without limiting enrollment. In order to assure that the UC and CSU do not drastically reduce student enrollment, the Legislature may wish to consider including budget bill language that specifies the enrollment level for both UC and CSU. No vote is recommended at this time.

Suggested Questions:

1. Are the segments planning on reducing enrollment in 2011-12? If so, by how much?

ISSUE 4: Student Fees

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance
- Kevin Woolfork, CPEC

Issue. The issue before the Subcommittee is an informational overview of the student fee levels at UC and CSU. Also discussed in this item are the institutional financial aid levels.

Recent Student Fee Increases. In November 2010, the UC Regents approved a student fee increase of 8 percent for the 2011-12 academic year. This is in addition to earlier fee increases of 15 percent for 2010-11 and 17.5 percent for 2009-10. These fee increases are projected to provide $810.7 million in additional student fee revenue over the 2008-09 fiscal year for the UC system.

In November 2010, the CSU Board of Trustees approved a 10 percent student fee increase for the 2011-12 academic year. This increase is in addition to a 15 percent student fee increase in 2010-11 (of which five percent was in effect for half the academic year) and a 32 percent student fee increase in 2009-10. Together these fee increases bring the total student fee increases at CSU since 2006 to 93.8 percent. These fee increases are projected to provide $339.2 million in additional student fee revenue over the 2008-09 fiscal year for the CSU system.

Student Fees for Resident Undergraduates

	University of California	California State University	California Community Colleges*
2006-07	$ 6,141	$ 2,520	$ 690
2007-08	$ 6,636	$ 2,772	$ 600
2008-09	$ 7,126	$ 3,048	$ 600
2009-10	$ 8,373	$ 4,026	$ 780
2010-11	$ 10,302	$ 4,440	$ 780
2011-12	$ 11,124	$ 4,884	$ 1,080

**For full time student taking 30 units*

Student Fee Levels Unpredictable. Student fee increases are not regulated in statute for UC and CSU, and thus can change from year to year with little predictability for students. Student fees have been erratic and unpredictable over the course of the past few years, making it difficult for families to conduct financial planning for higher education costs. Though the higher education *Compact* attempted to create stability in student fee increases, that attempt was not successful due to the State's inability to guarantee stable core funding for the segments.

California Student Fees Still Competitive Nationally. The California Postsecondary Education Commission (CPEC) conducts a comparison study of California's undergraduate resident student fees and student fees at comparable institutions nationally. Even with the recent enacted student fee increases, California's student fees are still competitive for UC and CSU, and lowest in the nation for California Community Colleges.

Annual Student Fees for UC and Comparison Institutes

	2010-11
University of Illinois	$13,508
University of Michigan	$12,590
University of California*	**$11,279**
University of Virginia	$10,628
State University New York, Buffalo	$7,136

**Includes campus fees voted in by the students*

Annual Student Fees for CSU and Comparison Institutes

		2010-11
Illinois State University	$	11,399
Wayne State University	$	10,416
University of Connecticut	$	9,338
University of Maryland	$	9,171
University of Wisconsin	$	9,032
George Mason University	$	8,684
University of Texas, Arlington	$	8,500
Cleveland State University	$	8,466
Arizona State University	$	8,134
Georgia State University	$	7,884
University of Colorado	$	7,327
State University of New York	$	6,830
North Carolina State University	$	6,529
University of Nevada, Reno	$	5,561
California State University*	**$**	**5,180**

**Includes campus fees voted in by the students*

Governor's Budget. The Governor's Budget does not assume new student fee increases for UC or CSU. The Governor has stated the intention that the budget reductions be "intended to minimize fee and enrollment impacts". However, UC's constitutional autonomy provides the UC Regents with the authority to increase student fees, without approval of the Governor and the Legislature. Thus far, neither the UC nor CSU have indicated that they intend to raise student fees further.

Institutional Financial Aid. Institutional financial aid is the financial aid provided by the UC and CSU segments as student fee waivers to their own students. This financial aid is provided only to California residents based on the lower-income status of the student. Approximately one-third of the students at UC and CSU receive institutional financial aid.

Both the UC and CSU increased the amount of their institutional financial aid to respond to the fee increases approved by the Regents and Board of Trustees. Under the UC Blue and Gold Plan, students with family income less than $80,000 annually could have their student fees covered in combination with federal grants and institutional aid. Similarly, CSU offers institutional financial aid to students with family income less than $70,000 annually.

Institutional financial aid is foregone student fee revenue rather than funds received by the segments and then paid out. Thus, a reduction in institutional financial aid would lead to increased revenue for the segments as more students would pay student fees. However, some of the students receiving institutional financial aid may find it difficult to attend the university without financial assistance, as they would have to rely solely on loans and parental assistance to meet their expenses.

Staff Comment. Neither the UC nor CSU systems have yet provided detail as to how exactly they will absorb the proposed cuts. Student fees have been rising rapidly over the last few years in both segments. Further increases in student fees are unlikely to make California residents attend universities in other states as the UC and CSU student fees will still be less than the non-resident tuition charged by non-California universities. However, California residents might be discouraged from attending university at all due to sticker shock.

Suggested Questions:

1. Are UC and CSU considering raising student fees?
2. Are UC and CSU considering changes to institutional financial aid?

ISSUE 5: Student Services

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance

Issue. The issue before the Subcommittee is an informational review of student services that are at risk due to budget reductions.

Student Services. Among the services provided by the campuses for students are counseling services, financial aid administration, libraries, tutoring, computer labs, and academic preparation, and outreach programs. These services are critical support structures for students to complete their academic studies. For example, reduced library hours or computer labs with outdated machines will make it more difficult for students to complete research and other academic work.

Academic Preparation Programs. Academic preparation programs are programs geared at non-traditional students who may need extra help in navigating campus administration, enhanced educational resources, or paying for college. These programs include a wide array of services such as disabled student services; Enhanced Opportunity Program (EOP); and Math, Engineering, and Science Achievement (MESA). Both UC and CSU offer a wide array of academic preparation programs geared at helping disadvantaged students through college.

Outreach Programs. Outreach programs are programs to encourage high-school, community college, and middle-school students to prepare for and transition into the UC and CSU systems. Arguably, as enrollment is decreased there is less need for outreach programs. However, these programs draw in more students of color, and without these programs there could be decreased diversity in the UC and CSU systems.

Staff Comment. In order to ensure that certain academic preparation and outreach programs are protected, the Legislature may wish to consider including budget bill language that stipulates reductions in these areas cannot proportionately exceed the reductions to the segments' overall budgets. This is an informational item and no vote is recommended at this time.

Suggested Questions:

1. How are UC and CSU going to approach potential reductions to student services?
2. Do UC and CSU have plans to reduce or eliminate academic preparation or outreach programs?

ISSUE 6: Instruction Alternatives

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance
- Kevin Woolfork, CPEC

Issue. The issue before the Subcommittee is an informational item as to how the UC and CSU could absorb a portion of the Governor's proposed budget reduction through changes to instruction.

Instruction is the Primary Mission. The CSU's main mission is to teach students. The UC has a three-pronged mission of instruction, research, and public service. Since instruction is the primary mission of both university systems, it is also a large expenditure for both systems.

Governor's Directive. In *The Governor's Budget Summary*, the same direction is provided to both UC and CSU: "These reductions are intended to minimize fee and enrollment impacts on students by targeting actions that **lower the costs of instruction** and administration." It is not clear from the Governor's directive as to what steps the UC and CSU should take to lower the cost of instruction.

Student-Faculty Ratio. One possible means for lowering the cost of instruction is to have each instructor teach more students per class. The current student-faculty ratio is 22:1 at UC and 22.76:1 at CSU. It is not certain what the savings are from this alternative. Higher student-faculty ratio could mean that the campuses have to consider different approaches to instructional delivery or provide a revised acknowledgement of the expectations placed on instructors.

Number of Courses Taught by Faculty. Full-time tenured faculty at UC teach four courses a year and full-time faculty at CSU teach 12 units a semester, which is roughly four classes per semester. It should be noted that CSU has no research mission, while full-time faculty at UC are expected to publish research. If the faculty at each system taught more courses, the cost of instruction would decrease. However, having faculty teach additional courses has downsides such as faculty burnout, and, for the UC system, decreased research time.

On-Line Courses. The campuses are constrained by the amount of space available in their buildings during instructional hours. However, on-line courses do not face the same limitations on available classroom space as traditional courses, and also do not depend on the instructor's ability to travel to the campus. As more young people become comfortable with using computers to communicate and exchange information, the universities may wish to examine on-line courses as a means of offering classes at lower cost.

Consolidation of Programs. The UC and CSU campuses offer a full array of programs at each campus. There are some programs with specific demand that perhaps could be regionally consolidated within the UC system of the CSU system. For example, if a student wishes to gain a Master of Science in Marine Science degree, perhaps that student could be directed to CSU Monterey Bay or CSU San Diego, rather than CSU Fresno (which is not near the ocean, but offers this major). Similarly, UC could regionally consolidate some of the smaller majors, such as language courses. The potential savings from consolidating programs is not known.

New Programs. Despite concerns raised by the California Postsecondary Education Commission (CPEC), some new professional schools have been started on UC campuses. These include the UC Irvine Law School. Funding for these professional schools comes primarily from hefty student fees and the university's unclassified funds. However, by spending unclassified funds on professional schools the UC system is foregoing spending those funds on traditional undergraduate education.

Staff Comment. Instruction is the primary service directed at students and any changes to the way instruction is conducted should seek to benefit students. Both segments have a large number of options to consider in lowering instructional costs.

Suggested Questions:

1. Has the Department of Finance proposed ways in which instructional costs could be limited?
2. How are UC and CSU planning to reduce instructional costs?
3. How will UC and CSU involve their respective Academic Senate's in the decision making about reducing instructional costs?

ISSUE 7: Administration Alternatives

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance

Issue. The issue before the Subcommittee is an informational item on what portion of the budget reduction UC and CSU will absorb through administration, and how each segment plans to lower administration costs.

Governor's Directive. In *The Governor's Budget Summary*, the same direction is provided to both UC and CSU: "These reductions are intended to minimize fee and enrollment impacts on students by targeting actions that lower the costs of instruction and **administration.**"

Administration Difficult to Measure. Though the cost of operating the University of California Office of the President (UCOP) and the California State University Chancellor's Office are well known, the administrative cost of each campus is tied up in student services and instruction so that there is no separate budget line item for the administrative expenditure component. Thus, institutional support is one of the best ways to capture purely administrative costs in the system, though it will not capture all administrative costs.

Institutional support includes executive management, fiscal operations, general administration, logistical services, public relations, and administrative information technology. Though the actual dollars for institutional support are projected to increase slightly for both segments, as a percentage of total expenditures it has remained about even for both UC and CSU.

Institutional Support at UC and CSU

(dollars in millions)

	UC		CSU	
2009-10 Total	**$**	**820.6**	**$**	**660.4**
General Fund	$	317.3	$	341.8
Other Funds	$	503.3	$	318.6
2010-11 Total	**$**	**855.9**	**$**	**645.1**
General Fund	$	269.9	$	368.7
Other Funds	$	586.1	$	276.4
2011-12 Total	**$**	**859.2**	**$**	**674.4**
General Fund	$	269.9	$	380.2
Other Funds	$	589.3	$	294.2

Accusations of Administrative Bloat. The University of California has been accused repeatedly since the budget reductions began of providing administrators with high salaries while cutting services to students and denying salary increases to service employees. In fact, some top-level administrators have even received salary increases during the last two years. While student fees are increased and student services are decreased, it should be asked if the salaries of UC executives are reflective of the general economic picture on the campuses.

Staff Comment. As the University of California budget shrinks, and student services are reduced, it is imperative to ask if the university system is as efficient as it could be in its administration. If administrative reductions and efficiencies can be achieved, they should be taken before cuts to courses or student services such as libraries. As General Fund support for the UC is lowered, and student fee revenues must pay for the activities and positions previously financed with General Fund, there should be a close examination of whether or not all of those positions are necessary.

Suggested Questions:

1. How will UC and CSU work to reduce administrative costs?
2. How will UC and CSU work to create efficiency in administration?
3. Since the budget cuts to the UC system began in February 2009, how many senior management personnel have received pay raises?
4. Has student fee revenue been used to provide raises to executive management since 2008-09?

ISSUE 8: Mandatory Cost Growth Factors

Speakers:

- Patrick Lenz, University of California
- Robert Turnage, California State University
- Steve Boilard, Legislative Analyst's Office
- Judy Heiman, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance

Issue. The issue before the Subcommittee is an informational overview of mandatory cost growth at UC and CSU.

Mandatory Costs. Mandatory costs are defined as those costs that the university must cover regardless of enrollment level or student fee revenue. These include electricity, capital outlay lease-revenue payments, employee health care cost increases, and retirement costs. Though UC and CSU have in the past presented certain employee compensation costs as mandatory costs, employee compensation costs can be tied to enrollment levels and thus do not have to be viewed as mandatory.

Mandatory Cost Growth Not Automatically Funded. Chapter 12 of the 2009-10 Fourth Extraordinary Session added Section 11019.10 to the Government Code, which provides that "except as provided in the Budget Act and implementing statutes, no automatic increases shall be provided to the University of California, California State University, the state courts, or to state agency operations, including, but not limited to, annual price increases to state departments and agencies." Thus, funding for any cost increases that occur during the year (such as a utility raising rates) must be approved by the Legislature in the Budget Act.

Impact of Mandatory Costs on Instruction. If enrollment in a university system remains unchanged year-over-year, but costs such as lease-revenue bond payments and electricity costs rise, the university must meet those increased costs in some way. This could take place through increased state funding, decreased services to students, leaner administration, or increased student fees.

CSU Mandatory Costs. The CSU's new mandatory cost growth for 2011-12 totals about $48.9 million. The CSU has an additional $44.6 million in contractual scheduled salary increases, which the CSU would likely argue are a mandatory cost.

CSU Mandatory Cost Growth

(dollars in millions)

Mandatory Item	2011-12
Health Insurance Premiums	$ 36.4
Dental Insurance Premiums	$ 3.2
Energy Price Increases	$ 5.5
New Space (Utilities/Maintenance)	$ 3.8
Total	**$ 48.9**

UC Mandatory Costs. The UC's new mandatory cost growth for 2011-12 totals about $148.7 million. In addition to these mandatory costs, UC has another $180.7 million in cost increases related to contractual salary increases and facilities maintenance.

UC Mandatory Cost Growth

(dollars in millions)

Mandatory Item	2011-12
Employee Health Benefits	$ 22.9
Annuitant Health Benefits	$ 10.5
Purchased Utilities	$ 5.5
Non-Salary Cost Increases	$ 24.0
Retirement Contributions	$ 85.8
Total for Mandatory	**$ 148.7**

Non-Mandatory Item	2011-12
Deferred Maintenance	$ 60.0
Academic Merit Increases	$ 27.7
Compensation Increases	$ 87.0
Collective Bargaining Agreements	$ 6.0
Total for Non-Mandatory	**$ 180.7**

Retirement Costs. Growth in retirement costs has been occurring for both UC and CSU. Contributions to retirement plans is not optional because retirement is part of each employee's benefits package, but the amount of the total annual contribution can vary depending on the number of employees each system chooses to employ.

California State University. Like most state employees, the CSU's employees are in the CalPERS retirement system. Thus the CSU does not independently determine the contribution rate of its employees or the employer into the retirement plan. The Governor's budget proposes an additional $75.2 million General Fund for the CSU CalPERS contributions. This amount is sufficient to cover the CSU increased costs for 2011-12.

University of California. Unlike CSU, the UC system has its own independent retirement system called University of California Retirement Plan (UCRP). The UC Regents determine the amount of the employee and employer contributions into the plan. For approximately 19 years (until 2009) when the UCRP was earning large amounts of interest, there were no state or employee contributions made into the plan. However, the economic difficulties of 2008 made UCRP insolvent, and the UC Regents decided to restart both employer and employee contributions in the spring of 2010.

Staff Comment. Both UC and CSU have prior year mandatory costs for which they never received increased state funding, and thus had to be absorbed by the segments' budgets. Since UC and CSU were able to absorb those costs, the prior year mandatory costs should not be viewed as a current unmet burden on either the UC or the CSU systems.

Suggested Questions:

1. Are the negotiated salary increases avoidable costs? Can contracts be renegotiated, or will a possible reduction in student enrollment lower these costs?