

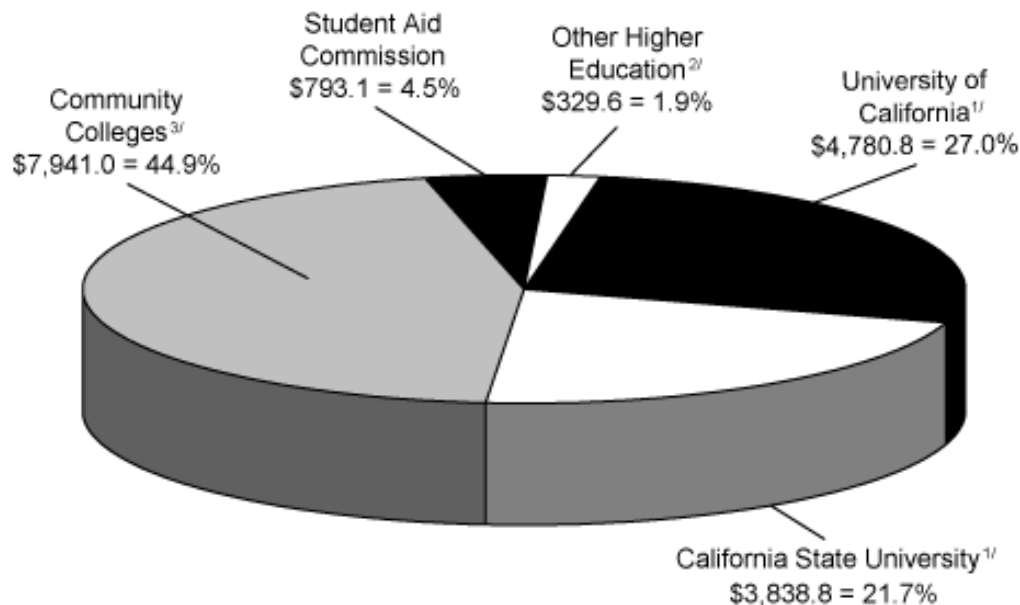
Higher Education

California's economy is increasingly dependent upon experienced and educated business women and business men, highly trained scientists, well-educated professionals, skilled doctors and nurses, qualified teachers, and other well-trained workers. Using the Master Plan for Higher Education as a blueprint to guide policy decisions, the State's institutions of higher education - the University of California (UC), the California State University (CSU), Hastings College of the Law, and the California Community Colleges (CCC) - play a key role in training the workforce that helps shape the State's economy. The California Student Aid Commission provides for grants and loans to assist financially needy California students in achieving their educational goals toward this end.

Recognizing that the institutions for higher education are integral to California's economic well-being, the Administration is committed to fulfilling the Higher Education Compact that was signed in spring 2004 with both UC and CSU to provide funding stability and preserve educational quality over the next six fiscal years in exchange for improved accountability in a variety of key student performance indicators. The Compact provides a long-term resource plan for UC and CSU that addresses base budget allocations, enrollment, student fees, and other key program elements through 2010-11. In exchange for this long-term stability, the segments committed to improving or preserving successes in student and institutional outcomes in numerous program areas including program efficiency, utilization of systemwide resources, and student-level outcomes. The 2005-06 Governor's Budget marks the first year of funding under that agreement.

Despite the severe constraints on the State's Budget, and the need to revisit the funding provided by Proposition 98 for K-14 education, the Governor will fully fund the commitments he undertook in the Higher Education Compact. Additionally, the Budget continues to invest substantial additional funding in the Community Colleges and Student Aid Commission to ensure access to quality higher education and training is available for all qualified students. As shown in Figure HED-01 and Figure HED-02, the Budget contains \$17.7 billion total funds and \$11.9 billion General Fund for all segments of Higher Education. These amounts represent a 5.3 percent increase in total funds and 6.9 percent increase in General Fund over the revised 2004-05 Budget.

Figure HED-01
Proposed Higher Education 2005-06 Expenditures
All Funds
 (Dollars in Millions)



- 1/ For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income. This provides consistency in comparing magnitudes and growth among the various segments of education.
- 2/ The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.
- 3/ For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue, as a component of the state's obligation under Proposition 98.

Higher Education Access

Access remains a high priority for the Administration. UC and CSU enrollment plans project average enrollment increases of 2.5 percent per year through the end of the decade. This growth rate represents an increase of 5,000 students for UC and 8,000 students for CSU and is in addition to the augmented student enrollment provided in the final 2004 Budget Act. The Administration proposes to provide funding for this enrollment growth at the current agreed-upon marginal cost of instruction. A portion of this funding is expected to be used to implement State support for existing summer enrollments on campuses not currently receiving State support for summer instruction. Funding for expanded enrollment included in the 2004 Budget Act is continued in the 2005-06 fiscal year.

Total funded Full-Time Equivalent Students (FTES) for 2005-06 at UC and CSU are respectively proposed at 205,976 and 332,233. Figure HED-03 displays past, current, and projected budget year FTES levels for the institutions of higher education.

Figure HED-02
Higher Education Expenditures
General Fund, Lottery Funds, State School Fund,
Local Revenues and Student Fees
(Dollars in Millions)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Change from 2004-05	
							Dollar	Percent
University of California ^{1/}								
Total Funds	\$4,228.0	\$4,482.6	\$4,418.5	\$4,516.1	\$4,533.4	\$4,780.8	\$247.4	5.5%
General Fund	3,191.6	3,322.7	3,150.0	2,868.1	2,708.8	2,806.3	\$97.5	3.6%
California State University ^{1/}								
Total Funds	3,104.5	3,433.2	3,525.9	3,651.4	3,649.9	3,838.8	\$188.9	5.2%
General Fund	2,429.0	2,680.7	2,697.1	2,625.7	2,496.7	2,607.2	\$110.5	4.4%
Community Colleges								
Total Funds	5,993.4	6,457.1	6,588.5	6,712.8	7,560.0	7,941.0	\$381.0	5.0%
General Fund & P98 ^{3/}	4,510.4	4,701.1	4,869.9	4,507.0	5,034.4	5,407.8	\$373.4	7.4%
Student Aid Commission (GF)								
Total Funds	498.8	558.5	585.2	688.6	748.5	793.1	\$44.6	6.0%
General Fund	487.4	544.0	569.0	672.1	589.4	745.5	\$156.1	26.5%
Other Higher Education ^{2/}								
Total Funds	223.9	207.5	180.6	199.4	304.5	329.6	\$25.1	8.2%
General Fund	209.6	192.3	165.0	179.6	277.7	302.6	\$24.9	9.0%
Total Funds	\$14,048.6	\$15,138.9	\$15,298.7	\$15,768.3	\$16,796.3	\$17,683.3	\$887.0	5.3%
General Fund	\$10,828.0	\$11,440.8	\$11,451.0	\$10,852.5	\$11,107.0	\$11,869.4	\$762.4	6.9%

- ^{1/} For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income. This provides consistency in comparing magnitudes and growth among the various segments of education.
- ^{2/} The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.
- ^{3/} For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue, as a component of the state's obligation under Proposition 98.

Figure HED-03
Higher Education
Full-Time Equivalent Students

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Change from 2004-05	
							FTES	Percent
University of California	171,270	185,304	196,188	201,896	200,976 ^{1/}	205,976	5,000	2.5%
Undergraduate	(132,026)	(144,091)	(152,527)	(155,754)	(155,647)	(159,730)	(4,083)	2.6%
Graduate	(26,666)	(28,487)	(30,531)	(32,874)	(32,963)	(33,860)	(897)	2.7%
Health Sciences	(12,578)	(12,726)	(13,130)	(13,268)	(12,366)	(12,386)	(20)	0.2%
California State University	290,554	316,395	331,353	331,705	324,120	332,223	8,103	2.5%
Undergraduate	(246,511)	(267,100)	(276,607)	(278,774)	(272,419)	(279,207)	(6,788)	2.5%
Graduate/Post-baccalaureate	(44,043)	(49,295)	(54,746)	(52,931)	(51,701)	(53,016)	(1,315)	2.5%
Community Colleges	1,041,829	1,105,000	1,128,954	1,108,348 ^{2/}	1,142,987 ^{2/}	1,177,276	34,289	3.0%
Hastings	1,198	1,200	1,262	1,250	1,250	1,230	(20)	-1.6%
Total Students	1,504,851	1,607,899	1,657,757	1,643,199	1,669,333	1,716,705	47,372	2.8%

- ^{1/} Budgeted. Estimated enrollment is 201,621 for UC.
- ^{2/} Figure reflects DOF projection of budget FTES. There is insufficient data to project unfunded or over-cap levels.

Access to education in the CCC system is funded to grow by approximately 3 percent. The allocation of \$136.7 million will help fund this growth in both credit and noncredit FTES. This increase will fund services for 34,000 additional students for a total for approximately 1,177,000 FTES in 2005-06.

Student Fees

UC and CSU Undergraduate Student Fees

Recognizing the financial hardships on students and their families created by uncertain fee increases, the Administration and the two university segments agreed to implement a more stable fee policy that caps student fee increases at reasonable and predictable levels, while also providing adequate funding for cost increases for student-fee-funded programs and preserving the quality of the universities. The Compact includes a long-term student fee policy that calls for increases to undergraduate student fees based on the rise in California per capita income with flexibility to increase no more than 10 percent in any year, based on fiscal circumstances.

Because of the State's fiscal crisis, undergraduate student fees increased 14 percent for 2004-05. However, the Compact specifies that fees will increase by no more than 10 percent per year on average from 2004-05 through 2006-07. As a result, UC and CSU have adopted an 8 percent increase for 2005-06 undergraduate student fees. Consistent with the Compact, the segments will dedicate a substantial portion of the fee increases for financial aid for needy students. Fees at California's public higher education institutions remain low in comparison to other public institutions. Figure HED-04 shows that UC's 2004-05 undergraduate fees are nearly 14 percent lower than the average of other national comparative institutions, while CSU's 2004-05 undergraduate fees are almost 48 percent lower, and these calculations exclude the further benefit of Cal Grants that are used by many students in these systems.

CCC Fees

The Budget proposes no additional increase in fees for the 2005-06 fiscal year. While fees for the community colleges have increased in each of the last two years, California's fees remain the lowest in the nation and more than 63 percent lower than the national average (see Figure HED-04). However, given the Administration's commitment to broad access for all qualified students, the Budget recognizes the need to minimize barriers and maintain the low student fees.

UC and CSU Graduate Student Fees

The Compact also provides that UC and CSU develop plans to achieve student fee levels in graduate academic programs that consider the following factors: average cost of instruction, average fees at other public comparison institutions, total cost of attendance, market factors, the need to preserve and enhance the quality of graduate academic programs, the State's need for more graduates in a particular discipline, and financial aid requirements of graduate academic students. In addition, the segments committed to make progress toward the Administration's policy expectation that graduate fees be 50 percent higher than systemwide undergraduate fees to reflect the higher cost of instruction and relative value of graduate education to the student.

In 2004-05, graduate fees were increased 20 percent at UC and 25 percent at CSU, except for credential candidates who experienced only 20 percent increases. Consistent with the Compact and the prior year's substantial increases, both UC and CSU have adopted a moderate 10 percent student fee increase for graduate students for 2005-06.

Figure HED-04
Higher Education Fees

• 2004-05 Fee Comparison

	UC ^d				Other Public Institutions (2004-05)		
	2004-05	2004-05	2005-06	2005-06	Average	Highest	Lowest
	Ed/Reg Fee	Total Fee	Ed/Reg Fee	Total Fee			
Undergraduate	\$5,684	\$6,312	\$6,141	\$6,769	\$7,341	\$8,722	\$5,907
Graduate	\$6,269	\$7,875	\$6,897	\$8,556	\$10,138	\$13,585	\$8,310
CSU^d							
Undergraduate	\$2,332	\$2,916	\$2,520	\$3,102	\$5,656	\$8,869	\$3,034
Graduate (non-teacher prep.)	\$2,820	\$3,404	\$3,102	\$3,684	na	na	na
Graduate (teacher prep)	\$2,707	\$3,291	\$2,922	\$3,504	na	na	na
CCC^d							
Full-Time Undergraduate Student	\$780		\$780		\$2,155	\$4,771	\$949
Bachelor-Degree Holders	\$780		\$780		na	na	na

^d UC's 2005-06 fees are anticipated to increase by 8 percent for undergraduate and 10 percent for graduates, and consist of an undergraduate education fee of \$6,141 (\$6,897 for graduate students), which includes a registration fee of \$735, and an average campus-based fee of \$628 for undergraduate students and \$1,659 for graduate students.

^d CSU's 2005-06 fees are anticipated to increase by 8 percent for undergraduates, 8 percent for teacher preparation graduates, and 10 percent for other graduates, and include an undergraduate education fee of \$2,520 (\$3,102 for non-teacher preparation graduates and \$2,922 for teacher preparation graduates) and a campus-based fee of \$582 for both undergraduate and graduate students.

^d Comparison data for other states reflect 2003-04 data.

• 2004-05 Professional School Fee Comparison:

	UC ^d	Other Public/Private Institutions		
		Average	Highest	Lowest
Law	\$20,828	\$27,723	\$36,490	\$14,577
Medicine	\$21,388	\$29,044	\$37,947	\$21,267
Business Administration	\$21,279	\$30,623	\$41,812	\$9,735

^d Professional fees reflect base fee levels, only.

• Percent of Instruction Paid by Students:

	2004-05	2005-06
UC	32.9%	34.2%
CSU	20.7%	21.8%
CCC	16.5%	15.9

Higher Education Initiatives

While the basic funding needs for the four-year higher education segments have been addressed through the Compact and the Community Colleges funding levels are a large part determined through the benefits of the Proposition 98 Guarantee, the Administration believes all segments need to work closer together to advance the best interests of all students and our economic future. In this respect the Governor encourages more involvement of the college and university systems to utilize their capacity to assist K-12 schools in two major areas where improvement is needed. Those areas include reinvigorating the relevance and availability of career technical education so that pathways for success are available for all students, and to improve the supply of highly qualified math and science teachers to ensure California is able to maintain its leadership in industries requiring employees with high levels of

those necessary skills in order to propel our economy in the future.

Economic Development and Career Technical Education Reform

As discussed in the K-12 program summary, the Administration is committed to improving the link between all education segments in preparing students for highly skilled emerging careers in the continually advancing California economy. The reforms proposed for K-12 career technical education have an important link to the California Community Colleges Economic Development Program. The mission of this program is to advance California's economic growth and global competitiveness through quality education, and services focusing on continuous workforce improvement, business development, and technology deployment. There are 101 Regional Centers administered by the community colleges throughout the state. Regional Centers implement industry aligned career training programs focused on one of ten categories or "initiatives" such as Health Occupations, Advanced Transportation Technologies, Small Business Development Centers, or International Trade Development. The Regional Centers provide services to students and industries such as developing new instructional curriculum, developing instructional materials, and conducting aligned faculty training, seminars, and workshops. In addition to Regional Centers, the program includes competitive grant-funded Regional Collaboratives, which provide incentives for businesses in key regional growth industries to partner with colleges to train students to be employable in these industries and to upgrade the skills of the existing workforce to ensure competitiveness. These Regional Collaboratives augment the types of businesses that can participate in the colleges' Economic Development Program's Regional Centers and focus on high impact, emerging industries that are identifiable economic development priorities for specific regions.

By increasing the capacity of the Economic Development Program and other reforms, the Administration proposes to improve the coordination and articulation of curriculum between K-12 and community college career technical education programs to create a more seamless and effective system, as well as to increase relevant course availability for K-12 students. To ensure successful integration, the Administration proposes the following funding increases and reforms that affect higher education segments:

- Expand Community College Economic Development Efforts with K-12 Schools - The Budget provides \$20 million to create new articulated courses between K-12 and community colleges by building on the community colleges Economic Development Program's successful integration with business and emerging industries. By aligning career-technical education curriculum between K-12 and community colleges to more targeted industry-driven programs through the existing Tech Prep 2+2 model, the State can successfully expand the career options for students. As also discussed in the K-12 program summary, the 2+2 program focuses on two years of secondary-level education in core proficiency areas and technical knowledge related to specified career fields that meet the prerequisite requirements of a two-year institution. After completing these core requirements, students progress to a two-year postsecondary education institution for more rigorous, career-

specific, and worksite-based training that culminates with the completion of an associate degree or certificate in the career field.

- Reform Alternative Credentialing Requirements for K-12/CCC Career Education Faculty - Attrition, and out-of-date credentialing requirements for faculty providing career technical and vocational instruction threaten the State's ability to meet the demand for industry relevant workforce preparation. As discussed in the K-12 program summary, the Administration proposes to reform K-12 and community college instructor credentialing by creating consistent requirements between both segments that will ensure a sufficient supply of the most knowledgeable instructors within each career sector. Credentialing requirement alignment will also facilitate improvements in successfully integrating new K-12 and community college vocational and career technical curriculum.
- Revise the Community College 75/25 Requirement - Current law penalizes community college districts from utilizing part-time faculty by requiring that no less than 75 percent of credit instruction be taught by full-time faculty. While the Administration recognizes the benefits of full-time faculty in most academic disciplines, it also believes the relevancy of cutting edge career technical and vocational education should not be impeded by this requirement. As discussed in the K-12 program summary, in order to provide community college districts with the ability to employ as many current professional practitioners as course demand dictates, the Administration proposes to exclude career technical education courses offered by community colleges from application of the 75/25 requirement. This change will ensure districts can hire sufficient faculty who have the most up-to-date knowledge of current entry level skill standards, which is not always available from tenured full-time faculty.

Finally, it is noted that the Higher Education Compact reflects commitments by both UC and CSU to support expansion of career technical education courses by ensuring articulation of high school career preparatory courses that integrate academic "a-g" requirements, and through other activities. For example:

- UC continues to work closely with the State Department of Education (SDE) and schools/districts around the state to promote the development of high school courses that successfully integrate academic and career technical content. A study released by the SDE in October 2004 reported that UC has accepted 3,336 career technical courses to meet the "a-g" subject area requirements. This total represents a 59 percent increase over the previous year.
- In a strong, public endorsement of the integration of academic and career technical course content, the November issue of UC Notes led with an article entitled "Choosing the Right Course: College Prep, Career Tech or Both?" This newsletter was distributed to 10,000 high school counselors, administrators, and others.
- During the past year, the UC Director of Undergraduate Admissions participated as an active member of the California Career Technical Education Model Curriculum Standards and Framework Advisory Group, lending expertise to further support the growing partnership.
- UC staff has presented at numerous statewide career technical education conferences, advising high school educators in ways to successfully design courses that simultaneously satisfy the

UC/CSU "a-g" requirements as well as industry standards for entry into the California workforce.

Increasing the Supply of Highly Qualified Math and Science Teachers

A critical shortfall exists in California schools in the number and quality of K-12 teachers in science and math. In 2002-03, all segments of California higher education institutions collectively awarded 1,389 mathematics degrees. Yet, the total need for new math teachers that year was 2,131. Of the total number of math majors, only 823 were awarded math teaching credentials, thus meeting only about one-third the need for new mathematics teachers. The Compact calls for UC to work in collaboration with the CSU to develop a major initiative to improve the supply and quality of science and math teachers in the state.

Addressing this problem is critical to the state's economy and is among the Governor's highest priorities. California has one of the largest economies in the world and its remarkable growth has been fueled by the rapid expansion of the high-tech industries and is becoming increasingly dependent upon the foundation of science, technology, engineering, and mathematics fields. If California is to remain economically competitive, education, government, business, and community leaders must work together to ensure that our teachers are better qualified to instruct students in science and math.

The UC and CSU intend over the next five years to expand significantly the number of science and mathematics teachers being educated. This expansion will be included as part of the UC and CSU's planned enrollment growth.

Since 1997, CSU has been a leader in efforts to improve the quality of teacher preparation in California. In addition to programs and partnerships already in place to assess credential candidate teacher and subject matter content preparation, and that support lifelong professional development programs for new teachers, CSU has previously worked with K-12 school districts to provide in-service professional development programs for mathematics teachers who are under-prepared in the mathematics subject area. Also, CSU is currently devoting resources to recruit highly qualified teachers for California's K-12 schools.

Under the Compact, new proposals will be pursued in conjunction with CSU efforts currently under way or in development to ensure that the majority of new teachers will have the skills necessary, particularly in the areas of special education and English and language arts, to meet the demands of rigorous State standards and that continue to improve the quality and efficiency of teacher training sufficient to meet demand.

University of California

UC provides graduate and undergraduate instruction, and is the only segment authorized to independently award doctoral degrees as well as professional degrees in law, medicine, dentistry, and veterinary medicine. In addition, UC is the primary State-supported academic agency for research. UC has three missions: instruction, public service, and research. In addition to providing instruction, UC operates teaching hospitals and clinics, research institutes and laboratories, agricultural field stations, and the Cooperative Extension program.

Total Funding

The Governor's Budget provides total funding of \$4.781 billion for the UC, including \$2.806 billion General Fund. These amounts reflect an increase of 5.5 percent in total funds and 3.6 percent in General Fund over the revised 2004-05 Budget levels of \$4.533 billion in total funds and \$2.709 billion General Fund.

UC Merced

The Merced campus will officially open its doors in the fall of 2005. It is anticipated the campus will enroll 1,000 FTES (600 freshmen, 300 transfers, and 100 graduate students). This is the first new UC campus to open in four decades. Development of UC Merced is part of the University's strategy to increase enrollment capacity that will serve the entire state, enhance access to students in an area that has been traditionally underserved, and provide the benefits of an additional research university to all Californians. As a powerful economic engine, the campus will make valuable contributions to a region that suffers from high unemployment. One-time funding of \$14 million is included in the Budget for start-up costs needed to open the campus, including support for faculty salaries and recruitment, instructional technology, library materials, student services, and expanded general operational support.

Program Enhancements and Budget Adjustments

In accordance with the Compact, the Governor's Budget includes General Fund increases for UC of 3 percent for basic budget support - such as faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases-and 2.5 percent for enrollment growth. The Governor's Budget proposes the following adjustments:

- \$76.1 million increase (3 percent) for basic budget support consistent with the Compact.
- \$37.9 million increase (2.5 percent) for enrollment growth consistent with the Compact.
- \$14 million one-time funds for costs associated with making UC Merced operational in 2005-06 for a total funding level of \$24 million.
- \$3.8 million reduction by eliminating the one-time General Fund legislative augmentation for the Multi-Campus Research Units for Labor Studies.
- In addition to the amount above, the 2004 Budget Act was augmented by \$26.5 million for enrollment growth and outreach programs beyond the obligations of the Compact. The Budget reduces \$17.3 million of this amount and provides UC with the discretion to determine how to balance the needs for outreach and student enrollment funding. The Administration will work with the UC to develop performance measures to evaluate the cost effectiveness of all outreach

programs.

California State University

CSU provides undergraduate instruction and graduate instruction through the master's degree and is authorized both to award doctoral degrees in conjunction with UC or a private institution and to conduct research related to its instructional mission. Students from the top one-third of the state's high school graduates, as well as those transfer students who have successfully completed specified college work, are eligible for undergraduate admission to CSU. Many CSU students are older and/or employed and attend part-time, especially at the graduate level.

Total Funding

The Governor's Budget provides total funding of \$3.839 billion for the CSU, including \$2.607 billion General Fund. These amounts reflect an increase of 5.2 percent in total funds and 4.4 percent in General Fund over the revised 2004-05 Budget levels of \$3.650 billion in total funds and \$2.497 billion General Fund.

Program Enhancements and Budget Adjustments

In accordance with the Compact, the Governor's Budget includes General Fund increases for CSU of 3 percent for basic budget support - such as faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases - and 2.5 percent for enrollment growth. The Governor's Budget proposes the following adjustments:

- \$71.7 million increase (3 percent) for basic budget support consistent with the Compact.
- \$50.8 million increase (2.5 percent) for enrollment growth consistent with the Compact.
- \$44.4 million increase for baseline retirement contribution increases.
- The 2004 Budget Act was augmented by \$37.7 million for enrollment growth and outreach programs beyond the obligations of the Compact. The Budget reduces \$7 million of this amount and provides CSU with the discretion to determine how to balance the needs for outreach and student enrollment funding. The Administration will work with the CSU to develop performance measures to evaluate the cost effectiveness of all outreach programs.

Hastings College of the Law

Hastings was established in 1878 as the Law Department of the University of California. However, it is an independent entity today that grants professional school law degrees in conjunction with the University. Special concentrations include International and Comparative Law, Civil Litigation, Public Interest Law, and Taxation.

Total Funding

The Governor's Budget provides total funding of \$35.4 million for Hastings in 2005-06, including \$8.4 million General Fund. These amounts reflect an increase of 1.3 percent in total funds and 3 percent in General Fund over the revised 2004-05 Budget levels of \$34.9 million in total funds and \$8.1 million General Fund.

Program Enhancements and Budget Adjustments

Consistent with the Compact, the Governor's Budget includes a 3 percent General Fund increase for basic budget support, including faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases. The Governor's Budget proposes the following adjustment:

- \$244,000 General Fund increases for basic budget support.

California Community Colleges

Community Colleges are publicly supported local education agencies that offer academic and vocational education at the lower division level for both younger and older adult students; advance California's economic growth and global competitiveness through education, training, and services that contribute to continuous workforce improvement; and provide remedial instruction for hundreds of thousands of adults throughout the state through basic skills courses and adult non-credit instruction.

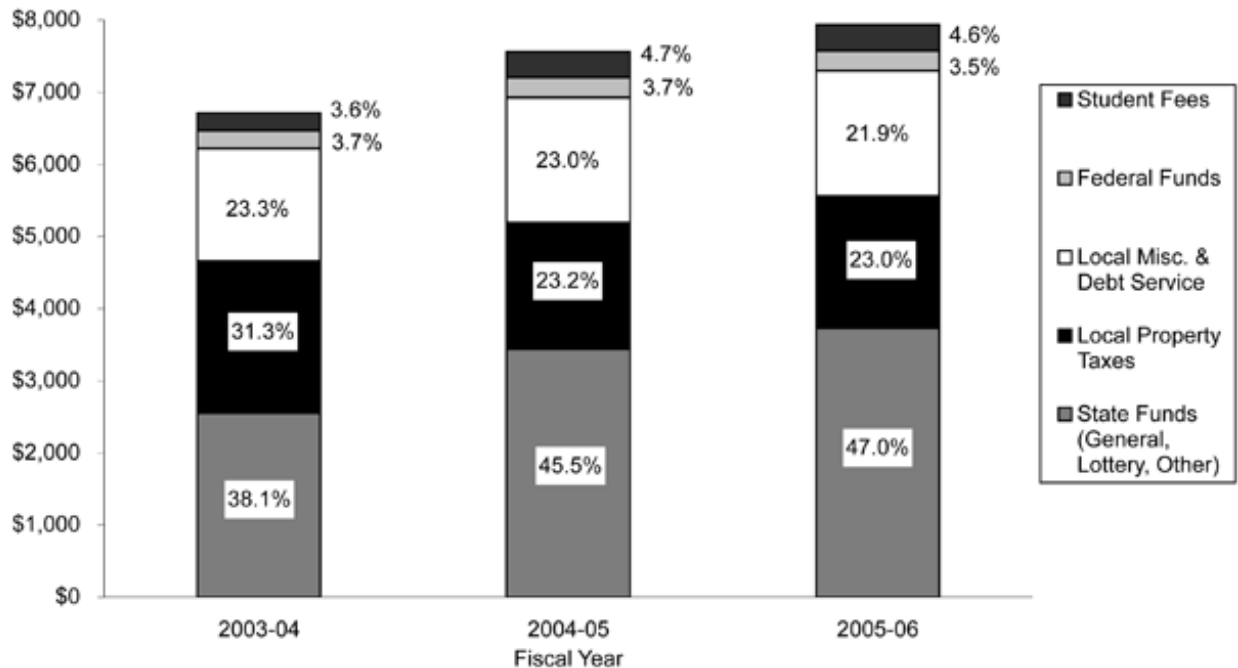
Total Funding

The Governor's Budget proposes over \$7.9 billion for the CCC through a combination of State, local property tax and federal revenues, student fees, and other local miscellaneous revenues. Of this amount, \$5.4 billion from Proposition 98 sources, including local property taxes, and non-Proposition 98 General Fund are provided. These increases reflect a 5 percent increase in total funds and a \$373.4 million or 7.4 percent increase from Proposition 98 and non-Proposition 98 General Fund sources. Figure HED-05 shows total funding for the CCC in 2005-06. Figure HED-06 shows the major funding sources and their proportions of total funding, from 2003-04 through 2005-06.

Figure HED-05
Significant Revenue Sources for Community Colleges
 (Dollars in Millions)

Source of Funds	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Change From 2004-05	
							Dollars	Percent
State General Fund	\$2,796.8	\$2,847.0	\$2,879.5	\$2,404.9	\$3,284.0	\$3,580.8	\$296.8	9.0%
Lottery Fund	121.0	138.1	141.2	140.9	143.3	139.9	-\$3.4	-2.4%
Local Property Taxes	1,713.6	1,854.1	1,990.4	2,102.1	1,750.4	1,827.0	\$76.7	4.4%
Student Fees	156.7	164.1	169.2	243.3	357.5	368.2	\$10.7	3.0%
Other State Funds	12.5	10.5	11.3	8.6	8.8	9.1	\$0.3	2.9%
Federal Funds	197.5	225.9	250.9	249.2	277.1	277.1	\$0.0	0.0%
Local Miscellaneous	987.5	1,186.8	1,038.8	1,405.6	1,563.0	1,563.0	\$0.0	0.0%
Local Debt Service	8.2	30.7	107.1	158.0	175.7	175.7	\$0.0	0.0%
TOTAL REVENUE	\$5,993.6	\$6,457.1	\$6,588.5	\$6,712.8	\$7,560.0	\$7,941.0	\$381.0	5.0%

Figure HED-06
Revenue Source for Community Colleges
 (Dollars in Millions)



Program Enhancements and Budget Adjustments

Significant augmentations and other changes to the community colleges budget include:

- \$136.7 million for Enrollment Growth - This augmentation proposes 3 percent growth in apportionments that provides access for an additional 34,000 FTES, for a total of over 1,177,000 FTES in 2005-06. This level of funded growth exceeds the 1.89 percent change in adult

population, which is the current statutory index for system growth.

- \$195.5 million for COLA - This augmentation proposes a 3.93 percent COLA for general-purpose funds and selected categorical programs. This adjustment provides \$184.5 million to fully fund cost-of-living increases for community college apportionments, and \$11.1 million to provide cost-of-living increases for categorical programs providing essential services to special populations.
- \$31.4 million Set-Aside for District Level Accountability - Consistent with the Governor's message when signing the 2004 Budget Act, the Governor's Budget sets aside \$31.4 million for potential restoration to community college apportionments, pending the outcome of a district-specific accountability mechanism under consideration by a Board of Governor's workgroup established by Chapter 581, Statutes of 2004 (AB 1417).
- \$20 million for Economic Development and Career Technical Education - Refer to Higher Education Initiatives section for details.
- State Operations Reduction - The Governor's Budget proposes a reduction to the Chancellor's Office of \$137,000 as part of a larger non-Proposition 98 General Fund reduction necessary to bridge the gap between expenditures and projected revenues. The Chancellor will have the flexibility to implement the reduction through layoffs, a hiring freeze, procurement reductions, or other administrative means it may choose while preserving resources that ensure district accountability.

Financial Aid Programs

The California Student Aid Commission (CSAC) administers State financial aid to students attending all segments of public and private postsecondary education. Working together with EdFund, which is the auxiliary loan guarantee agency that operates with oversight by CSAC, the Commission administers federal and State-authorized financial aid, including State-funded grants, work-study programs, and loans that are federally guaranteed. In addition to serving as California's student loan guaranty agency, EdFund serves as a guaranty agency for colleges and universities located throughout the United States.

Business Diversification

Pursuant to authorization granted by Chapters 216 and 657, Statutes of 2004, CSAC and EdFund are developing proposals for EdFund to use a portion of its operating surplus to diversify its business operations. The business diversification proposals that CSAC and EdFund are developing will allow EdFund to remain competitive in the national loan guaranty marketplace and will ensure the continued viability of EdFund and high quality, low cost services to students. Any business diversification activities proposed by CSAC and EdFund will be approved by both the Administration and the Legislature before they are initiated.

Total Financial Aid Funding

The Governor's Budget provides total local assistance funding of \$793.1 million for CSAC in 2005-06, including \$745.5 million General Fund. These amounts reflect an increase of 6 percent in total funds and 26.5 percent in General Fund over the revised 2004-05 Budget levels of \$748.5 million in total

funds and \$589.4 million General Fund. (See Figure HED-07 and Figure HED-08 for total financial aid and growth in Cal Grants, respectively).

Figure HED-07
Financial Aid Grants
General Fund and Fee Revenue Funded
(Dollars in Thousands)

Institution/Fund Source	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Change from 2004-25	
							Dollars	Percent
University of California ^{1/}	\$234,054	\$259,700	\$287,761	\$355,654	\$396,898	\$443,938	\$47,040	11.9%
General Fund	85,563	69,199	52,199	52,199	52,199	52,199	\$0	0.0%
Fee Revenue ^{2/}	148,491	190,501	235,562	303,455	344,699	391,739	\$47,040	13.6%
California State University ^{1/} , ^{2/}	131,618	135,563	132,716	242,206	260,466	283,766	\$23,300	8.9%
General Fund	65,647	65,647	51,147	51,147	51,147	51,147	\$0	0.0%
Fee Revenue	65,971	69,916	81,569	191,059	209,319	232,619	\$23,300	11.1%
Community Colleges ^{1/}								
General Fund	89,351	91,853	102,723	166,859	261,880	269,736	\$7,856	3.0%
Student Aid Commission ^{1/} , ^{4/}								
General Fund	487,438	543,962	569,024	672,058	735,919	780,525	\$44,606	6.1%
Total	\$942,461	\$1,031,078	\$1,092,224	\$1,436,777	\$1,655,163	\$1,777,965	\$122,802	7.4%
General Fund	727,999	770,661	775,093	942,263	1,101,145	1,153,607	\$52,462	4.8%
Fee Revenues	214,462	260,417	317,131	494,514	554,018	624,358	\$70,340	12.7%

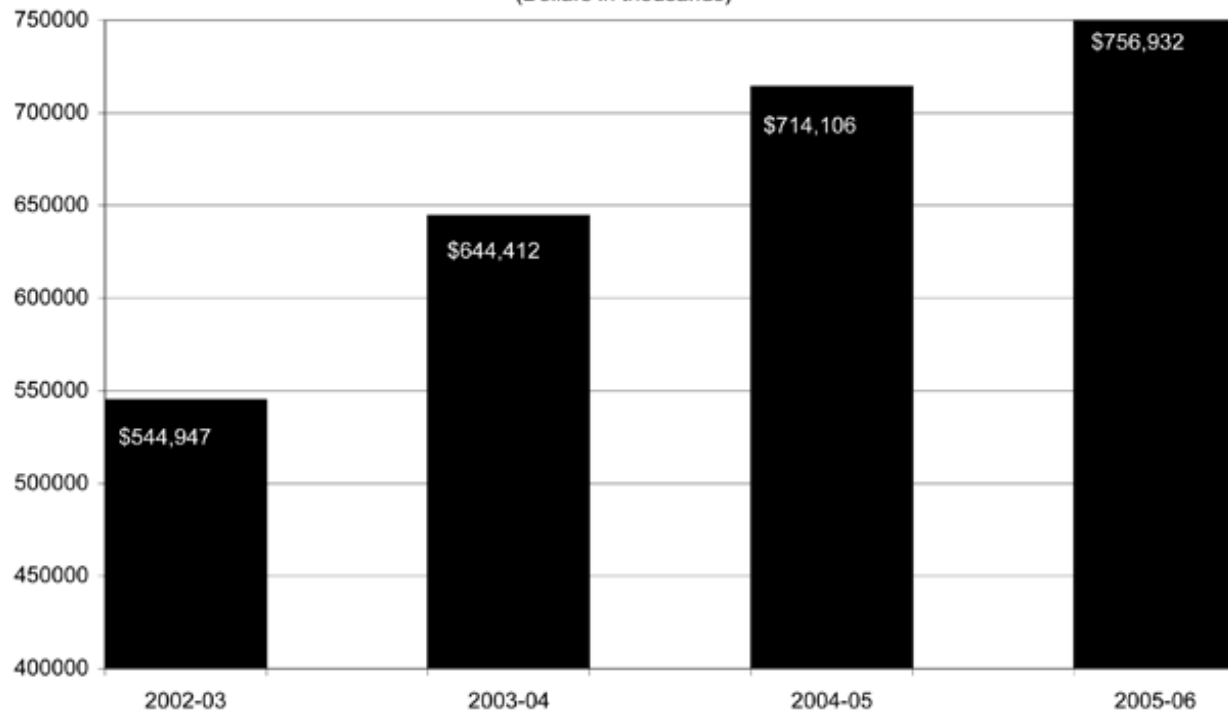
^{1/} Reflects budgeted amounts for 2004-05 and 2005-06.

^{2/} Includes \$14 million GF for EOP grants through 1998-99 and \$17 million from 1999-00 to 2003-04.

^{3/} Beginning in 2004-05, UC augmented its student fee revenues for financial aid by \$8.140 million by increasing fees to non-resident students.

^{4/} Includes one-time fund shift from General Fund to Student Loan Operating Fund in 2004-05 (\$146.5 million) and 2005-06 (\$35.0 million).

Figure HED-08
Cal Grant Funding
(Dollars in thousands)



Program Enhancements and Budget Adjustments

The Governor's Budget proposes the following baseline adjustments for CSAC financial aid programs:

- \$146.5 million General Fund backfill to replace the use of one-time surplus monies from the Student Loan Operating Fund (SLOF) that were used to support financial aid programs in 2004-05.
- An increase of \$44.8 million for the Cal Grant Program, over the revised current year estimate which reflects General Fund savings of a similar amount that CSAC expects for 2004-05.
- \$6.8 million General Fund for growth in the Assumption Program of Loans for Education (APLE).

Additionally, the Budget proposes the following policy adjustments:

- \$200,000 General Fund to implement an initial cohort of National Guard APLE awards pursuant to Chapters 549 and 554, Statutes of 2004. These warrants provide up to \$11,000 for reimbursement of college loans in exchange for completing service enlistments in the National Guard. Chapter 554 (SB 1322) expands eligibility for awards to prospective guard members, including those enrolled in seeking vocational educational degrees, in order to enhance enlistment incentives. Chapter 549 (AB 997) authorizes awards for persons who have already completed a baccalaureate degree and ensures academic leave to those members called to active duty.
- \$35 million one-time increase in SLOF monies to support CSAC financial aid programs in 2005-06, thereby generating an equivalent General Fund savings.

A General Fund reduction of \$7.5 million by reducing the maximum new Cal Grant awards for students at private colleges and universities from \$8,322 to \$7,449. This reduction is necessary in the context of the State's current budget shortfall.