California State Auditor

December 2013

Report 2013-604

New High Risk Issue

Providing a High Quality and Affordable Public Education Presents Significant Challenges

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California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

December 3, 2013 2013-604

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As authorized by California Government Code, Section 8546.5, the California State Auditor (state auditor) presents this report designating education as a high-risk issue in California. The State is responsible for educating over 6 million students in the kindergarten through 12th grade (K–12) levels and over 2 million higher education students. Despite California spending $42 billion of the $88 billion in State General Fund expenditures on education for fiscal year 2011–12, this investment has not produced the desired outcomes.

This report concludes that recent changes in education have created potential challenges associated with economy, efficiency, and effectiveness. California recently changed the way it allocates funds for K–12 education. This new funding approach—called the local control funding formula (funding formula)—is intended to simplify how local educational agencies (LEAs) are funded and provide them with more control over how they spend the funds. The State intends to invest $25 billion in new funding to fully implement the funding formula by fiscal year 2020–21, but reaching that level of funding will require significant and sustained growth in the State's revenues. In addition, California adopted the common core state standards (common core), which change the way teachers educate K–12 students. Although proponents believe common core promises to better prepare K–12 students for college and the workforce, its implementation poses significant challenges including the need for professional development for teachers; changes to curriculum, instructional materials, and student assessments; and increased investments in technology. Implementing common core is costly: in fiscal year 2013–14 the State committed $1.25 billion to help LEAs offset their costs, but LEAs will certainly incur additional costs.

Further, California's public universities are facing challenges associated with funding and access to education. For example, after years of uncertain funding, the University of California (UC) and the California State University (CSU) systems continue to seek a stable and predictable funding stream. Also, due to budget constraints, students seeking to attend a California public university may face several barriers to accessing this education—the UC and CSU systems have raised tuition to curb enrollment growth and the California Community College system has increased class sizes and cut courses and programs.

Respectfully submitted,

Elaine M. Howle

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Contents

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Summary

Results in Brief

The importance of California residents receiving a quality education, and the challenges associated with providing that education, have led the California State Auditor (state auditor) to add education to its list of high-risk issues. The State is responsible for educating more than 6 million students in kindergarten through 12th grade (K–12) and over 2 million higher education students.

In fiscal year 2011–12 California spent more of the State's General Fund on education-related expenses than on any other area—approximately $42 billion of the General Fund's $88 billion total expenditures. However, California's tremendous investment in education has not produced the desired outcomes. California spends less money per K–12 student than comparable states and has a lower high school graduation rate and a higher high school dropout rate than the national median. Moreover, rising tuition levels and budget constraints jeopardize residents' access to California's public universities.

Within education, recent changes have created potential challenges associated with economy, efficiency, and effectiveness. California recently changed the way it funds K–12 education. This new funding approach—called the local control funding formula (funding formula)—is intended to simplify how local educational agencies (LEAs)[1] are funded and to provide them with more control over how to spend the state funds they receive, beginning in fiscal year 2013–14. The State intends to invest $25 billion in new funding over the next eight years to fully implement the new funding formula by fiscal year 2020–21, but reaching that level of funding will require significant and sustained growth in the State's revenues. Further, given the timing of the enactment of legislation related to the funding formula and the timeline it establishes for implementation, assessment of LEAs' performance under the new funding formula will not occur until late 2015.

Additionally, California has adopted the common core state standards (common core), which will change the way LEAs educate K–12 students. Adopted by 45 states and the District of Columbia, common core emphasizes critical thinking and analysis in core subjects. Proponents believe that common core will better prepare K–12 students for college and the workforce. Along with the potential benefits, however, are complexities and considerable challenges for California, as the implementation of common core

[1] LEAs are school districts, charter schools, and county offices of education.

Report Highlights . . .

Our review of education in California highlighted the following:

- *Nearly half of the $88 billion in California's General Fund expenditures are education-related expenses.*
- *The State has over 6 million kindergarten through 12th grade (K–12) students and over 2 million higher education students.*
- *Recent changes have created challenges for the education of K–12 students.*
  - *The State intends to invest $25 billion over the next eight years to implement a new funding formula that will provide more local control over education spending.*
  - *California's adoption of the common core state standards will change how local educational agencies (LEAs) educate K–12 students. Along with the potential benefits of adopting the common core state standards, its implementation presents challenges to LEAs. The State has committed $1.25 billion in fiscal year 2013–14 to help offset the LEAs' costs, but they will likely incur additional costs.*
- *Future funding uncertainty, rising tuition levels, and budget constraints have impacted residents' access to California's public universities.*

requires extensive training for teachers, new curriculum and instructional materials, new assessments of student performance, and increased spending on technology. These requirements represent a considerable investment, and in fiscal year 2013–14 the State committed $1.25 billion to help LEAs offset the costs of implementing common core. However, more will certainly be needed. For example, Los Angeles Unified School District has chosen to invest $1 billion in technology upgrades to implement common core. Additionally, as California transitions to common core and determines the validity of new tests, it plans to suspend current tests for the 2013–14 academic year. Because this action may affect California's ability to satisfy certain federal requirements, the U.S. Department of Education has informed the State that noncompliance could cause California to lose federal funding sources that provided $3.5 billion to the State in fiscal year 2012–13.

California's public universities also face challenges related to funding and access to education. In fiscal year 2013–14 the governor proposed increasing the funding for the University of California (UC) and California State University (CSU), provided they freeze current tuition levels; agree to meet certain performance measures; and, at a minimum, maintain current enrollment levels. However, the two systems are uncertain as to whether they can freeze tuition levels and are in negotiations with the California Department of Finance to come to a resolution regarding future funding for higher education.

Further, residents seeking to attend a California public university may face several barriers. Due to past budget constraints, UC and CSU have curbed enrollment growth, despite the expectation that students who are California residents would have access to this level of education. Also, given the increased costs of attending CSU and UC since the 2000–01 academic year, residents may no longer be able to afford to attend these institutions. Finally, due to budget cuts, the California Community Colleges have reduced the number of classes offered, which affects students' ability to complete their education in a reasonable time frame.

Providing a quality and cost-effective education to the more than 8 million students in public schools and universities is vital to the economic future of California. In this report the state auditor has identified examples of several significant challenges associated with providing a quality and cost-effective education at the K–12 and higher education levels. To the extent that resources are available, the state auditor may undertake future projects that could include recommendations to improve education-related policies and programs and to implement those improvements. These future projects may include audits of the topics described in this report as well as other education-related issues.

Introduction

Background

In September 2013 the California State Auditor (state auditor) published its most recent assessment of the high-risk issues the State and select agencies face. Our assessment identified seven significant statewide risk areas and three specific state agencies facing challenges to their day-to-day operations. High-risk programs and functions include not only those particularly vulnerable to fraud, waste, abuse, and mismanagement or that present major challenges associated with their economy, efficiency, and effectiveness, but also those of particular interest to California citizens and that have or could have significant impacts on the public's health, safety, and economic well-being.

California recently adopted two major changes in kindergarten through 12th grade (K–12) education that pose significant challenges to the State. First, it adopted the local control funding formula, which changes how local educational agencies (LEAs)—school districts, charter schools, and county offices of education—are funded. Second, it adopted the common core state standards, which transform how LEAs teach students. Issues with the funding of and access to public higher education pose additional challenges to the State. Consequently, under the high risk audit program authorized by California Government Code, Section 8546.5, the state auditor has added California's education system and the entities that administer the system to the list of high-risk issues. For a description of the criteria generally used to determine whether an issue merits a high risk designation, see the Appendix to our September 2013 report: *The California State Auditor's Updated Assessment of High-Risk Issues the State and Select State Agencies Face*, Report 2013-601. The text box lists the state auditor's reports on the topic of education over the past three years.

Recent California State Auditor Reports on Education

- 2012-108: *School Safety and Nondiscrimination Laws: Most Local Educational Agencies Do Not Evaluate the Effectiveness of Their Programs, and the State Should Exercise Stronger Leadership*, August 2013
- 2012-044: *California Department of Education: Despite Some Improvements, Oversight of the Migrant Education Program Remains Inadequate*, February 2013
- 2012-103: *Los Angeles Unified School District: It Could Do More to Improve Its Handling of Child Abuse Allegations*, November 2012
- 2012-032: *California's Postsecondary Educational Institutions: Some Institutions Have Not Fully Complied With Federal Crime Reporting Requirements*, October 2012
- 2011-117: *High School Graduation and Dropout Data: California's New Database May Enable the State to Better Serve Its High School Students Who Are at Risk of Dropping Out*, March 2012
- 2011-503.4: *Department of Education: Status of Funds Provided Under the American Recovery and Reinvestment Act of 2009 for Various Grants*, August 2011
- 2010-105: *University of California: Although the University Maintains Extensive Financial Records, It Should Provide Additional Information to Improve Public Understanding of Its Operations*, July 2011
- 2010-119: *Commission on Teacher Credentialing: Despite Delays in Discipline of Teacher Misconduct, the Division of Professional Practices Has Not Developed an Adequate Strategy or Implemented Processes That Will Safeguard Against Future Backlogs*, April 2011

Sources: California State Auditor's Web site, reports issued from January 2011 to October 2013.

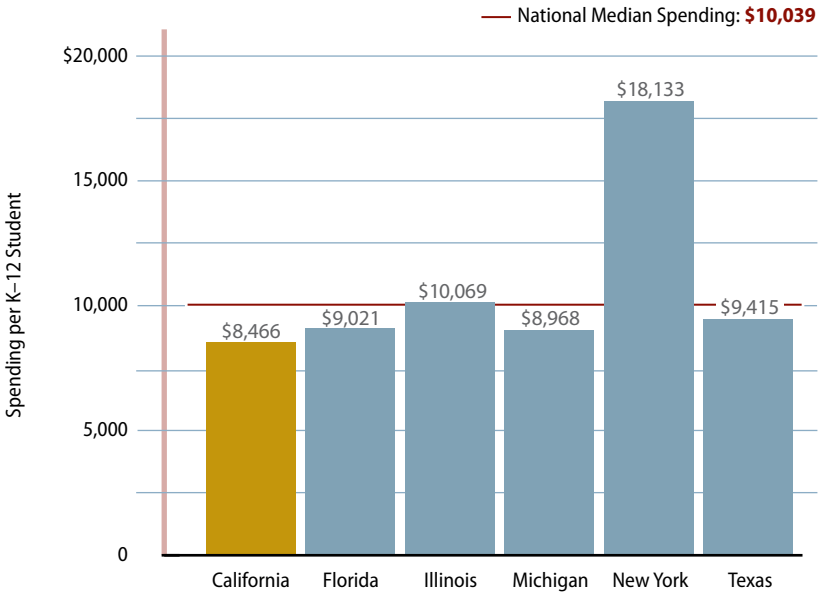
California's Education System

California's education system is expansive and affects the lives of many residents. Currently, more than 6 million students in the K–12 grade levels attend public school in California. It is the State's policy to afford all students in public schools equal access to educational opportunity. In 1997, to encourage the highest achievement of every student, California established a standards-based education system that defines the knowledge, concepts, and skills that K–12 students are expected to learn in certain core curriculum areas in specified grade levels. These content standards are the foundation of the standards-based system, and together with specific teaching methods, approved instructional materials, and performance assessment tools, they comprise the accountability model of public education used in California's public schools.

At the postsecondary level, over 2 million students enrolled during the fall 2012 term at one of the 145 campuses of the University of California, California State University, or California Community College systems. California's public universities are intended to provide educationally equitable environments that give Californians a reasonable opportunity to reach their full potential, and to prepare the workforce of California by offering various types of degrees in a broad range of academic fields.

As would be expected, the education of these 8 million students comes with a significant price tag. In fiscal year 2011–12 the State spent more of its General Fund on education-related expenses than on any other area—approximately $42 billion of the State's General Fund $88 billion total expenditures. However, despite this significant commitment of General Fund money, the State spends less per student at the K–12 grade level than the national median, and less than other large states, as shown in Figure 1. Additionally, as Figure 2 on page 6 demonstrates, California's performance is disappointing as measured by two key indicators at the K–12 grade level: the high school graduation rates have consistently been below the national average, and the high school dropout rates have been above the national average. Moreover, concerns exist over the ability of California's public universities to adequately meet the postsecondary education needs of California's residents, such as admitting eligible residents. If California's public universities are unable to provide these residents with access to higher education, California may not produce enough college graduates to remain economically competitive. Given the tremendous investment made in education, California needs to demonstrate more positive results in K–12 student achievement and to better meet the needs of college students.

Figure 1
California's Median Spending Per K–12 Student Compared to Spending by Comparable States and the United States as a Whole
Fiscal Year 2010–11

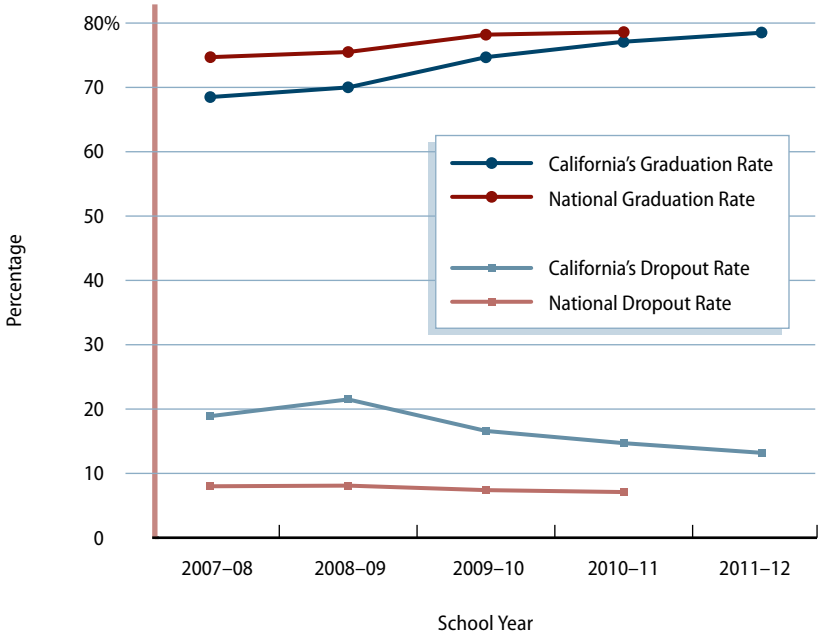


Sources: *Revenues and Expenditures for Public Elementary and Secondary School Districts: School Year 2010–11*, September 2013, National Center for Education Statistics, Institute of Education Sciences, U.S. Department of Education. Based on provisional data.

Note: Total expenditures include salaries for school personnel, student transportation, school books and materials, and energy costs, but excludes capital outlay, interest on school debt, payments to private schools, and payments to public charter schools.

In 2012 Californians approved an initiative measure that temporarily increases taxes to provide additional funding for education. Proposition 30 temporarily increases the sales tax for all taxpayers and the personal income tax rates for upper-income taxpayers. LEAs received $6.5 billion in fiscal year 2012–13 and will receive an estimated $5.6 billion in fiscal year 2013–14 as a result of Proposition 30.

Figure 2
California and National High School Graduation and Dropout Rates



Sources: California's graduation and dropout rates were obtained from the California Department of Education. National graduation and dropout rates were obtained from the National Center for Education Statistics, Institute of Education Sciences, U.S. Department of Education.

Note: National rates were unavailable for the 2011–12 school year.

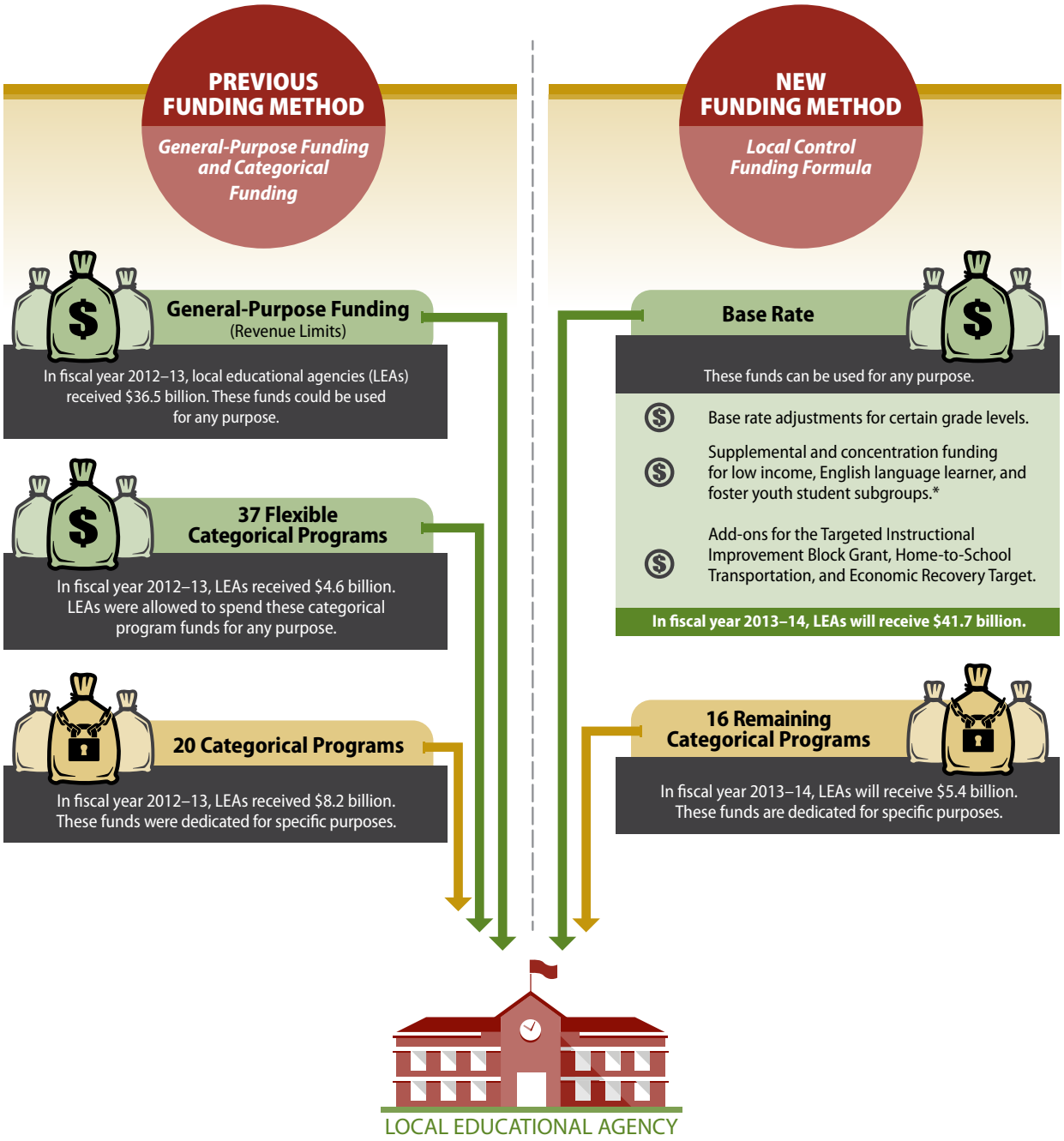
Analysis Results

California's New Funding Formula Gives Local Educational Agencies More Control but Full Funding Depends on Growth in State Revenues

California has embarked on a historic shift that changes the way it funds kindergarten through 12th grade (K–12) education and gives local educational agencies (LEAs) more control over how those funds are spent. For nearly 40 years, California has relied on a system of public school finance that provided LEAs a certain amount of funding for each pupil, known as general-purpose funding or revenue limit funding. In addition to this per-pupil amount, LEAs received additional sources of funding, commonly called categorical funds, that were designated for specific purposes, such as serving special education students or reducing class sizes. At one time there were more than 110 categorical programs, often with different expenditure and eligibility requirements. More recently, the State has provided LEAs with some spending flexibility for certain categorical programs. Although these categorical programs were seen as an important mechanism for enhancing educational quality, their administrative requirements were often considered burdensome.

In July 2013 the State made a dramatic change to this system of public school finance by establishing the local control funding formula (funding formula). Under the new funding formula, the State gives LEAs a base grant amount for each student, along with additional funding as follows: supplemental and concentration funding to improve academic outcomes for low-income, English learner, and foster youth students; base grant adjustments for certain grade levels; and three add-on sources of funding. The new funding formula replaces the previous complex funding process with one that is intended to be simpler and provide more equity, transparency, and better performance. Under the new funding formula, LEAs will have much more local autonomy, and the traditional relationship between LEAs and their respective county offices of education (county offices) will change. More specifically, LEAs will make spending decisions that were previously often predetermined. Under the new funding formula, these decisions will be made at the local level and many of these decisions will be subject to approval by the county offices. The State, however, will continue to have the ultimate responsibility for ensuring that California's education system is administered in a way that provides equal access to educational opportunity for all students. Figure 3 on the following page compares the State's previous method of supporting LEAs through general-purpose funds and categorical programs with the new funding formula.

Figure 3
General-Purpose Funding and Categorical Funding System Compared to the Local Control Funding Formula



Sources: Various documents, including, Assembly Bill 97 (Chapter 47, Statutes of 2013) and the Legislative Analyst's Office report, *An Overview of the Local Control Funding Formula*, July 2013. In addition, the California Department of Finance (Finance) provided the funding amounts and the number of categorical programs. According to Finance, funding for LEAs decreased from $49 billion in fiscal year 2012–13 to $47 billion in fiscal year 2013–14 because of a decrease in the funding amount guaranteed by Proposition 98 and decreases in other limited-term expenditures, such as Proposition 98 deferral payments.

* If a student qualifies in more than one of these categories, the LEA would receive funds for only one category.

According to the fiscal year 2013–14 budget, the State intends to invest $25 billion in new funding to fully implement the new funding formula over the next eight years, but reaching that level of funding will require significant and sustained growth in the State's revenues. The new funding formula provides every LEA a target level of increased funding that the State anticipates reaching by fiscal year 2020–21, but the State will provide annual funding increases toward that target only if funds are available. Although there was a seven-year period of growth in Proposition 98[2] revenues during the mid- to late 1990s, such sustained revenue growth has not happened in the State's recent history. Should that growth fail to materialize, the California Department of Finance (Finance) has indicated that full implementation of the funding formula may be delayed until additional Proposition 98 revenues are available. This delay could potentially cause disruptions that may threaten the financial stability of some LEAs if they budget for increased revenues to occur every year.

Delayed implementation of the funding formula could potentially cause disruptions that may threaten the financial stability of some LEAs if they budget for increased revenues to occur every year.

Furthermore, determining whether the implementation of the new funding formula improves student achievement will be difficult until the State Board of Education (state board), the entity responsible for statewide K–12 education policy, develops the tools needed to assess LEA performance, as mandated by the new law. In adopting the new funding formula, the State created a process for monitoring LEA performance with two key elements. The first element is a local control accountability plan (accountability plan) that each LEA must complete and update annually. The accountability plan describes the LEA's goals and strategies for fulfilling the State's educational priorities established under the new law. School districts must submit their accountability plans to their respective county offices for review and approval; county offices and charter schools have different requirements. The second element, a technical assistance and intervention evaluation tool (evaluation tool), which the state board is also to develop, will allow county offices to assess how well school districts are carrying out their accountability plans to improve student performance.

County office oversight is intended to ensure accountability of state funds at the local level and allows certain decisions that were previously made at the state level to reside at the local level. However, the tools to implement both elements for monitoring LEAs' performance are not yet in place. Under the new law, the state board is not required to formalize the template for the LEAs' accountability plans until March 2014. The school districts do not have to submit their initial accountability plans to the county offices

[2] Proposition 98—approved by voters in 1988—is an amendment to the state constitution that established a minimum level of funding for K–12 LEAs and community colleges.

until July 2014, meaning that no school district accountability plans will be prepared for the 2013–14 school year, the first year of funding. In addition, the state board is not required to develop the evaluation tool for use by county offices until October 2015. Given the timing of the enactment of the legislation related to the new funding formula, and the timeline the legislation establishes for implementation, assessment of LEAs' performance under the new funding formula will not occur until late 2015.

Successfully Implementing the New Common Core State Standards Is an Extensive Undertaking

By adopting the common core state standards (common core), California is significantly changing what and how K–12 students are taught in the classroom—the largest and most complex shift in more than 15 years. According to its proponents, common core is intended to provide students and educators a clear and consistent set of expectations of the knowledge and skills students need in particular grade levels and in certain core subject matter areas to graduate from high school and to be college- and career-ready. Rather than continue to teach students a wide range of concepts and test them on their memorization of what they were taught, common core purports to deepen student learning by using critical thinking and analysis to delve deeper into fewer but more central concepts. Further, proponents assert that common core may better promote equity among the states that have adopted it, and that it will ensure that all students in these states are well prepared with the skills and knowledge necessary to be successful in higher education and to collaborate and compete with their peers in the labor markets of the United States and abroad. The text box highlights key facts and intended benefits of common core.

Common Core State Standards: Facts and Intended Benefits

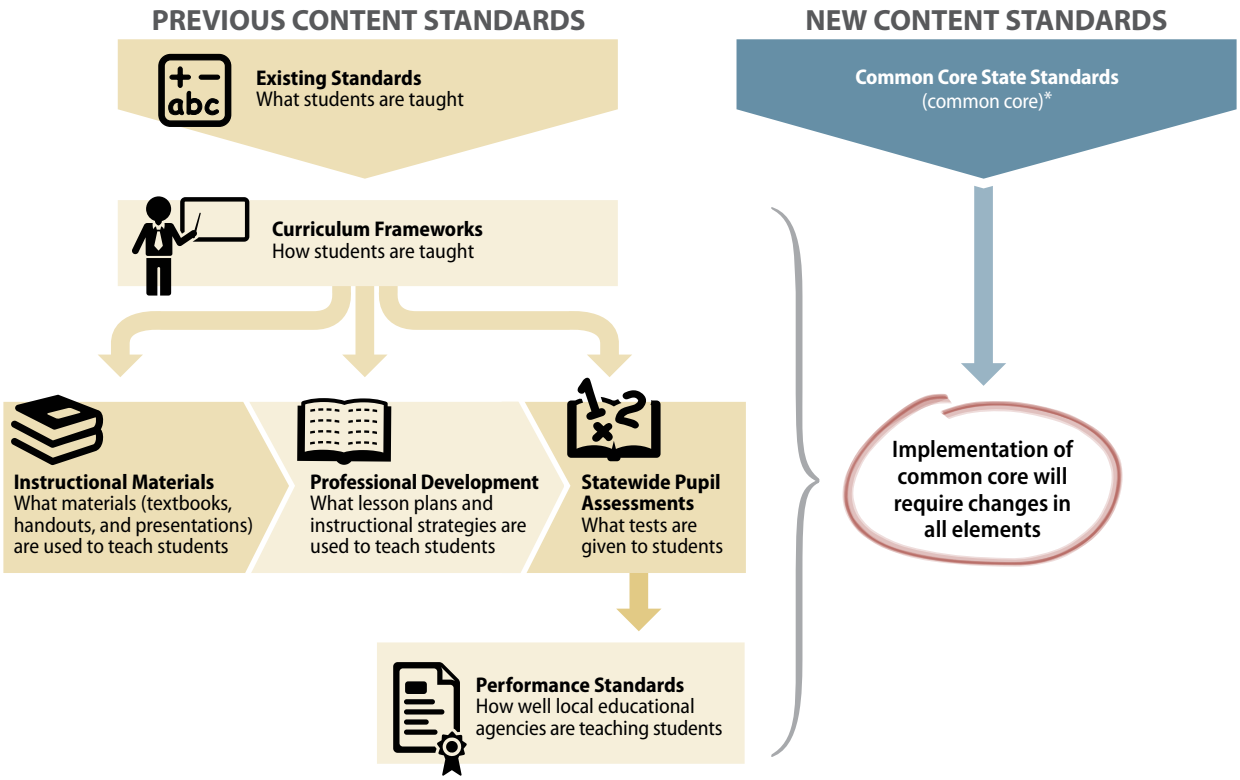
- Voluntarily adopted by 45 states and the District of Columbia. Also, Minnesota has adopted the English language arts standards.
- Developed by the National Governors Association Center for Best Practices and the Council of Chief State School Officers.
- Provides new academic content standards for the "core" subjects of English language arts and mathematics.
- Designed to ensure that high school graduates are prepared to enter college or the workforce.
- Provides consistent expectations for students across all states, which is helpful to students that move to a different state and enter college.
- Emphasizes a student's critical thinking and conceptual understanding skills over memorization.

Sources: Web sites of the Common Core State Standards Initiative, the Policy Analysis for California Education, and the National Conference of State Legislatures.

Regardless of whether or not common core succeeds in providing these anticipated benefits, successful implementation of common core will be complex and creates particular challenges for the State. As Figure 4 illustrates, because content standards are essentially the foundation of the State's K–12 education system, a shift in content standards has a ripple effect, necessarily requiring changes to the other elements of the State's K–12 education system. Common core changes the way English language arts and mathematics will be taught in California's schools.

Thus, its implementation will require extensive professional development for educators and school administrators to ensure that teachers are prepared to teach at the levels of rigor and depth required by common core. LEAs also will have to determine the need to purchase new instructional materials aligned to common core, such as textbooks, workbooks, handouts, assessments, and technology-based materials, including software programs, videos, presentations, and lesson plans, among other materials.

Figure 4
Elements of Local Educational Agencies' Instruction to Students



Sources: Various sections of the California Education Code.

* These standards include English language arts and mathematics only, but will have some affect on other subjects.

To implement common core, the California Department of Education states that where appropriate LEAs should integrate technology into teaching and learning to provide students with the experiences necessary to succeed in college and in their careers. This substantial use of technology and online resources will also require LEAs to upgrade their existing technology by purchasing new computers and increasing their Internet capacity. Since LEAs are at varying levels of sophistication with respect to technology,

some will require a greater financial investment than others. LEAs have already begun to address this technology need, including using cutting-edge approaches. For example, several LEAs have committed to provide an electronic tablet—an iPad—for every student as a way to ensure that technology is integrated into the teaching, learning, and assessment process. These LEAs believe that providing iPads to students will support the implementation of common core and improve learning by increasing student interest, and by helping to ensure that all students have access to 21st century skills and technology.

However, new technology creates new challenges. For example, LEAs will need to address what to do when a student's iPad is damaged, fails to operate properly, is stolen, or is misused by a student. As an example, the Los Angeles Unified School District (Los Angeles Unified) has already been required to address such a situation, which arose when some students bypassed security settings to access noneducational content on their iPads. Further, the common core-aligned assessments use computer adaptive testing and will be administered online. Computer adaptive testing adjusts to a student's ability by basing the difficulty of future test questions on how well the student answered previous questions, an approach intended to provide a more accurate measurement of student achievement. Such online testing may pose challenges for schools that have outdated technology devices or slow Internet connections. For example, some schools that participated in testing the new online assessments reported issues such as students having difficulty scrolling through the test questions and network disconnections caused by large numbers of students connecting to the Internet simultaneously while taking an online assessment.

The transition to common core will also require California to develop and administer new tests to evaluate student performance. These tests are currently being developed, and the plan is to administer them to California students in the 2013–14 school year solely for the purpose of determining the validity of the tests, with the first administration of the new tests for evaluating student performance in the 2014–15 school year. To accommodate for this transition, recently enacted legislation suspends the requirement to administer most of the current standardized tests for the 2013–14 academic year. Further, it gives the Superintendent of Public Instruction, with the consent of the state board, the authority to exclude, for a two-year period, the results of certain standardized tests from the Academic Performance Index (API)—the State's measure of how well schools are performing. Because the API is also used to satisfy certain reporting requirements under the federal No Child Left Behind Act of 2001 (act) and because most of the standardized tests will be suspended, the federal government has expressed its concern regarding whether this will jeopardize

To accommodate for the transition to common core, recently enacted legislation gives the Superintendent of Public Instruction, with the consent of the state board, the authority to exclude, for a two-year period, the results of certain standardized tests from the Academic Performance Index.

California's compliance with the act. In a recent communication to the state board, the U.S. Department of Education has informed the State that noncompliance could cause California to lose federal funding from sources that provided $3.5 billion to the State in fiscal year 2012–13. As of November 2013 California and the federal government had not resolved this issue.

The U.S. Department of Education has informed the State that not administering most of the existing standardized tests and excluding these test results from the Academic Performance Index for two years could cause California to lose federal funding from sources that provided $3.5 billion to the State in fiscal year 2012–13.

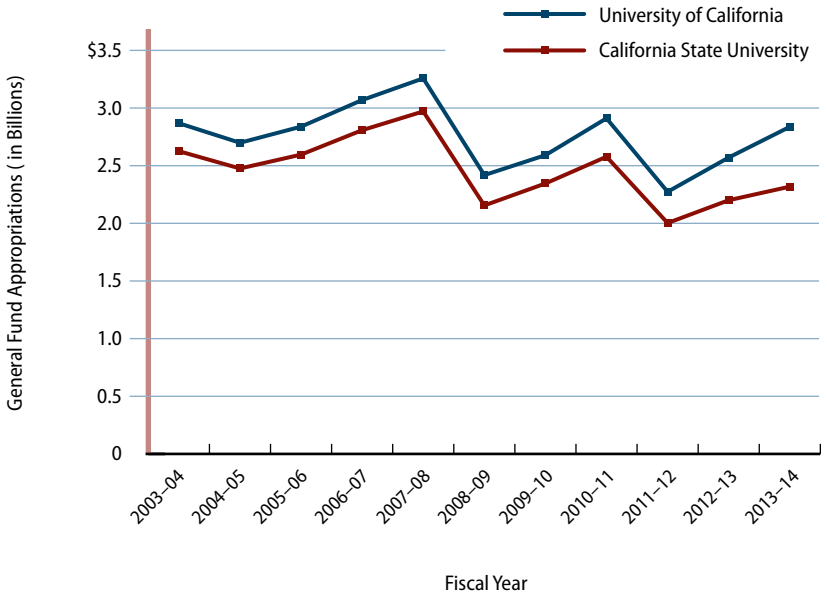
Implementing common core is a costly endeavor. For fiscal year 2013–14, the State provided LEAs a one-time appropriation of $1.25 billion in financial assistance to implement common core. Appropriate uses of this funding include providing professional development for teachers, updating instructional materials, and purchasing technology. However, it is unclear whether this funding will be sufficient. According to Finance, this one-time appropriation was a rough estimate, given the magnitude of change required, and was not based on a specific projection of the amount of financial assistance LEAs needed to adopt common core. Finance has indicated that the State currently has no commitment to go beyond its initial $1.25 billion investment and that LEAs must use their own funds to cover the ongoing costs of common core. These ongoing costs, which could be significant, may include purchasing and maintaining technology, updating instructional materials, and providing continued professional development. For example, as part of its common core technology project, Los Angeles Unified chose to invest more than $1 billion, funded by a federal grant and a local bond issuance, to provide an iPad for every K–12 student and teacher in the district—656,000 students and 28,000 teachers—by December 2014. Additionally, Los Angeles Unified estimated that its common core technology project will have annual ongoing costs of over $45 million and will require an additional $126 million to $252 million to update the technology in the first three years of the project. Although not all LEAs will choose to implement common core in the same manner by providing an electronic tablet to each student and teacher, Los Angeles Unified's decision gives a sense of the magnitude of the potential additional and ongoing costs that other California LEAs may be facing as they strive to implement common core.

Finally, at the state level, adoption of common core is a voluntary initiative. California's commitment to this initiative could change with new state leadership, a sharp drop in initial assessment scores, or implementation difficulties. Several states have already encountered difficulties in implementing common core and have taken steps to slow down their implementation. Given the substantial investment that California has made in common core, scaling back or halting its implementation would be a costly decision and could create confusion over how LEAs are to teach students. However, if implementation of common core is successful, proponents believe that students will graduate from high school well-prepared to succeed in college and in a modern workforce.

Continuing to Provide an Affordable University Education Presents Challenges

Even as the State restores some funding to higher education after years of cuts, there is still some uncertainty regarding the long-term funding of California's public university systems. In the fiscal year 2013–14 budget, the governor indicated that the long-standing method of funding the public universities based on enrollment growth is not sustainable. To address this concern, the governor created a Higher Education Long-Term Funding and Performance Plan (higher education plan) that increases General Fund appropriations by 5 percent in fiscal years 2013–14 and 2014–15 and 4 percent in fiscal years 2015–16 and 2016–17, provided that the University of California (UC) and the California State University (CSU) freeze tuition levels during this period. In his budget proposal, the governor expressed his expectation that the UC and CSU use these funds to maintain affordability, decrease the time it takes students to complete programs, increase the percentage of students who complete programs, and improve the transfer rate of community college students to the UC and CSU.

Figure 5
General Fund Appropriations for the University of California and the California State University
Fiscal Years 2003–04 Through 2013–14



Sources: California State Auditor's review of the governor's budgets from the California Department of Finance's Web site.

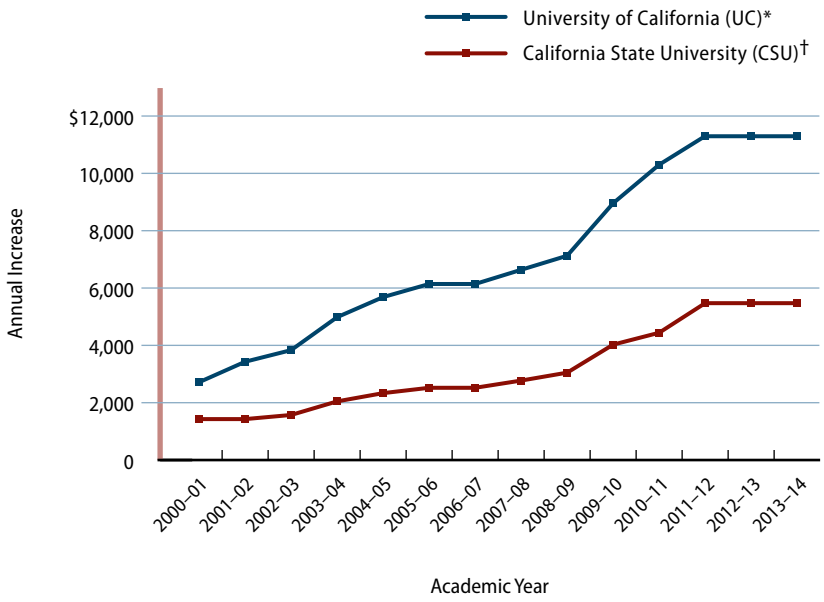
Note: Fiscal year 2012–13 is the estimated final appropriation; fiscal year 2013–14 is the appropriation from the adopted budget and is subject to adjustment. Amounts are rounded to the nearest $100 million.

The governor's proposal is a noticeable departure from the previous way that the State funded the two systems, which was largely based on providing both systems with additional funding each year based on an agreed-upon amount for the cost for each new student enrolled—a process known as marginal-cost funding. If the governor's higher education plan is successful, the UC and CSU systems are expected to shorten the time it takes students to graduate and achieve greater efficiencies in the cost of educating students, thereby implementing a more sustainable funding model and reducing costs to students.

Due to their concerns over the sufficiency of future levels of funding, both UC and CSU have expressed doubts about the governor's higher education plan.

However, due to their concerns over the sufficiency of future levels of funding, both UC and CSU have expressed doubts about the governor's higher education plan. As shown in Figure 5, General Fund support for both UC and CSU has fluctuated considerably over the past 11 years, which has resulted in them having less General Fund support than at the beginning of that period. The primary way the two university systems have compensated for these funding fluctuations is through tuition increases. In fact, as seen in Figure 6 on the following page, between the 2000–01 and 2013–14 academic years, annual tuition at both systems increased by 313 percent and 283 percent at UC and CSU, respectively. Although the systems have not raised tuition since the 2011–12 academic year and have committed to maintain current tuition rates through the 2014–15 academic year, both UC and CSU are uncertain as to whether they can keep tuition at current levels in subsequent years. UC believes the funding in the governor's higher education plan is insufficient to address its current mandatory costs and reinvestment in the academic quality it provides to students. CSU is uncertain as to whether the funding increases will be sufficient over the duration of the governor's higher education plan to make up for the shortfall created by past budget cuts and also meet its ongoing needs for students, faculty, and staff. In addition, the two systems stated that the elimination of marginal-cost funding occurred during the most recent state budget crisis and that they are now receiving considerably less funding than before the crisis. According to Finance, negotiations with UC and CSU regarding the higher education plan began in September 2013 and are ongoing. Finance also indicated that various stakeholder groups are included in the process of developing the higher education funding plan to be included in the fiscal year 2014–15 budget. Until a long-term funding plan is in place, future funding levels for the UC and CSU systems remain uncertain.

Figure 6
Annual Increases in Undergraduate Tuition and Fees at the University of California and the California State University
2000–01 Through 2013–14 Academic Years



Sources: Tuition data for a full-time undergraduate student from the Web sites of CSU and UC.

Note: Tuition amounts do not include additional mandatory fees for health, student body activities, and similar student services. In the 2013–14 academic year, these fees totaled $972 for UC and averaged $1,223 among CSU's campuses.

* UC's tuition was $2,716 in academic year 2000–01 and $11,220 in academic year 2013–14, a 313 percent increase over this period.

† CSU's tuition was $1,428 in academic year 2000–01 and $5,472 in academic year 2013–14, a 283 percent increase over this period.

Student Access to Higher Education in California May Be Adversely Impacted

Although Californians have long had access to some of the highest-quality and most affordable public universities in the nation, diminishing state funding and increased tuition have impacted residents' access to public higher education. As seen in the text box on the following page, the California master plan for higher education (master plan),[3] which provides guidance on the roles of the State's postsecondary education systems, suggests that the UC and CSU systems accept a certain percentage of all California public high school graduates. Due to the budget constraints discussed

[3] *A Master Plan for Higher Education in California, 1960–1975*, published by the California Department of Education, 1960.

previously, these two systems have taken steps to curb enrollment growth. For example, despite strong demand for admission, since November 2008 most CSU campuses have curtailed enrollment by declaring *impaction*, meaning that they will not automatically admit eligible California residents for which the State does not provide funding. According to CSU, it has achieved this curtailment primarily by requiring higher test scores and academic grades for admission.[4] By taking these actions, CSU is acknowledging that it does not have sufficient resources to accept all California residents who meet the admission criteria under the master plan. Consequently, as seen in Figure 7 on the following page, CSU estimated that it has denied admission to 89,200 residents who would otherwise have been admitted for the fall semesters between 2008 and 2012.

Roles of California's Public Postsecondary Education Systems

University of California:

- Admit the top 12.5 percent of all public California high school graduates and qualified transfer students.
- Offer instruction leading to baccalaureate degrees through doctoral degrees.

California State University:

- Admit the top 33 percent of all California public high school graduates and qualified transfer students.
- Offer instruction leading to baccalaureate and master's degrees.

California Community Colleges:

- Admit all public high school graduates and others who may benefit from a post-high school education.
- Allow students to earn credits enabling them to transfer to a four-year institution.
- Provide associate of arts or associate of science degrees.

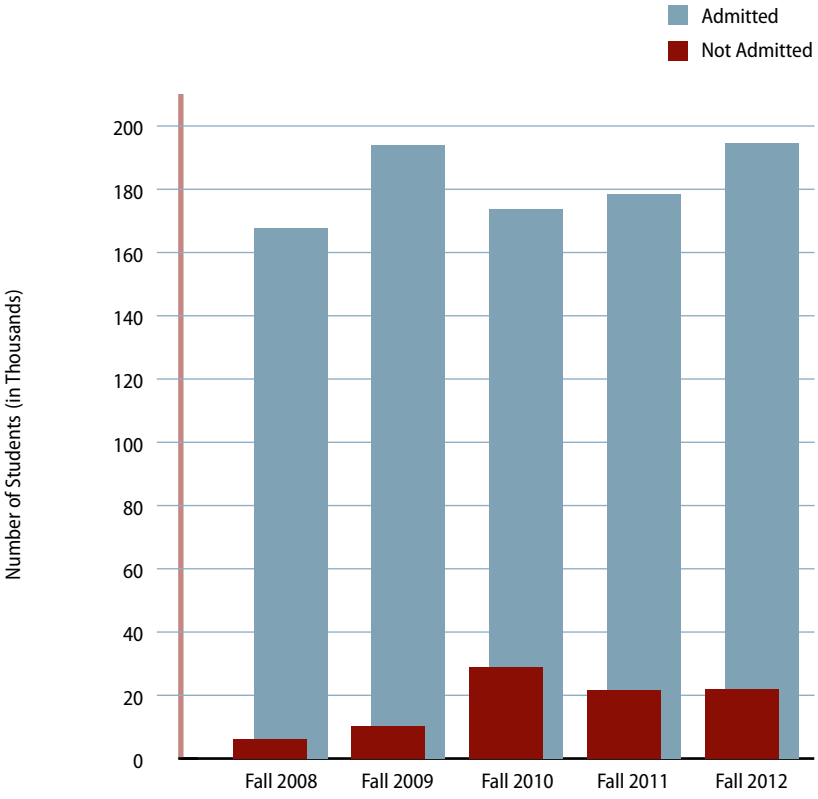
Source: *A Master Plan for Higher Education in California, 1960–1975*, published by the California Department of Education, 1960.

For its part, UC indicated that it is currently accepting all qualified and eligible California residents, but it has also taken steps to slow enrollment growth. Previously, applicants who met admission requirements but could not get into the UC campus of their choice because of limited capacity, were referred to other available UC campuses. Beginning in the 2009–10 academic year, UC admitted even fewer applicants to the campus of their choice, causing some to pursue their education outside the UC system, according to its operating budget for the 2013–14 academic year. As a result, UC indicated that it admitted nearly 1,000 fewer freshman students for the 2012–13 academic year. UC Merced is currently the only campus accepting referrals, but once it reaches capacity, the UC system may be unable to meet its master plan commitment.

A potential way to expand access to the State's public universities would be to offer more online courses. In 2013 both the UC and CSU launched systemwide initiatives designed to significantly expand the number of high-demand courses that are offered online to ease enrollment bottlenecks and allow students to graduate in a timely manner.

[4] Although CSU changed these admissions requirements, except under unusual circumstances, this change does not affect eligible students applying at their local CSU campus.

Figure 7
Number of Eligible California Residents Admitted and Denied Admission to the California State University System



Source: Budget Office of the California State University (CSU). Information for fall 2013 is unavailable. These numbers represent individual residents who either applied for admission or were admitted to the CSU. Actual enrollment is less because not all residents that were admitted chose to attend a CSU campus.

Notes: CSU formally declared systemwide impaction in November 2008. For the 2014–15 academic year, CSU indicated that many majors as well as some campuses will remain impacted.

Tuition increases have also limited accessibility to the UC and CSU systems by making them less affordable. A 2012 report[5] by the Public Policy Institute of California (2012 PPIC report) concluded that although the number of eligible high school graduates who applied to UC and CSU had increased in recent years, the number enrolling had not. The 2012 PPIC report linked that disparity not only to direct action that both university systems had taken to limit enrollment but also to tuition increases. In fact, as seen previously in Figure 6, since the 2000–01 academic year, tuition has increased by more than 300 percent at UC and by nearly that much at CSU.

[5] *Defunding Higher Education: What Are the Effects on College Enrollment,* Public Policy Institute of California, 2012.

By implication, future increases in tuition would further limit access for some students. Furthermore, The College Board[6], in its *Trends in College Pricing 2013*, reports that tuition and fees at California's public universities increased by 57 percent between the 2008–09 and 2013–14 academic years, the fourth highest increase in the country for public four-year schools and more than double the national average increase of 27 percent. As stated in the previous section, both UC and CSU are unsure whether they can keep tuition at current levels. Academic research cited in the 2012 PPIC report suggests that a 10 percent increase in tuition and fees will lead to a decline in total enrollment of 1.1 percent. The 2012 PPIC report concludes that unless enrollment and graduation rates improve substantially for the UC and CSU systems, by 2025 California will have 1 million fewer college graduates than it needs to remain economically competitive.

Reduced state funding for community colleges has also made it more difficult for students in that system to take the courses they need.

Reduced state funding for California Community Colleges (community colleges) has also made it more difficult for students in that system to take the courses they need. As seen in the text box on page 17, the master plan specifies that the community colleges provide a wide array of courses and accept all applicants. Because of this broad mandate, the community colleges have limited means through which they can address funding shortfalls. Community colleges have responded to funding cuts with a variety of strategies, including increasing class sizes and reducing courses and programs. As a result, according to the 2012 PPIC report, the percentage of students who attend more than one community college to take the classes they need increased from 6 percent to nearly 10 percent between the 1992–93 and 2009–10 academic years. In addition, according to the chancellor's office of the community colleges, for fiscal year 2011–12, less than 50 percent of its students complete a degree, earn a certificate, or transfer within six years, largely because of the unavailability of courses. These statistics indicate that students' access to education has also become more limited at the community college level.

The California State Auditor Will Continue to Monitor Developments in Education

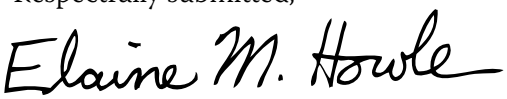
Our assessment of current education issues has led the California State Auditor (state auditor) to add California's education system to the list of high-risk issues. Providing a quality and cost-effective education to the more than 8 million students in public school and universities is vital to the economic future of California. The success

[6] The College Board is a not-for-profit organization that aims to ensure that every student has the opportunity to prepare for, enroll in, and graduate from college through various programs and advocacy efforts.

of the new funding formula for LEAs remains uncertain until the expected funding is realized and accountability elements are in place to evaluate whether it improves student achievement outcomes at the K–12 grade levels. The benefits of California's adoption of common core are also unknown, because LEAs are in the midst of a complex and costly transition from existing academic standards for English language arts and mathematics to those for common core. For the UC and CSU systems, the lack of stable and predictable funding will have a significant impact on their ability to provide eligible California residents with access to a college education. The issues presented in this report are examples of areas that pose challenges to providing a high-quality, low-cost education in California. To the extent that resources are available, the state auditor may undertake future projects that could include recommendations to improve education-related policies and programs and to implement those improvements.

We prepared this report under the authority vested in the California State Auditor by Section 8546.5 of the California Government Code.

Respectfully submitted,



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State Auditor

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