

HIGHER EDUCATION

California's approach to budgeting for higher education has long been guided by principles articulated in the 1960 Master Plan for Higher Education. The Master Plan differentiated functions across segments; set standards for access to postsecondary education, relying on the transfer function from the community colleges to the four-year segments to promote broad access; and created an expectation of low costs of attendance. Those principles remain relevant today. In 1960, the state faced the challenge of a rapidly growing traditional college-aged population. Today, the state is confronting different, but equally pressing, challenges. The state budget faces significant constraints and uncertainty. Educational attainment across income levels and racial and ethnic groups varies, limiting economic and social mobility for many Californians. As the nature of labor markets change, adults need access to education and training for new occupations.

The Budget maintains the current approach to budgeting for higher education and continues the growth in funding for higher education that started with the passage of Proposition 30 in 2012. The Administration expects the segments will continue to make progress in implementing practices that recognize both the principles of the Master Plan and strong fiscal stewardship.

OVERVIEW

The Budget proposes total funding of \$33.7 billion (\$18.5 billion General Fund and local property tax and \$15.2 billion other funds) for higher education. The total reflects growth of \$892.8 million (\$621.8 million General Fund and local property taxes and \$271 million other

funds) compared to revised 2017-18 expenditures. Figure HED-01 displays additional detail about funding for higher education.

Figure HED-01
Higher Education Expenditures
(Dollars in Millions)

	2016-17	2017-18	2018-19	Change from 2017-18	
				Dollars	Percent
University of California					
Total Funds ^{1/}	\$8,393.8	\$8,761.7	\$8,946.4	\$184.7	2.1%
Ongoing General Fund	3,234.2	3,367.4	3,469.5	\$102.1	3.0%
One-Time General Fund	261.6 ^{4/}	175.6	0.0	-	-
California State University					
Total Funds ^{1/}	\$6,701.4	\$6,986.5	\$7,056.2	\$69.7	1.0%
Ongoing General Fund	3,454.3	3,719.9	3,833.1	\$113.2	3.0%
One-Time General Fund	109.6	43.5	0.0	-	-
California Community Colleges					
Total Funds	\$14,389.8	\$14,780.1	\$15,350.0	\$569.8	3.9%
General Fund & Property Taxes	9,002.5	9,389.3	9,998.3	\$609.0	6.5%
California Student Aid Commission					
Total Funds	\$2,057.4	\$2,223.4	\$2,290.9	\$67.5	3.0%
General Fund ^{2/}	1,114.6	1,162.9	1,178.6	\$15.8	1.4%
Other Higher Education ^{3/}					
Total Funds	\$87.1	\$65.0	\$66.0	\$1.0	1.5%
General Fund	40.3	13.7	\$14.6	\$0.9	6.6%
Total Funds	\$31,629.5	\$32,816.7	\$33,709.4	\$892.8	2.7%
General Fund	\$17,217.1	\$17,872.3	\$18,494.2	\$621.8	3.5%

^{1/} These totals include tuition and fee revenues and other funds the universities report as discretionary.

^{2/} General Fund expenditures for the Cal Grant program are offset by reimbursements, including approximately \$1 billion in federal Temporary Assistance for Needy Families (TANF) funds received through an agreement with the Department of Social Services.

^{3/} This category includes expenditures for the Hastings College of the Law and the Awards for Innovation in Higher Education.

^{4/} This amount includes \$39.5 million appropriated in 2016-17 that is projected for expenditure in 2018-19.

SUPPORTING LONG-TERM ACCESS THROUGH FINANCIAL SUSTAINABILITY

Since the passage of Proposition 30 in 2012, the state has funded a long-term plan for both the University of California (UC) and the California State University (CSU), increased resources available to California Community Colleges (CCC) consistent with growth in the Proposition 98 minimum guarantee, and expanded the Cal Grant program.

Including the increases proposed by the Administration in 2018-19, funding since 2012-13 for the UC will have grown by \$1.2 billion, for the CSU by \$1.6 billion, and for the CCCs (excluding funding for the Adult Education Block Grant) by \$2.4 billion.

These annual increases have allowed the universities to plan their programs over a multi-year period. The CCC growth has increased the number of course offerings, which were significantly reduced during budget cuts of the Great Recession. The community colleges also adopted a formula that prioritizes growth funding to districts with the greatest unmet need.

Additionally, community colleges have received \$525.3 million Proposition 98 General Fund in increased base funding in recognition of increased operating expenses, primarily in the areas of facilities, employee benefits, professional development, and full-time faculty.

Finally, since 2012-13 total funding for the Cal Grant Program will have grown by \$623 million, a roughly 41-percent increase.

FINANCIAL AID

While the state pays a portion of the instructional costs for each student attending a California public college or university, the state's Cal Grant program provides additional financial aid for tuition, fees, or other costs of attendance for students with demonstrated need. The program is an entitlement for students who meet eligibility criteria, with students who are ineligible for the entitlement program still able to compete for additional grants. Under current practice, for students attending the UC and the CSU, the amount of funds a student receives for tuition is linked to the amounts charged by those segments. The tuition awards for students attending other types of institutions are set in statute.

Both the UC and the CSU are considering tuition increases for 2018-19. The UC Office of the President has suggested that it will present another 2.5-percent (\$288) tuition increase to the Board of Regents later in January. The CSU Chancellor's Office has indicated that another 4-percent tuition increase (\$228) is under consideration for presentation to the Board of Trustees. These tuition increases would grow Cal Grant costs for UC and CSU students in 2018-19 beyond the costs reflected in the Budget. The Administration remains concerned about the impact of tuition increases on lower income students and families and believes more must be done to reduce the universities' cost structures. Further reforms should be implemented before the segments consider charging students more.

The Administration has worked to reduce the overall cost structure of higher education through various initiatives. After remaining flat since 2011-12, the UC Board of Regents and the CSU Board of Trustees raised tuition in 2017-18 to \$11,442 annually at UC (an increase of \$282, or 2.5 percent) and \$5,742 annually at the CSU (an increase of \$270, or 5 percent). With enrollment fees of \$46 per unit, the CCC system is the lowest-priced higher education system in the nation. Further, approximately 65 percent of all CCC enrollment fees are waived, providing a tuition-free education to about 50 percent of students. Recent legislation, Chapter 735, Statutes of 2017 (AB 19), enables CCCs to waive some or all of the \$46 per unit fee for all first-time resident students enrolled in 12 units or more per semester during their first year. Where fees are not waived, a CCC student can complete the 60 units necessary to obtain an associate degree or transfer to a four-year institution for less than \$3,000 in tuition, although the total cost of attendance is more significant, including books, transportation and living expenses.

Currently, students attending private nonprofit institutions and for-profits accredited by the Western Association of Schools and Colleges (WASC) receive up to \$9,084 annually for tuition, and students attending other for-profits receive \$4,000. Pursuant to existing law, the award for the nonprofit institutions and WASC-accredited, for-profit institutions is scheduled to decrease to \$8,056 beginning in 2018-19. For nonprofit institutions, the Budget proposes to maintain the award at \$9,084, with a new requirement that, beginning in 2019-20, the sector admits at least 2,500 students who have earned Associate Degrees for Transfer from the community colleges and are guaranteed junior standing. This amount will ramp up to 3,000 students in the following year.

CALIFORNIA COMMUNITY COLLEGES

The CCCs are the largest system of higher education in the nation, serving roughly one-quarter of the nation's community college students, or approximately 2.1 million students. The CCCs provide basic skills, vocational, and undergraduate transfer education with 72 districts, 114 campuses, and 78 educational centers. In 2016-17, the community colleges awarded over 81,000 certificates and 139,000 degrees and transferred over 106,000 students to four-year institutions.

STUDENT SUCCESS

The state has made significant investments to improve and expand student success programs and shorten a student's time to complete a degree or certificate. This includes \$285 million for the Student Success and Support Program, which provides education planning services for matriculated students, and \$155 million to mitigate disproportionate impacts on access and achievement in underrepresented groups.

The 2017 Budget Act also included \$150 million in one-time funding for CCCs to develop guided pathway programs. A guided pathway is an integrated, institution-wide approach focused on student success, including clear pathways for students to complete their degrees. The first release of the funding for guided pathways is planned for April 2018. All 114 community colleges participated in guided pathways workshops organized by the Chancellor's Office Institutional Effectiveness Partnership Initiative (IEPI). With ongoing resources of \$20 million, IEPI provides training to community college staff to promote strategies to remove barriers to student achievement.

The Administration has supported initiatives to improve basic skills courses and reform placement policies as a way to improve student success. The 2015 Budget Act provided \$60 million Proposition 98 General Fund to assist community colleges in improving delivery of basic skills instruction by adopting or expanding the use of evidence-based models of placement,

remediation, and student support. Further, Chapter 745, Statutes of 2017 (AB 705), requires all colleges to use multiple measures of assessment, including a student's high school grades or grade point average, when placing students in English and math courses.

The Administration supports better alignment across the segments to make students' transitions more efficient across institutions. Notably, the Administration has encouraged the use of transfer pathways. Through the Associate Degree for Transfer, students have a clearer pathway through the community colleges and are guaranteed to enter the CSU with junior standing. Moreover, a key part of the Governor's 2015 agreement with the UC was improving transfer to the UC by articulating similar transfer pathways. The Budget proposes requiring, beginning in 2019-20, private nonprofit institutions to admit at least 2,500 students who have earned transfer degrees from the community colleges and guarantee junior standing. The state also expanded dual enrollment opportunities to allow high school students to take college-level courses at their high school or at a community college campus, in anticipation of improving completion rates and time-to-degree. In 2015-16, approximately 24,000 students participated in dual enrollment courses.

MEETING STUDENT NEEDS

STUDENT-FOCUSED FUNDING FORMULA

In July of 2017, the CCC Board of Governors adopted an ambitious strategic plan, the *Vision for Success*, to improve community college student success. The plan calls for the system to significantly increase completion and transfer rates, decrease excess units taken by students, increase the number of students in career technical education programs who are employed in their field of study, and eliminate achievement gaps. The Administration applauds the system for adopting racial, ethnic and regional goals and reinforcing a student-focused agenda. The Budget's proposed investments in the CCCs focus on advancing the system's new strategic plan goals and building upon the student-success investments of prior budgets.

The existing enrollment-based CCC apportionment funding model does not appropriately reflect the Board of Governor's *Vision for Success* or the state's priorities to better serve students and eliminate equity gaps. By funding colleges based primarily on enrollment, the current funding formula encourages districts to strictly prioritize student access without regard for student success—such as timely completion and better serving underrepresented students.

The Budget proposes a new funding formula for general purpose apportionments that encourages access for underrepresented students, provides additional funding in recognition of the need to provide additional support for low-income students, and rewards colleges' progress on improving student success metrics. Under the formula, no district would receive less

funding than is currently allocated. The proposed formula incorporates the following core components:

- **Base Grant**—Each district would receive a base grant based on enrollment. Similar to the existing funding formula, a per-Full-Time Equivalent Student (FTES) funding rate would be applied across all districts.
- **Supplemental Grant**—Each district would receive a supplemental grant based on the number of low-income students that the district enrolls. Specifically, the supplemental grant would reflect two factors: (1) enrollment of students who receive a College Promise Grant fee waiver (formerly known as the Board of Governors Waiver) and (2) enrollment of students who receive a Pell grant.
- **Student Success Incentive Grant**—Each district would receive additional funding for the number of students who meet the following metrics: (1) the number of degrees and certificates granted and (2) the number of students who complete a degree or certificate in 3 years or less. The grant would also include additional funds for each Associate Degree for Transfer granted by the college.
- **Hold Harmless Provision**—During the first year of implementation, each district would be held harmless to the level of funding that the district received in 2017-18. Thereafter, the hold harmless provision would be calculated each year using the 2017-18 per-FTES rate multiplied by the district's new FTES.

The proposal assumes that approximately 50 percent of funding would be distributed initially as the base grant, 25 percent distributed as part of the supplemental grant, and 25 percent distributed as part of the student success incentive grant. Corresponding to the adoption of a new funding formula, the Budget proposes requiring community colleges to incorporate the goals of the *Vision for Success* within each college's educational master plan and aligning each college's budget with their educational master plan. Further, the Administration expects the Chancellor's Office to consult with stakeholders and develop a proposal for consideration within the May Revision that would consolidate categorical programs. The goal is to improve the incentives for districts to focus on improving student success while providing districts with local flexibility to do so.

EXPANDING ACCESS—ONLINE COLLEGE

Despite the vast number of courses offered by community colleges, there are currently 2.5 million Californians in the prime working ages between 25 and 34 who have only a high school diploma or some college but no degree. Of these Californians, approximately 48 percent are Hispanic and nearly half are women. Also, considering 35 to 65 year old adults, 8.7 million

Californians have only a high school diploma or some college but no degree. These adults are at great risk during economic downturns and from the impact of automation in the California workforce. Further, many Californians access online credentials, certificates, and associate degrees at non-public, non-accredited, or out-of-state institutions, which are typically much costlier than California community colleges and often have poor student outcomes. Some students have accessed higher education, but did not finish their degree and are burdened by student loans and other types of debt, limiting their ability to access the courses needed to advance in their employment or stay relevant in their careers. According to the Georgetown University Center on Education, California is in the middle of the pack when it comes to the share of good jobs held by workers without bachelor's degrees. Unless provided with flexible learning options that meet working students where they are, this population is likely to remain stranded in their current economic situation because they are limited by work schedules, transportation barriers, or child care needs.

To provide underserved working students with scheduling flexibility and more accessible learning options, the Budget proposes the creation of a fully online California community college. This community college will create and coordinate accessible, flexible, and high-quality online courses and programs. A critical part of the college's efforts will be ensuring working students have the support they need to succeed in their programs. Technology-enabled student supports will be shared and scaled at campuses across the system to boost capacity and improve student outcomes. The online college's initial focus will be collating and developing quality content and programs that provide vocational training, career advancement opportunities, and credentialing for careers in child development, the service sector, advanced manufacturing, healthcare, and in-home supportive services, among other areas. The online college will provide working students with a flexible opportunity to acquire and build skills that align with the needs of employers and industry, and enable them to complete their programs more quickly, reducing transportation costs, and reducing the costs of textbooks. The online college will also inform professional development opportunities for faculty and staff of the 114 colleges, including learning science, competency-based education, and other teaching and learning technologies.

The online college will work with community-based organizations to identify and market this online college to the 2.5 million adults that are not currently accessing higher education. Consistent with the Student-Focused Funding Formula section, apportionment funding for the fully online college would take into account student enrollment, the number of underrepresented students enrolled in the college, and encourage the online college to focus on student success. The college will not impact traditional community colleges' enrollment because its enrollment base will be working adults that are not currently accessing higher education.

ALIGNING FINANCIAL AID AND STUDENT SUCCESS

The Budget proposes new investments and changes to financial aid programs at the community colleges. The Budget proposes funding to support the implementation of the California College Promise, pursuant to Chapter 735, Statutes of 2017 (AB 19). Consistent with the statute, colleges could use this funding to waive some or all of the \$46 per unit fee for all first-time resident students enrolled in 12 units or more per semester during their first year, or use the funding for other innovative purposes to advance specific student success goals.

While the California College Promise currently defines full-time as 12 credit units per semester, a student must complete at least 30 program-applicable units per calendar year to graduate in two years. The Community College Research Center found in a review of financial aid programs that students that take 15 credit units per semester persist and complete on time. Consistent with those findings, the Administration expects community colleges to encourage students to take 15 units per semester, or 30 units per year, including summer, to qualify for a California College Promise grant once guided pathways have been implemented to further encourage timely completion of their program.

While the Full-Time Student Success Grant and the Completion Grant each target the same socioeconomic student cohort and encourage the timely completion of a degree or certificate, the programs require students to take different unit loads and have significantly different award amounts. Rather than fund two separate programs with differing requirements, the Budget proposes to consolidate the grant programs and base the grant amounts on the number of units a qualifying student takes each semester or each year. The proposed unit range would be between 12 and 15 units per semester or 24 and 30 units per year. The grant levels will increase based upon the number of credit units taken per semester. This approach encourages students to take a full course load while recognizing that is not feasible for all students. The Budget also provides additional funding to augment the grant amounts, with the greatest augmentation to grants for students who take 15 units per semester or 30 units per year.

WORKFORCE EDUCATION INVESTMENTS

The state has made significant progress in recent years linking the efforts of many entities interested in the workforce system—including K-12 schools, adult schools, community colleges, universities, local workforce investment boards, libraries, social services agencies, public safety agencies, and employers—to better provide education and training opportunities. The state invests more than \$6 billion annually in workforce initiatives, on top of the general budget support provided to many of these entities. These investments should improve educational outcomes (such as basic literacy and graduation and certification rates), increase earnings, and make workers more resilient in the face of changing labor market demands.

In 2016-17, community college vocational education programs served 318,087 FTES, or about 27 percent of all community college students. The Strong Workforce Program, created in 2016-17 and currently funded with \$248 million Proposition 98 General Fund, builds upon the federal Workforce Innovation and Opportunity Act of 2014. Additional information regarding K-12 vocational education programs can be found in the K-12 Education Chapter.

The Adult Education Block Grant Program, which was fully implemented in 2015-16 with \$500 million in ongoing Proposition 98 General Fund, coordinates services provided by local educational agencies, community colleges, and partners around programs leading to high school diplomas, English as a Second Language courses, and pathways courses that lead to additional career opportunities. Apprenticeship programs integrate classroom instruction and on-the-job training leading to gainful employment. State support for apprenticeship programs sponsored by local educational agencies and community colleges increased to almost \$55 million in 2017-18. These apprenticeships support training for approximately 50,000 individuals.

ALIGNING AND SUPPORTING WORKFORCE PROGRAMS

The Budget includes several new investments that build on the workforce reforms in K-12 and higher education in recent years:

- \$212 million for K-12 local educational agencies to improve and expand their career technical education programs aligned with the goals of the Strong Workforce Program. Information on this K-12 student-focused career education investment can be found in the K-12 Education Chapter.
- \$20.5 million for a cost-of-living adjustment for the Adult Education Block Grant program, with \$5 million for investments in a data collection and accountability system to ensure comprehensive and shared data reporting by Adult Education Block Grant regional consortia members.
- \$17.8 million ongoing for increased reimbursements to K-12 and community college-sponsored apprenticeship programs for instructional hours provided in 2018-19, with an additional one-time increase of \$30.6 million to backfill shortfalls in reimbursements provided from 2013-14 to 2017-18.

SIGNIFICANT ADJUSTMENTS FOR THE COMMUNITY COLLEGES

- CCC Apportionments—An increase of \$322.5 million Proposition 98 General Fund, which includes the following:

- An increase of \$175 million to support community college districts' transition to a student-focused funding formula.
- An increase of \$161.2 million for a 2.51-percent cost-of-living adjustment.
- An increase of \$60 million available for enrollment growth.
- A decrease of \$73.7 million to reflect unused growth provided in 2016-17.
- Deferred Maintenance and Instructional Equipment—A one-time increase of \$264.3 million Proposition 98 General Fund and \$10.9 million Proposition 98 settle-up for deferred maintenance, instructional equipment, and specified water conservation projects.
- California Online College—An increase of \$120 million Proposition 98 General Fund (\$20 million ongoing) to establish a fully online community college.
- California College Promise—An increase of \$46 million Proposition 98 General Fund to support the implementation of the California College Promise, pursuant to Chapter 735, Statutes of 2017 (AB 19).
- Student Success Completion Grant—An increase of \$32.9 million Proposition 98 General Fund to support a streamlined and student-focused community college financial aid program that consolidates the Full-Time Student Success Grant and the Completion Grant programs, shifts to a per-unit per-semester/per-year grant and augments the underlying grant amounts.
- Innovation Awards—Since 2014-15, \$100 million has been allocated in support of higher education innovation awards. The Budget proposes \$20 million one-time Proposition 98 General Fund to provide grants to support innovation in higher education, focused on enhancing equity.
- Chancellor's Office State Operations—An increase of \$2 million General Fund to fill 15 vacant positions to support initiatives and investments made in the community colleges. Providing new resources to the Chancellor's Office will help achieve the goals and priorities outlined by the Chancellor and Board of Governors in the *Vision for Success* described above and will enable the office to provide greater leadership and technical assistance to community colleges and improve student outcomes.
- Student Enrollment Fee Adjustment—An increase of \$5.4 million Proposition 98 General Fund as a result of decreased offsetting student enrollment fee revenues.
- Local Property Tax Adjustment—A decrease of \$230.2 million Proposition 98 General Fund as a result of increased offsetting local property tax revenues.
- Community College Facilities—The Budget proposes \$44.9 million in general obligation

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bond funding for 5 new and 15 continuing projects. This allocation represents the second installment of the \$2 billion available for CCCs under Proposition 51, and will address critical fire and life safety issues at campuses statewide. Prior to obtaining a construction appropriation for their projects, the San Francisco and Pasadena Community College districts are expected to produce local matching funds.

- **Strong Workforce Program**—An increase of \$212 million in grants to K-12 local educational agencies to expand and align their career technical education programs with the workforce training programs offered by higher education institutions, and with regional labor market demand. Information on this additional support for local educational agencies vocational education programs at can be found in the K-12 Education Chapter.
- **Online Education Initiative (OEI)**—The Budget proposes to accelerate the expansion of courses available through the Online Course Exchange, which will expand student access to enroll in fully online Associate Degree for Transfer pathways. The Chancellor's Office oversees this effort. By June 2019, the Online Course Exchange is expected to deploy and scale a platform that expands equitable student access to diverse online program offerings, establish a minimum number of fully online transfer degree programs, and identify further expansion benchmarks for future years.

