Higher Education includes the California Community Colleges (CCC), the California State University (CSU), the University of California (UC), the Student Aid Commission, and several other entities.

The Budget includes total funding of $33 billion ($18 billion General Fund and local property tax and $15 billion other funds) for all higher education entities in 2017-18.

Making Investments in Community Colleges for Student Success

The May Revision adds new investments on top of the funding included in the Governor’s Budget to support community colleges’ efforts to improve student success. With an additional $160 million investment in discretionary base resources (totaling $184 million Proposition 98 General Fund in 2017-18), it is the Administration’s expectation that the CCCs will improve completion rates, reduce time-to-degree, close gaps in achievement between underrepresented student groups and their peers, and improve students’ employment opportunities. These efforts will require community colleges to implement an integrated, institution-wide approach to student success, which is supported by the Governor’s Budget proposal investing $150 million Proposition 98 General Fund for the Guided Pathways Program. This program will provide colleges the opportunity to develop a framework for integrating many community college programs, including
Student Success and Support, Student Equity, Student Success for Basic Skills, and Strong Workforce.

The May Revision proposes to strengthen the CCC Chancellor’s Office capacity to provide greater leadership and expertise to the colleges, focused on improving student outcomes. After engaging with staff from the Chancellor’s Office throughout the spring, the May Revision proposes six new positions and additional resources, including funding for a Deputy Chancellor responsible for shifting the office’s operations away from compliance and regulatory oversight toward providing colleges with direct technical assistance and guidance.

ENCOURAGING PROGRESS ON CSU GRADUATION INITIATIVE

Through the Graduation Initiative 2025, the CSU is making progress on ambitious goals—increasing the four-year graduation rate to at least 40 percent, increasing the two-year transfer graduation rate to at least 45 percent, and closing achievement gaps for low-income students, first-generation college students, and students from underrepresented minority groups.

The Governor’s Budget stated that the Graduation Initiative can only be successful if education leaders across the system are clear about what a CSU education entails—both upon entry and at graduation. When freshmen are not able to take college-level courses when they arrive on campuses—and instead get placed in “developmental” or “remedial” courses—they are less likely to graduate in four years. Since that time, the CSU has announced it will make significant changes to its alignment with K-12 schools, how college readiness is determined, and its own curriculum and pedagogy. The CSU is discussing a new goal that all students complete at least 30 units of college-level courses in their first year. The Administration intends to continue to work with the CSU and its campuses to move these completion efforts forward as rapidly as possible.

REDUCING THE COST STRUCTURE AT THE UNIVERSITY OF CALIFORNIA

Two years ago, the Governor reached an agreement with the UC President focused on reducing the cost structure of the UC. The Board of Regents endorsed the framework in May 2015. The commitments recognize that lowering the cost structure while
maintaining quality requires the University to reevaluate how students’ prior academic experiences are recognized as part of UC degree programs, how academic programs are structured, and how instruction is delivered.

The UC has fulfilled many key commitments, including articulating more clearly across more than 20 majors the courses community college students need to transfer to UC campuses; testing the use of new learning technologies that adapt instruction to meet student needs and targeted advising and other resources to students who might need the support; and piloting new policies on pricing for summer sessions. The UC appears to be on track in other areas—such as creating sequences of courses that allow students to graduate in three years and reviewing the requirements of more than 75 percent of majors on all campuses.

However, the UC has not made progress consistent with the timelines in the agreement in the following two areas:

• The agreement requires the UC to have piloted activity-based costing in the College of Humanities, Arts and Social Sciences at Riverside and in three departments at two other campuses. Campus leaders can use data to better plan enrollment and determine which, and how, courses should be offered by understanding both costs and student outcomes. While the Office of the President has selected Davis and Merced to participate in the other pilots, progress on completing the pilot has been insufficient.

• The agreement requires that by the 2017-18 academic year, each campus except Merced and San Francisco will enroll at least one entering transfer student for every two entering freshmen. Such a policy lowers students’ costs and maximizes the use of state resources across the higher education system. The Office of the President expects to achieve this target in 2017-18 systemwide and at seven campuses—but not at Riverside and Santa Cruz.

In April, the State Auditor released a report on the UC Office of the President that identified concerns related to undisclosed reserves, budgeting practices, employee compensation, and justification for systemwide initiatives, and made recommendations to the Board of Regents and the Office of the President. Activity-based costing could provide campus leaders and the public with more transparency about costs and budgeting at the University.
The May Revision sets aside $50 million from the funds appropriated to the UC to be released only once the Director of Finance certifies that the UC has made progress in implementing these reforms and the Auditor’s recommendations. These changes are vital to improving public confidence in the use of tuition and state revenues.

**Addressing Rising Tuition at the Public Universities**

The state’s direct support to UC and CSU has grown by nearly $2 billion since 2012-13. Since the Governor’s Budget was released, both the UC Board of Regents and the CSU Board of Trustees have approved tuition increases for 2017-18. Specifically:

- In January, the Regents approved a 2.5-percent increase, growing annual tuition from $11,220 to $11,502 (growth of $282).
- In March, the Trustees approved a 5-percent increase for undergraduate students, growing annual tuition from $5,472 to $5,742 (growth of $270), and 6.5-percent increases for graduate students. These growth rates exceed any standard measure of inflation.

A significant portion of any tuition increase at the UC or the CSU is borne by the state's General Fund, because the state traditionally has maintained the maximum Cal Grant award amounts equal to the tuition charges at the UC and the CSU. For 2017-18, the boards’ actions grow Cal Grant costs by $48.9 million—$20.9 million for UC students and $28 million for CSU students—above the amount provided in the Governor’s Budget. Of the $2 billion estimated to be spent on the Cal Grant program in 2017-18, $896.7 million (45 percent) is for UC students and $699.7 million (35 percent) is for CSU students.

When the public universities raise tuition, therefore, there is less funding available for other financial aid programs. The May Revision recognizes the role that private institutions play in providing access to postsecondary education for California students. The May Revision reverses a scheduled reduction in the maximum Cal Grant tuition award for new students attending private institutions accredited by the Western Association of Schools and Colleges (WASC), maintaining the award at $9,084 (instead of $8,056) at a cost of $8 million in 2017-18. These costs are funded by redirecting some of the state funds the UC and the CSU would have otherwise received—shifting $4 million from each budget. With this increased commitment of state support, the private WASC-accredited institutions must do more to enroll California’s neediest students,
ease the transfer process from community colleges, and expand online programs. The increase in funding is contingent on the institutions making measurable achievements in these areas.

Rising Cal Grant costs from tuition hikes will also limit the state’s ability to increase General Fund support in the future. The state has increased General Fund spending by at least 4 percent annually since 2012—while tuition has been flat. Going forward, the universities should plan for 3-percent growth annually beginning in 2018-19. If the universities raise tuition in the future, additional downward adjustments to state support may be needed to cover the higher Cal Grant costs.

**Expanding Online Education**

Online education can provide students with scheduling flexibility, improve time to degree, and reduce a student’s cost of attendance—such as transportation costs for students not in close proximity to a college and textbook costs, particularly when these courses incorporate the use of open educational resources.

The system offices for each of the public segments are collectively spending more than $30 million annually specifically to expand access to quality instruction through online education, and many campuses are spending significant additional resources from their own budgets. The Administration intends to bring together segment leaders and other stakeholders to determine how deployment of these resources can be aligned to achieve shared goals and better serve students. In addition, the Governor is requesting the Community College Chancellor’s Office to develop a proposal by November 2017 for a completely online community college.

**Significant Adjustments**

The following are significant adjustments included in the Budget.

**California Community Colleges**

- Chancellor’s Office State Operations—In lieu of the Governor’s Budget proposal to provide the Chancellor’s Office with two new Vice Chancellor positions, the May Revision proposes $618,000 General Fund and $454,000 in reimbursement authority to provide the Chancellor’s Office with six positions and funding to support a second Deputy Chancellor. The resources are expected to shift the mission of
the Chancellor’s Office from regulatory oversight to assisting colleges in improving student outcomes.

- **Increased Operating Expenses**—A net increase of $160 million Proposition 98 General Fund to support increased community college operating expenses in areas such as employee benefits, facilities, professional development, converting faculty from part time to full time, and other general expenses.

- **Apportionments**—An increase of $34.1 million Proposition 98 General Fund, which includes the following:
  - An increase of $28.5 million to reflect the amounts earned back by community college districts that declined in enrollment during the previous three fiscal years.
  - An increase of $23.6 million to reflect unused prior-year enrollment growth funding.
  - An increase of $3.5 million to reflect a change in the cost-of-living adjustment from 1.48 percent to 1.56 percent.
  - A decrease of $21.5 million to adjust enrollment growth from 1.34 percent to 1 percent.

- **Deferred Maintenance and Instructional Equipment**—An increase of $92.1 million in one-time Proposition 98 General Fund and settle-up for deferred maintenance, instructional equipment, and specified water conservation projects.

- **Full-Time Student Success Funding**—An increase of $1.9 million Proposition 98 General Fund to reflect an increased estimate of eligible Cal Grant B and Cal Grant C recipients in 2017-18 and to align grant amounts with a statewide annual academic year average of $600 per full-time student.

- **Equal Employment Opportunity Program**—An increase of $1.8 million Employment Opportunity Fund to promote equal employment opportunities in hiring and promotion at community college districts.

- **Categorical Program Cost of Living Adjustment**—An increase of $229,000 Proposition 98 General Fund to reflect a change in the cost-of-living adjustment from 1.48 percent to 1.56 percent for the Disabled Student Programs and Services program, the Extended Opportunities Programs and Services program, the Special Services for CalWORKs Recipients program, and the Child Care Tax Bailout program.
• Proposition 39—The California Clean Energy Jobs Act was approved by voters in 2012 and increases state corporate tax revenues. For 2013-14 through 2017-18, the measure requires half of the increased revenues, up to $550 million per year, to be used to support energy efficiency projects. The May Revision decreases the amount of energy efficiency funds available to community colleges in 2017-18 by $5.8 million to $46.5 million to reflect reduced revenue estimates.

• Local Property Tax Adjustment—An increase of $68.2 million Proposition 98 General Fund in 2016-17 as a result of decreased offsetting local property tax revenues.

• Student Enrollment Fee Adjustment—A decrease of $24.8 million Proposition 98 General Fund as a result of increased offsetting student enrollment fee revenues.

**California State University**

• Redirection of Funds to Cal Grant Program—A reduction of $4 million General Fund ongoing, with funds redirected to fund increased costs of the Cal Grant program.

• Transportation Research, Education, and Training—An increase of $2 million State Transportation Fund for transportation research and transportation-related education and training pursuant to SB 1.

**University of California**

• Implementation of Commitments Related to Cost Structure—A set-aside of $50 million General Fund, the release of which is conditioned on certification by the Director of Finance that the UC has achieved the commitments made in the agreement with the Governor related to activity-based costing and enrollment of transfer students and completed recommendations to the Regents and UC Office of the President made by the State Auditor in its recent report on the UC Office of the President.

• Redirection of Funds to Cal Grant Program—A reduction of $4 million General Fund ongoing, with funds redirected to fund increased costs of the Cal Grant program.

• Transportation Research—An increase of $5 million State Transportation Fund for transportation research pursuant to SB 1.
California Student Aid Commission

- Cal Grant Program Costs—An increase of $33.3 million in total funds in 2016-17 and a decrease of $71.2 million in total funds in 2017-18 to account for the following:
  
  - Temporary Assistance for Needy Families (TANF) Reimbursements—An increase of $194 million in federal TANF reimbursements in 2017-18, which reduces the amount of General Fund needed for program costs. Combined with the TANF reimbursements included in the Governor’s Budget, the May Revision offsets $1.1 billion in General Fund costs for Cal Grants with TANF reimbursements in 2017-18.
  
  - Participation Estimates—An increase of $33 million in 2016-17 and $71.6 million in 2017-18 to reflect an increase in the number of new recipients in 2016-17.
  
  - Tuition Award for CSU Students—An increase of $28 million in 2017-18 to reflect the costs of an increase in the maximum Cal Grant tuition award for students attending the CSU. Because the CSU Board of Trustees approved an increase in tuition of $270, the maximum award would increase by a corresponding amount.
  
  - Tuition Award for UC Students—An increase of $20.9 million in 2017-18 to reflect the costs of an increase in the maximum Cal Grant tuition award for students attending the UC. Because the UC Board of Regents approved an increase in tuition of $282, the maximum award would increase by a corresponding amount.
  
  - Tuition Award for Students at Private Institutions—An increase of $8 million General Fund in 2017-18 to maintain the maximum Cal Grant tuition award for students attending private institutions accredited by Western Association of Schools and Colleges at $9,084 (growing by $1,028 from $8,056 in existing law).
  
  - Cal Grant B Supplement—A decrease of $5.6 million College Access Tax Credit Fund to align with revised estimates of resources in the fund. The May Revision includes a total of $5.6 million for this program, which will fund a supplemental award of $24 for each student who receives a Cal Grant B Access Award.
  
- Middle Class Scholarship Program Appropriation—A net decrease of $10 million for revised cost estimates related to the Governor’s Budget’s proposal to phase out the Middle Class Scholarship Program.