AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

ASSEMBLYMEMBER SUSAN BONILLA, CHAIR

WEDNESDAY, APRIL 24, 2013

3 P.M. - STATE CAPITOL ROOM 437

VOTE-ONLY

6610 CALIFORNIA STATE UNIVERSITY

VOTE-ONLY ISSUE 1: CAPITAL OUTLAY BCPS: CSU BAKERSFIELD - ART CENTER AND SATELLITE PLANT; CSU BAKERSFIELD - SEISMIC UPGRADE, DORE THEATRE; CSU MARITIME ACADEMY – PHYSICAL EDUCATION REPLACEMENT; CSU FRESNO - FACULTY OFFICE/LAB BUILDING; CSU SAN JOSE – SPARTAN COMPLEX RENOVATION (SEISMIC); CSU CHANNEL ISLANDS – WEST HALL: UC MERCED – SCIENCE AND ENGINEERING BUILDING 2

In the January Budget and in April Finance Letters, the Governor proposes seven capital outlay projects for five CSU campuses and one UC campus. The projects are described below.

CSU Bakersfield – Art Center and Satellite Plant. This project will provide equipment for the campus' new Art Center and satellite mechanical plant, including equipment for art labs such as kilns, sculpture equipment, and other classroom materials such as desks and chairs. The project will cost $533,000 from the 2002 Higher Education Capital Outlay Bond Fund.

CSU – Dore Theatre, Seismic Upgrade. The project will upgrade the structural systems of the Dore Theatre to correct structural deficiencies identified by the CSU Seismic Review Board and Division of the State Architect. Strengthening work will include roof and support columns. The project will cost $1.8 million from the 2006 Higher Education Capital Outlay Bond Fund.

CSU Maritime Academy – Physical Education Replacement. This project will provide equipment for the new Physical Education Facility and equipment for an outdoor pool to accommodate classes and water activities required for licensure by the U.S. Coast guard. The project will cost $1.3 million from the 2002 Higher Education Capital Outlay Bond Fund.

CSU Fresno – Faculty Office/Lab Building. This project will equip a new facility housing graduate research laboratories, classroom space and faculty offices for the Colleges of Health and Human Services and Physical Education. Equipment also is for computer labs, and will provide gender equitable space to accommodate Title IX requirements. The project will cost $383,000 from the 2002 Higher Education Capital Outlay Bond Fund.

CSU San Jose – Spartan Complex Renovation (Seismic). This project will equip the renovated Spartan Complex, including a natatorium and new building systems. Equipment also is for a new judo activity laboratory, locker rooms and graduate research space, as well as faculty offices. The project will cost $1.4 million from the 2002 Higher Education Capital Outlay Bond Fund.

CSU Channel Islands – West Hall. The project will equip new space in West Hall, including lecture and laboratory space and faculty offices. The project will cost $2.3 million from the 2006 Higher Education Capital Outlay Bond Fund.

UC Merced – Science and Engineering Building 2. The project will equip a new building to support instruction and research activities for the Schools of Engineering and Natural Sciences, including laboratory space, research and scholarly activity space, and academic and administrative office space. The project will cost $4.2 million from state lease-revenue bonds.

STAFF COMMENTS/QUESTIONS

Staff has no concerns with these proposals.

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

VOTE-ONLY ISSUE 2: STATE CASH MANAGEMENT

The Governor's Budget requests a combination of budget bill provisional language (both UC and CSU) and budget trailer bill language (CSU only) related to the state's cash management needs.

The budget bill provisional language ensures the continuation of smoothing of payments to UC and CSU that have been carried out the last three years. The continuation of this policy would smooth payments over ten months with the remaining amount owed remitted in the final two months of the year. The budget trailer bill language authorizes the Department of Finance to defer up to $250 million of CSU's annual GF appropriation, payable in May or June of the same year. The CSU deferral has been included in a separate cash flow budget trailer bill in previous years. The January budget proposes no change to the existing statutory $500 million within-the-year deferral to UC, payable in May or June of the same year.

BACKGROUND

These proposals are part of a larger state cash management strategy and are necessary to cover the low points in the state's cash position. While no new education or other payment deferrals are incorporated in the January budget due to the improvement in cash status, the proposed budget anticipates engaging in internal and external borrowing.

The state's receipts and disbursements of cash occur unevenly throughout the fiscal year, with typical low points occurring in July, October, and November. As a consequence, the General Fund borrows for cashflow purposes in most years, even though each budget is balanced when enacted, and funds are repaid within the fiscal year. Maintaining an adequate cash balance allows the state to pay its bills in a timely fashion.

Interest is paid on both internal borrowing (such as cashflow loans from special funds) and for external borrowing (such as Revenue Anticipation Notes). Another cash management tool of the state is the State Agency Investment Fund, which attracts deposits from entities not otherwise required to deposit funds with the state. During 2012-13, there were deposits totaling approximately $1.7 billion combined into this fund from UC and CSU.

STAFF COMMENTS/QUESTIONS

This proposal simply memorializes current practices. Neither segment has expressed concern with the proposed budget bill provisional language and trailer bill language.

6120 CALIFORNIA STATE LIBRARY

VOTE-ONLY ISSUE 3: CALIFORNIA CULTURAL AND HISTORICAL ENDOWMENT GRANT FUNDING

The Governor's Budget requests $1.4 million from the Proposition 40 subfund for Historical and Cultural Resources Preservation. This would fund grants from the California Cultural and Historical Endowment's existing grant program.

BACKGROUND

AB 716 (Firebaugh), Chapter 1126, Statutes of 2002 created the California Cultural and Historical Endowment (CCHE) within the California State Library. The CCHE works to preserve and protect California's cultural and historical resources and has awarded more than $122 million in preservation grants. Funding comes via the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002, more commonly known as Proposition 40, and has supported projects such as the restoration of the Palace of Fine Arts in San Francisco and the California African American Museum in Los Angeles.

This proposal seeks authorization to use $1.4 million in grant funds that have been unused. The excess funding is due to either reversions back to the CCHE or unused state operations funds. Money would be distributed to projects that have requested funding in the past but did not receive funding or through a new request-for-proposal process.

STAFF COMMENTS/QUESTIONS

Staff has no concerns with this proposal.

ITEMS TO BE HEARD

6120 CALIFORNIA STATE LIBRARY

ISSUE 1: CORPORATION FOR EDUCATION NETWORKS INITIATIVES IN CALIFORNIA (CENIC)

The issue for the Subcommittee to discuss is a proposal by the California Library Association to provide funding to allow public libraries to connect to a statewide broadband Internet network, and funding for the California State Literacy Program.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California State Library

BACKGROUND

CENIC, the Corporation for Education Networks Initiatives in California, is a non-profit corporation that provides a high-bandwidth, high-capacity Internet network for K-12 schools, community colleges, the UC and CSU systems, and private universities. The system allows these institutions to leverage their resources to provide a cost-effective network.

CENIC designs, implements, and operates CalREN, the California Research, and Education Network, which is specially designed to meet the requirements of faculty, teachers, staff, and students and allows connection from each institution's internal network to the rest of the world. CalREN consists of an owned 3,800-mile CENIC-operated fiber optic backbone network to which over 10,000 schools, colleges, and universities in all 58 of California's counties connect via fiber-optic cable or leased circuits obtained from telecommunications carriers. Over 10 million Californians use the CalREN network every day.

CENIC's members compose its Board of Directors, who have fiduciary responsibilities and set its priorities and directions. These member institutions also donate the expertise of their staff through participation in various committees and councils designed to ensure that CENIC is managed effectively and efficiently, and to support the continued evolution of the network as technology advances. The five current governing segments are UC, CSU, private colleges, California Community Colleges, and California K12. Each segment appoints three members to the CENIC Board of Directors.

STAFF COMMENTS/QUESTIONS

Funding for libraries has been dramatically reduced during the past decade. State funding for literacy programs, the Public Library Foundation and the California Library Services Act was $85 million in 2000; it was down to $4.7 million in 2012-13. Reductions in state funding lead to less federal funding.

The California Library Association is proposing that the California State Library become a sixth member of CENIC, which would allow every public library in the state to connect to the CENIC system. The Association notes that Internet services at public libraries vary wildly throughout the state, and that joining CENIC would allow equal services at all libraries.

The Association is requesting $2.5 million in General Fund to help the State Library join CENIC. It states that it will seek another $2 million in grants to meet the $4.5 million fee which each segment must pay to join CENIC. In addition, the Association is seeking another $2 million in General Fund to provide grants to libraries in need of updating their technology to connect to the CENIC network.

Finally, the Association is seeking $750,000 General Fund to restore recent cuts to adult literacy programs. The programs currently serve about 20,000 California residents annually, but large waiting lists exist across the state.

Thus, the Association is seeking a total of $5 million General Fund for these programs.

This is an information item for discussion purposes only.

6440 UNIVERSITY OF CALIFORNIA
6600 HASTINGS COLLEGE OF THE LAW
6610 CALIFORNIA STATE UNIVERSITY

ISSUE 1: MULTI-YEAR FUNDING PLAN

The issue for the Subcommittee to consider is the Governor's proposal to create a four-year funding plan that would increase General Fund appropriations to the segments if the segments met specific outcomes targets, did not increase tuition during this period and at least maintained current enrollment levels.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- University of California
- California State University
- Hastings College of the Law

BACKGROUND

Due to the state's recession and subsequent budget crisis, state General Fund support for UC and CSU in the current year is nearly $1.2 billion less than in 2007-08. To counter that decline, tuition has increased dramatically during this period, growing by 84 percent at UC and 97 percent at CSU. Budget reductions also have led to less access at CSU: Nearly 11 percent of applicants to CSU in Fall 2011 were turned away, compared to 3.6 percent in Fall 2008.

Governor's Proposal. The Governor proposes a "Multi-Year Stable Funding Plan" for UC, CSU, and Hastings that would provide General Fund increases for each of the segments over the next four years (2013-14 through 2016-17). For 2013-14, the Governor provides 5 percent base increases of $125.1 million each for UC and CSU and $392,000 for Hastings. University funding would increase by an additional 5 percent in 2014-15 and 4 percent in each of the following two fiscal years.

These funding increases would only be provided if the segments' boards did not raise tuition during this period, and, for UC and CSU, enrollment levels were kept at least at current levels and specific outcomes targets are met. The Administration released its plan on outcomes just last week. The following seven performance measurements must increase annually by specific targets, and by a total of 10 percent during the four-year period:

- Four-year graduation rates;
- Two-year graduation rates for community college transfers;
- Number of community college transfers enrolled;
- Number of first-time freshmen completing degrees;
- Number of transfer students completing degrees;
- Number of Pell Grant recipients completing degrees; and,
- Undergraduate Degree Completions per 100 Full-Time Equivalent Students

For 2013-14, the segments would receive the 5 percent increase in funding under the proposal automatically if they provide data on the seven outcomes for the 2011-12 academic year, which would be used as the base year upon which performance targets would be compared. In subsequent years, the Administration proposes that it will provide the funding increase in its January budget proposal, but then require UC and CSU to submit performance data in March of each year for the preceding academic year. If UC or CSU does not meet its benchmarks for the year, funding would be taken out in the May Revise. Each target is worth an equal amount of funding; thus, a segment that hit 6 of 7 benchmarks for the year would receive 14 percent less than the overall increase.

In addition, the Administration notes that segments can receive partial funding if they don't hit a target but have shown some improvement since the year before, and they can recoup the total amount of funding lost in a previous year if they meet the following year's target.

The Department of Finance provided the chart on the following page to illustrate how this process might work. Each year, the universities face a specific percentage increase target, with the fourth year ending in a 10 percent increase over the baseline. The base numbers are currently-known numbers but will likely change once official data is supplied by the universities. For example, current 4-year graduation rates for UC and CSU are 61.5 percent and 15.9 percent, respectively. These rates would be expected to climb incrementally each year but grow to at least 67.7 percent and 17.5 percent after this period.

4-year Grad Rates	Baseline	1% Increase	3% Increase	6% Increase	10% Increase
UC	61.5%	62.1%	63.3%	65.2%	67.7%
CSU	15.9%	16.1%	16.4%	16.9%	17.5%

2-year Grad Rates for CCC Transfers	Baseline	1% Increase	3% Increase	6% Increase	10% Increase
UC	53.2%	53.7%	54.8%	56.4%	58.5%
CSU	23.3%	23.5%	24%	24.7%	25.6%

New CCC Transfers	Baseline	1% Increase	3% Increase	6% Increase	10% Increase
UC	15,784	15,942	16,258	16,731	17,362
CSU	37,172	37,544	38,287	39,402	40,889

First-Time Freshmen Degree Completions	Baseline	1% Increase	3% Increase	6% Increase	10% Increase
UC	34,001	34,341	35,021	36,041	37,401
CSU	34,482	34,827	35,516	36,551	37,930

CCC Transfer Students Degree Completions	Baseline	1% Increase	3% Increase	6% Increase	10% Increase
UC	14,368	14,815	15,108	15,548	16,135
CSU	39,009	39,399	40,179	41,350	42,910

Pell Grant Students Degree Completions	Baseline	1% Increase	3% Increase	6% Increase	10% Increase
UC	14,668	14,815	15,108	15,548	16,135
CSU	37,403	37,777	38,525	39,647	41,143

Undergrad Degree Completions per 100 FTE	Baseline	1% Increase	3% Increase	6% Increase	10% Increase
UC	26	26	27	28	29
CSU	24	25	25	26	27

STAFF COMMENTS/QUESTIONS

Instituting outcomes targets tied to state budgeting is a major policy shift for the state. Should this policy be enacted, it would likely become the central focus for both the UC and CSU systems for the next four years. Thus, the Subcommittee, and the entire Legislature, must consider this proposal carefully. Among the issues to consider are:

Does one size fit all? The Administration's proposal provides the same outcome measurements for both UC and CSU, and the same-targeted increases. This is despite much different student bodies, and missions. The State's Master Plan for Higher Education ascribes distinct missions to each of the segments. UC, for example, is the primary institution authorized to award doctoral degrees and professional degrees in law, medicine, business, dentistry, veterinary medicine, and other programs. This proposal only applies to undergraduate students, which does not include a key component of UC's mission.

Are these the right measurements and percentage increases? Are measurements appropriate at this time? While the seven proposed measurements seem generally to address basic issues within higher education, a more thoughtful process might develop more specific or different measurements. For example, the proposed measurements do not address the state's economic needs, or whether graduates are being hired upon leaving their campuses. It is also unclear why the Administration is seeking a 10-percent increase in each measurement; it's possible some of these increases might occur without additional funding. In addition, after years of state budget cuts, the Subcommittee may consider whether imposing outcome measurements with financial penalties is appropriate at this time.

This is a significant policy issue. Imposing a major change such as this by the June 15 deadline to enact a budget may not allow enough time for a thoughtful consideration of this idea. In addition, two pieces of current legislation may address this issue, which could allow for a more thorough public discussion. AB 1348 (Pérez), would create the California Higher Education Authority, an independent board that would, among other duties, develop, present and monitor postsecondary education goals for the state. SB 195 (Liu) establishes statewide goals for guiding budget and policy decisions in higher education by creating a working group to develop and recommend specific metrics for measuring progress toward these goals.

Both UC and CSU have concerns. Both UC and CSU officials have expressed initial concern with the proposal. UC officials note that some of the funding increase provided for 2013-14 may have to cover mandatory costs, such as retirement costs, leaving less funding to improve programs to achieve the targeted costs. In states where outcome measurements for higher education have been successful, agreement and cooperation from universities have been cited as a key to success.

Could there be unintended consequences? Increasing pressure on the systems to better graduation rates and produce more degrees could lead to less rigorous courses or programs, or grade inflation. In addition, it could lead to UC and CSU seeking out students who are historically more likely to complete their degrees, such as international students.

Suggested Questions

1. How did the Administration decide on these seven measurements? What other measurements were considered?

2. How did the Administration decide that a 10-percent improvement was the appropriate target?

3. Given their differing missions and differing student populations, does it make sense to enact the same performance measurements for both systems?

4. Have other states enacted a similar proposal? Have universities been penalized for failing to meet targets?

5. Could this lead to the systems seeking to enroll fewer students who might be less likely to complete their degrees, or to seek to enroll more students who are likely to complete their degrees, such as international students?

This proposal was just released to the Subcommittee last week, and is not yet in trailer bill language. Because this is a profound change in higher education funding and expectations, the Subcommittee may wish to hold this issue open for further discussion.

ISSUE 2: FUNDING CAPITAL OUTLAY

The issue for the Subcommittee to consider is the Governor's proposal to make significant changes to budgeting, funding, and oversight of UC, Hastings, and CSU construction projects. The proposal would shift bond debt service costs from a separate line item in the budget into the segments' main appropriation, limit the amount of funding the segments could use to fund capital projects, and limit legislative oversight of proposed capital projects.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- University of California
- California State University
- Hastings College of the Law

BACKGROUND

Traditionally, the Governor's January Budget proposal has included specific line items detailing proposed construction projects for UC, CSU, and Hastings, including the funding source, such as General Obligation (GO) bonds or Lease Revenue (LR) bonds. This allows for legislative review and public discussion of all capital projects. For CSU and Hastings, this funding is limited primarily to instructional and administrative space, while the state supports those functions as well as research space at UC.

In the last ten years, the LAO reports that the state spent an estimated $10.1 billion on higher education infrastructure for UC, CSU, and the California Community Colleges. About 80 percent of that support came from GO bonds and an additional 19 percent from LR bonds. Associated higher education debt-service costs more than doubled during this same time period, from about $516 million in 2000-01 to an estimated $1.1 billion in 2010-11. Most of the GO bond spending was from bonds approved by the voters in 1998, 2002, 2004, and 2006.

Currently, the remaining higher education GO bond authority for UC and CSU is nearly exhausted; Hastings' authority is completed exhausted. As contained in the "vote-only" section in this agenda, the remaining GO bond funds for UC and CSU are being allocated primarily to the final equipment phases of existing projects. Any new GO bond proposal would have to be placed on the ballot and approved by the voters. AB 41 and SB 301, which are currently pending action before policy committees, both propose a Kindergarten-University Public Education Facilities Bond Act of 2014 and authorize an unspecified sum of state general obligation bonds for education facilities.

The 2013 spring and fall LR bond sales will include previously approved and appropriated LR bond-funded projects for UC and CSU, effectively funding the last projects in the LR bond pipeline. There are no other LR bond-funded projects in the pipeline, as this Administration has not advanced any new LR bond-funded projects for either UC or CSU.

The segments have identified significant unmet capital outlay needs both in the long-term and for 2013-14. For 2013-14, both the UC and CSU governing boards adopted extensive state-funded capital outlay programs, with 39 projects totaling $788.5 million and 38 projects totaling $520 million, respectively. Hastings has identified long-term needs of $24 million, of which $22 million is designated as high priority. Highest priorities for each are listed in the table below.

Highest Priority Capital Outlay Projects

Campus	Project	Amount
UC Merced	Classroom and Academic Office Building	$45.1 million
UC Riverside	Batchelor Hall Building Systems Renewal	$13.8 million
UC Santa Barbara	Infrastructure Renewal Phase 1	$12 million
CSU Statewide	Infrastructure Improvements	$22.8 million
CSU Pomona	Administration Replacement Facility (Seismic)	$76.5 million
Hastings	100 McAllister Tower Classroom Expansion	$12.7 million

Both UC and CSU also have extensive deferred maintenance needs; UC reports $1.1 billion in need, of which $426 million is designated high priority, and CSU reports $1.7 billion in need, of which $462.9 million is designated high priority.

Governor's Budget Proposal. The Governor proposes several significant changes to the capital outlay process:

- Combines Capital and Support Budgets. Shifts a total of about $400 million in debt service costs for general obligation (GO) bond-financed capital improvements at UC ($201 million), CSU ($198 million), and Hastings ($1.2 million) into each segment's base budget; makes one last adjustment to UC and CSU budgets for lease-revenue (LR) bond debt service costs and then shifts the total LR debt service funding level of $221 million and $90.5 million, respectively, into each segment's base budget; and proposes no further augmentations or adjustments for either form of debt service payment going forward. Hastings does not currently have any state-issued LR bond debt.

- Limits on the Use of Combined Budget for Purposes of Capital Outlay. Proposes budget trailer bill language limiting use of the combined capital-support appropriation to fund pay-as-you go capital outlay projects. The limits are based on the current percent of debt service to the GF support appropriation; those percentages are 15, 12, and 17, for UC, CSU, and Hastings, respectively. Similar percentage limits are also placed on new authority for the segments to pledge their General Fund appropriation to: (a) issue their own debt for capital projects; and, (b) restructure their respective LR bond debt related to their projects (this latter issue is discussed in the next item in this agenda).

- Changes Project Approval Process. Proposes budget trailer bill language making any new capital expenditures subject to review and approval by the DOF and the Joint Legislative Budget Committee (JLBC) separate from the annual budget process. Projects using state funds would be limited to academic facilities needed for safety, enrollment growth, or modernization purposes, as well as infrastructure projects that support academic programs.

STAFF COMMENTS/QUESTIONS

The proposal makes major changes to the way the state and the segments interact on campus infrastructure projects.

The Administration suggests folding capital costs into the segments' main appropriation will require each segment to factor these costs into their overall fiscal outlook as they determine their year-to-year priorities. The Administration also believes this combined budget will provide the segments with more flexibility.

The LAO notes, however, that the Administration has not identified specific problems associated with the current process used to budget the segments' capital projects, nor identified any specific benefits the state might obtain from the proposal. In addition, removing these decisions from the annual budget process is also troubling, as it would effectively cede the Legislature's authority to make high-level decisions about annual expenditures, be they for support or capital outlay, on higher education. Shifting control over spending priorities away from the Legislature raises serious questions given that the universities are statewide, public institutions.

The LAO recommends rejecting this proposal.

In addition, this change is being proposed without any analysis of ongoing needs, not only for capital outlay, but also for deferred maintenance, for building stock constructed primarily in the 1940s, 1950s, and 1960s at existing campuses, let alone campuses that might be needed in the future. Rather, the budget proposal simply presumes the amount of debt service funding related to one fiscal year (2013–14) is an appropriate amount upon which to base ongoing needs yet offers no evidence to this effect.

For Hastings, this proposal does not work, due in large part to the relative size of its budget. Hastings' 2013-14 proposed General Fund appropriation is $9.5 million, with 13 percent of that accounting for debt service. The proposal would severely limit Hastings' ability to issue debt for capital projects, as the General Fund amount it would need to pledge is simply not large enough. In addition, high variability in debt service from previously issued debt will lead to wildly differing costs in the next seven years, and Hastings officials calculate that the amount provided to the college for 2013-14 would lead to a deficit of nearly $1 million over the next seven years.

It should be noted that the Administration is planning to release the 2013 Five-Year Infrastructure Plan this year that will outline infrastructure priorities for major state programs, including K-12 education, high-speed rail, and higher education. The Governor's Budget Summary notes that the plan will examine the state's overall needs and may make suggestions on alternative methods of financing future capital investment.

The Subcommittee may wish to wait for this proposal to be released before engaging in a broader dialogue about funding capital outlay for higher education and other state entities.

ISSUE 3: LEASE REVENUE BOND DEBT RESTRUCTURING PROPOSAL

The issue for the Subcommittee to consider is the Governor's proposal to allow UC and CSU to pledge their General Fund appropriation to restructure their state lease revenue bond debt.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- University of California
- California State University

BACKGROUND

The Public Works Board (PWB) was created by the Legislature to, among other functions; oversee the fiscal matters associated with construction of projects for state agencies. The PWB is also the issuer of LR bonds. The Legislature appropriates funds for capital outlay projects; through review and approval processes, the PWB ensures that capital outlay projects adhere to the Legislature's appropriation intent.

The state currently has about $2.5 billion in outstanding PWB-issued LR bond debt for projects built at UC. For CSU, the state currently has about $1 billion in outstanding PWB-issued LR bond debt. In 2013–14, the state will spend about $221 million and $90.5 million, respectively, to service this debt.

Debt refunding (or refinancing) allow for issuance of new bonds at a lower interest rate but for the same (or shorter) term to realize cash-flow savings, similar to refinancing a home mortgage. The state routinely refinances its debt to take advantage of lower interest rates. In these transactions, the state keeps the same repayment schedule or shortens it and saves money on interest costs

Debt restructuring transactions allow for issuance of new bonds with a different debt schedule. Debt restructuring can result in cash flow savings, but also typically means paying more in interest costs. The state does not restructure its debt to longer repayment periods for this reason.

Governor's Budget Proposal. The Governor's Budget proposes trailer bill language to authorize UC and CSU to pledge their General Fund appropriation to restructure their respective state Public Works Board-issued lease-revenue (LR) bond debt. Under the proposed language, the pledged amount is limited to 15 and 12 percent of the total GF appropriation, respectively, which is the current percent of debt service cost to GF support appropriation for UC and CSU.

The Administration indicates it is proposing the trailer bill language to provide the segments with the authority to restructure debt at better rates and produce budgetary savings. Under the budget proposal, UC and CSU would be granted the authority to repay the state's bondholders the $2.5 billion and $1 billion, respectively, owed to them by issuing their own bonds on their own terms.

The trailer bill language was modified by a Spring Finance Letter to state that the Department of Finance approves UC using this new authority to restructure its LR bonds to generate savings sufficient to fund the $45.1 million construction phase of the UC Merced Classroom and Academic Office Building project from its support budget.

In response to the Governor's proposal to allow the universities to restructure state infrastructure-related debt, UC has developed two potential restructuring scenarios. (The CSU has not yet presented a proposal.) Under both of UC's scenarios, UC would restructure the existing LR debt over a 40-year period. Under the state's current repayment schedule, this debt would be retired fully in half that time.

Under UC's first scenario, the restructured debt is entirely fixed rate; under the second, the restructured debt is 70 percent-fixed rate, and 30 percent variable rate. Because UC would extend the repayment period so far into the future, UC estimates it could lower the annual debt service payment by about $80 million a year for ten years under both scenarios. Additional savings under the second scenario include $30 million a year for the next nine years. Under both scenarios, after year ten and year nineteen, respectively, the university would begin paying a few million dollars more in debt service annually than under the current repayment schedule. This difference would increase significantly in later years, such that under the first scenario, over the life of the restructured debt, UC estimates it would pay an additional $2.1 billion. In today's dollars, this means the restructuring would cost nearly $400 million. Under the second scenario, the additional cost in today's dollars is $4.3 million.

STAFF COMMENTS/QUESTIONS

The LAO notes that the pushing debt out to years in which there otherwise would be no debt service risks making investments in future facilities more difficult. For example, the university may have difficulty undertaking as many new capital projects 30 years from now as it otherwise could because it still would be paying off debt issued over 30 years earlier. Faced with such a situation, UC likely would have to: (1) forgo capital projects it otherwise would have undertaken; (2) redirect funding that otherwise would have gone to support instruction or research; (3) seek additional funding from the state; and/or (4) increase student tuition.

The LAO recommends rejecting this proposal.

Debt restructuring is inherently a form of budgetary borrowing, as it effectively removes the connection between the financing and usable life of the asset. It may well free up cash in the short term, but in the longer term debt restructuring requires payment of more interest.

Both scenarios provided by UC are troublesome. The first scenario, which is 100 percent fixed rate, is quite costly. The second scenario, where the debt is 70 percent-fixed rate and 30 percent variable rate, is less costly but more risky as UC would be subject to risk assumptions about variable rate debt.

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

ISSUE 1: BUDGETARY CONTROLS – STATE PRIORITIES AND ENROLLMENT TARGETS

The Governor's Budget contains no state priorities related to the main General Fund appropriation for UC and CSU except for one, which would set aside $10 million for each segment to increase the number of courses available through the use of technology. The Budget also does not include enrollment targets for either UC or CSU. The issue for the Subcommittee to consider is whether the Legislature should include state priorities and enrollment targets into the budget.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- University of California
- California State University

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.

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.

Due to the Governor's vetoes, the Budget Act of 2012, for the first time, included minimal state priorities in UC's and CSU's budgets. The table below details the priorities included in the Budget Act of 2011.

State Priorities for Budget Act of 2011

UC		CSU	
Separately Scheduled General Fund Appropriations		Separately Scheduled General Fund Appropriations	
$8.7	Charles R. Drew Medical Program	$3.0	Assembly, Senate, Executive, & Judicial Fellows Programs
$9.2	AIDS research	$65.5	Lease-purchase bond debt service
$52.2	Student Financial Aid		
$3.2	San Diego Supercomputer Center		
$5.0	Subject Matter Projects		
$15.0	UC Merced		
$202.2	Lease-purchase bond debt service		
$4.8	Cal Institutes for Science & Innovation		
Provisional Language		Provisional Language	
$2.8	Energy service contracts	$2.7	Science and Math Teacher Initiative
$1.9	COSMOS	$0.6	Entry-level master's degree nursing programs
$1.1	Science and Math Teacher Initiative	$1.7	Entry-level master's degree nursing programs
$2.0	PRIME	$0.4	Baccalaureate degree nursing programs
$1.7	nursing enrollment increase	$3.6	Baccalaureate degree nursing programs
$3.0	2/12/09 MOU for service employees	$33.8	Student financial aid
		$0.35	Txfr to Affordable Student Housing Revolving Fund

Source: Legislative Analyst's Office

All of the proposed UC items were vetoed out in 2012, and most of the CSU items also were vetoed out in 2012. In the interim, informal "side agreements" with UC have ensured continued funding for many of the earmarked programs at the designated levels. However, this approach provides no public transparency or accountability.

With regard to enrollment targets, historically UC's and CSU's budget have been tied to a specified enrollment target. To the extent that the segments failed to meet those targets, the state funding associated with the missing enrollment reverted to the General Fund. In the Budget Act of 2011, enrollment targets were included in both the budget bill and/or in statute but without any penalty should UC or CSU fail to meet its target. This was in recognition of the overall reductions to their budgets. The Governor vetoed out enrollment targets in the 2012 Budget Act, but the targets were included in a budget trailer bill.

STAFF COMMENTS/QUESTIONS

Absent the use of state priorities and enrollment targets, it is unclear what, if any, levers or tools would remain that are as effective and would ensure that state funds are spent in a manner consistent with the Legislature's intent.

The state priorities in question are a small portion of the UC and CSU budgets, leaving their respective boards with significant control over a large majority of their spending. The priorities represent a fair balance between legislative direction and budgetary flexibility for UC and CSU. The inclusion of state priorities in the budget bill also provides a clear public record of budgetary allocations and expectations.

It also should be noted that the while the Governor appears to oppose Legislative priorities, he has included one of his own, regarding new spending on technology.

Enrollment levels are irrefutably a fundamental building block of higher education budgets. The number of students enrolled is a direct measurement of the "access" provided to higher education. In recent years, UC has increased the number of out-of-state and international students it enrolls, largely in response to state budget cuts. Further, enrollment levels are a central cost driver for the segments and drive other costs, such as state financial aid. For all of these reasons, enrollment targets have been a longtime legislative concern.

With no target, as proposed by the Governor, UC and CSU will be empowered to make their own decisions about how many students to enroll with the funding available to them in 2013-14. For example, they could significantly reduce the number of students served, thus raising the amount of funding available per student. Or they could reduce the number of undergraduates served, and use the funding to add a smaller number of higher-cost graduate students. Enrollment decisions have implications not just for educating students, but they also have a profound effect on the level of access provided at each segment. For these reasons, the LAO recommends the Legislature reject any proposal to eliminate enrollment targets.

<u>Suggested Questions</u>

1. Why did the Administration include its own priority and leave out the historic legislative priorities?

2. With no enrollment target, what assurances does the Legislature have that UC and CSU will continue to serve all students eligible for their institutions under the Master Plan? What recourse is available if the segments fail to do so?

3. UC and CSU, where are you in the Fall 2013 admission process; how does the number of eligible applicants compare with this time last year?

4. Without tying funding to enrollment, will the Administration and Legislature have any say in determining how many California residents attend the UC, versus out-of-state or international students? How will UC determine that it has met California's needs before allowing excess capacity to go for increasing the number of non-resident students?

At its March 14, 2013 hearing, Senate Subcommittee No. 1 voted to direct staff to work on a package of state priorities for UC and CSU, and to direct the LAO to develop a recommendation for an appropriate enrollment target for UC and CSU.

ISSUE 2: CAPS ON STATE-SUBSIDIZED COURSES

The issue for the Subcommittee to consider is the Governor's proposal to cap the number of units the state would subsidize per student at UC and CSU. Under the proposal, students taking units in excess of the cap generally would be required to pay the full cost of instruction.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- University of California
- California State University

BACKGROUND

Currently there are no state level limits on the number of units the state subsidizes per student.

Governor's Proposal. Through trailer bill language, the Governor proposes that in 2013-14 and 2014-15, students would be limited to 150 percent of degree requirements, which equates to 270 quarter-units at UC and 180 semester-units at CSU. The limit would be reduced in 2015-16 and ongoing to the equivalent of about one extra year of full-time attendance, or 125 percent of degree requirements.

The unit cap applies to all students, including those attending and enrolled prior to 2013-14. The unit cap is also a "lifetime proposal;" i.e., it applies to former students who might be returning to college later in life. Once a student exceeds the unit cap, that student will have to pay the full costs of those additional courses, which is the nonresident tuition rate.

The following course units are specifically excluded from counting against the unit cap: (1) remedial courses; (2) advanced placement or international baccalaureate units that were obtained while in high school or another secondary school program; and (3) dual enrollment, college-level units obtained by the student prior to receiving a high school diploma.

The UC and CSU governing boards would be required to adopt guidelines and criteria for granting waivers on a case-by-case basis to students who exceed the allowed cap "due to factors beyond their control" and allow these students to continue to only pay state-supported systemwide tuition and fees.

The Administration does not budget any savings from this proposal, either in 2013-14 or in 2014-15. The Governor argues that this proposal will encourage students to complete their degrees in a more timely manner, which will reduce costs for students and the state and increase access to more courses for other students.

STAFF COMMENTS/QUESTIONS

This proposal is similar to one made for the community college system. That proposal was rejected by this Subcommittee at its April 10, 2013 hearing.

According to information provided by UC, about 2,200 senior-level students may graduate this year with more than 150 percent of required units, or less than 5 percent of the total senior-level student body. About 6,700 students may graduate with more than 125 percent of required units, or about 15 percent of this population.

CSU estimates that about 2,100 seniors, or 1.5 percent of senior-level students, may graduate with more than 150 percent of required units. About 10,700, or 7.5 percent of seniors, may graduate with more than 125 percent.

There is no study or definitive explanation for why students may take excessive units; therefore, it is unclear what kinds of students might be impacted by this change. UC officials note that the majority of students who accumulate large numbers of units are enrolled in multiple majors, or majors with high unit requirements. CSU officials suggest students with a high number of units may have changed majors multiple times or may take additional courses to raise their grade point average to be more competitive for postgraduate work.

CSU students suggest, however, that some students may have a high number of units because they have found it difficult to enroll in the classes they need to graduate during the past few years, when CSU has reduced courses due to constrained budgets.

Efforts are already underway at both UC and CSU to reduce the time it takes students to graduate.

UC reports several campus-specific efforts to reduce excess course-taking and improve on-time graduation rates. For instance, UCLA pioneered “Challenge 45,” whereby the campus asked all of the departments in Letters and Sciences to see if they could reduce upper division BA/BS degree requirements to 45 units. More than 2/3rds of the departments responded and now have major requirements at or much closer to 45 units. Many campuses are also using degree audit systems, which allow advisors and departments to identify students who are missing required courses. Finally, a number of majors at all the campuses are re-ordering sequences and prerequisites so students do not get too far into majors before attempting difficult courses result in them changing majors and having to take extra courses.

CSU has also engaged in a variety of efforts to reduce excess course-taking and improve on-time graduation rates. CSU campuses have adopted strategies to improve course availability, including four-year pledge programs, which guarantee a four-year degree to full–time students who follow a specified academic plan and maintain a specified grade point average. In January 2013, the CSU Board of Trustees adopted a policy capping the number of units that campus programs may require for a bachelor's degree to 120, with limited exceptions.

The LAO recommends approving this proposal with the following specific provisions: (1) exclude from the cap units earned through other agencies, by internal evaluation, and for unsubsidized courses as long as they do not contribute to FTE student counts; (2) prohibit students from being allowed additional state-subsidized units for double majors; (3) cap the number of failed and dropped courses the state subsidizes; (4) provide additional guidance regarding waivers to avoid an excessive number of appeals; and (5) delay implementation until 2015-16 to provide adequate notice to students and permit the segments to develop systems to identify and monitor excess units as students enroll.

Suggested Questions

1. Doesn't this proposal ignore the realities of the current situation including the severe capacity issues brought on in large part by state level budgetary reductions?

2. What other situations would be considered factors beyond a student's control?

3. Is it feasible to expect that your respective governing boards could develop waiver policies and have them in place for the 2013-14 academic term?

This proposal appears to be a harsh penalty for students, who have struggled to enroll in classes they need to graduate, particularly at CSU. UC officials do not believe this is a problem in their system. In addition, the proposal does not include any increase in counselors or advisors to help students navigate their campuses more effectively.

ISSUE 3: TECHNOLOGY FUNDING

The issue for the Subcommittee to consider is the Governor's proposal to set aside $10 million from the increased General Fund appropriation for UC and CSU to expand the number of courses through technology.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- University of California
- California State University

BACKGROUND

Both the UC and CSU systems already offer numerous online courses.

UC reports that systemwide there are 225 fully online courses that can count toward UC undergraduate degree programs, 116 offered through typical undergraduate offerings and 109 available for credit through UC Extension. In addition, there are 110 graduate online courses and three online masters programs, with several more going through the approval process. Each UC campus either has completed, or is in the process of developing, a strategic plan for online education.

CSU reports that its campuses offer over 15,000 online and hybrid courses and 84 hybrid and online degree programs. Online courses are available at all 23 campuses. The CSU system maintains an updated database of all campus online and hybrid degree programs and uses this site to market said programs. System efforts have also focused on facilitating a coordinated effort to purchase, develop, implement, and support learning management systems, which are the tools by which these courses are developed.

With this expansion have come concerns regarding the quality of instruction, which types of courses are most appropriate as an online offering, and the overall costs of funding a major expansion.

Governor's Proposal. Budget bill provisional language specifies that the new funding:

- Create high-demand courses that fill quickly and are required for many different degrees;
- Develop new courses that can serve greater numbers of students while providing equal or better learning experiences;
- Tuition fees will be the same as for regular courses.

STAFF COMMENTS/QUESTIONS

In response to the Governor's proposal, both the UC and CSU systems have begun developing proposals to use the new funding.

UC held a systemwide Academic Senate meeting earlier this month to discuss the proposal. Officials state that the main focus of the new funding would be to develop a system that would allow a student at one UC campus to take an online course through another UC campus, which is intended to help students finish degrees more quickly.

CSU is planning a four-pronged approach to utilize online and related technology to augment offerings of bottleneck courses, improve student success in these courses, and improve the flow of students through these courses as follows:

- Student Readiness and Curricular Bottlenecks. Redesign courses using technology to reduce D, F and W rates and thereby reduce the number of "seats" taken up by students needing to repeat courses, and use technology to scale up these redesigned courses across the system;

- Place-bound Bottlenecks. Identify successful online courses across the system and make them available through a systemwide schedule of classes.

- Facilities Bottlenecks. Scale up the use of virtual labs and lecture capture strategies to increase enrollment in general education or pre-requisite Science, Technology, Education, and Mathematics (STEM) requirements and high-demand lecture courses.

- Student Advising and Predictive Scheduling. Improve the university's ability to plan and offer classes at the right times to meet student demand through E-advising systems.

CSU intends to issue request-for-proposals to campuses interested in developing programs in any of the four above areas.

While investing in technology could improve student outcomes and lower the cost per degree, this proposal has very little detail, and it is unclear if $10 million will truly bring dramatic improvements to each system. Faculty groups with each system are concerned about maintaining quality education.

Finally, as currently written, this is a very different process from how state government typically handles information technology projects. State agencies seeking to develop new IT system must create lengthy reports that are reviewed by both the California Technology Agency and the Department of Finance, and finally the Legislature, before they are funded. These checks and balances have been developed in large part because of past failed projects that wasted significant amounts of money. In this proposal, there is no requirement that the segments even report back to the Legislature on how they spent the funding or what outcomes the Administration is expecting.

The LAO questions whether specific funding is needed, and instead suggests a better approach would be to encourage faculty to share online content for reuse. The LAO recommends that the Legislature provide one of the segments with a small portion of one-time funding to administer a competitive grant program that would provide grants to faculty (from any of the segments) to modify, as needed, their existing online curricula or create a new online course. To assure quality, courses would be reviewed by other faculty in the field. Assuming an average grant amount of $20,000, a $1 million augmentation would fund the modification or development of 50 open online courses, according to the LAO.

Suggested Questions

1. How will the Legislature and Administration determine if the funding was well spent? What outcomes are expected?

2. Why is new money needed for this?

3. Will both segments have a formal proposal in writing before the Legislature is expected to vote on whether this funding is appropriate?

The Subcommittee may wish to hold this item open to allow UC and CSU to continue developing a specific proposal.

ISSUE 4: TOTAL COST OF EDUCATION REPORTING LANGUAGE

The issue for the Subcommittee to consider is the Governor's proposal to require both UC and CSU to report biennially on the total costs of education, on a systemwide and a campus-by-campus basis, broken down by undergraduate instruction, graduate instruction, and research activities.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- University of California
- California State University

BACKGROUND

A July 2011 report by the California State Auditor concluded that UC's budgeting process results in higher-than-average amounts budgeted per student for certain campuses while other campuses received much lower levels per student, and the four campuses with a higher-than-average proportion of students from underrepresented racial or ethnic groups all received less than average amounts of funding per student. The audit also found that UC could improve transparency by providing additional financial information and providing it more consistently.

In response to this audit, the Budget Act of 2012 included Supplemental Report Language (SRL) that required UC to report to the Legislature: (1) the recommendations of the systemwide working group established to examine variations in funding across the system, and (2) how much General Fund and tuition each campus spends per type of student (undergraduate, graduate, and health sciences). UC reported on the first component but said it could not on the second because there was no correlation between marginal cost funding per student provided by the state and what a given campus might be allocated for each type of student.

Governor's Budget Proposal. Trailer bill language requires both UC and CSU to report biennially to the Legislature and DOF, beginning October 1, 2014, on the total costs of education, on a systemwide and a campus-by-campus basis, segregated by undergraduate instruction, graduate instruction, and research activities. Further, the proposed language requires the costs be reported by fund source, including: (1) state General Fund; (2) systemwide tuition and fees; (3) nonresident tuition and fees and other student fees; and (4) all other sources of income. Finally, the language states that, for purposes of the report, undergraduate and graduate research for which a student earns credit toward their degree program shall be included under instructional costs.

STAFF COMMENTS/QUESTIONS

The trailer bill language is intended to provide more information about the costs associated with education in both systems and addresses the auditor's concerns. This information is crucial to the Legislature's work to continue making key high-level decisions about these statewide, public institutions. Delaying the first report until October 2014 also allows UC and CSU ample time to plan and prepare for this new reporting requirement.

Both UC and CSU object to this requirement, stating that it will be too costly to gather and report. In addition, greater clarity may be needed, as terms such as "educational and general" costs are used in the language but not defined. Additionally, greater clarity could be provided to the final sentence of the language, as it is somewhat unclear what is being requested. It appears the basic intent is to ensure that, when a faculty member is allocating his/her time, the amount of time spent supervising students conducting research for credit would be counted as an instructional cost as opposed to a research cost. If so, the language could be improved.

The Administration has signaled a willingness to work with the segments and the Legislature to clarify language and provide a reporting requirement that answers key questions without being too costly.

6610 CALIFORNIA STATE UNIVERSITY

ISSUE 1: EMPLOYER PENSION CONTRIBUTIONS

The issue for the Subcommittee to consider is the Governor's proposal to freeze the state's contribution to CSU pension costs based on the system's 2012-13 payroll.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California State University

BACKGROUND

Under state law, CSU is required to participate in the California Public Employees' Retirement System (CalPERS). The university system's annual contribution to CalPERS is determined by multiplying its payroll costs by its employer contribution rate. In 2012-13, for example, CSU had an estimated $2.2 billion in payroll subject to CalPERS, an employer contribution rate of 21 percent (for most of its payroll), and a resulting CalPERS contribution of $463 million. Each year, the state adjusts CSU's budget (as it does for other state departments) to account for changes in retirement costs due to changes in payroll and employer rates. The Governor's Budget provides a $51.4 million General Fund increase for CSU to account for increases in CSU's required employer pension contribution.

Governor's Budget Proposal. Starting in 2013-14, the Governor proposes that future adjustments to CSU's budget for retirement costs be based permanently on 2012-13 payroll costs. According to the administration, this would require CSU to consider full compensation costs for any decision to increase its payroll.

STAFF COMMENTS/QUESTIONS

Unlike most other state employees, the state does not collectively bargain with CSU employees; the CSU administration does the bargaining.

The LAO notes the Governor's proposal would provide an incentive for the university to consider retirement costs in its hiring decisions. Right now, the university likely ignores these costs because they are automatically covered by the state. Because the university no longer would receive automatic budget adjustments above the current payroll level, the Governor's approach would incentivize CSU to be more cautious in its hiring and use its existing resources more efficiently. This could reduce both payroll costs and future retirement costs. At the same time, the proposal reasonably allows for future budget adjustments related to the university's existing payroll to account for rate changes made by CalPERS. The LAO recommends approving this proposal.

Both the CSU administration and faculty association are concerned about the use of the 2012-13 payroll as a baseline. According to CSU data, the system had 47,124 employees in the 2007-08 year, but 44,364 employees in 2012-13. The system has lost nearly 3,000 employees due largely to budget cuts, and CSU officials argue the 2012-13 employee numbers are artificially low.

Suggested Question

1. If the 2012-13 year is an artificially low year to use as an employee baseline, what is the appropriate year? Is the administration open to accepting a different year?

2. How would this proposal impact the CSU's ability to expand course options for students?

The Subcommittee may wish to hold this item open to allow for further discussion on the impacts this proposal would have on the system and, if adopted, what baseline year would be appropriate.

ISSUE 2: CSU HEALTH CARE PLAN PREMIUM RATES

The issue for the Subcommittee to consider is the Governor's proposal to provide CSU with the same statutory authority to negotiate or set employee health care plan premium rates that is provided to the California Department of Human Resources (CalHR) for other state employees. By specifying that this item of compensation be negotiated through collective bargaining like other compensation issues, the language would allow the CSU to impose changes to health care plan premium rates as part of a last, best, final offer.

PANELISTS

- Department of Finance
- Legislative Analyst's Office
- California State University

BACKGROUND

State law in effect since 1991 specifies that CalHR shall establish employer contribution amounts for health care plan premium rates for: (1) non-represented state employees through administrative action and (2) represented state employees through the collective bargaining process. State law allows that changes to these rates can be imposed as part of a last, best, final offer. At present, state payments for health care plan premium rates are at the 80/80 level; a minority of state employees in selected bargaining units are at an 85/80 level. This translates to most state employees contributing roughly 20 percent of the health care plan premium costs for themselves (and any dependents).

CSU is governed by law that predates the above and sets a "default" requirement that CSU health care plan premium rate payments for employees equal 100/90, whereby CSU is paying 100 percent of the weighted premium cost for employees and 90 percent for any dependents. This section may be superseded by negotiated bargaining agreements, but in the absence of such agreements, the default formula prevails. Finally, if the provisions of the negotiated bargaining agreement require the expenditure of funds, the provisions may not become effective unless approved by the Legislature.

In 2012-13, CSU will spend an estimated $355 million on active employee health premium rates.

Governor's Budget Proposal. The January budget proposes budget trailer bill language to provide CSU with the same statutory authority to negotiate or set employee health care plan premium rates that is provided to the California Department of Human Resources (CalHR) for other state employees. The language does not specify what the CSU employer contribution rate should be; rather, it provides that it cannot be less than an amount equal to 80 percent of the weighted average of the total premium cost of the four health care plans with the highest enrollment of state employees and 80 percent of the weighted average of the additional premium cost for dependents (80/80 level).

By specifying that this item of compensation be negotiated through collective bargaining like other compensation issues, the language would allow the CSU to impose changes to health care plan premium rates as part of a last, best, final offer. The Administration does not budget any savings from this proposal, either in 2013-14 or in 2014-15.

A similar proposal was included as part of the 2012-13 May Revision but was not part of the final budget.

STAFF COMMENTS/QUESTIONS

The Governor is raising a legitimate point about providing CSU with the same tools as CalHR to better manage and negotiate the entirety of its personnel costs, including employee health care plan premium rates. CSU administration backs this proposal, saying the current process hinders their efforts to bargain over health care plan premium rates.

This proposal effectively provides CSU as an employer with greater leverage at the bargaining table. In addition, CSU reports that it has never put this request (to change the 100/90 contribution share) on the bargaining table. Thus, it is unclear whether the current law actually hinders collective bargaining as CSU administration contends, raising the question of whether this proposal is addressing an actual problem.

At its March 14, 2013 hearing, Senate Subcommittee No. 1 rejected this proposal.

In addition, this is not a budget issue: The Administration does not budget any savings from this proposal, either in 2013-14 or in 2014-15.