

RESEARCH BRIEF #9
THE GOVERNOR'S 2005/06 BUDGET PROPOSAL
 California Faculty Association – February 2005

SUMMARY

- ✓ The Governor's 2005/06 budget proposes a net increase of \$110.5 million for the CSU General Fund. Anticipated revenue generated by increased student fees brings the total net fiscal impact to \$211.7 million.
- ✓ Consistent with last year's Compact Agreement, the budget proposes a 3% increase of \$71.6 million for general operations and a 2.5% increase of \$50.8 million for CSU enrollment growth. However, part of the augmentation to the 2004/05 budget was designated as one-time funds, reducing the General Fund by \$7 million.
- ✓ Undergraduate and graduate student fees are scheduled to increase by 8% and 10%, respectively. This brings the cumulative increase in fees since 2002 to 76% for undergraduate and 106% for graduate students.
- ✓ Over 15,000 students eligible for the CSU will be denied access. Absent additional funding for enrollment growth, the CSU will continue to be forced to turn thousands of students away.

GENERAL OVERVIEW

Governor Schwarzenegger released his proposed \$109 billion budget for 2005/06 on January 10. To close a \$9.1 billion budget gap, he is again proposing a combination of spending cuts, reforms, and new debt. A large portion (roughly 47%) of the "savings" to the General Fund comes from cuts to teachers' and state employees' retirement and compensation programs, reductions to social services, and under-funding of K-14 education. Table 1 summarizes the main savings solutions proposed in the budget.

Table 1: Major "Solutions" Proposed by Governor to Close \$9.1 Billion Budget Gap¹

	Amount (millions)	Percent of Total
<i>Education</i>	\$ 2,753	30.3%
Underfunding of Prop. 98 (saves \$2,284 million)		
Cut state contribution to STRS (saves \$469 million)		
<i>Transportation:</i>	\$ 1,526	16.8%
Suspension of Prop. 42 Transfer (saves \$1,310 million)		
Hold Public Transportation Account spillover in General Fund (saves \$216 million)		
<i>Health and Social Services:</i>	\$ 1,100	12.1%
CalWORKS and SSI/SSP grant program changes (saves \$714 million)		
Reduction in funding for IHSS wages (saves \$195 million)		
Shift some prenatal care costs to Federal funds (saves \$191 million)		
<i>State Employees PERS & Compensation 'Reform'</i>	\$ 408	4.5%
<i>Suspension of Local Mandates</i>	\$ 250	2.7%
<i>Debt:</i>	\$ 2,141	23.5%
Prop. 57 deficit-financing bonds Prop. 57 (provides \$1,677 million)		
Bond to cover <i>Paterno</i> lawsuit settlement (provides \$464 million)		
<i>Other</i>	\$ 915	10.1%
TOTAL	\$ 9,093	100.0%

¹ Hill, E. (2005) "2005-06: Overview of the Governor's Budget," Legislative Analyst's Office, Jan. 12.

Net increases obscure severe cuts and de-facto taxes

Although the figures presented in the Budget Summary released by the Governor this year show net increases for most General Fund program areas (Table 2), the summaries obscure substantial cuts (shown in Table 1) in many of these areas. The increase in funding is made possible only by proposals for other so-called 'cost saving' actions also included in the calculations. For instance, while the Health and Human Services budget shows a net increase of 4.6% over 2004/05, within this area, many programs also face sharp cuts (e.g., a reduction in funding for CalWORKS – California's welfare-to-work program – by \$212 million and suspension of a Cost of Living Adjustment). Funding for Proposition 98, which is supposed to be a minimum funding guarantee for K-12 schools and community colleges, shows an increase of 7.1%. However, over \$2 billion of *expected* funds would be withheld under this proposal. In addition, the governor is proposing to withdraw the state's contribution to the State Teachers' Retirement System (STRS), thereby passing on these costs to school districts and/or teachers themselves and effectively reducing any increases in funding for K-14 education.

The Governor maintains that his budget does not include any new taxes, however, he does propose measures that function as taxes on select groups. For instance, his plan increases fees for college students at the California State University and University of California; establishes new premiums for some Medi-Cal beneficiaries; and cuts or caps social service benefits for certain groups, including low-income seniors.

Table 2: General Fund Spending by Major Program Area (millions of \$)²

	2003/04 (actual)	2004/05 (estimated)	2005/06 PROPOSED	% change from 04/05
<i>Education</i>				
K-12 Proposition 98	\$28,154	\$30,992	\$33,117	6.9%
CCC Proposition 98	2,272	3,036	3,321	9.4%
UC/CSU	5,527	5,212	5,413	3.9%
Other	2,159	4,559	4,076	-10.6%
<i>Health and Social Services</i>				
Medi-Cal	\$9,879	\$11,965	\$12,948	8.2%
CAIWORKs	2,064	2,146	1,940	-9.6%
SSI/SSP	3,123	3,444	3,523	2.3%
Other	7,696	7,988	8,297	3.9%
<i>Youth and Adult Corrections</i>				
	\$5,389	\$6,933	\$7,014	.2%
<i>All Other</i>				
	\$10,069	\$6,021	\$6,089	1.1%
Totals	\$76,333	\$82,295	\$85,738	4.2%

PROPOSED BUDGET FOR THE CALIFORNIA STATE UNIVERSITY

Overview: Funding of the Compact

The Governor's 2005/06 budget proposal for the CSU is consistent with the "Compact on Higher Education" agreed upon by CSU Chancellor Reed and Governor Schwarzenegger in May 2004. In agreeing to the Compact, the Chancellor agreed to accept deep cuts in the 2004/05 budget in exchange for a non-binding agreement that funding for the CSU would be gradually restored in the future.

² Hill, E. (2005) "2005-65: Overview of the Governor's Budget," Legislative Analyst's Office, Jan. 12.

Overall, the proposed budget would provide an additional 4.4 percent (about \$110 million) to the CSU General Fund (see Table 3). It calls for funding the Compact at the minimum level to which both parties agreed. Accordingly, the budget provides an increase to the General Fund of 3 percent (\$71.6 million) and an increase of 2.5 percent (\$50.8 million) for student enrollment growth. An increase in both undergraduate and graduate student fees, already approved by CSU, is factored into the budget as well. Also significant is an unallocated reduction of \$7 million resulting from part of the \$37.7 million augmentation in the 2004/05 budget being designated as one-time funds.

Table 3: The Impact of the Governor's Budget on the California State University³

2004/05 General Fund Base (excluding fee revenue)	\$	2,496,694,000
Total 2005/06 Reductions	\$	(11,983,000)
Total 2005/06 Increases	\$	122,468,000
2005/06 General Fund Appropriation	\$	2,607,179,000
Adjustments		
Remove 04/05 One Time Carryover	\$	(4,379,000)
Remove 04/05 One Time Outreach Funding	\$	(7,000,000)
Accounting Adjustments [annuitant dental benefits]	\$	(604,000)
Provides 3% to General Fund as per Compact	\$	71,662,000
Provides 2.5% for Enrollment Growth	\$	50,806,000
Total 2005/06 General Fund Impact to the CSU	\$	110,485,000
Percent Change over 2004/05 Base		4.4%
2005/06 General Fund Impact	\$	110,485,000
Student Fee Increase Revenue [less 25% financial aid set aside]	\$	101,248,000
2005/06 Net Fiscal Impact, including fee revenue	\$	211,733,000

The CSU Budget Plan

The Governor's Budget proposes a net increase of \$211.7 million for the CSU. With this increase, the CSU expects to implement the budget plan approved by the Board of Trustees approved in October 2004. Accordingly, the CSU would use this increase as follows⁴:

- \$88.1 million to fund salary increases (in the form of a 3.5% compensation pool for collective bargaining)
- \$63.7 million to fund an enrollment target of 332,223 FTES for 2005/06 (equal to an additional 8,103 FTES)
- \$40.7 million to fund increases in mandatory costs related to health and dental benefits, insurance premiums, energy, and new space
- \$23.3 million to increase funding for financial aid grants to cover higher fees for some aid recipients and provide about 2,700 new grant awards
- \$7.9 million to fund long-term needs related to technology, libraries, and deferred maintenance

³ CSU Budget Office. (2005) "Budget Fact Sheet: 2004/05 Governor's Budget."

⁴ CSU Budget Office. (2005) Memorandum to Campus Presidents Re: 2005/06 Governor's Budget, Jan. 12.

Shortly after the Board of Trustees released its budget proposal, the CFA expressed concern that it was insufficient and would not provide enough funding to restore the affordability and accessibility of the CSU (see the December issue of *California Faculty*, page 4 for CFA's analysis of the Trustees' budget). This is in large part because the CSU General Fund has been drastically reduced since 2002. Thus, even though the Governor's budget funds the Compact and is fairly consistent with the CSU budget request, the increased funding fails to provide the resources the university needs. With the Compact agreement, it will still take at least four years before state funding will be restored to the 2002/03 level, yet the number of eligible high school graduates continues to grow. The quality of a CSU education is at stake and is being seriously threatened by this funding crisis. By asking for and proposing no more than the minimum funding level provided by the Compact Agreement, the CSU and the Governor threaten to effectively institutionalize the denial of student access to the CSU.

Student Fees and Access to the CSU

In 2004/05, thanks to the sharp budget cuts, upwards of 15,000 eligible students were denied access to the CSU. At the same time, faculty workloads are getting heavier, class size is growing, and student fees continue to rise. As Table 4 illustrates, student fees have been increasing steadily since 2002. In fall 2005, undergraduate student fees will be \$1,092 more than they were four years ago. Graduate students will be paying \$1,596 more than they did four years ago. The most recent increase of 8% and 10% for undergraduate and graduate students, respectively, was agreed to as part of the Compact and approved by the Trustees in October 2004. The increased fees augment the CSU budget by \$101.2 million, about \$78 million of which will come from the most recent fee hike. Thus, the Governor is asking students and their families to contribute more than a third of the net fiscal increase to the CSU budget. At the same time, these higher fees are surely preventing some students from enrolling in the CSU. Research by the Rand Corporation⁵ found that a 10% increase in student fees would result in a 1.97% decline in CSU enrollment. Since 2002, the cumulative increase in fees is 76% for undergraduate and 106% for graduate students.

Table 4: Cumulative Change in Student Fees since 2002⁶

	Fall 2002	Spring 2003	Fall 2003	Fall 2004	Fall 2005	Cumulative Increase since Fall 2002
Undergraduate Fee	\$1,428	\$1,572	\$2,046	\$2,334	\$2,520	
Undergraduate Fee Increase	-	\$144	\$474	\$288	\$186	\$1,092
Undergraduate Percent Increase	-	10%	30%	14%	8%	76%
Graduate Fee	\$1,506	\$1,734	\$2,256	\$2,820	\$3,102	
Graduate Fee Increase	-	\$228	\$522	\$564	\$282	\$1,596
Graduate Percent Increase	-	15%	30%	25%	10%	106%

Even with this economic disincentive to attend the CSU, thousands of eligible, well-qualified students in California's high schools and community colleges are being turned away from CSU campuses. While the \$37.7 million augmentation to the 2004/05 CSU budget (added by the Legislature and the Governor after the May Revision) provided funding for a 1.87% increase in enrollment (7,500 students), the CSU had already denied

⁵ Shires, M.A. (1995) *The Master Plan Revisited (Again): Prospects for Providing Access to Public Undergraduate Education in California*. The Rand Corporation, Santa Monica, CA.

⁶ CSU. (2005) "CSU Fee History: Average CSU Academic Year Resident, Undergraduate Student Fees" at http://www.calstate.edu/budget/FeeEnrll_Info/FeelInfo/Fee_History_Info/Fee_History_ToC.shtml

access to 23,000 students that year in response to the Governor's proposed cuts.⁷ Moreover, an untold number of students are finding they need higher grades and test scores to be accepted into their preferred majors and campuses because they are designated as "impacted" as a result of insufficient funding.

As shown in Figure 1, after several years of steady growth, enrollment slowed after 2002/03. Since that time, the state support to the CSU's general fund budget has decreased by \$511 million. While this year's 2.5% increase in funding for enrollment growth will allow the university to accommodate about 10,000 additional students (8,103 FTES), many more are still being kept out. Meanwhile, the number of high school graduates eligible for the CSU increased by 20,500 students between 1996 and 2003.⁸ This spring (2005), the largest high school senior class in California history will graduate. Clearly, the Governor's increase in funding for enrollment growth will only partially enable the CSU to resolve the denial of access crisis it currently faces.

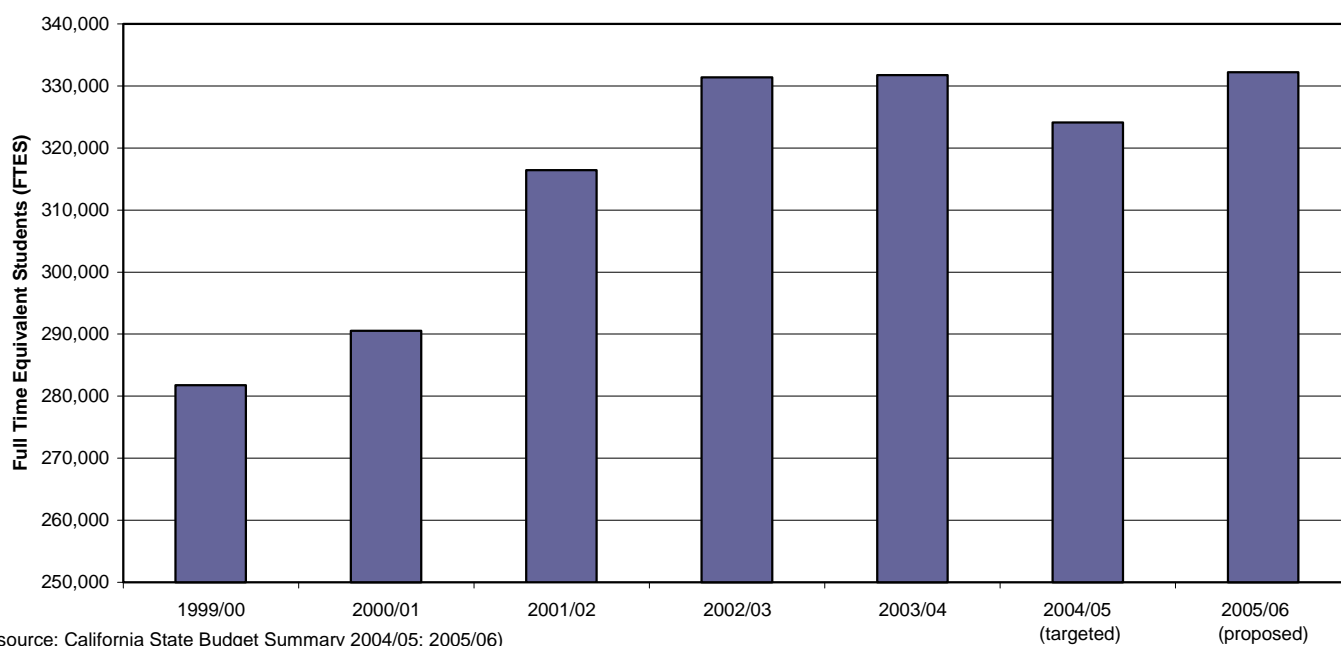


Figure 1: Enrollment Trend at California State University: 1999/00-2005/06

Financial Aid

The Governor's budget proposes raising General Fund support for CSAC (the California Student Aid Commission) by \$156 million (26.5%). It increases the size of Cal Grant awards for eligible needy students to fully cover the higher fees at both CSU and UC. However, it also decreases the size of new Cal Grant awards for students attending private colleges and universities. The CSU Board of Trustees' budget plan includes an increase in campus-based financial aid grants to cover both the fee increases and roughly 2,700 new grant awards. While this is encouraging, it is important to recall that the Cal Grant program is unable to serve all of the CSU students who need such aid. In particular, students age 24 and older and returning students are ineligible for the guaranteed-Entitlement Cal Grants. Since the average age of a CSU undergraduate is 24, many are unable to

⁷ CSU. (2004) "State Budget Agreement Restores Critical Funding for Higher Education," August 2, press release.

⁸ California Postsecondary Education Commission. (2004). *University Eligibility Study for the Class of 2003*. Commission Report 04-05. Sacramento.

receive this form of aid. Moreover, the demand from eligible students for Competitive Cal Grant awards, for which older students can apply, far exceeds the number of grants distributed. In 2003/04, just one in six qualified applicants received a Competitive Cal Grant. As illustrated in Figure 2, there is a growing number of CSU students who are being denied Cal Grant aid, even though they are eligible for such assistance.

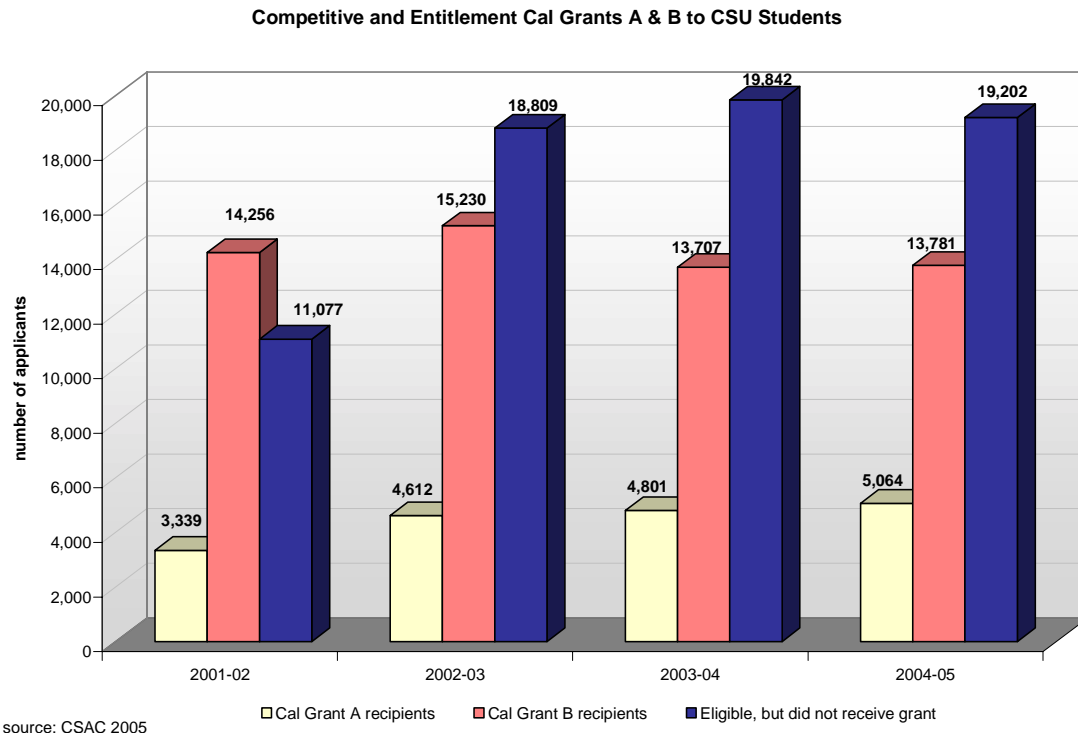


Figure 2: Growing Unmet Need for Qualified Students: The Competitive Cal Grant Program

Budget Reductions

Offsetting the \$122.5 million in resorted funding provided to the CSU (\$71.6 million from the 3% increase in the General Fund and \$50.8 million in enrollment growth funding) are three reductions. Most significant is a \$7 million reduction of the \$37.7 million augmentation to the 2004/05 budget. This, in effect, designates \$7 million of that augmentation as one-time funds, even though there was no indication in the 2004/05 budget that suggested this was the case. (It is defined in the proposed budget as an unallocated reduction for the CSU.) CSU plans to discuss how to accommodate this cut in its January Board of Trustees' meeting.

The other reductions to the budget result from the removal from the General Fund of \$4.4 million in one-time carryforward funds (from 2003/04) and an accounting adjustment resulting in a reduction of \$604,000.

IMPLICATIONS OF THE BUDGET: CHANGES TO STATE PENSION AND OTHER PROGRAMS

Proposed Changes to State Pension System

In his 2005/06 budget, Governor Schwarzenegger proposes employee pension "reforms" that reduce or eliminate existing retirement benefits for state employees and K-14 teachers. These proposals reduce or eliminate the state's existing financial obligations to fund shortfalls (also known as 'unfunded pension liability') in state employee defined

benefit retirement programs (DBPs), thus increasing the financial obligations of existing employees, and converts defined benefit programs into defined contribution (401(k)-type) programs (DCP) for new employees. Additional “reforms” affecting state employee leave time, holidays and healthcare coverage are also proposed. [NOTE: Both state employees and K-14 teachers are currently covered by defined benefit plans. These plans are transferable to a spouse who outlives an employee and are protected against changes in inflation that can erode the value of a pension over time.]

State Employees (CalPERS). The Governor hopes to negotiate changes to CalPERS into collective bargaining agreements with individual bargaining units as existing contracts expire and are renegotiated. Specifically, he calls for employees to pay one-half of the total actuarial cost needs as determined by PERS, including any unfunded liability. State employees currently pay 5% of their salary towards PERS benefits. The proposal would increase the employee cost to 11% of salary. In addition, new employees would be switched to a DCP where the state contribution would be fixed. Employees could invest their own funds, but would not be entitled to a guaranteed level of benefits at retirement as they are under the existing DBP. Finally, state employees would also be permitted to opt out of PERS entirely, in which case the state would share the “benefit savings” by paying these employees an extra stipend equal to 50 percent of the normal PERS benefit retirement cost for that employee. This would equate to an approximate 10% increase in take-home pay.

While the Governor’s proposal, as currently drafted in ACA 5 (Richman-R), does not include CSU employees and has little chance of passing, it is a prelude to a ballot initiative that covers all state employees—including CSU faculty and staff. CFA believes the real fight will take place in a statewide special election, expected to occur in November 2005.

K-12 and Community College Teachers (CalSTRS). Under the Governor’s Budget proposal, the full responsibility for payments to CalSTRS defined benefit programs would be shifted to K-14 school districts and/or covered employees, thus freeing the state from paying ‘unfunded liability’ costs and saving the state \$469 million. School districts could eventually shift this cost to employees via collective bargaining negotiations. In addition, K-14 teachers would be permitted to opt out of the recently created CalSTRS Defined Benefit Supplement Program and receive a two percent increase in take-home pay in exchange.

Other State Employee Compensation Reforms. The governor is also proposing to negotiate a series of reforms to reduce employee compensation costs. If successful, these reforms would affect employees covered by the 21 state employee unions that negotiate their contracts directly with the state.

- Allow yearly furloughs—leave without pay—of state employees (other than employees in public safety or “level-of-care” positions) for up to 5 days in a year that a fiscal crisis is determined to exist. Potential savings of \$109 million.
- Eliminate HMO premium healthcare coverage payments based on a percentage of HMO premium costs, and instead provide employees with a fixed dollar amount based on the number of people covered in an employee’s family. Additionally, new employees would be required to work a “probationary period” before receiving state health benefits. Potential savings of \$30 million.
- Eliminate two (not yet determined) of the 14 paid holidays provided to state employees. Potential savings of \$3.1 million.
- Limit accrual of leave time that can be “cashed out” when an employee leaves state service to 640 hours. Potential savings are unpredictable.

- Exclude leave time (e.g., holidays, sick leave, vacation) from employee overtime calculations of "time worked" for determining overtime pay. Potential state savings based on an estimated 5 percent reduction in overtime costs. Potential savings of \$36.4 million.

Other Programs

K-12 Education & Proposition 98. The Governor proposes to allocate Prop. 98 funding at the 2004/05 level, in effect, under-funding K-14 education by \$2.3 billion (the additional amount that would be required by Prop 98) and suspending a funding guarantee the Governor promised in the final 04/05 budget. The budget does include \$1.6 billion for a 3.93% COLA and \$395 million for 0.79% student attendance growth. It also suggests several policy initiatives, including calling for a constitutional measure regarding Merit-Based compensation for teachers that would weaken tenure rights.

Community Colleges would receive a general fund increase of 9.8% (\$299 million). Adding revenue from local property taxes, CCCs would see an increase in Prop.98 funding totaling \$359 million to cover a 3.93% COLA (covering both salaries and some programs) and 3% enrollment growth (32,289 FTES). No increase in student fees is proposed.

Social Services. Over \$1 billion of the budget 'savings' comes from cuts and reforms to social services. Hit hardest is CalWORKS, which faces \$650 million in cuts. The cuts would come primarily in the form of reducing maximum monthly grant amounts by 6.5%; eliminating a COLA, currently required by statute; and reducing grant payments to working families. In-Home Supportive Services (IHSS) would get a \$196 million cut and various cuts to child care benefits total \$158 million. Tax assistance programs for low-income seniors also face a reduction of \$136 million.

Health. Medi-Cal would receive an increase in general funds of 8.2% and be subject to several reforms including adding new premiums for some recipients; placing a cap on adult dental services; and expanding the use of managed care for families, kids, aged, disabled.

ANTICIPATED IMPACT OF THE GOVERNOR'S BUDGET

While some observers are suggesting that higher education fared well in the Governor's budget proposal, this assessment is fair only in relative terms. Among the harshest cuts proposed are those that target the state's working poor and K-14 teachers' retirement plans. In what is clearly an attempt to undermine the state's labor unions, the Governor also targeted many of the state's civil servants to help him close the budget gap without explicitly raising taxes. In requesting, and receiving, the minimum amount of funding agreed upon in the Compact on Higher Education, the CSU will struggle to provide a quality education to the students it is charged to serve. In a recent memo to CSU employees, Chancellor Reed himself reminded the community that the new revenue for the CSU must be considered in an historical context. He notes,

"The compact funding provided in the governor's budget would allow us to begin to improve student access, employee compensation, and our ability to meet mandatory costs for health and dental benefits, new space, and increasing insurance and energy costs. Once these pieces are back in place, we can continue to focus on our primary purpose..." (e-mail to CSU employees, 1/21/05, emphasis added).

Indeed, the funding proposed for the CSU is urgently needed. Yet it provides nothing to help address many of the areas of concern identified by the Board of Trustees and CFA alike. For instance, there are no funds for first-year

implementation of ACR 73, the legislation passed in 2001 to increase the ratio of tenured/tenure-track faculty to temporary faculty positions. Meanwhile, the number of CSU faculty actually decreased by 940 (headcount) between 2003 and 2004 (Tenure Track by 482 and Lecturers by 458).⁹

CFA has been advocating for additional funding for the CSU, beyond what the Board of Trustees requested from the governor. At minimum, an additional 1.5% (for a total of 4%) in enrollment growth funding is needed to accommodate some of the thousands of students who were turned away this year. CFA also calls for a moratorium on raising student fees and urges the State to “buy back” the new fee increases set to go into effect in fall 2005. These new fee hikes would be the fourth increase students have been charged since December 2002. Finally, CFA remains concerned that the cumulative impact of the budget cuts over the past few years will cause irreparable damage to the CSU if the state’s commitment to higher education fails to go beyond the “promises” of the Compact. Absent additional funding, CFA is alarmed by the possibility that the quality of a CSU education will be eroded as ...

- ... students will be paying more to enroll in larger and fewer classes
- ... faculty workload will continue to increase
- ... students will continue to juggle wait-lists to enroll in classes they need in order to graduate
- ... faculty salaries will continue to lag behind those at comparable institutions, making it harder to retain and recruit excellent professors and scholars
- ... new tenure-track faculty hiring will be delayed
- ... development of new programs will be postponed
- ... students’ financial aid debt will grow
- ... student/faculty ratios will rise with increased enrollment outpacing growth in number of faculty
- ... demands on faculty for advising and office hours will rise
- ... eligible students will continue to be turned away and denied access to the CSU

Conclusion

The Governor’s January budget proposal is only the first in a series of steps in the state’s budgetary process. In February, a full review of the budget by the Legislative Analyst’s Office will be conducted. During March and April, budget subcommittee meetings in the legislature take place, and there will be a May Revise (that incorporates the State’s actual revenues) by the Governor. As always, the official deadline for the state’s budget adoption is at the end of June. There are still several months for the CSU community of students, faculty, and staff to remain engaged in the budget debate. Such engagement is critical if quality education and CSU educational opportunities are to be saved.

⁹ CSU (2004) Faculty Historical Employment Data, October Data. www.calstate.edu/HR/FacSumRep04_HistEmpl.pdf