

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Kevin McCarty, Chair

TUESDAY, APRIL 30, 2019
9:00 AM, STATE CAPITOL, ROOM 447

CALIFORNIA STUDENT AID COMMISSION, CALIFORNIA STATE LIBRARY,
HASTINGS COLLEGE OF LAW

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ITEMS TO BE HEARD

6980 CALIFORNIA STUDENT AID COMMISSION

The Governor's Budget proposes about \$1.6 billion in General Fund support for the California Student Aid Commission (CSAC) in 2019-20. Overall revenue for CSAC in 2019-20 includes \$1.1 billion in federal Temporary Assistance for Needy Families (TANF) funding and is estimated to be about \$2.7 billion total. The chart below was compiled by the LAO and indicates funding based on the Governor's Budget.

California Student Aid Commission Budget

(Dollars in Millions)

	2017-18 Actual	2018-19 Revised	2019-20 Proposed	Change from 2018-19	
				Amount	Percent
Spending					
Local Assistance					
Cal Grants	\$2,105	\$2,271	\$2,560	\$289	12.7%
Middle Class Scholarships	100	103	106	3	2.8
Chafee Foster Youth Program	13	18	18	—	—
Student Opportunity and Access Program	8	8	8	—	—
Assumption Program of Loans for Education	5	3	1	-2	-55.2
Other programs ^a	3	6	3	-2.9	-47.8
Subtotals	(\$2,234)	(\$2,408)	(\$2,696)	(\$288)	(11.9%)
State Operations	\$16	\$21	\$22	\$0.9	4.1%
Totals	\$2,249	\$2,430	\$2,719	\$289	11.9%
Funding					
General Fund	\$1,185	\$1,337	\$1,626	\$289	21.6%
Federal TANF	1,043	1,066	1,066	—	—
Other federal funds and reimbursements	16	21	21	— ^b	0.1
College Access Tax Credit Fund	5	6	6	—	—
^a Includes Cash for College, Child Development Teacher/Supervisor Grants, Every Kid Counts, John R. Justice Program, Law Enforcement Personnel Dependents Scholarships, Military Department GI Bill Awards, and State Nursing Assumption Program of Loans for Education for Nursing Faculty.					
^b Less than \$500,000					
TANF = Temporary Assistance for Needy Families.					

ISSUE 1: STUDENTS WITH DEPENDENT CHILDREN AWARDS

The Subcommittee will discuss the Governor's Budget proposal to provide Cal Grant recipients with children additional support for non-tuition costs.

PANEL

- Bijan Mehryar, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- David O'Brien, Community Student Aid Commission

BACKGROUND

Total Cost of Attendance Includes Both Tuition and Living Costs. Apart from tuition, college students incur costs for housing, food, transportation, books, and personal expenses. For many students, these nontuition costs exceed their tuition costs.

State Provides Cal Grant B and C Recipients With Non-tuition Coverage. The nontuition component of these awards is described below.

- **Cal Grant B Access Award.** The Legislature created this award in the late 1960s with the intent of helping students from disadvantaged backgrounds pursue higher education. Today, this award provides low-income students with up to \$1,648 annually to cover living costs. In 2017-18, about 243,000 students across all segments (public and private) received this award.
- **Cal Grant C Book and Supply Award.** The Legislature created this award in the early 1970s to help financially needy students pursue career technical education. This award provides low- and middle-income students with \$1,094 annually at CCC and \$547 annually at private colleges. In 2017-18, about 8,000 students received this award.

In addition to Cal Grants, other state and federal aid programs assist students with their living expenses.

Student Parents Comprise 9% of Cal Grant Recipients. In 2017-18, about 371,000 students received a Cal Grant A, B, or C. About 32,000 (9 percent) of these students had a dependent child or children. Most student parents awarded a Cal Grant received a competitive award. Two-thirds of student parents awarded a Cal Grant attended CCC, and 20 percent attended CSU.

Figure 37**Profile of Student Parents Receiving Cal Grants**

2017-18

	Number	Percent
Recipients by Award Type:^a		
Competitive award	25,215	79%
Cal Grant C	3,149	10
High School Entitlement award	2,217	7
Transfer Entitlement award	1,270	4
Totals	31,851	100%
Recipients by Segment:		
California Community Colleges	21,392	67%
California State University	6,475	20
Private for-profit schools	1,600	5
Private nonprofit schools	1,589	5
University of California	766	2
Other public schools	29	— ^b
Totals	31,851	100%
^a Reflects new and renewal awards.		
^b Less than 0.5 percent.		

Most Student Parents Eligible for a Cal Grant Do Not Receive an Award. Under state law, only recent high school graduates and university students who transferred from a community college by a certain age are guaranteed a Cal Grant entitlement award. Most student parents do not meet these criteria and must instead apply for a competitive award. State law authorizes a limited number of competitive awards annually. Each year, the number of eligible applicants for new awards significantly exceeds the number of authorized new awards. Of about 62,000 student parents who were eligible for a new competitive award in 2017-18, about 44,000 (71 percent) did not receive one.

GOVERNOR'S 2019-20 BUDGET PROPOSAL

The Governor's Budget proposes \$122 million ongoing General Fund increase to support non-tuition costs for student parents. As Figure 38 shows, the proposal would create a Cal Grant A Access award and would increase the size of the Cal Grant B Access award and Cal Grant C Book and Supply award for eligible student parents. The maximum grant for student parents attending full time would range from \$4,000 to \$6,000, depending on the award type. As with all Cal Grants, the award amount would be prorated downward for part-time students. Only student parents enrolled at CCC, CSU, and UC would be eligible for the higher grants. Student parents attending private

colleges would be ineligible. The Administration's \$122 million cost estimate assumes that most eligible student parents would receive the maximum award. The administration will likely adjust this estimate downward at May Revision to account for student parents who enroll part time.

Figure 38

Proposed Increase in Nontuition Coverage for Student Parents

Maximum Annual Award for Full-Time Students at Public Segments

Award	Current Award Size	Award Size Under Governor's Proposal
Cal Grant A Access	—	\$6,000
Cal Grant B Access ^a	\$1,648	6,000
Cal Grant C Book and Supply	1,094	4,000

^a Excludes \$24 add-on from College Access Tax Credit.

LAO ASSESSMENT AND RECOMMENDATIONS

Assessment

Governor Identifies Potentially Important Area of Need, but Proposal Has Downsides. Student parents typically have higher living costs than other students. Beyond paying for child care, student parents provide food and cover other living costs for their dependents. Though student parents might benefit from additional financial aid, the Governor's specific proposal for addressing their needs raises several concerns. Below, we describe three concerns with the proposal, then we discuss two areas where we believe additional information would allow policymakers to support student parents more effectively.

Proposal Further Complicates Financial Aid System for Students. Over the past few years, the Legislature has expressed an interest in making the state's financial aid system easier for students to understand and navigate. Much of this conversation has centered around streamlining the Cal Grant program, which currently consists of multiple award types that each have different rules regarding eligibility and award amounts. The Governor's proposal to increase non-tuition coverage for student parents acts counter to this objective. Rather than streamlining the Cal Grant program, the Governor's proposal creates a new award (the Cal Grant A Access award), adds tiers to two existing awards (the Cal Grant B Access award and the Cal Grant C Book and Supply award), and introduces a new set of eligibility criteria and rules that applies only to one subset of financially needy students.

Proposal Does Not Strictly Target Aid Toward Highest-Need Students. A student's financial need is determined primarily by a federal formula, which takes into account family size. While all Cal Grant recipients have financial need, the level of need varies widely. Because the Governor's proposal provides additional aid based on a student's parental status rather than financial need, the proposal could have unintended distributional consequences. For example, the proposal could provide an additional \$6,000 in aid to a student parent receiving a Cal Grant A award, while providing no additional aid to a lower-income dependent student receiving a Cal Grant B award. This is inconsistent with a need-based approach to prioritizing funding.

Under Proposal, Most Student Parents Still Would Not Receive a Cal Grant. Based on recent caseload data, the Administration estimates that about 29,000 student parents would receive the proposed Cal Grant awards. Tens of thousands of other financially needy student parents, however, would not benefit from the proposal. Specifically, we estimate about 44,000 eligible student parents with financial need would not receive any Cal Grant award because of the limited number of competitive awards authorized each year. Additionally, we estimate another 3,000 student parents would not benefit from the proposal because they are attending private colleges.

More Information Needed on Other Public Assistance for Student Parents. Currently, state agencies do not collect and report comprehensive data on student parents' participation in programs such as CalWORKs, CalFresh, and subsidized child care and preschool. As a result, policymakers have a limited understanding of the total benefits that student parents receive across these programs. Data on this issue would allow the Legislature to better understand the extent to which these programs collectively meet student parents' needs and how much unmet need remains. The Legislature also may wish to explore options for (1) improving coordination between student financial aid and public assistance programs or (2) delivering students' non-tuition coverage all through one system. (As the Legislature evaluates its options, it likely will face tradeoffs between expanding non-tuition coverage for students and expanding public assistance for low-income individuals more broadly.)

State in Midst of Collecting Updated Cost of Attendance Data. CSAC is currently administering the Student Expenses and Resources Survey (SEARS) for the first time since 2006-07. This survey collects data on what students in various demographic groups (including students with dependents) spend on housing, food, transportation, child care, and other living costs. CSAC anticipates that survey results will be available in fall 2019. These data on living costs, coupled with information on unmet financial need, would allow the Legislature to make more informed decisions about non-tuition coverage for student parents.

Recommendation

Reject Governor's Proposal, but Consider Further Study of Student Parents' Unmet Needs. The Governor's proposal to expand non-tuition coverage for student parents would further complicate the state's financial aid system and could have unintended distributional effects. For these reasons, we recommend the Legislature reject this proposal. The proposal, however, raises important questions about the unmet financial need of student parents. If the Legislature wishes to pursue further information in this area, it could request that CSAC, the segments, and relevant social services agencies assess the costs facing student parents and the extent to which current financial aid and public assistance programs meet student parents' needs.

STAFF COMMENT/QUESTIONS

This proposal expands state support for needy students, a key Assembly goal. And staff notes that student-parents in the income ranges eligible for Cal Grant have a clear need that is likely not being met by current financial aid.

However, staff concurs with some of the LAO's concerns. This proposal further complicates the Cal Grant program by creating another set of criteria that only benefits a small percentage of needy students. In addition, as the LAO points out, there are thousands of low-income student-parents who would not benefit from this proposal, because they do not qualify for the entitlement Cal Grant program and must compete for the limited competitive Cal Grant program.

As discussed later in this hearing, the Subcommittee can consider multiple actions it could take to expand financial aid to serve more students, cover more non-tuition costs, and streamline the program. The Subcommittee may wish to hold this issue open until after the May Revision.

Suggested Questions

- Has the Administration considered how to aid the thousands of low-income student-parents who do not currently qualify for a Cal Grant?
- How were the dollar amounts – up to \$6,000 for Cal Grant A and B; and up to \$4,000 for Cal Grant C – set?
- Are there ways to steer more aid to the most-needy student-parents?

Staff Recommendation: Hold Open

ISSUE 2: COMPETITIVE CAL GRANTS

The Subcommittee will discuss the Governor's Budget proposal to increase the number of competitive Cal Grants by 4,250, for a total of 30,000 annually.

PANEL

- Bijan Mehryar, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- David O'Brien, Community Student Aid Commission

BACKGROUND

CSAC Selects Competitive Award Recipients Based on Several Criteria. Cal Grant applicants who do not qualify for an entitlement award are considered for a limited number of competitive awards. CSAC uses a scoring matrix to prioritize among applicants. Each applicant is assigned a score out of a maximum 1,000 points. Those with the highest scores receive award offers. The scoring matrix places greatest weight on an applicant's financial need. Applicants also receive points for certain socioeconomic factors and their GPA.

Statute Authorizes 25,750 New Competitive Awards Annually. The Legislature most recently expanded the competitive program in 2015-16, when it increased the number of new awards authorized annually from 22,500 to 25,750. Under state law, half of the authorized awards are reserved for students attending community colleges, while the remaining awards are available to students at all segments. Although competitive award recipients are eligible for either Cal Grant A or Cal Grant B, nearly all of them receive Cal Grant B (signifying they are lower income.)

GOVERNOR'S 2019-20 BUDGET PROPOSAL

The Governor's Budget proposes to augment ongoing Cal Grant funding by \$9.6 million to support 4,250 additional competitive awards. This proposal would increase the total number of new competitive awards authorized annually to 30,000. Consistent with current law, half of these awards would be reserved for students attending community colleges.

LAO ASSESSMENT AND RECOMMENDATIONS**Assessment**

Number of Eligible Applicants Far Exceeds Current Supply of Awards. Since the competitive program was last expanded, between 295,000 and 325,000 eligible students have applied for a competitive award annually. Each year, only 11 percent of

applicants have been offered awards. We estimate expanding the number of authorized awards by 4,250 would increase the share of eligible applicants offered an award to 12 percent, assuming no change in the number of eligible applicants or the associated paid rate.

Students Receiving Awards Have Relatively Low Income. The average income among students offered a competitive award in 2017-18 was under \$8,000. This is considerably lower than the average income of students offered a high school entitlement award (about \$32,000) and students offered a transfer entitlement award (about \$30,000). In contrast, competitive recipients have an average high school GPA that is comparable to that of entitlement recipients (3.1).

Remaining Unserved Applicants Also Have High Financial Need. In 2017-18, the average income among approximately 290,000 eligible applicants not offered a competitive award was about \$26,000. This suggests that the Legislature could expand the supply of competitive awards by a substantial amount and still serve students who have high financial need.

Recommendation

Recommend Legislature Prioritize Increasing the Number of Competitive Awards. If the Legislature chooses to augment funding for Cal Grants, we think that increasing the number of competitive awards would be a reasonable use of funds. Currently, the number of applicants vastly exceeds the number of authorized awards, and the applicant pool is relatively low income. Should the Legislature wish to increase the number of new competitive awards beyond the 4,250 proposed by the Governor, we estimate that every \$1 million would allow the state to authorize about 440 additional awards. (This estimate assumes no changes in tuition, the distribution of awards across segments and award types, and the percentage of available awards that are paid.)

STAFF COMMENT

This proposal addresses key Assembly goals to expand the Cal Grant program to serve more students, particularly community college students.

The Subcommittee can consider this proposal as it considers various actions that would expand and improve state financial aid.

Staff Recommendation: Hold Open

ISSUE 3: GRANT DELIVERY SYSTEM MODERNIZATION

The Subcommittee will discuss the Governor's Budget proposal to provide \$6.2 million one-time General Fund to support implementation of the project to modernize CSAC's information technology system.

PANEL

- Bijan Mehryar, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- David O'Brien, Community Student Aid Commission

BACKGROUND

CSAC processes approximately seven million student grant applications and over \$2 billion of state-funded student aid for several grant and loan forgiveness programs, including the Cal Grant, the Middle Class Scholarship (MCS), and the Chafee Grant for Foster Youth Program, as well as the California Dream Act Application (CADAA), and several other programs mandated by statute and administered via the current Grant Delivery System (GDS). As CSAC program mandates have increased and changed, the GDS's antiquated technology has not been able to fully and effectively support the required changes and meet processing demands. This has led to significant manual processes and numerous work-arounds to meet the business needs of external and internal CSAC financial aid users.

To address this issue, CSAC has been working on the modernization of its legacy systems in order to more efficiently process awards and support student financial aid.

The Commission is following the State of California Department of Technology (CDT) guidelines for their Project Approval Lifecycle (PAL) process. The CSAC GDSM Project Stage 1, Business Analysis (S1BA) Phase Requirements were approved by CDT in June 2016. The Stage 2 Alternative Analysis (S2AA) Phase was approved by CDT in June 2017. The Stage 3 Solutions Development (S3SD) was approved on June 20, 2018. The Stage 4 Project Readiness and approval (S4PRA) Phase was approved in October 2018.

Recent budgets have provided a total of \$7.3 million in one-time funding to develop the project. Of this amount:

- The 2015 Budget Act included \$842,000;
- The 2016 Budget Act included \$396,000;
- The 2017 Budget Act included \$546,000;
- The 2018 Budget Act included \$5.5 million.

Additionally, the Commission has used about ten positions to assist in planning the new system.

GOVERNOR'S 2019-20 BUDGET PROPOSAL

The Governor's Budget proposes \$6,165,000 one-time General Fund to continue the development, implementation, launch and maintenance and operations of the approved and funded Grant Delivery System Modernization Project. This request includes funding for vendor and state staffing for development, hardware warranty, software licensing, operational expenses, and implementation for the solution, beginning July 1, 2019 and continuing through June 30, 2020. The chart below breaks out these costs.

Components for 2018-2019	GDSM Project Costs	Total
1. Solution Costs – 1 year: July 1, 2019 to June 30, 2020	\$5,286,500	\$5,286,500
2. Hardware – 1 year: July 1, 2019 to June 30, 2020	\$307,000	\$307,000
3. Software Licensing	\$312,977	\$312,977
4. CDT/DGS Charges	\$258,352	\$258,352
Grand Total BCP 2019-2020	\$6,164,829	\$6,164,829

LAO ASSESSMENT AND RECOMMENDATIONS

Assessment

Project Generally Appears on Track. As of March 2019, CDT reports the project is in good health overall, rating it "green" in all ten focus areas. An earlier monthly report (January 2019) had rated the project "yellow" in the focus area of resources, reflecting delays in hiring certain contractors. Since that time, CSAC's progress in hiring contractors has resulted in an improved rating. CSAC indicates the delays have had a minor impact on the project schedule, with a new estimated completion date of March 2021. At this time, the project remains within its original scope and budget.

Recommendation

Approve Governor's Proposal. Because CSAC's Grant Delivery System project is generally on track, we recommend approving the Governor's proposal to provide a second year of funding for the project in 2019-20. During the budget year, the Legislature can continue to monitor the project through CDT's monthly oversight reports, summarized on CDT's IT Project Tracking website. We anticipate the Legislature will have another opportunity to provide project oversight when CSAC requests additional funds as part of the 2020-21 budget process.

STAFF COMMENT

CSAC's current system clearly needs replacing. It was built in the 1960s for a mainframe environment, and while it has been updated, it is not able to support the current client/server environment. The system has been operating based on legacy code that is over 50 years old, and CSAC has limited resources to support the system. System failures are common: During the last twelve months, the system experienced over 25 unplanned outages due to hardware and software failures. During the outages, all financial aid services to students, parents, high schools, college and other educational entities were unavailable. Students could not submit applications or update their school information, high schools could not upload grade point average information, and colleges could not request financial aid payments.

Staff notes that this project appears to be on track to finish on time and under budget. The project is expected to cost \$30.6 million.

CSAC reports that if this funding is approved, students will be able to use the new system this October, the beginning of the Fall 2020 admissions cycle.

The Subcommittee should wait to consider this proposal until after the May Revision.

Staff Recommendation: Hold Open

ISSUE 4: STATE OPERATIONS SUPPORT

The Subcommittee will discuss the Governor's Budget proposal to provide \$390,000 General Fund in 2019-20, and \$290,000 ongoing beginning in 2020-21, and three new permanent positions to enact legislation and improve CSAC's support for institutions and students.

PANEL

- Bijan Mehryar, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- David O'Brien, Community Student Aid Commission

BACKGROUND

CSAC is currently authorized for 104.2 positions.

The Commission currently administers the Chafee Education Training Voucher program on behalf of the California Department of Social Services (CDSS). Along with the Budget Act of 2018, the Legislature approved, and the Governor signed, two trailer bills into law that expanded the Commission's programs that support former foster youth attending Cal Grant eligible institutions.

- AB 1811 (Chapter 35, Statutes of 2018) increased the maximum age limit for students to receive new and renewal Chafee Education Training Vouchers from 23 years of age to 26 years of age.
- AB 1809 (Chapter 33, Statutes of 2018) allows Cal Grant B students who were former foster youth to: 1) utilize their Cal Grant B award for up to eight years, 2) apply for the Cal Grant B program by September 2nd annually rather than by March 2nd, and 3) qualify for Cal Grant entitlement awards through age 26.

Independent of the 2018 trailer bills, workload in the Institutional Support Unit has increased in two specific areas:

- Training: Commission staff have increased the number of trainings offered to our customers. Since 2016, we have significantly increased our efforts to increase our customer service presence in the field. Beginning in 2017, we added four regional two-day intensive trainings for college Financial Aid Administrators (FAA). We doubled the number in 2018 to eight regional workshops and all were fully subscribed, serving 456 registered FAAs. Additionally, we increased the number of High School Counselor workshops to 41 that are currently underway

or scheduled for fall 2018, with more than 5,800 registered attendees to date. These increased efforts have been achieved without additional staff.

- Customer Service to Institutions: Beginning in 2017, the Institutional Support Unit also increased the hours during which the Institutional Support call center receives calls. Previous opening hours had been from 9:00-11:45 a.m. and 1:00-3:45 p.m., Monday through Friday; these were expanded to 9:00 a.m.-4:45 p.m., with rotating staff lunches to accommodate calls. The volume of student contacts in the call center has increased substantially in recent years, with emails increasing to 30,695 (an increase of 390) in the 12 months from October 2017 through September 2018, and calls increasing from 72,812 to 86,978 – an increase of more than 19 percent.

Additional staff is needed in the Institutional Support Unit to accommodate and provide support services for additional training and field presence, as well as to support the institutions we work with in administering the Cal Grant programs.

Finally, the CSAC Executive Office consists of: the Executive Director, the Chief Deputy Director, the Director of Government Affairs, the Legislative Representative, a Commission Liaison, and an assistant to the Executive Director. The Chief Counsel and the Chief Informational Officer (CIO) for the agency are also located in the Executive Office. While the Assistant to the Executive Director primarily assists with scheduling, travel arrangements, and other administrative tasks on behalf of the Executive Director, none of the other Executive Office team members function with any support staff. The Government Affairs office (Director of Government Affairs and Legislative Representative), Chief Counsel, and CIO all spend a significant percentage of their workload doing tasks that fall within the typical duty statement of an Office Technician – such as scheduling meetings, processing travel reimbursements, etc.

GOVERNOR'S 2019-20 BUDGET PROPOSAL

The Governor's Budget proposes \$390,000 General Fund in 2019-20, and \$290,000 ongoing beginning in 2020-21, and three new permanent positions to enact legislation and improve CSAC's support for institutions and students. The proposal includes:

- \$100,000 one-time General Fund to enable the Commission to meet anticipated demand and make necessary modifications to its current Grant Delivery System to accommodate the mandates specified in two 2018-19 trailer bills that expand eligibility for financial aid programs for current and former foster youth.
- \$220,000 and 2 positions (Associate Governmental Program Analysts) to strengthen institutional support provided to high school counselors and College Financial Aid analysts.

- \$70,000 and 1 position (Office Technician) to support the Executive Office, the Commission, and back up the Commission Liaison, and to enable the Executive Director, Chief Deputy Director, Chief Counsel, Chief Information Officer, and Governmental Relations Director to focus their time and attention on their primary responsibilities.

STAFF COMMENT

CSAC administers more than \$2.6 million in financial aid programs. Adding three positions, given the increased workload the Commission faces, appears justified.

The Subcommittee may wish to hold this issue open, however, until it has a clearer picture of state revenue.

Staff Recommendation: Hold Open

ISSUE 5: CAL GRANT REFORM OPTIONS

The Subcommittee will discuss potential Cal Grant improvement options.

PANEL

- David O'Brien, Community Student Aid Commission

BACKGROUND

The Subcommittee has asked CSAC staff to provide cost estimates for multiple reforms or improvements to the Cal Grant program. This information will be presented at the hearing.

STAFF COMMENT

The Subcommittee held a joint hearing with the Assembly Higher Education Committee in February to discuss ideas for major reforms of the state financial aid system. Testimony in the hearing concluded that the current system is overly complex, excludes hundreds of thousands of needy college students, does not adequately address non-tuition costs, and does not adequately support summer school for low-income students seeking to speed up their time to degree.

As a result of this hearing, the Assembly is pushing for major reform of the state financial aid system through the policy process. AB 1314 (McCarty, Medina, Quirk-Silva and Voepel) was approved this month by the Assembly Higher Education Committee and would do the following:

- 1) Consolidate the Cal Grant A, B, and C Programs into one Cal Grant Program.
- 2) Consolidate the MCS into the one Cal Grant Program.
- 3) Authorize the use of Cal Grant awards during summer terms and/or sessions
- 4) Remove all of the following barriers for determining eligibility with regard to:
 - a) Age;
 - b) Years out of high school;
 - c) Grade Point Average (GPA); and,
 - d) AB 540 status

By removing all of these barriers, the competitive Cal Grant program will thus be eliminated.

- 5) Require CSAC to develop a funding formula using student need, based on family income, and total cost of attendance to determine the award amounts for students. The formula will ensure that, in addition to students' tuition being covered, and based on their income, students will receive additional grant dollars for their non-tuition costs, such as books, transportation, housing, and personal costs; the goal of this new program is to place students on a path towards a debt free education.

While this bill works its way through the policy process, the Subcommittee could consider actions that provide more aid to low-income students in 2019-20 that address some of the concerns with the current system. As it considers its actions, the Subcommittee could seek to answer these questions:

- Which actions would help the neediest students?
- What is the right balance between providing more funds to students already in the Cal Grant program versus reducing barriers such that more students are eligible for the program?
- Which actions will help low-income students complete their degree in a more timely manner?

Staff Recommendation: Hold Open

6120 CALIFORNIA STATE LIBRARY

The Governor's Budget proposes about \$32.9 million in General Fund support for the California State Library in 2019-20. Overall revenue for the State Library in 2019-20 is \$54.2 million. The chart below was compiled by the LAO and indicates funding based on the Governor's Budget.

California State Library Budget

(Dollars in Millions)

	2017-18 Actual	2018-19 Revised	2019-20 Proposed	Change from 2018-19	
				Amount	Percent
Local Assistance					
Library Services and Technology Act	\$11.3	\$11.3	\$11.3	—	—
Library Literacy and English Acquisition Program	4.8	7.3	7.3	—	—
California Library Services Act	3.6	5.1	4.6	-\$0.5	-8.9%
Statewide Library Broadband Services Program	2.5	7.8	2.8	-5.0	-63.9
Lunch at the Library	—	1.0	1.0	—	—
Telephonic Reading for the Blind	0.6	0.6	0.6	—	—
California Newspaper Project	—	0.4	0.4	—	—
State Government Oral Histories Program	—	0.3	0.3	—	—
Other one-time initiatives ^a	6.0	3.0	—	-3.0	-100.0
Subtotals	(\$28.7)	(\$36.7)	(\$28.3)	(\$-8.5)	(-23.0%)
State Operations					
State Library Services	\$19.1	\$21.3	\$20.1	-\$1.2	-5.4%
Library Development Services	3.2	3.4	3.4	— ^b	0.1
Information Technology Services	2.4	2.5	2.4	-0.1	-5.4
Subtotals	(\$24.7)	(\$27.2)	(\$25.9)	(\$-1.3)	(-4.7%)
Totals	\$53.5	\$63.9	\$54.2	-\$9.7	-15.2%
Funding					
General Fund ongoing	\$26.3	\$31.0	\$30.9	-\$0.1	-0.5%
General Fund one time	6.2	11.7	2.0	-9.7	-83.0
Federal funds	18.3	18.6	18.6	— ^b	— ^b
Other ^c	2.6	2.6	2.7	0.2	5.9

^a Consists of the Career Online High School Program, the Student Authors Program, funds for the development of the Felton Library and Nature Discovery Park, and the Civil Liberties Public Education Program.

^b Less than \$50,000 or 0.05 percent.

^c Includes California State Law Library Special Account, Central Service Cost Recovery Fund, and the Deaf and Disabled Telecommunications Program Administrative Committee Fund.

ISSUE 6: LUNCH AT THE LIBRARY

The Subcommittee will discuss the Governor's Budget proposal to provide \$1 million one-time General Fund in 2019-20 to support the Lunch at the Library program, which allows libraries to participate in the federal Summer Food Service Program.

PANEL

- Rebecca Kirk, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Greg Lucas, California State Librarian

BACKGROUND

Studies show that only 1 in 6 eligible children and teens receive free lunches through the federal school lunch program during the summer. The Lunch at the Library program allows public libraries to serve free meals to children and teens whose access to lunch and learning opportunities suffers when school ends and summer begins. In addition to meals, many libraries also offer programming, ranging from summer reading programs to nutrition instruction.

The program began in California in 2013 with 17 sites. That number expanded to 191 sites in summer 2018.

The 2018 Budget Act provided \$1 million one-time General Fund to allow California libraries to join the program or expand their services. State funds support start-up costs and some staffing costs; while the federal government pays for meal costs.

The State Library set up a Request-for-Proposal process, in which libraries applied for the funding. According to the State Library, 61 library jurisdictions and 238 sites will receive funding this year to operate a Lunch at the Library program this summer.

GOVERNOR'S 2019-20 BUDGET PROPOSAL

The Governor's Budget proposes \$1 million one-time General Fund to provide another round of funding for the Lunch at the Library program.

LAO ASSESSMENT AND RECOMMENDATIONS**Assessment**

Summer Food Insecurity Is a Salient Issue. According to Feeding America, a nonprofit organization that annually analyzes federal census data, 19 percent of Californians under the age of 18 reported being food insecure in 2016. Food insecurity rates tend to be higher in inland counties than the coast, with rates ranging from 33 percent in Imperial County to 13 percent in Alameda County. While these data do not indicate what time of year children experience food insecurity, food insecurity might increase during the summer months when school is not in session.

Focusing Efforts Solely on Adding Library Sites Is a Very Narrow Approach to Increasing Participation. Though summer meal programs likely are undersubscribed for several reasons, the Governor focuses on addressing only one factor— insufficient sites. Other factors, however, such as lack of awareness and outreach, could be equally important contributors to low summer participation. Even if the Administration were to demonstrate that adding more sites would be the most cost-effective approach for increasing summer participation, the state would be limiting potential success of the initiative by focusing solely on library sites. Presumably, the optimal sites to deliver summer meals vary depending on the local community.

Likely Negligible Impact on Student Outcomes. One expressed objective of more summer enrichment programs is to improve student learning. The state, however, already provides schools with tens of billions of dollars on an ongoing basis to improve student outcomes. The added benefit of expanding summer reading programs at libraries using some portion of \$1 million in one-time funding is likely negligible.

Recommendation

Direct State Library, in Consultation With the California Department of Education, to Submit Improved Proposal. If the Legislature desires to address child food insecurity in expanded ways, with a particular focus on addressing hunger during the summer months, the LAO recommends it take a somewhat different approach than the Administration. Specifically, the LAO recommends the Legislature direct the State Library to work in coordination with the California Department of Education to develop an improved plan. The improved plan could be submitted for consideration next January, as part of the 2020-21 Governor's budget. Alternatively, the Legislature could provide \$1 million in one-time state funding in 2019-20 but condition release of the funds on receipt of an improved plan. Under this second option, provisional budget language could require the administration to submit a revised plan to the Joint Legislative Budget Committee by November 1, 2019, with a 30-day review period.

STAFF COMMENT

Libraries are an appropriate site to offer free-lunch programs that can include additional educational components. This could be a good use of limited state funding to tap into a federally-funded program.

The Subcommittee may wish to hold this issue open, however, until it has a clearer picture of state revenue.

Staff notes the Subcommittee has received other requests for State Library funding:

- The California Library Services Board recommends increased investment in programs established in recent years:
 - \$4 million in on-going funding to provide online and phone based tutoring, to all of California's children and teens.
 - \$1.5 million in on-going funding to provide additional databases and online research tools for California's public school children.
 - \$1.5 million in one-time funding to boost technology library patrons have access to through technology related grants.
 - \$1 million in one-time funding to continue to build more partnerships between libraries, schools and businesses through grants for innovation stations to teach STEM and other necessary skills.
 - \$500,000 in one-time funding to make e-books more affordable and accessible.
- The California Library Association supports the two proposals in the Governor's Budget. In addition, the Association is working on a proposal to expand and improve libraries' services related to early childhood education.

Staff Recommendation: Hold Open

ISSUE 7: ZIP BOOKS

The Subcommittee will discuss the Governor's Budget proposal to provide \$1 million one-time General Fund in 2019-20 to support the Zip Books project, which provides for easily accessible online purchasing and convenient shipping of library books.

PANEL

- Rebecca Kirk, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Greg Lucas, California State Librarian

BACKGROUND

The Zip Book program allows a library patron to request a book that is not in the library's collection and the library buys the book through an online retailer. The book is delivered directly to the person seeking the copy—usually within 48 hours—resulting in a far lower cost than traditional interlibrary loan services, in which a copy is secured at another library and physically transported to the library that needs the book.

When the patron finishes a book acquired through the Zip Books program, he or she returns it to the library. Some Zip Books arrive within one day of ordering, compared to one or two weeks with traditional interlibrary loan, depending on the remoteness of the area. A Zip Books transaction, on average, costs \$9.50 in time and labor, compared to \$33.00 for the traditional interlibrary loan process.

Zip Books began as a pilot project in Butte, Shasta and Humboldt counties. Since then, additional library jurisdictions have joined, largely due to state funding. The state provided \$1 million in the 2016 Budget Act for this program, with 69 library jurisdictions receiving funding.

The 2018 Budget Act also provided \$1 million in funding. The State Library notes that libraries are currently in the process of applying for funding but no awards have been distributed yet.

GOVERNOR'S 2019-20 BUDGET PROPOSAL

The Governor's Budget proposes \$1 million one-time General Fund to provide another round of funding for the Zip Books program.

LAO ASSESSMENT AND RECOMMENDATIONS**Assessment**

Administration Cites Two Key Statewide Benefits of Zip Books Program. First, the Administration notes that Zip Books is less time-consuming for library staff to process than traditional interlibrary loans. According to an independent 2016 evaluation of the Zip Books pilot, staff takes around 22 minutes to process a Zip Books request, compared to 78 minutes for an interlibrary loan request. According to the administration, these time savings reduce staff costs from \$33 for each interlibrary loan transaction to \$9.50 for each Zip Book transaction. The administration concludes from this information that Zip Books is a less expensive approach for facilitating access to books. Second, the administration believes that Zip Books provide patrons of rural libraries improved access to resources. As discussed below, we have concerns with both the administration's fiscal analysis and overall Zip Books proposal.

Generating Savings Is a Poor Rationale for More State Funding. The administration's fiscal analysis has two notable shortcomings. First, the administration's analysis focuses on only one factor—staff time—while omitting other key cost considerations—notably, the cost of books, delivery, and operating fees (such as annual OCLC or Amazon membership fees). The cost to purchase books is particularly important when comparing resource sharing options, as this cost is avoided under traditional interlibrary loans. Because the administration has not provided the data required to do a complete cost-benefit analysis, the Legislature cannot yet determine if Zip Books is more cost-effective than other resource-sharing options. Second, even if a comprehensive fiscal analysis were to demonstrate savings associated with Zip Books, local libraries presumably could use the savings freed up from reducing reliance on existing resource-sharing mechanisms to fund an expansion of Zip Books. In this case, libraries would not need additional state General Fund support.

Administration's Fiscal Analysis Omits Other Options Available to Reduce Delivery Costs. The administration's analysis also compares Zip Books only with interlibrary loans. Libraries, however, have other options for resource sharing. For example, some local libraries are connected to regional online catalogues and courier services that can result in lower delivery costs. In addition, some library cooperatives are expanding the use of electronic resources. Though requiring digital readers, these electronic materials can be sent to member libraries without the expense of transporting physical copies. We believe any proposal to reduce resource-sharing costs and expand access to rural libraries should examine these alternatives.

Proposal Does Not Consider Local Resources Available to Cover Book Purchases. The administration also did not provide an analysis of available local resources to cover Zip Book costs. We believe these resources should be a key consideration, as most libraries regularly purchase print and electronic materials as part

of their operating budgets. In 2016-17 (the most recent data available), libraries that currently participate in the Zip Books program spent a combined \$19 million on new materials, including \$10 million specifically on print materials. These ongoing amounts are much larger than the one-time General Fund appropriation proposed by the administration.

Zip Books Might Benefit Rural Communities, but Further Analysis Is Needed.

Though the administration indicates that Zip Books could improve access to books and resources for patrons in rural communities, it has not analyzed which rural libraries currently are unable to fulfill patrons' book requests due to insufficient resources and high delivery costs. Without this analysis, the Legislature lacks sufficient information to assess the extent of the problem, whether the current Zip Books program is adequately targeted, or whether adding more jurisdictions to the program is warranted.

Expenditure Data Also Has Not Yet Been Provided for the Program. As part of our review of the Governor's proposal, the LAO requested the State Library provide program expenditures for the past few years. This data request had two main purposes: (1) to confirm that the program has spent all of its previous state appropriations, and (2) to gauge whether the administration's spending projections for 2019-20 (60,000 book purchases at an average cost of \$15) are reasonable. To date, neither the State Library nor the administration has been able to provide this information.

Recommendation

Task Administration With Preparing a More Fully Developed Proposal. Given the Governor's current proposal is not fully developed, the Legislature could invite the administration to submit an improved proposal next January, as part of the 2020-21 Governor's budget. Alternatively, if the Legislature still desires to provide \$1 million in one-time state funding for local library resource sharing in 2019-20, it could condition release of the funds on the administration, in consultation with the State Librarian, submitting an improved plan by November 1, 2019. To ensure legislative oversight, provisional budget language could direct the Department of Finance to provide 30-day notification to the Joint Legislative Budget Committee prior to releasing the funds. Under either of these approaches, we recommend the improved plan:

- Identify specific resource challenges facing specific rural libraries.
- Include a fiscal analysis comparing all available resource-sharing options for these libraries.
- Provide at least three years of past funding and spending data for the program, accounting for all applicable fund sources.
- Set forth expectations for improved access and explain how progress toward meeting those expectations would be tracked over the next few years.

STAFF COMMENT

This program appears to address a need for rural and hard-to-reach libraries and is a good use of one-time funding.

The Subcommittee may wish to hold this issue open, however, until it has a clearer picture of state revenue.

Staff Recommendation: Hold Open

ISSUE 8: STATE GRANTS WEB PORTAL

The Subcommittee will discuss an April Finance Letter proposal to provide \$641,000, of which \$250,000 is one-time, to support two positions to create a website portal to all state grant opportunities, per AB 2252 (Chapter 318, Statutes of 2018).

PANEL

- Rebecca Kirk, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Greg Lucas, California State Librarian

BACKGROUND

AB 2252 (Chapter 318, Statutes of 2018) requires the California State Library on or before July 1, 2020 to "create a funding opportunities Internet Web portal that provides a centralized location for grant seekers to find state grant opportunities." The website will include "every grant administered by the state and any incentive opportunities allocated by statute or in the annual budget that will provide local assistance funds" and "helpful information to a diverse set of potential applicants, including nonprofit and community-based organizations..." Grant-making entities in state government are required to provide the State Library with the required information.

The State Library has begun developing a project plan by researching similar programs in other states, initiating discussions with key agencies, and identifying the scope of state entities that award grants. Currently, all of the identified departments independently post grant availability announcements with no common structure or standardization, nor do they utilize a consistent grant award numbering system. AB 2252 requires the State Library to collaborate with every state agency, department, commission and bureau that awards grants.

To implement AB 2252, the State Library will lead a stakeholder group in developing a standardized set of information that each entity will submit for each new grant opportunity to be published to the website, as well as the information that entities must report after they have awarded the grants. To ensure that the website is accessible and provides useful information to a diverse set of potential applicants, including nonprofit and community-based organizations, and other entities that are working to support and benefit disadvantaged and low-income communities, AB 2252 requires the State Library to work collaboratively with the Strategic Growth Council and the California Air Resources Board.

APRIL FINANCE LETTER

An April Finance Letter requests \$641,000 in fiscal year 2019-20 and \$391,000 fiscal year 2020-21 and ongoing for the following resources to complete this project in the mandated timeframe:

- \$148,000 in fiscal year 2019-20 and ongoing for one permanent, full-time Staff Services Manager I (Specialist) position to conduct significant and high-level coordination across dozens of departments, commissions, and boards throughout state government; develop and maintain the resulting dataset of grant opportunities; and write the annual report required of the State Library beginning in January 2022.
- \$149,000 in fiscal year 2019-20 and ongoing for one permanent, full-time Information Technology Specialist I position to help create and maintain the website and ensure interoperability between the website and the various systems state entities are currently using or will use in the future, to ensure state entities will not need to input the same data more than once.
- \$250,000 in fiscal year 2019-20 for one-time website development and training.
- \$94,000 in fiscal year 2019-20 and ongoing for software subscriptions and cloud hosting. \$1 million one-time General Fund to provide another round of funding for the Zip Books program.

STAFF COMMENT

Staff notes that the costs associated with implementing this legislation are in line with costs described when this bill was approved by the Assembly Appropriations Committee.

The Subcommittee may wish to hold this issue open, however, until it has a clearer picture of state revenue.

Staff Recommendation: Hold Open

6600 HASTINGS COLLEGE OF THE LAW

The Governor's Budget proposes about \$15.2 million in ongoing General Fund support for the Hastings College of the Law in 2019-20. Overall ongoing revenue for Hastings in 2019-20 is \$59.8 million. The chart below was compiled by the LAO and indicates funding based on the Governor's Budget.

Governor Proposes Ongoing Increase at Hastings to Be Supported by General Fund

Dollars in Millions Except Per-Student Amounts

	2017-18 Actual	2018-19 Revised	2019-20 Proposed	Change From 2018-19	
				Amount	Percent
Tuition and fee revenue	\$41.9	\$43.0	\$42.9	— ^a	— ^a
General Fund	12.7	13.8	15.2	\$1.4	10.3%
Other ^b	4.0	1.6	1.6	—	—
Totals	\$58.6	\$58.4	\$59.8	\$1.4	2.3%
FTE students	959	966	964	-2	-0.2%
Funding per student	\$61,177	\$60,523	\$62,059	\$1,536	2.5%

^a Less than \$500,000 or 0.05 percent.

^b Includes investment income, administrative overhead from auxiliary programs, and state lottery funds.

ISSUE 9: OPERATIONS INCREASE AND DEFERRED MAINTENANCE

The Subcommittee will discuss Governor's Budget proposals to provide a \$1.4 million ongoing General Fund increase for Hastings operational costs, and \$1 million one-time General Fund for deferred maintenance projects.

PANEL

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- David Seward, Hastings College of the 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 (UC). Hastings is the oldest law school, and one of the largest public law schools in the western United States. Additionally, Hastings is the only stand-alone, public law school in the nation and the campus is located in San Francisco.

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. Directors serve for 12-year terms. Hastings is a charter member of the Association of American Law Schools and is fully accredited by the American Bar Association. The Juris Doctor degree is granted by the UC regents and is signed by the president of the UC and the chancellor and dean of Hastings College of the Law.

Hastings does not receive funding from UC; instead Hastings has a separate budget line item. Hastings contracts with UC for payroll, police services, investment management and reprographic services, and it is a passive participant in UC's retirement and health benefits program.

In addition to its three-year juris doctorate program, Hastings also offers a one year masters of studies in law (MSL), a one year LL.M, and Masters of Science, and a fully online Health Policy and Law (HPL) in collaboration with UC San Francisco. The chart below shows Hastings' enrollment.

The table below indicates recent and projected enrollment. Like other law schools, Hastings has experienced a drop in enrollment during the past decade.

	2017-18	2018-19	2019-20	2020-21	2021-22
Full-Time Equivalent Students	Actual	Budgeted	Projected	Projected	Projected
Juris Doctor Program (JD)					
Resident Students	814.6	823.0	811.0	799.0	782.0
Non-resident Students	119.0	121.0	119.0	117.0	115.0
Total Juris Doctor Program (JD) Student	933.6	944.0	930.0	916.0	897.0
Master of Laws Program (LL.M.)	22.3	21.0	30.0	45.0	45.0
Master of Studies in Law Program (MSL)	2.7	0.6	3.5	5.5	8.5
Totals, Full-Time Equivalent Students	958.6	965.6	963.5	966.5	950.5

Note: Projected enrollments include new incoming class size of 310 FTE.

Similar to other law schools across the nation, Hastings discounts all or a portion of tuition for many students. These tuition discounts are allocated to students primarily based on merit rather than household income or financial need. Students generally receive the discount throughout their three years of attendance. In 2015-16, Hastings began relying more on tuition discounts to attract higher quality applicants. The average discount rate for the fall 2015 cohort was 42 percent, compared to 25 percent for the previous cohort. For the next two cohorts (fall 2016 and fall 2017), the average discount rate remained above 40 percent. The school has not had sufficient annual revenue to support the higher tuition discounting, resulting in the school running annual budget deficits. In 2017-18, the school ran a \$3.9 million budget deficit, equating to 6.3 percent of its total spending on operations and financial aid. Hastings has been using a portion of its reserves to cover these deficits.

The chart below indicates Hastings' tuition discounts.

Net Tuition After Discounting (in thousands)	2015-16 Actual	2016-17 Actual	2017-18 Actual	2018-19 Budget	2019-20 Projected
JD Enrollment Fee Revenue	\$38,247	\$39,246	\$40,026	\$41,051	\$42,464
JD Financial Aid Discount	-\$11,455	-\$14,581	-\$17,119	-\$17,635	-\$15,443
Net JD Fee Revenue	\$26,792	\$24,665	\$22,907	\$23,416	\$27,021
# and % Receiving Grants	710/79%	776/83%	844/91%	819/89%	
Discount Rate, JD-All Classes	30%	37%	43%	43%	36%
Discount Rate, JD-Incoming	42%	44%	42%	37%	30%

Recent state budgets have provided minor General Fund increases to support operational costs. The Budget Acts of 2015 and 2016 appropriated a total of \$55.5 million of Lease Revenue Bond financing to construct a new academic building at 333 Golden Gate to replace that portion of Snodgrass Hall (198 McAllister) that was constructed in 1953. Construction was scheduled to begin in April and be completed by December 2019. Classes in the new building are anticipated to begin fall 2020, completing the first phase of Hastings College's Long Range Campus Plan.

The college is also working on a housing project that will add more than 900 living units for Hastings and UC San Francisco students.

GOVERNOR'S BUDGET PROPOSAL

The Governor's Budget provides Hastings with a \$1.4 million ongoing General Fund increase, or 2.5%, contingent on the rescission of a 5% tuition increase originally proposed for 2019-20.

Hastings has provided the following table to indicate how it would use the Governor's proposed increase.

Expenditures by Category (in thousands)	2019-20 Change
Salaries and Wages Adjustment, 3% Pool	\$ 696
Benefits, Price Increase	43
Operating Expenses, Core Cost Growth	105
Student Financial Aid, Grants	578
Total General Fund Incremental Expenditures	\$ 1,422

The Governor's Budget also provides Hastings with \$1 million one-time General Fund to address deferred maintenance projects.

Hastings has provided the following table indicating deferred maintenance needs. Hastings staff has stated that the items other than the carpet replacement and painting would be prioritized with new state funding.

Item	Estimated Cost
Replace controls and cabling - Security System	\$200,000
Carpet replacement – building-wide (126,000sf @ \$6)	\$756,000
Interior painting - common and public areas only	\$150,000
Replace HVAC control system & economizers (3) - system beyond service life	\$150,000
Replace lighting control hardware & software (7 panels) - system beyond service life	\$90,000
Replace elevator control systems (6 cabs)	\$200,000
Total	\$1,546,000

LAO ASSESSMENT AND RECOMMENDATIONS

Assessment

Hastings Continues to Reduce Its Deficit but Has Extended the Timeframe for Eliminating It. Hastings estimates its deficit would decline from \$6.4 million in 2018-19 to \$5.3 million in 2019-20. Though the planned operating deficit is smaller, the schools anticipates fully spending down its operating reserve and beginning to draw down its maintenance reserve in 2019-20. Hastings also has revised its deficit-reduction plan, extending the timeframe for eliminating its deficit by another year (until 2022-23). The revised deficit-reduction plan assumes Hastings begins increasing tuition by 5 percent annually beginning in 2020-21. Under the plan, the school's maintenance reserve would have \$3.9 million in 2022-23 (about one-third less than the amount in that reserve today).

Deficit Raises Questions About Proposed Compensation Increases. State agencies commonly provide compensation increases. Most agencies, however, have not been dealing with a notable budget imbalance. Given the continued deficit of the school, the extended timeline for eliminating it, the expected complete drawing down of its operating reserve in 2019-20, and the likelihood the school will begin using its maintenance reserve for operating costs, the state may wish not to support Hastings' proposed compensation and equipment increases this year.

Hastings' Identified Maintenance Projects Seem Less Critical Than Other Higher Education Projects. Whereas each of the state's three main higher education segments—UC, the California State University, and the California Community Colleges—have maintenance backlogs totaling billions of dollars, Hastings has significantly fewer outstanding maintenance projects. Hastings consists of only two

academic facilities—Snodgrass Hall and Kane Hall. The state has substantially addressed maintenance issues at these two facilities over the past several years. Specifically, Hastings is currently undergoing a state-funded project to replace Snodgrass Hall with a new building, with construction of the new building scheduled to be completed by 2020. The state has addressed much of Kane Hall's maintenance issues with previous one-time General Fund appropriations. As a result of these projects, the school indicates that its identified \$1.5 million in projects represents Hastings' final facility maintenance needs.

Hastings' Use of Maintenance Reserve to Cover Operating Deficit Raises Concerns. One prudent use of maintenance reserve funds is to address deferred maintenance projects. The LAO believes using these funds to address Hastings' maintenance issues in 2019-20 is more appropriate than the state providing additional funding. Moreover, the LAO believes using a maintenance reserve for maintenance issues is more appropriate than using it to cover operational costs. Moving forward, the LAO also is concerned that Hastings' budget plan may result in it not setting aside sufficient funds to support maintenance of its new facility, eventually leading to disrepair.

Recommendations

Signal to Hastings Budget Expectations. The LAO encourage the Legislature to signal its expectations to Hastings regarding 2019-20 compensation increases, equipment purchases, tuition discounting, and tuition charges. In considering these issues, the LAO encourages the Legislature to keep Hastings' operating deficit in mind and ensure that a plan is in place to eliminate this deficit soon. A future economic downturn would make addressing Hastings' operating deficit even more difficult, with potentially more adverse implications for its students (likely steeper tuition increases) and staff (likely layoffs or salary rollbacks). Given Hastings plans to end 2019-20 with no operating reserve, such adverse effects become stronger possibilities.

Reject Proposed Deferred Maintenance Funding. The LAO recommends the Legislature direct Hastings to cover the cost of remaining Kane Hall maintenance projects using its maintenance reserve. In addition, we recommend the Legislature direct Hastings to develop a plan by December 1, 2020 to fund maintenance of its new facility and ongoing maintenance at Kane Hall moving forward. To ensure responsible budgeting, Hastings should build the associated maintenance costs into future budgets.

STAFF COMMENT

The Hastings Board of Directors voted to rescind the planned tuition increase at its March 2019 meeting. Tuition will remain \$43,486 in 2019-20. (Nonresidents pay an additional \$6,000.)

Staff notes that the proposed operating increase is in line with previous increases for Hastings, and Hastings has provided specific uses for the new funding. The proposed deferred maintenance funding is also in line with previous budgets.

However, the LAO raises legitimate issues for the Subcommittee to consider, and it may wish to hold this issue open until it has a better understanding of General Fund revenue in May.

Staff Recommendation: Hold Open

This agenda and other publications are available on the Assembly Budget Committee's website at: <https://abgt.assembly.ca.gov/sub2hearingagendas>. You may contact the Committee at (916) 319-2099. This agenda was prepared by Mark Martin.