

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Al Muratsuchi, Chair

WEDNESDAY, FEBRUARY 19, 2014
3:00 PM - STATE CAPITOL ROOM 126

OVERVIEW OF THE GOVERNOR'S 2014-15 HIGHER EDUCATION FUNDING PROPOSAL

I. OPENING REMARKS

Assembly Member Al Muratsuchi, Chair

Committee Members

II. GOVERNOR'S 2014-15 BUDGET PROPOSALS

Mollie Quasebarth, Principal Program Budget Analyst, Education Systems Unit,
Department of Finance

Jennifer Kuhn, Deputy Legislative Analyst, Education, Legislative Analyst's Office

III. SEGMENT PERSPECTIVES

Janet Napolitano, President, University of California

Timothy White, Chancellor, California State University

Brice Harris, Chancellor, California Community Colleges

ITEMS TO BE HEARD

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY
6870 CALIFORNIA COMMUNITY COLLEGES

ISSUE 1: 2014-15 GOVERNOR'S BUDGET PROPOSAL FOR THE HIGHER EDUCATION SEGMENTS

The issue for the Subcommittee to consider is the Governor's Higher Education Budget Proposal for the 2014-15 Fiscal Year.

FIRST PANEL

- Mollie Quasebarth, Department of Finance
- Jennifer Kuhn, Legislative Analyst's Office

SECOND PANEL

- Janet Napolitano, President, University of California
- Timothy White, Chancellor, California State University
- Brice Harris, Chancellor, California Community Colleges

BACKGROUND

For the second year in a row, California's economic recovery allows the Assembly the opportunity to increase funding for higher education. The Governor's Budget proposes \$13 billion in General Fund support for higher education, including the University of California, the California State University, California Community Colleges, and financial aid. (This includes \$4.8 billion in Proposition 98 General Fund support for community colleges.) The proposed funding would be a 10 percent increase over the 2013-14 Budget.

The Governor states in his budget message that he expects the segments to use increased state funding to "maintain affordability, decrease the time it takes students to complete a degree, increase the number of students who complete programs, and improve the transfer of community college students to four-year colleges and universities." These are all worthy goals. Key issues for the Assembly to consider as it vets the proposals are:

- How to ensure that qualified California students are able to go to college, both through increasing enrollment at the various segments and providing appropriate financial aid;
- The best methods for improving the success rates of students in college;
- And the role the Legislature should play in setting statewide higher education policy.

The following chart, created by the Legislative Analyst's Office, shows funding for higher education during the past two years, as well as in the Governor's 2014-15 proposal.

Higher Education Core Funding*(Dollars in Millions)*

	2012-13 Actual	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
University of California (UC)					
General Fund ^a	\$2,566	\$2,844	\$2,987	\$142	5%
Net tuition ^b	2,525	2,530	2,576	46	2
Other UC core funds ^c	351	344	331	-13	-4
Lottery	30	38	38	—	—
Subtotals	(\$5,471)	(\$5,757)	(\$5,932)	(\$175)	(3%)
California State University (CSU)					
General Fund ^{a,d}	\$2,473	\$2,789	\$2,966	\$177	6%
Net tuition ^b	2,009	2,014	2,055	41	2
Lottery	40	56	57	1	2
Subtotals	(\$4,522)	(\$4,859)	(\$5,078)	(\$219)	(5%)
California Community Colleges (CCC)					
General Fund ^a	\$4,269	\$4,390	\$4,828	\$438	10%
Local property tax	2,241	2,232	2,326	94	4
Fees	425	435	448	13	3
Lottery	157	182	182	—	—
Subtotals	(\$7,092)	(\$7,238)	(\$7,784)	(\$545)	(8%)
Hastings College of the Law					
Net tuition ^b	\$33	\$33	\$30	-\$2	-7%
General Fund ^a	9	10	11	1	13
Subtotals ^e	(\$42)	(\$42)	(\$41)	(\$1)	(-3%)
California Student Aid Commission (CSAC)					
General Fund	\$671	\$1,042	\$1,299	\$257	25%
Student Loan Operating Fund	85	98	60	-38	-39
TANF funds	804	542	545	3	1
Subtotals	(\$1,559)	(\$1,682)	(\$1,904)	(\$222)	(13%)
California Institute for Regenerative Medicine					
General Fund ^a	\$53	\$97	\$284	\$187	193%
Awards for Innovation in Higher Education					
General Fund	—	—	50	50	N/A
Totals^f	\$17,685	\$18,508	\$19,818	\$1,310	7%
General Fund	\$10,041	\$11,173	\$12,425	\$1,252	11%
Net tuition/fees ^f	3,936	3,844	3,855	11	—
Local property tax	2,241	2,232	2,326	94	4
Other	1,239	984	936	-48	-5
Lottery	228	275	276	1	—

^a Includes general obligation bond debt service. For CCC, also includes Quality Education Investment Act funds.

^b Reflects tuition after discounts provided through institutional financial aid programs. In 2014-15, UC, CSU, and Hastings plan to provide \$1.1 billion, \$685 million, and \$12 million, respectively, in discounts.

^c Excludes carry forward of prior year balance in 2013-14 under the assumption that most of this balance will continue to be carried forward.

^d Includes health benefit costs for CSU retired annuitants.

^e Embedded in the subtotals each year is about \$200,000 from Lottery funds.

^f To avoid double-counting, excludes UC and CSU tuition paid on behalf of students from Cal Grants. These payments appear in both UC/CSU net tuition and CSAC General Fund.

TANF = Temporary Assistance for Needy Families.

University of California and California State University proposals

Provides 5 Percent Increases. The Governor proposes a base budget increase of \$142 million for UC and CSU in 2014-15. This increase represents the second annual installment in a four-year funding plan proposed by the Governor last year for both segments. Under this plan, UC and CSU, which received a 5 percent base funding increase in the current year, would receive the proposed 5 percent increase in 2014-15, followed by 4 percent increases in each of the subsequent two years.

The Governor conditions his proposed annual funding increases for the universities based on their maintaining tuition at current levels. Under his plan, tuition levels, which have not increased since 2011-12, would remain flat through 2016-17. (Tuition at UC grew by 44% between 2007-08 and 2011-12, and by 51% at CSU.) Both the UC Board of Regents and CSU Board of Trustees have indicated they will not seek tuition increases for the 2014-15 school year.

Similar to last year, the Governor does not propose enrollment targets or enrollment growth funding for the universities.

Requires Sustainability Plans. The Governor proposes new budget language requiring the UC Board of Regents and CSU Board of Trustees to adopt three-year sustainability plans by November 30, 2014. Under this proposal, the universities would project expenditures for each year from 2015-16 through 2017-18 and describe changes needed to ensure expenditures do not exceed available resources (based on General Fund and tuition assumptions provided by the Department of Finance). The segments also would project resident and nonresident enrollment for each of the three years and set performance targets for the outcome measures approved in last year's budget.

LAO COMMENTS

The LAO notes concerns with the Governor's proposals for both segments, saying the budget does not link university funding to state priorities, such as access to college and improving student outcomes. Notably, by not including enrollment targets, the Governor does nothing to ensure that qualified California students are able to enroll in UC and CSU as outlined in the Master Plan of Higher Education. Enrollment figures for UC and CSU are below, as provided by the LAO. Enrollment has dropped at UC during the last three years; and while it has increased at CSU, the system reports that it turned away more than 26,000 qualified California students in Fall 2013.

	2011-12	2012-13	2013-14
UC Enrollment	213,763	211,212	210,986
CSU Enrollment	341,280	343,227	350,000

Creates New Capital Outlay Process. Similar to the new capital outlay process approved for UC last year, the Governor proposes to shift debt service payments into CSU's main appropriation. Moving forward, CSU would be responsible for funding debt service from within this main appropriation. Under the proposal, the university would issue its own revenue bonds for various types of capital projects and could restructure its existing lease-revenue bond debt. The university would notify the Joint Legislative Budget Committee of project proposals and submit them to DOF for approval.

Currently the state separately funds general obligation bond debt service for CSU capital improvement projects and lists lease-revenue bond debt service in a separate budget item. The Budget calls for \$197.6 million in general obligation bond debt service payments in 2014-15. As part of this proposal, the Administration states that it will not provide further increases for debt service in future years. In addition, the proposal notes that there would be a cap on the amount of the budget CSU could spend on capital projects.

LAO COMMENTS

The LAO raises concerns with this proposal, stating it would limit the Legislature's ability to balance CSU capital outlay projects with other statewide infrastructure projects. In addition, it is unclear if the amount the state would provide CSU annually for capital outlay under the Governor's plan is appropriate for the system's long-term needs.

California Community Colleges background and 2014-15 proposals

Pays Down all Community College Deferrals. The Governor's largest funding proposal for community colleges is to pay down all deferred debt by the end of 2014-15. (He also proposes paying down all debt owed to the K-12 system.) This would amount to about \$592 million for community colleges: \$194 million in 2012-13 funds, \$163 million in 2013-14 funds, and \$236 million in 2014-15 funds.

Boosts Funding for Student Success Programs. The Governor would provide \$200 million for student success programs. This proposal includes two pieces:

- \$100 million would go to continue augmenting the Student Success and Support Program, the categorical program formerly known as Matriculation. This program was reformed by the 2012 Student Success Act (Lowenthal, Chapter 624, Statutes of 2012) and funds various services designed to improve student outcomes, including student orientation, assessment, counseling, advising, and other education planning services. In addition, the bill allows funding to be used to provide support services and other targeted interventions to students who are at risk (students on academic or progress probation, facing dismissal, enrolled in basic skills courses, or undeclared). The 2013 Budget Act included a \$50 million augmentation to this categorical; thus, this proposal continues that framework. The 2013 Budget Act also allowed the Chancellor's Office to use up to \$14 million of this fund to support system-wide student services technology development, such as common assessment, eTran, and online education planning tools. The Governor's proposal continues this allowance.
- \$100 million would be used "to close gaps in access and achievement in underrepresented student groups" as identified in local Student Equity Plans, and to better coordinate delivery of existing categorical programs. This is a new proposal that would allow the Chancellor's Office discretion as to how to distribute this funding; the Governor's proposal states a greater proportion of funding would go to districts with more high-need students, as defined by the Chancellor's Office. The funding would require district's Student Equity Plans to identify how they will coordinate existing student services to better serve high-need student populations. This proposal also would allow districts to use 25 percent of their funds from three other categorical programs (CalWORKS, Extended Opportunity Programs and Services, or EOPS, and Basic Skills) to also support this new effort.

Supports 3 Percent Enrollment Growth. The budget provides \$155.2 million to allow for 3 percent enrollment growth. This continues efforts begun last year, when the 2013 Budget Act provided funding for 1.63 percent enrollment growth – the first funding for new enrollment in five years. The Governor's proposal also calls for the Board of Governors to adopt a new growth

formula that "gives first priority to districts identified as having the greatest unmet need in adequately serving their community's higher education needs." Budget bill language states that the Board should consider a growth formula that addresses student needs for transfer, basic skills and vocational/workforce training. The Governor states that all districts would receive some additional growth funding, and over time would be restored to pre-recession apportionment levels.

Funds Physical Plant and Instructional Support Categorical. The Governor provides \$175 million for this categorical, which is designed to help districts address deferred maintenance and instructional equipment needs. This is part of the Governor's overall emphasis on using what he believes to be one-time revenue increases for one-time infrastructure needs. The Governor proposes to split this funding:

- \$87.5 million for deferred maintenance and physical plant needs, which requires districts to provide a 1:1 match on these funds;
- And \$87.5 million for instructional equipment needs, which requires districts to provide a 1:3 match for these funds. Instructional equipment includes library materials or other equipment, including vocational education equipment.

Both of these funds are allocated to districts on a per-student basis. Districts submit a list of projects that total to the amount they will be allocated.

Other Proposals. The Budget provides \$38.4 million for 2013-14 and \$35.6 million for 2014-15 to backfill funding previously anticipated to come from the wind-down of redevelopment agencies and provides a new schedule to determine the backfill process to allow colleges to receive funding earlier. The Budget also provides \$48.5 million as a cost-of-living adjustment, which is the statutory Proposition 98 COLA for 2014-15. The Budget provides \$39 million for Proposition 39 energy efficiency projects. Finally, the Budget provides \$1.1 million in non-Proposition 98 General Fund and 9 new positions to the Chancellor's Office to improve statewide efforts geared at bettering student outcomes. The positions would help develop statewide goals for student outcomes, monitor districts' performances and focus funding and attention on struggling districts. The proposal includes \$2.5 million in Proposition 98 General Fund that would be offered to districts seeking help in improving outcomes.

LAO COMMENTS

The LAO suggests 3% enrollment growth may be too high for some districts and suggests waiting for current-year enrollment figures to be released before determining the appropriate growth amount. And while the LAO agrees with the Governor that the growth formula should be changed, it suggests waiting to alter the formula until the Legislature determines a new formula for distributing funds for K-12 and community college adult education programs, which is scheduled to occur in 2015-16.

Additionally, the LAO suggests creating a block grant program that would allow districts to pool funding for seven different student support categorical programs, including the Student Success and Support Program and the Extended Opportunity Programs and Services (EOPS), and spend the funds on student support services of their choosing.

Awards For Innovation in Higher Education

The Governor proposes a new line item in the budget to provide \$50 million General Fund in grants to encourage innovation at UC, CSU, and CCC campuses. Proposed budget language defines three state priorities: (1) significantly increasing bachelor's degree attainment in the state, (2) shortening time to degree, and (3) easing transfer across segments. Campuses, both individually and in groups, could apply for awards to implement innovative higher education models that achieve these priorities. A committee of five Governor's appointees representing DOF and the segments' governing boards (including the State Board of Education) and two legislative appointees selected by the Assembly Speaker and Senate Rules Committee would make award decisions. The committee would look for proposals that reduce the costs of instruction; involve collaboration across campuses, segments, and educational levels; are replicable; and show commitment from campus officials and stakeholders.

LAO COMMENTS

The LAO suggests the new program provides a relatively small amount of one-time money that may not impact the entire system, provides somewhat different priorities than those outlined by the Legislature in recent years, and may be premature, as results of ongoing efforts to improve efficiencies on campuses are not yet available.

STAFF COMMENTS/QUESTIONS

Below are potential questions and discussion points for the hearing.

- The UC Board of Regents and CSU Board of Trustees adopted budget proposals calling for a much larger increase in state funding in 2014-15 than the Governor is proposing. Instead of a 5 percent increase, both boards are seeking about a 10 percent increase. Both segments state that funding above the 5 percent increase would allow them to grow enrollment and invest in programs to improve student outcomes. Are UC and CSU doing enough to contain cost increases in areas such as pension reform, operational efficiencies and administrative salaries? What is the appropriate state funding level to allow for enrollment growth, efficient per-student costs and improved outcomes?
- Enrollment targets have traditionally been a part of the budget. The Legislature has long held access to college as a key priority, and thus conditioned funding for UC and CSU on serving a specific number of students. The Governor has not included enrollment targets in the last three budgets. Absent an enrollment target, how would the administration feel if UC or CSU lowered enrollment despite increased funding? What are long-term enrollment projections? What is the correct balance between policies and funding that increase access to college for California students and improve programs to help those students complete their educational goals?
- The Governor calls on both segments to develop Sustainability Plans that would set enrollment and performance targets based on funding levels suggested by the Department of Finance. Would the Assembly have a role in determining if funding levels and performance targets are appropriate as these plans are developed and released? How should the Assembly use performance metrics as it determines funding levels?

- The Governor provides funding to community colleges to allow for 3 percent enrollment growth, or nearly 42,000 more full-time equivalent students (FTES). Some colleges may not be able to grow that fast, while others could grow even faster. Is that an appropriate statewide enrollment target? How should community college funding be distributed to meet statewide and regional needs for statewide priorities such as associate's degrees, workforce development and transfer?
- With increased Proposition 98 revenues, the Assembly has choices to make as it re-invests in community college programs. The Governor proposes significant funding increases for two categorical programs but leaves funding flat for many other programs, including those that support disabled students, CalWORKS recipients and allow part-time faculty to meet with students outside of classroom hours. Which programs should be boosted to improve student experiences and outcomes? Why did the Administration only choose two programs to increase?
- Many community college districts have not updated Student Equity Plans since before the Great Recession, so it remains unclear if these plans are developed enough to help steer a significant new influx of funding. In addition, it is unclear how the Chancellor's Office will define a "high-needs student" as it develops the funding process for this proposal. The community college system already has a myriad of programs designed to aid students with challenges; is another one really needed?
- What is the Administration's goal in providing \$50 million in innovation grants? Will \$50 million in one-time funding truly allow new programs to scale up statewide? How would winners be selected, and doesn't creating a new committee to select grant winners create an overly bureaucratic process? What other options should the Assembly consider to improve student outcomes and segment efficiencies?