

SUMMARY OF THE GOVERNOR'S BUDGET PROPOSAL FOR THE CSU AND OTHER HIGHER EDUCATION SECTORS

Overview

The Governor's Proposed Budget cuts \$283.6 million for 2009-10 from the funding promised in the Governor's own Higher Education Compact. Specifically, the proposal:

- Abandons the Higher Education Compact for the second year in a row (both the 5% increase promised for the CSU base budget and the funding promised for enrollment growth of 2.5%) - a cut totaling \$217.3 million;
- Includes a mid-year cut (for 2008-2009) to the CSU of \$66.3 million as part of the current year's unresolved budget; this cut would continue in 2009-10;
- Assumes CSU student fees will increase by 10%; if adopted, this will be the seventh fee hike in eight years and fees will have gone up by 135% since 2002.
- Calls for an \$87.5 million cut to need-based financial aid and the elimination of the Competitive Cal Grant program entirely. This program is the state's primary means for awarding grants to low-and middle-income non-traditional students.

* * *

Background

A summary of Governor Schwarzenegger's budget proposal for the 2009-10 fiscal year was released by his staff on December 31, 2008. Details of the budget were subsequently released to the legislature and members of the public on January 9, 2009. With the state's 2008-09 budget still unresolved, the new budget put forward by the governor includes proposals for mid-year cuts and other modifications for 2008-2009 as well as a full proposal for 2009-10. The 2009-10 budget proposal assumes his 2008-09 proposals are enacted.

According to the January budget documents, California is grappling right now with a revenue shortfall of \$14.8 billion in the current year (2008-09) that will increase to a \$41.6 billion shortfall by the end of 2009-10 unless actions are taken now.

Overall, the 2009-10 budget that Gov. Schwarzenegger proposes incorporates \$17.4 billion in cuts, \$14.3 billion in new revenue, and \$10 billion in borrowing. If adopted as proposed, the state general fund in 2008-09 would be reduced from \$130.4 billion to \$92.4 billion and would total just \$95.5 billion in 2009-10. (Fig. SUM-05, 2009-10 Governor's Budget General Fund Proposals)

Proposal for the California State University

The governor's budget calls for cuts to the CSU's current year (2008-2009) budget. Specifically, the proposal calls for an unallocated mid-year cut of \$66.3 million. This would come on top of the \$31.3 million reduction that CSU Chancellor Reed agreed to make last fall

shortly after the 2008-09 budget was enacted. The proposed cut of \$66.3 million is considered a permanent cut, and is therefore not restored in the 2009-10 budget proposal. The \$31.3 million is, however, not carried forward as a permanent cut.

For 2009-10, Gov. Schwarzenegger proposes to ignore for the second year in a row the funding promised in the Higher Education Compact agreement he made (back in 2004) with Chancellor Reed. As a result, under his plan the CSU budget will not increase by the \$217,269,000 as originally promised. If the Compact were funded for 2009-2010, the CSU would receive a 5% base budget increase (\$145.6 million) plus funding to increase enrollment by 2.5% (\$71.6 million) for a total increase of approximately \$217 million.

The governor also rejected the request by the CSU administration that the state “buy out” a student fee hike of 10%. Instead, his budget assumes CSU student fees will go up by 10% and generate \$131.6 million in new revenue for the university. At least one-third of the fee hike revenue would be set aside for financial aid. If implemented, this student fee increase will be the seventh fee increase in eight years and fees will be 135% more than they were in 2002. In addition, if the governor’s proposals to cut the state’s core financial aid program are enacted, Cal Grant award amounts will no longer increase to fully cover the student fee hikes (more below).

The governor’s proposal includes a tiny budget increase of \$3.6 million to fund 340 new nursing students. At the same time, his budget provides no other enrollment growth funding for 2009-10, for the second straight year. The CSU is likely to continue turning away qualified students in order to align enrollment funding with actual enrollment numbers. Under the governor’s proposal, the CSU would receive funding for 356,390 full-time equivalent students (FTES). In the current year, 356,050 FTES are funded. However, in fall 2008, there were 362,089 full-time equivalent students enrolled (CSU Analytic Studies, “In Brief: Fall 2008,” 12/1/08).

Student Financial Aid Cuts

Proposals to cut funding for need-based financial aid will increase the cost to attend the CSU even more for middle- and low-income students. Proposed cuts to the Cal Grant program total \$87.5 million. The CSU administration estimates the cuts will result in a loss of at least

Governor’s Proposals to Cut \$87.5 million from Cal Grant Program

- Freeze income ceilings for grant recipients
- Reduce maximum award for recipients attending independent institutions
- Eliminate new Competitive Cal Grant awards (est. \$7.3 million impact at CSU)
- Partially decouple awards to public institutions from fee increases (est. \$7.65 million impact at CSU)
- Decentralize Cal Grant program administration to campuses

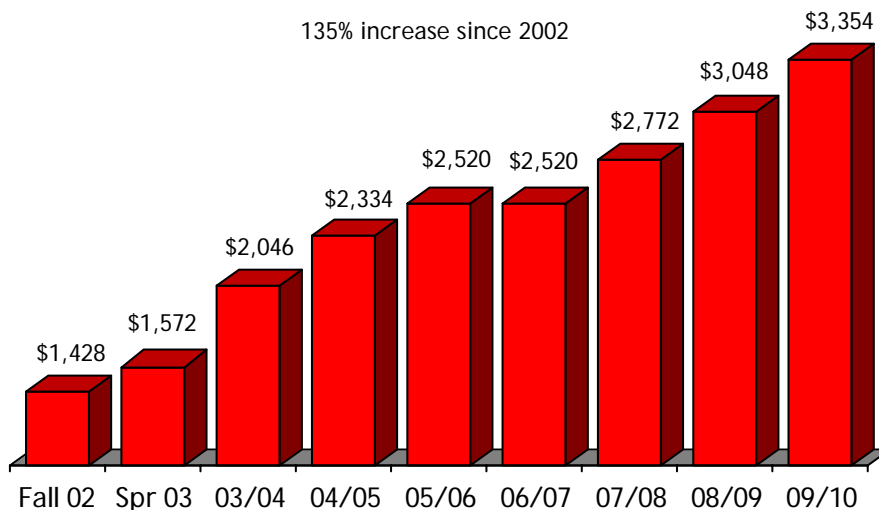
(source: 2009-10 Governor’s Budget and CSU Memo to CSU Trustees and Presidents, 1/6/09)

\$15 million in need-based grant aid for CSU students but it is still analyzing the full impact of the governor’s proposals. Particularly worrisome is the governor’s proposal to abandon the state’s commitment that Cal Grants cover fee hikes for grant recipients. Up to now, the size of Cal Grants increased when students’ fees were increased.

Analyst Judy Heiman, from the state legislative analyst’s office (LAO), cautioned in the *LA Times* that while this change might not have a huge impact in the first year, it could quickly add up in ways that make college truly unaffordable

for students who rely on grants. She stated, "It will be 4-5% this year, then maybe 10% or even 20-30%. It could get to the point even students with full grants can't afford to pay fees" (Holland, Gale, "Schwarzenegger proposes major Cal Grant cuts," *Los Angeles Times*, 1/13/09).

CSU Undergraduate Student Fee History (2009/10 fee is proposed)



The governor's proposal also calls for the elimination of the Competitive Cal Grant program. At this time, there are only 22,500 Competitive Cal Grants awarded each year even though many more students meet the qualifications for such grants. They are targeted towards low- and middle income non-traditional students. Last year, there were approximately 123,000 eligible students statewide who did not receive grants. About 20,000 of these were CSU students. A typical "eligible, non-recipient" is a parent to 2 or 3 children, makes \$20,000 per year, and is 27 years old. (CA Student Aid Commission Competitive Cal Grant Program 2005 - 2008, Report to Legislature, 12/30/08)

Other Higher Education Budget Proposals

The governor's proposals for the University of California are similar to those for the CSU. In particular, the governor wants to implement an unallocated mid-year (2008-09) cut of \$65.5 million that would not be restored in the 2009-10 budget. Gov. Schwarzenegger also rejected the Compact funding he promised to the UC. If the Compact were funded, the UC would also receive a 5% base budget increase and funding to increase enrollment by 2.5% (approximately \$210 million). No enrollment growth funds are being proposed but \$1.1 million for new nursing students and \$1.5 million for new medical students is included in the budget. UC undergraduate and graduate students are facing a fee increase of 9.3% and students enrolled in professional degree programs are facing fee hikes of up to 24%.

The funding for the California Community Colleges is largely related to changes proposed to Proposition 98 funding. The governor's proposed adjustments to the 2008-09 budget are made to reduce the minimum guarantee required under Prop. 98. If adopted, the community colleges would lose a 0.68% COLA for 2008-09 and \$230 million in payments would be deferred from January and February to July 2009. This deferment would not result in a reduction in program spending for the current year.

The Community College system will receive the only significant higher education enrollment growth funding in the January budget proposal. The governor has proposed \$185.4 million to fund enrollment growth at the community colleges of 3% (approximately 36,000 FTES) in 2009-10. He also proposed eliminating a cost-of-living-adjustment (COLA) of 5.02% (\$322.9 million) for the community colleges that was expected (under Prop. 98) in 2009-10.