

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE****Assemblymember Al Muratsuchi, Chair****WEDNESDAY, APRIL 23, 2014****4:00 PM - STATE CAPITOL ROOM 126****VOTE-ONLY CALENDAR**

ITEM	DESCRIPTION	PAGE
6120	CALIFORNIA STATE LIBRARY	2
ISSUE 1	LIBRARY AND COURTS BUILDING REAPPROPRIATION	2
6610	CALIFORNIA STATE UNIVERSITY	2
ISSUE 2	CSU POMONA ADMINISTRATION REPLACEMENT FACILITY REAPPROPRIATION	2
ISSUE 3	CAPITAL OUTLAY EQUIPMENT PROPOSALS	3

ITEMS TO BE HEARD

ITEM	DESCRIPTION	PAGE
6600	HASTINGS COLLEGE OF LAW	4
ISSUE 1	GOVERNOR'S BUDGET PROPOSAL AND STUDENT SUPPORT PROPOSALS	4
6120	CALIFORNIA STATE LIBRARY	6
ISSUE 2	STATEWIDE HIGH-SPEED INTERNET NETWORK	6
6610	CALIFORNIA STATE UNIVERSITY	11
ISSUE 3	CAPITAL OUTLAY PROPOSAL	11
ISSUE 4	STUDENT SUCCESS FEES	14
6910	AWARDS FOR INNOVATION IN HIGHER EDUCATION	17
ISSUE 5	FUNDING PROPOSAL	17
6400	UNIVERSITY OF CALIFORNIA	20
6610	CALIFORNIA STATE UNIVERSITY	
ISSUE 6	PRIORITY PROGRAMS	20

VOTE-ONLY ITEMS**6120 CALIFORNIA STATE LIBRARY**

ISSUE 1: LIBRARY AND COURTS BUILDING REAPPROPRIATION

The 2013 Budget Act provided \$1.5 million General Fund to support one-time relocation costs for the State Library as it moved back into the renovated Library and Courts Building. The relocation was expected to be completed by May 2014.

Due to delays in installing new shelving in the building, the relocation funds may not be expended by the end of the fiscal year. A Spring Finance Letter requests authority to allow \$1 million of the funds already appropriated to be reappropriated to the 2014-15 fiscal year, when the relocation will be completed.

6610 CALIFORNIA STATE UNIVERSITY

ISSUE 2: CSU POMONA ADMINISTRATION REPLACEMENT FACILITY REAPPROPRIATION

The 2013 Budget Act authorized \$76.5 million in lease-revenue bond spending to support the planning and construction of a new Administration Building on the CSU Pomona campus. The project was not approved to proceed to encumber preliminary design funds until October 2013, which will likely mean that working drawings and the awarding of a construction contract will not be complete until the 2014-15 fiscal year.

A Spring Finance Letter requests that \$75 million be reappropriated to allow for the project to continue into 2014-15.

ISSUE 3: CAPITAL OUTLAY EQUIPMENT PROPOSALS

The Governor's Budget includes \$5.8 million, from the balance of the 2004 Higher Education Capital Outlay Bond, to fund the equipment phases for the following projects:

- Monterey Bay (Academic Building II) - \$1.97 million. Funding will support instructional equipment for the School of Information Technology and Communications Design and the School of Business in the new facility at Monterey Bay, which was approved in the the 2009 budget.
- Chico (Taylor II Replacement Building) - \$2.74 million. Funding will support instructional equipment for the College of Humanities and Fine Arts in the new facility at Chico, which was approved in the 2010 budget.
- East Bay (Warren Hall Replacement Building) - \$1.06 million. Funding will support equipment for 113 administrative and faculty offices in the new office building at East Bay, which was approved in the 2011 budget.

ITEMS TO BE HEARD

6600 HASTINGS COLLEGE OF LAW

ISSUE 1: GOVERNOR'S BUDGET PROPOSAL AND STUDENT SUPPORT PROPOSALS

The Subcommittee will review the Governor's proposal to provide a \$1.3 million General Fund increase to Hastings for 2014-15, and a proposal for \$450,000 in additional funding to support two student programs.

PANELISTS

- Christian Osmena, Budget Analyst, Department of Finance
- Paul Golaszewski, Higher Education Analyst, Legislative Analyst's Office
- David Seward, Chief Financial Officer, Hastings College of Law

BACKGROUND

Hastings College of the Law (Hastings) was founded in 1878 by Serranus Clinton Hastings, the first Chief Justice of the State of California. On March 26, 1878, the Legislature provided for affiliation with the University of California. Hastings is the oldest law school and one of the largest public law schools in the western United States. Policy for the college is established by the Board of Directors and is carried out by the chancellor and dean and other officers of the college. The Board has 11 directors: one is an heir or representative of S.C. Hastings and the other 10 are appointed by the Governor and approved by a majority of the Senate. Hastings has a historic commitment to providing legal education to individuals from social and economic status that are not well served by other law schools.

Like other public higher education segments, Hastings' General Fund support has been reduced during the past decade and tuition has grown dramatically – it will be \$43,486 in 2014-15. Hastings differs from the other segments, however, due its size (an estimated 959 students in 2014-15), and its reliance on tuition for most of its operating budget. The General Fund only comprises about 17 percent of the Hastings budget.

Due to its small size and reliance on tuition, the Governor's budget proposes a larger percentage increase in 2014-15 for Hastings than the 5% increases proposed for the University of California and California State University. The budget proposes a 15% increase, or \$1.3 million, which would bring total General Fund support for Hastings to \$9.6 million, as the table on the next page indicates. The budget proposal is predicated on the Governor's desire that Hastings' tuition remain flat, which Hastings has agreed to.

Fund Source	2013-14 Estimated	2014-15 Proposed	% Change
General Fund	\$8.4 Million	\$9.6 Million	15%
California State Lottery Fund	\$190,000	\$190,000	No Change
Tuition and Other Revenue	\$48.5 Million	\$46.2 Million	-5%

In addition to the Governor's proposal, Hastings students are advocating for increased funding to support students in two programs. The programs and funding request are described below:

- Hastings Public Interest Law Foundation.** The Foundation provides \$4,000 stipends to students who work at unpaid internships during the summer at government agencies or other public interest organizations. The stipend allows students interested in pursuing a career in public interest law the opportunity to gain experience through internships that do not cover living expenses. The Foundation received 82 applications for summer 2014, but only has funds to provide stipends to 12 students. Hastings students are requesting an additional \$250,000 for this program to provide the stipend to 62 more students.
- Lawyers for America.** The Lawyers for America program provides opportunities for new lawyers while also expanding the ability of nonprofit and government agencies to meet unmet legal needs. The program provides two-year fellowships that encompass a law student's last year of law school and first post-graduate year. The student works in the nonprofit or government agency during the third year of law school under faculty supervision and returns for a full year of work after taking the bar exam. Participating government and nonprofit agencies pay a reduced rate for the students' work, and the program provides a stipend for the student. Hastings students are requesting a \$200,000 augmentation that would provide stipends and third-year tuition assistance for 15 students participating in the program.

STAFF COMMENTS/QUESTIONS

Due to the size of Hastings' budget, a 5% increase, similar to the Governor's proposals for UC and CSU, would only amount to about \$420,000. The Department of Finance determined that a 15% increase, as proposed, is the equivalent General Fund increase when considering Hastings' mix of General Fund and tuition revenues. Staff has no concerns with this proposal.

Regarding the student support proposals, both programs are meritorious and provide important experiences for law students while also supporting legal work that taxpayers' might otherwise pay for through other sources. The request is a relatively small amount. However, the Subcommittee will have to weigh this request with other funding priorities once total available revenues are known after the May Revise.

6120 CALIFORNIA STATE LIBRARY

ISSUE 2: STATEWIDE HIGH-SPEED INTERNET NETWORK

The Subcommittee will review the Governor's proposal to provide \$3.3 million General Fund increase to allow public libraries to access a statewide high-speed Internet network.

PANELISTS

- Matthew Saha, Budget Analyst, Department of Finance
- Natasha Collins, Analyst, Legislative Analyst's Office
- Paul Golaszewski, Higher Education Analyst, Legislative Analyst's Office
- Greg Lucas, California State Library
- Gerald Maginnity, California State Library
- Jarrid Keller, California State Library

BACKGROUND

The State Library’s main functions include (1) serving as the central library for state government; (2) collecting, preserving, and publicizing literature and historical items; and (3) providing specialized research services to the Legislature and the Governor. In addition, the State Library passes through state and federal funds to local public libraries for specified priorities and provides related technical assistance. The table below indicates the State Library budget during the past two years and the proposal for 2014-15.

Fund Source (Dollars in thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$19,095	\$23,977	\$23,574	(\$403)	(2%)
Federal Trust Fund	14,001	19,994	17,768	(2,226)	(11)
Other Funds (5)	3,203	4,554	2,893	(1,661)	(36)
Total Expenditures	\$36,299	\$48,525	\$44,235	(\$4,290)	(9%)
Positions	129.2	138.8	135.8	(3.8)	(2)

According to the LAO, there are 183 local library jurisdictions with 1,115 library branches operating in California. Local libraries’ responsibilities include hiring staff, conducting branch oversight, and managing various programs.

Like many state and local programs, General Fund support for the State Library and local libraries has diminished significantly in recent years. For example, state funding for local programs, including adult literacy classes and technology services, was \$48.5 million in 2006-07; the amount appropriated in 2013-14 is \$4.7 million.

Based on discussion in this Subcommittee last year, the 2013 Budget Act directed the State Library to examine Internet access at local libraries and develop a spending plan to connect all local libraries to a statewide high-speed Internet network. The language specifically required the State Library to (1) evaluate local libraries' current Internet connectivity and expenditures; (2) identify options for connecting all libraries to high-speed Internet, including the option of using the Corporate Education Network Initiatives in California (CENIC); and (3) estimate the costs of the identified connectivity options.

The State Library released its report on January 31. The LAO provided the following summary of the report.

The State Library surveyed local libraries about their current Internet service and received responses from 828 library branches (74 percent of all branches). All respondents reported being connected to the Internet.

- About 40 percent of library branches reported they operate at speeds the State Library has defined as very slow—between 1.5 and 10 megabits per second (mbps). This is similar to the speeds of many households.
- Another 40 percent of respondents reported having speeds between 10 and 100 mbps, which the State Library defines as slow.
- The remaining 20 percent of libraries reported operating at speeds between 100 mbps and 1,000 mbps or higher. The State Library defines these speeds as medium to fast. Typically, these speeds are not available to residential consumers and are used by businesses and governmental organizations.

The survey further found that libraries with the slowest speeds generally are concentrated in rural areas in the northern and inland regions of the state, while libraries with faster speeds are concentrated in urban areas in the southern and coastal regions of the state.

The survey asked local libraries to report their annual Internet connectivity expenditures. Based on the survey responses, the State Library estimates that annual expenditures statewide range from \$8.5 million to \$18.9 million. (The main reason the range is so large is because only 66 percent of all libraries provided expenditure information, so costs for many libraries had to be extrapolated.)

The report offers three alternatives for improving local libraries' Internet speeds relative to the status quo, with the State Library recommending that libraries connect to CENIC.

CENIC was created in 1997 by the University of California and several private research universities to develop a high-speed “backbone” network to support university research. Since that time, the California State University (CSU), California Community Colleges (CCC), and school districts also have joined CENIC. The chart on the below created by the LAO indicates the members of CENIC and how much they pay annually for CENIC services.

CENIC Associates		
Charter Associates	Sites Directly Connected to Backbone^a	Annual Costs
Public		
University of California	All ten campuses, including medical centers Office of the President and Office of State Governmental Relations Lawrence Berkeley National Laboratory	\$4.5 million
California State University	All 23 campuses and Chancellor’s Office	4.5 million
California Community Colleges	All 112 campuses and Chancellor’s Office	4.5 million
K-12 Education	California Department of Education 53 county offices of education (COE) and 18 other sites	4.5 million
Private		
University of Southern California	Main campus and health sciences campus Information Sciences Institute	372,000
Stanford University	Main campus and medical center Stanford Linear Accelerator Center Stanford Hopkins Marine Station	366,000
California Institute of Technology	Main campus and Jet Propulsion Laboratory ^b	330,400
Non-Charter Associates^c		
Carnegie-Mellon University, Silicon Valley	Pepperdine University	
Chapman University	University of San Diego	
NASA Ames Research Center	University of San Francisco	
Naval Postgraduate School	University of Pennsylvania, Wharton School, San Francisco	
Nevada System of Higher Education		
^a Some charter associates connect additional sites but not directly to the backbone. For example, over 7,700 schools are connected to the backbone but virtually all of them connect through a COE. ^b CENIC indicates it charges the Jet Propulsion Laboratory an additional unspecified amount. ^c Annual costs vary based on usage and number of connections to the backbone.		

The Governor’s budget provides \$3.25 million in new General Fund support for Statewide Library Broadband Services. Provisional language indicates that \$2.25 million of this funding is to be used to access a high-speed Internet network, while the other \$1 million is available on a one-time basis to provide grants to local libraries to make technology upgrades to ensure they can connect to a high-speed Internet network. The Department of Finance indicates another \$1 million would be provided in 2015-16.

While the budget language does not specifically call for the use of CENIC, the Department of Finance and the State Library indicate they would use this option. The Governor’s budget assumes contracting with CENIC would cost \$4.5 million annually (the same rate charged

to all existing public members). The contract would allow local libraries to use CENIC's Internet backbone. Libraries also would receive representation on CENIC's governing board. Additionally, CENIC would provide technical support, apply for federal and state discounts on libraries' behalf, and negotiate discounts for libraries on Internet services from commercial providers. (Libraries would need to continue to purchase Internet services, as well as potentially improved infrastructure such as fiber, from commercial providers for last-mile connections to the CENIC backbone.)

The Governor proposes that the state General Fund cover half of the \$4.5 million CENIC contract. The State Library's report suggests CENIC likely would obtain the remainder of funding needed to cover the contract from the California Teleconnect Fund, which is administered by the Public Utilities Commission and provides discounts to qualifying schools and libraries, as well as hospitals, health clinics, and community organizations on telecommunications and Internet services. CENIC would submit the State Library's \$4.5 million Internet services invoice to the Fund, which would then reimburse CENIC for 50 percent of that charge (\$2.25 million). Budget language does not spell this out but calls on the State Library or local libraries to secure non-General Fund resources to "ensure that public libraries have access to a high-speed network."

STAFF COMMENTS/QUESTIONS

The Subcommittee last year voted to approve a proposal to allow the State Library and public libraries to join CENIC, and provided \$5 million in additional funding for both the CENIC proposal and for adult literacy programs. The final budget package, however, removed the funding and instead required the State Library report.

The report reveals a significant need for improved Internet access at libraries. In an increasingly on-line world, California residents, particularly low-income residents without home Internet access, use libraries to perform many critical tasks ranging from submitting job applications to accessing veterans benefit programs to completing school work. With about 80 percent of libraries reporting very slow or slow Internet speeds, libraries are not currently serving the public adequately.

The LAO, however, recommends rejecting the proposal. They provide the following criticisms:

- The Governor's proposal would not increase Internet speeds for some libraries because local governments may restrict local libraries' ability to purchase faster service, libraries themselves may not choose to purchase faster speeds, and obtaining significantly faster speeds would be impossible for some libraries without costly infrastructure upgrades in their area.
- The \$4.5 million requested for the CENIC contract may not reflect the actual cost for libraries to use the CENIC backbone and receive related services.
- The plan does not address how a potential shortfall in funding for the CENIC contract would be addressed if the Public Utilities Commission enacts a different reimbursement structure for California Teleconnect Fund claims. The PUC is currently reviewing this fund and may enact a rate restructuring proposal.
- The proposal lacks sufficient cost data to support the request for \$2 million in equipment.

- The plan does not estimate the costs for local libraries to access the CENIC backbone, but available data suggest these costs likely are significant.

The LAO bases its recommendation largely on potential problems that could arise. Staff notes the following arguments for the proposal:

- ***The current system is inadequate and this proposal will improve Internet access at hundreds of public libraries.*** The status quo is unacceptable, and this is the least costly solution to improving Internet services at libraries. Library officials believe nearly half of public libraries do have the current infrastructure in place to connect to CENIC, and the Governor's proposal provides some funding to allow other libraries to upgrade their systems.
- ***The potential benefits far outweigh the potential concerns.*** In a letter to the Subcommittee supporting the proposal, the California Library Association notes that one library system – the Peninsula Library System in San Mateo County – has joined CENIC in a pilot project, and has enjoyed much faster Internet speeds at half the cost of what they were paying. Joining CENIC will allow libraries to act as bulk purchasers, potentially cutting costs. In addition, CENIC officials will help libraries obtain both federal and state discounts, something that requires manpower that many local libraries do not have.
- ***Libraries – not the General Fund – must come up with the funding to join CENIC.*** The LAO is concerned that the proposal may not be enough money to allow libraries to join CENIC and gain the maximum benefit from CENIC. Budget bill language clearly states that libraries, not the state, are on the hook for additional funding to make the program work, however. Library and Department of Finance officials believe their plan will be adequate.
- ***The California Teleconnect Fund was created to help bridge the digital divide – exactly the rationale for this proposal.*** The Teleconnect Fund uses a small surcharge on consumers' bills - .59% of the bill - to provide discounts for advanced telecommunications services for schools, libraries, public health care providers and other organizations that provide a public service. Many libraries already receive discounted rates through this program. The 2014-15 budget for this fund indicates \$118.1 million in revenue and a \$10.5 million reserve, which appears sufficient to cover the additional \$2.5 million in costs of libraries joining CENIC.

This is the top priority of the State Library and clearly addresses a significant need at a reasonable cost. Staff notes that historically the General Fund provided a much larger amount for local libraries than it does now; this proposal would restore a small amount of that funding that could benefit hundreds of libraries. The LAO's concerns are noteworthy, and thus the Subcommittee may wish to add reporting language to this proposal to allow for continuing oversight as the project is implemented.

6610 CALIFORNIA STATE UNIVERSITY

ISSUE 3: CAPITAL OUTLAY PROPOSAL

The Subcommittee will review the Governor's proposal to change the CSU capital outlay process by shifting bond debt service payments into CSU's main appropriation and allowing CSU to issue its own university bonds to pay for deferred maintenance and capital costs.

PANELISTS

- Christian Osmena, Budget Analyst, Department of Finance
- Judy Heiman, Higher Education Analyst, Legislative Analyst's Office
- Ryan Storm, Interim Assistant Vice Chancellor for Budget, California State University
- Vi San Juan, Assistant Vice Chancellor for Capital Planning, Design and Construction, California State University

BACKGROUND

CSU has 23 campuses and 8 off-campus centers located across the state, with a total of 2,180 buildings on 21,364 acres of land. The system's facilities currently are valued at about \$14 billion.

The CSU Board of Trustees adopts a long-range infrastructure plan, and historically has submitted annual requests to the Department of Finance for capital outlay projects. Finance reviews the projects and determines whether to include them in its annual budget proposal, and projects that are included in the proposal are vetted in legislative budget hearings.

The state has typically funded most university projects in recent years with general obligation bonds, which are backed by the General Fund. Lease revenue bonds, which are not backed by the General Fund, also have been used. The Governor's Budget has typically included a separate line item for debt-service payments related to CSU bond funding. For 2014-15, debt service related to CSU projects amounts to \$188 million for general obligation bonds and \$99 million for lease revenue bonds.

The state has approved no higher education general obligation bonds since 2006, and lease revenue financing has been minimal during the recession. Thus, CSU has been unable to fund high-priority capital and maintenance projects. Based on campus surveys, CSU estimates its deferred maintenance needs alone would cost \$1.8 billion to address.

Governor's proposal. Similar to a new capital outlay process approved for UC last year, the Governor proposes to shift general obligation and lease revenue bond debt-service payments into CSU's main appropriation. Moving forward, the state no longer would adjust CSU's budget for changes in debt-service costs. Instead, the state would provide annual, unallocated base increases and the university would be responsible for funding all maintenance and debt-service from within its main appropriation.

Budget bill and trailer bill language would allow CSU to issue its own university bonds for various types of capital and maintenance projects and could restructure its existing lease revenue bond debt. To use its new authority, CSU would be required to submit project proposals to DOF for approval, with a 60-day notification period provided to the Joint Legislative Budget Committee. The CSU's capital and maintenance projects no longer would be reviewed as part of the regular budget process. CSU would be limited to using 12% or less of its state appropriation for capital infrastructure projects.

STAFF COMMENTS/QUESTIONS

There are a number of concerns regarding this proposal.

The CSU Board of Trustees has concerns about the amount of funding the state would provide for capital and maintenance projects. The Governor's proposal would essentially freeze state support for CSU infrastructure at current levels, without regard to future needs. For example, CSU notes that the current level of funding will be \$40 million less than needed to cover debt service payments in 2016-17, which would force the system to use funds for classes, students and faculty to cover these costs.

While the CSU Board generally supports the idea of allowing it more autonomy over its capital projects, it did not include this proposal in the 2014-15 budget it adopted in Fall 2013. Instead, CSU proposed using \$15 million from state funds in the next three years to finance \$750 to \$800 million worth of deferred maintenance projects. That proposal was part of CSU's overall budget request, which seeks \$95 million more from the General fund than the Governor has proposed.

In addition, the LAO recommends rejecting this proposal. The LAO notes the Governor's approach diminishes the Legislature's role in capital and maintenance decisions for the university by removing the traditional public review of CSU projects through the regular budget process. The DOF would approve the university's projects through an abbreviated review process, further reducing transparency and precluding public input. The LAO also states that the Governor's proposal would make planning for infrastructure spending statewide more difficult, as the state would not be able to prioritize funding as easily among higher education and other program areas.

CSU has major capital needs throughout its system. For example, staff is aware that the San Francisco State campus has recently closed its main science building, limiting students' ability to take critical STEM classes, due to environmental hazards. The building was built in the 1950s. Fresno State University has faced power outages and cancelled classes due to its 60-year-old electrical system.

However, the Governor's proposal remains problematic. The Subcommittee may wish to continue discussion on this issue.

Potential questions the Subcommittee could ask include:

- Given that the amount provided to UC last year under its new debt service plan was \$400 million, and given that CSU has more campuses than UC, is \$297 million the appropriate amount to fund CSU capital projects going forward?
- What advantages does this plan provide the Legislature in its ability to provide statewide infrastructure oversight?
- What are CSU's top maintenance and capital needs? What issues does CSU face without increased attention to its capital and maintenance needs?
- In a recent report, the LAO recommended that UC and CSU submit maintenance plans to the Legislature by January 1, 2015, including specific proposals to address deferred maintenance and to avoid deferred maintenance in the future. Could CSU develop such a plan?

ISSUE 4: STUDENT SUCCESS FEES

The Subcommittee will examine CSU student success fees.

PANELISTS

- Christian Osmena, Budget Analyst, Department of Finance
- Judy Heiman, Higher Education Analyst, Legislative Analyst's Office
- Ryan Storm, Interim Assistant Vice Chancellor for Budget, California State University

BACKGROUND

Student success fees have been established at 11 CSU campuses since the first such fee was established by CSU-Northridge in 2008. The fees are campus-specific, but generally provided increased revenue for services such as expanded library hours, the hiring of more academic counselors, technology upgrades, and athletics. The amount of the fees also vary by campus, which the table below illustrates. Campuses are listed in order from highest fees to lowest:

Campus	Annual Fee
San Jose	\$630
San Luis Obispo	\$630
Long Beach	\$267
Los Angeles	\$244
East Bay	\$240
Pomona	\$222
Northridge	\$212
San Diego	\$200*
San Marcos	\$200
Fullerton	\$181*
San Bernardino	\$162

*Note: * denotes the fee will begin in the 2014-15 school year*

The process for establishing a campus student success fee is outlined in the CSU Student Fee Policy Executive Order No. 1054. Under this policy, campus-wide fees can be established after the CSU chancellor approves a request by the campus president. Prior to requesting the chancellor's approval, the campus must follow these steps:

- The president must establish a fee advisory committee comprised of students, faculty, staff and administrators.
- The president must consult with the fee advisory committee prior to adjusting an existing fee or requesting the Chancellor's approval of a new fee.

- The president must conduct "meaningful consultation" with campus constituencies either through a student vote or an alternative consultation process. A consultation process involves discussing the fee proposal with various campus bodies, such as the campus student body association, the campus faculty senate and other students. The policy states that "efforts should be made to consult with students from many aspects of campus life."
 - The policy states that a student vote is the "preferred method of measuring student support."
 - Both student votes and the consultation process, however, are advisory only and the president has the ultimate discretion over whether to forward the fee request to the chancellor.
- The campus president must then seek approval for a new fee from the CSU chancellor.
- Following a fee approval, campuses must report annually on how fees are spent, and an annual report on such fees is presented to the Board of Trustees.

CSU reports that of the 11 student success fees currently in place, one campus – CSU-San Luis Obispo – has held a student vote; the other campuses have used the consultation process.

A 12th campus – CSU-Dominquez Hills – is currently considering implementing a student success fee. The proposal assumes a \$280 fee that would generate \$7.5 million annually to support academic advisors, faculty, classroom, lab and equipment upgrades and athletics, among other things. One other campus – Sonoma State – recently considered a student success fee but the campus president decided not to submit the request to the chancellor.

STAFF COMMENTS/QUESTIONS

CSU contends that student success fees are campus-driven and provide critical revenue to meet specific student needs. CSU believes the fee adoption process provides for sufficient student input and transparency, and notes that the use of the fees is available to the public.

Staff notes the following concerns, however:

- ***Almost all of these fees have been approved without a student vote.*** Despite the CSU Student Fee Policy's clear direction that a student vote is preferred, all but one campus has used the alternative consultation process instead. This makes it difficult to determine if students truly support this fee. Media reports indicated that more than 100 CSU students protested against these fees during the March meeting of the CSU Board of Trustees.
- ***Fees adopted in recent years undercut the Legislature's and Governor's direction to halt tuition increases.*** Tuition at CSU rose 97% between 2006-07 and 2011-12. Tuition was set to rise again in the 2012-13 school year, but voter approval of Proposition 30 allowed the state to provide more funding to CSU and negate the need for another increase. The Governor's multi-year funding plan, begun last year, is intended to increase funding for CSU to, in part, offset the need for higher tuition. Yet newly imposed fees impact students' cost of attendance just as a tuition increase would.

- **The fees create have- and have-not campuses.** Imposing fees to pay for services that could be considered part of normal operations, such as counselors, equipment and libraries, seems to set up discrepancies between campuses that may force all campuses to adopt such fees.
- **It is difficult to find information about the use of these fees, making it difficult for student oversight.** Staff notes that it is difficult to find information about how student success fees are spent on campus websites. In addition, a recent article in the San Jose Mercury News noted that nearly 40 percent of San Jose State's student success fee is used to support athletic programs, something the newspaper noted was barely mentioned during the campus discussion of implementing the fee.
- **Fees have no sunset.** While the CSU Student Fee policy does allow the campus president to decrease, suspend or eliminate this type of fee, the fees could continue no matter how much more state funding or tuition is provided.

Potential questions the Subcommittee could ask include:

- These fees appear to support programs and services that already receive state funding – why are they needed?
- Why haven't more campuses used a student vote process to gauge support for these fees?
- Given discussion of increased state funding for CSU, is the chancellor's office considering discouraging adoption of these fees at more campuses?
- Have these fees led to better student outcomes?

6910 AWARDS FOR INNOVATION IN HIGHER EDUCATION

ISSUE 5: FUNDING PROPOSAL

The Subcommittee will review the Governor's proposal to provide \$50 million General Fund to create the Awards for Innovation in Higher Education program.

PANELISTS

- Christian Osmena, Budget Analyst, Department of Finance
- Judy Heiman, Higher Education Analyst, Legislative Analyst's Office
- Ryan Storm, Interim Assistant Vice Chancellor for Budget, California State University
- Patrick Lenz, Vice President of Budget and Capital Resources, University of California
- Dan Troy, Vice Chancellor of College Finance and Facilities Planning, California Community College Chancellor's Office

BACKGROUND

The Governor's budget proposes \$50 million General Fund, on a onetime basis, to create the Awards for Innovation in Higher Education program. The Governor proposes that applications for awards can be submitted by a UC, CSU, community college, or a group of any of these entities. These incentive awards are proposed to encourage and recognize models of innovation in higher education that focus on the following priorities:

- Significantly increase the number of individuals in the state who earn bachelor's degrees;
- Allow students to earn bachelor's degrees that can be completed within four years of enrollment in higher education;
- Ease transfer through the state's education system, including by recognizing learning that has occurred across the state's education segments or elsewhere.

The Governor proposes that awards will be selected based on the extent to which an application proposes an innovative model that: 1) advances the state's priorities at a lower cost than existing instructional delivery models and without requiring that students pay increased tuition or fees; 2) includes broad participation by the segments and local educational entities in a manner that can have a statewide impact if expanded; and, 3) is likely to be implemented effectively and sustainably. The Administration anticipates that the awards process would be completed in the spring of 2015 and will be managed by a committee composed of:

1. The Director of Finance or his designee, either of whom shall serve as the chairperson of the committee.

2. A member of the State Board of Education selected by the Governor.
3. A member of the Board of Governors of the CCCs selected by the Governor.
4. A CSU trustee selected by the Governor.
5. A UC regent selected by the Governor.
6. An appointment of the Senate Committee on Rules.
7. An appointment of the Speaker of the Assembly.

Upon notification by the Director of Finance that it has been selected for an award, it is proposed that an entity or group shall submit a report to the Director of Finance indicating how the awarded funds will be used and commit to reporting, on January 1, 2018 and again on January 1, 2020, an evaluation of the effectiveness of the model of higher education innovation in achieving the identified priorities and the number of bachelor degrees awarded through the model.

STAFF COMMENTS/QUESTIONS

The goals that this new program intends to incentivize are all laudable goals that are somewhat in line with legislative priorities.

The LAO, however, recommends rejecting this proposal and outlines several concerns. The LAO notes that by earmarking a relatively small amount of one-time funding for individual campuses or groups of campuses to address state priorities, the state seems to be implying this is somehow different from how the segments should be using the remainder of their funding. Presumably, the state intends for the segments' entire core budgets to be dedicated to meeting core public priorities through appropriate, cost-effective means (including new means discovered through ongoing exploration and innovation in teaching strategies and technologies).

The LAO also notes that legislation adopted last year set forth goals relating to student access and success, institutional effectiveness and efficiency, and alignment of degrees to workforce and civic needs. In addition, the 2013 Budget Act required UC and CSU to begin submitting annual reports regarding their student bodies and student outcomes, which could presumably also be considered state priorities. The Governor's proposal, according to the LAO, fragments improvement efforts by empowering a small group to make award decisions based on the administration's expressed priorities.

The LAO also states that this proposal is poorly timed, coming too soon after funding discussed in last year's budget to expand the use of technology to remove course bottlenecks and reduce the costs of education. The results of those efforts are not yet clear, and the LAO suggests that expanding in this area before giving the existing efforts time to show results would be premature.

Staff also notes that this proposal sets up a significant bureaucratic infrastructure to determine "winners," which will require staff time for both the newly-created committee and the campuses and segments writing grant proposals. Finally, it is unclear what the Administration's intent is for the funding: is it to expand programs or projects, create new programs or projects, or reward innovation? What will this relatively small amount of funding actually buy?

In light of this proposal, staff is aware of several potential ideas for this funding that the Subcommittee could consider, or current successful programs that could be replicated across the state using this funding.

- One proposal would use the funding to provide laptops or tablets to students in selected majors and provide professional development funding for staff, thus allowing certain majors to better integrate technology into coursework and potentially increase time-to-degree and other efficiencies.
- Another would create the California Higher Education Dashboard, which could provide data on students and student outcomes in all three segments, including tracking transfer students, post-graduation data and potentially measurements of faculty productivity.
- The Long Beach Promise program, which is a partnership between the Long Beach Unified School District, Long Beach City College and CSU-Long Beach, provides pathways for students to move from K-12 education through community college and the CSU. The program has improved student outcomes in math and English for underrepresented student groups at community colleges and shown better persistence rates at CSU for program participants versus non-participants. Could similar programs be supported in other regions?

Potential questions the Subcommittee could ask include:

- Why shouldn't the Legislature and Governor simply determine the most appropriate way to use the funding and specify that in the budget?
- What is this funding intended to be used for?
- How will the Legislature determine if the funding achieves improved outcomes?
- Will the Administration seek to distribute the funding in some equal way across the three segments? Why or why not?

6440 UNIVERSITY OF CALIFORNIA
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ISSUE 6: PRIORITY PROGRAMS

The Subcommittee will discuss statewide priority programs and their inclusion or exclusion from the budget.

PANELISTS

- Christian Osmena, Budget Analyst, Department of Finance
- Paul Golazsewski, Higher Education Analyst, Legislative Analyst's Office
- Ryan Storm, Interim Assistant Vice Chancellor for Budget, California State University
- Patrick Lenz, Vice President of Budget and Capital Resources, University of California

BACKGROUND

The UC and CSU are governed by independent boards that make various decisions about how the universities will spend their resources, including the number of faculty, executives, and other employees on the payroll and those employees' salary and benefits; student tuition levels; and the amount of tuition revenue redirected to financial aid, among other fiscal decisions. Further, UC has constitutional autonomy afforded by the California Constitution, under which the Regents have "full powers of organization and governance" subject only to very specific areas of legislative control, such as budget act appropriations.

Given that significant budget authority has been delegated to UC and CSU, the Legislature has historically relied on two primary budgetary control levers or tools: state priorities, sometimes referred to as earmarks, and enrollment targets. These tools have been used to ensure that state funds are spent in a manner consistent with the Legislature's intent and that student access to the segments is maintained. The use of these tools has also ensured a clear public record and transparency of key budget priorities.

Enrollment targets were discussed in a previous hearing.

The annual budget act typically includes a number of conditions on UC's and CSU's appropriations, reflecting statewide priorities determined by the Legislature and Governor. These priorities have varied over the years in keeping with the Legislature's and Governor's particular concerns at the time and have covered such programs as nursing and medicine, AIDS research, and science and math teaching initiatives.

The current Administration has objected to this practice, however. For two years in a row, the Governor has vetoed out most or all such programs from the UC and CSU budgets, signaling his desire to leave all decision-making regarding state funding to the segments. However, both segments have continued to use state funding for these programs despite the vetoes.

The table below indicates programs that have in recent years been designated for funding in the UC or CSU budgets but been vetoed out by the Governor.

Program	UC Budget	CSU Budget	Description
UC - Charles R. Drew Medical Program	\$8,300,000		The Charles R. Drew University of Medicine and Science (CDU), conducts educational and research programs and provides health care services in south central Los Angeles.
UC - AIDS Research	\$8,800,000		Since its founding in 1983 by the Legislature, the California HIV/AIDS Research Program (CHRP) has supported research that is attentive to the needs of California, accelerating progress towards prevention and treatment for HIV/AIDS.
UC - Subject Matter Projects	\$5,000,000		The California Subject Matter Project (CSMP) is a statewide network of subject-specific professional development programs for teachers. CSMP engages K-12 educators with faculty in various disciplines from UC to develop and deliver intensive institutes for education professionals.
UC - Cal Institutes for Science & Innovation (Gray Davis Institutes)	\$4,800,000		The state, UC, and hundreds of the state's businesses run the California Institutes for Science and Innovation, using state money and federal and private sources. The four Institutes, each jointly operated by multiple UC campuses, engage UC's research faculty directly with California, national, and international companies in attacking large-scale issues critical to the state's economy and its citizens' quality of life.

UC Labor Centers	\$2,000,000		The Labor Centers at UC Berkeley and UCLA conduct research on issues such as the implementation of the Affordable Care Act, green jobs and workforce development, the underground economy, and low-wage industries.
UC - COSMOS	\$1,700,000		The California State Summer School for Mathematics and Science (COSMOS) provides an intensive academic experience for students who wish to learn advanced mathematics and science and prepare for careers in these areas.
UC and CSU - Science and Math Teacher Initiative	\$885,000	\$2,700,000	UC's CalTeach and CSU's Math and Science Teacher Initiative seek to increase the number of math and science teachers in the state.
UC - PRIME	\$2,000,000		Programs In Medical Education (PRIME) are innovative training programs focused on meeting the health needs of California's underserved populations in both rural and urban areas by combining specialized coursework and clinical training experiences designed to prepare future clinician experts, leaders, and advocates for the communities they will serve.
UC and CSU - Nursing Programs	\$1,700,000	\$6,300,000	To help meet the state's future nursing needs, both university systems have expanded nursing programs.
UC and CSU - Student Academic Preparation and Educational Partnerships (MESA and PUENTE)	\$24,900,000	\$21,611,093	Outreach to underrepresented minority groups in K-12 to improve participating students' academic achievement, college readiness and college enrollment.

STAFF COMMENTS/QUESTIONS

Both UC and CSU officials have indicated to staff that they intend to fund the above programs at status quo funding levels for the 2014-15 fiscal year.

All of the above programs were inserted into the UC and CSU budgets by past Legislatures seeking to address statewide needs. Based on the continuing support for the programs from UC and CSU, it appears the programs provide value both within the segments and to the state.

In its February report on the UC and CSU budgets, the LAO recommended "earmarking" UC and CSU budget items for the state's highest priorities and that the Legislature conduct regular reviews of the earmarks.

Potential questions the Subcommittee could ask include:

- What are UC and CSU intentions for these programs in 2014-15, and beyond?
- Does the Administration oppose funding all of these programs specifically, or does it object philosophically to the idea of earmarking funds?