

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Kevin McCarty, Chair

TUESDAY, MARCH 3, 2015
1:30 PM - STATE CAPITOL ROOM 444

HIGHER EDUCATION BUDGET OVERVIEW

I. OPENING REMARKS

Assembly Member Kevin McCarty, Chair

Committee Members

II. SEGMENT LEADERS

Brice Harris, Chancellor, California Community Colleges

Timothy White, Chancellor, California State University

Janet Napolitano, President, University of California

III. 2015-16 BUDGET PROPOSALS AND ANALYSIS

Christian Osmena, Principal Program Budget Analyst, Department of Finance

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

IV. PUBLIC COMMENT

ITEMS TO BE HEARD

6440 UNIVERSITY OF CALIFORNIA

ISSUE 1: UC BUDGET REVIEW FOLLOW-UP

At its February 18 hearing, the Subcommittee began its review of the UC budget. The hearing focused on UC expenditures and cost drivers. Among the issues discussed were pension costs, administration costs, high-salary employees and faculty load.

After the hearing, the Subcommittee asked UC for the following information:

- A breakdown, by campus and for the whole system, of tenured and tenure-track faculty in comparison to non-tenured and non-tenure track instructors;
- More information on how many classes professors teach and where there are university or department policies on faculty load requirements;
- Information on the funding sources of personnel in the Senior Management Group, Management and Senior Professional, and Academic Administration categories;
- Information on the funding sources of the 5,933 UC employees who earn more than \$200,000 annually;
- Backup data indicating the amount of funding UC spends on nonresident student recruitment.

UC is working on responses and will provide data soon.

Regarding pension costs, discussion focused on the differences in recent pension reforms taken by the Legislature, which impacts most state employees, and those taken by the UC Board of Regents, which impacts most UC employees. UC notes that pension costs are one of the system's largest cost drivers; it will spend \$1.3 billion on the UC Retirement Plan (UCRP) in 2014-15.

The state historically provided funding to UC to cover some employer contribution costs but has not done so in recent years. UC officials have suggested the state should provide this funding again. The issue the Legislature must consider is that unlike state employee pensions, neither the Legislature nor the Administration has any ability to collectively bargain with UC employees on pension issues or set overall pension policy; that is done by the UC Board of Regents. Thus, before the Subcommittee considers UC's request, it is imperative that it understands the differences between UC pension reforms and those enacted by the Legislature and Administration in 2013. Discussion at the February 18 hearing focused on a key difference, in which UC employees have a much higher pensionable salary cap than state employees.

The Subcommittee may wish to consider directing UC to study this issue and report back. The following language was prepared with advice from the Legislative Analyst's Office.

Staff Recommendation: By May 1, UC shall submit a report, prepared by actuaries, that responds to the following:

(1) What is normal cost as a percent of salary for UCRP employees hired after 7/1/2013 (the UCRP 2013 Tier)? If this cost varies by employee group, provide each employee group's normal cost as a percent of salary.

(2) For the people described in (1), if UCRP 2013 Tier had limited the amount of covered pay to the Social Security wage base (rather than the Internal Revenue Service compensation limit), what would each employee group's normal cost as a percent of pay be?

(3) Prepare tables that show the following information for each of these six categories of employees: (a) senior management, (b) management senior professional, (c) ladder-rank faculty, (d) other academic staff besides ladder-rank faculty, (e) safety employees, and (f) all other staff.

- *Actual Normal Costs.* Total UCRP 2014-15 normal cost (in dollars) for all current employees (those hired before and after UCRP 2013 Tier). This dollar amount should include the employer and employee's share of normal cost.

- *Normal Cost Under UCRP 2013 Tier.* Estimate what the normal cost (in dollars) would have been for all current UC employees had they been subject to the terms of UCRP 2013 Tier.

- *Normal Costs Under a Modified UCRP 2013 Tier.* Estimate what the normal cost (in dollars) would have been for all current UC employees had they been subject to the terms of UCRP 2013, with one modification: the amount of covered pay was limited to the Social Security wage base (rather than the Internal Revenue compensation limit).

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

BACKGROUND

Two years of budget stability has allowed overall state support for higher education to climb past pre-recession levels. Despite recent funding increases for all three segments, however, the Assembly's key priorities of access and affordability remain in peril. This year's budget discussions must focus on how to ensure that qualified California students can get into college and complete their educational goals without amassing crippling levels of debt.

State support is higher than in recent past. While state support for the University of California, California State University and community college systems fell dramatically as the state faced a five-year budget crash, the passage of Proposition 30 and a reviving economy has allowed for recent reinvestment. Coupled with a significant increase in state-supported financial aid that tracks closely with major tuition increases, all three segments have more state funding than they did in 2007-08. The charts below compare pre-recession funding for UC, CSU and community colleges with the levels proposed by the administration in 2015-16.

Despite recent increases, state support fluctuated significantly during the last eight years, and in general, inflation, student population growth and other costs – such as pension and healthcare - have challenged segments' budgets.

This has led to a significant change in who pays for college in California. Students are now paying a much higher share of higher education costs. In 1998-99, state General Fund support provided between 75% and 80% of core funds for UC and CSU, for example, with tuition covering only about 19%, according to data released by the California Budget Project. In 2014-15, direct state support to UC and CSU's main appropriation had dropped to 48% of UC's core funds and 54% of CSU's core funds.

Tuition now accounts for about 45% of UC and CSU core funds.

The charts on the following pages compare actual revenues in 2007-08 with proposed revenues for 2015-16.

University of California Core Fund Revenues (in millions)

Fund Source	2007-08 Actual	2015-16 Proposed	Change in Dollars	Percent Change
State General Fund	\$3,398.8	\$3,106.1	(\$292.7)	-9%
State Financial Aid	\$295.2	\$938.4	\$643.2	218%
Total State Support	\$3,694	\$4,044.5	\$350.5	9%
Other Tuition and Fees	\$1,297.9	\$2,193.4	\$895.5	69%
Other Funds	\$602.8	\$1,019.7	\$416.9	69%
Total	\$5,594.7	\$7,257.6	\$1,662.9	30%

Source: Governor's 2015-16 Budget Summary

California State University Revenues (in millions)

Fund Source	2007-08 Actual	2015-16 Proposed	Change in Dollars	Percent Change
State General Fund	\$3,264.3	\$3,153.6	(\$110.7)	-3%
State Financial Aid	\$129.7	\$636.4	\$506.7	391%
Total State Support	\$3,394	\$3,790	\$396	12%
Other Tuition and Fees	\$1,046.6	\$1,707.1	\$660.5	63%
Other Funds	\$340.1	\$512.1	\$172	51%
Total	\$4,708.7	\$6,009.2	\$1,228.5	26%

Source: Governor's 2015-16 Budget Summary

California Community College Revenues (in millions)

Fund Source	2007-08 Actual	2015-16 Proposed	Change in Dollars	Percent Change
State General Fund (Prop 98)	\$4,272	\$5,443	\$1,171	27%
Local Property Tax	\$1,971	\$2,628	\$657	33%
Tuition and Fees	\$281	\$423	\$142	51%
Lottery	\$169	\$186	\$17	10%
Total	\$6,693	\$8,680	\$1,987	30%

Source: Legislative Analyst's Office

Access to public institutions remains a problem. California students seeking to enter college continue to face obstacles. Since Fall 2010, CSU has annually turned away more than 20,000 students who are eligible for entrance to a CSU campus based on Master Plan criteria. (The Master Plan declares that any student finishing in the top one-third of their high school class is eligible for CSU.)

And while UC officials state that they are accepting all eligible high school students (those finishing in the top 12.5% of their class), three of UC's campuses – UC Berkeley, UCLA and UC San Diego - have recently enrolled fewer Californians than in the past as they have increased out-of-state and foreign enrollment.

Finally, community colleges dramatically limited access during the recession, and finished the 2012-13 school year serving 500,000 fewer students than they had in 2008-09. These cutbacks were devastating to students, who couldn't get into colleges or found it difficult to get the classes they needed to complete a certificate or degree program. Beginning in 2012-13, the state began providing enrollment growth funding again to colleges, but student headcounts remain below pre-recession levels and demand in some regions – particularly in some urban areas – is high.

College costs threatens access. Assembly actions in the 2013-14 and 2014-15 budgets sought to address college affordability issues:

- In 2013-14, the Assembly led the effort to create the Middle Class Scholarship, which went into effect in 2014-15 and has provided more than 81,000 UC and CSU students with tuition discounts. These discounts, which eventually will provide 40% off of tuition, are aimed at students with family incomes of between \$80,000 and \$150,000 – the students who typically do not receive aid from other federal or state sources.
- In 2014-15, the Assembly successfully fought for an increase in the Cal Grant B stipend, which goes to the lowest-income Cal Grant recipients to cover costs other than tuition. The stipend was increased from \$1,473 to \$1,648 per year.

These improvements are important, but college affordability remains a top concern. While tuition at all three public segments have been flat since increases in 2011-12, it remains significantly higher than pre-recession levels, as the chart below shows. The chart does not include proposed UC tuition increases.

Tuition

	2007-08 Actual	2014-15 Actual	% Change
UC Tuition and System wide Fees	\$7,517	\$13,317	77%
CSU Tuition and System wide Fees	\$3,521	\$6,759	92%
Community College Fees	\$26 per unit	\$46 per unit	77%

Tuition is only part of the issue. UC's average cost of college is more than \$33,000 annually, when accounting for books and supplies, room and board, transportation and other living expenses. CSU's average is about \$23,000. According to data compiled by The Institute for College Access and Success, student debt in California has risen dramatically in the past five years. Average debt for bachelor's degree earners in California in 2013 was \$20,350; that is a 20% increase when compared to 2008.

GOVERNOR'S 2015-16 BUDGET PROPOSALS
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The following section provides brief summaries of the Governor's budget proposals for each segment.

California Community Colleges

- **Student Success.** The Administration continues to support the Student Success and Support Program by providing \$200 million Proposition 98 General Fund. This program's funding level would grow to \$471.7 million under the proposal. This would mark a 360% increase in the past three years, as the program has evolved via 2012 legislation. The program provides orientation, assessment, placement, counseling and other education planning services to students. Similar to a proposal last year, the Governor proposes to carve out funding in this program - \$100 million - to support activities outlined in campus' student equity plans, which seek to reduce access and achievement gaps among underrepresented students.
- **\$125 Million Increase to Base Funding.** The budget would provide \$125 million Proposition 98 General Fund to colleges' base allocation in recognition of increasing cost pressures. The Budget Summary states the Administration is providing the funding in recognition of increased costs "in the areas of facilities, retirement benefits, professional development, converting part time to full-time faculty, and other general expenses." Budget language does not require colleges to spend the funds on these specific items, however. The money would simply increase apportionment funding for each district, which would then have wide discretion as to how to spend the money.
- **2% Enrollment Growth.** The budget provides \$106.9 million Proposition 98 General Fund to support 2% system wide enrollment growth. The growth funding would be distributed through a new funding formula under development by the Chancellor's Office that would direct more funding toward areas with the highest need for higher education. The funding amount would allow colleges to enroll 23,000 additional full-time students in 2015-16 and would mark the fourth year in a row of post-recession enrollment growth funding.

- **\$500 Million Adult Education Block Grant.** Funding for Adult Education programs provided through regional consortia would be displayed in the Chancellor's Office budget under the proposal. The funding would be distributed in 2015-16 first to K-12 adult education programs that have continued to operate through the recession, with leftover funding distributed by the Department of Education and the Chancellor's Office to regional consortia based on a formula devised by the two agencies that considers adult education need by region. Each consortium, in turn, would form a seven-member allocation committee representing school districts, community colleges, other adult education providers, local workforce investment boards, county social services departments, and correctional rehabilitation programs, with one public member, to distribute the funding to adult education providers within the region. The administration indicates that it will provide a more comprehensive proposal, including a new accountability system, student placement criteria, and linked data systems following receipt of regional adult education plans in March.
- **Education Mandate Backlog Payments.** To continue paying down outstanding education mandate claims by colleges, the budget provides \$353.3 million Proposition 98 General Fund. The funding would be distributed on a per-FTE basis to each district, regardless of how much they are currently owed through the mandate claims process. The Administration notes the funding will allow colleges with one-time funding to address deferred maintenance, instructional equipment needs, and other one-time costs. The state would owe \$25 million in outstanding mandate claims after 2015-16 based on this proposal.
- **Workforce Education Programs.** The administration proposes to increase funding for the apprenticeship programs and notes funding for two other workforce training programs: the Career Technical Education Pathways Program and increased rates for enhanced non-credit courses.

Rates paid to colleges and K-12 school districts for two existing apprenticeship programs would be raised to pre-recession levels. Funding for these two programs would grow by \$14.1 million Proposition 98 General Fund, with the K-12 program at \$31.4 million Proposition 98 General Fund and community college program at \$20.5 million Proposition 98 General Fund. Additionally, the budget provides \$15 million to create new apprenticeship programs – in either K-12 programs or community colleges – that focus on new and emerging industries with unmet labor market demand. This funds a 1997 statute that encouraged innovative apprenticeship training demonstration projects in high-growth industries in emerging and transitioning occupations that meet local labor market needs and that are validated by current labor market data. Apprenticeship receives a \$29.1 million increase overall.

The Career Technical Education Pathways Program would receive \$48 million one-time Proposition 98 General Fund to continue this program for one more

year. The program provides resources for community colleges to develop and expand CTE programs that meet regional labor demands.

Per direction in the 2014 Budget Act, the budget provides increased funding to up the rates paid to colleges for enhanced non-credit courses. These career development and college preparation courses have been funded at a rate between non-credit and credit courses, and will now be funded at the same rate as credit courses. The Administration notes that the courses can be expensive for colleges to provide, and increasing rates will support colleges' efforts to maintain and expand them.

- **Cost-of-Living Adjustment.** Similar to the K-12 system, community colleges would receive \$92.4 million Proposition 98 General Fund for a cost-of-living adjustment of 1.58%.

California State University

- **4% Increase.** The Administration continues its multi-year funding plan for CSU, providing a 4% increase in General Fund support, or \$119.5 million. CSU received 5% increases the previous two years, and the Governor has indicated to CSU that he plans on increasing CSU support by 4% in 2015-16 and the subsequent two years. General Fund support for CSU's main appropriation line in the budget would be \$3.2 billion under the Governor's proposal.
- **Innovation Awards.** The budget would provide \$25 million in Innovation Awards to be awarded to CSU campuses that improve policies, practices and/or systems to ensure that more students graduate with bachelor's degrees within four years after beginning higher education. This is similar to the program that was launched in 2014-15 for all three segments; in 2015-16 the Governor proposes to limit the funding to CSU campuses or other segments' campuses that partner with CSU. A committee chaired by the Department of Finance would select winners through an application process.
- **Deferred Maintenance Funding.** The budget provides CSU with \$25 million one-time General Fund to address deferred maintenance issues on campuses. The funding will be allocated after UC provides a list of deferred maintenance projects it intends to address to the Department of Finance. The department will review the list and allow for a 30-day legislative review process before the money is distributed.
- **Center for California Studies.** The budget moves the CSU's Center for California Studies from its own budget line item into the main CSU appropriation, with budget language requiring CSU to provide at least \$3.5 million to fund the center. Past budgeting practices displayed the center with a line item and specific amounts for 8 programs the Center oversees, including legislative, executive and

judicial fellowship programs. This is a cost-neutral proposal that modifies how information about the Center's budget is presented.

- **Lanterman Developmental Center.** The property associated with the former Lanterman Developmental Center would be transferred to the California State Polytechnic University, Pomona. CSU intends to use the property for academic programs and student and faculty housing. Trailer bill language that is not yet available will stipulate that the transfer is contingent on CSU acknowledging that it will not use state funds to operate, maintain or develop the property and that state agencies currently using the property continue to be accommodated.

University of California

- **4% Increase, with Strings Attached.** The Administration continues its multi-year funding plan for UC, providing a 4% increase in General Fund support, or \$119.5 million. UC received 5% increases the previous two years, and the Governor has indicated to UC that he plans on increasing UC support by 4% in 2015-16 and the subsequent two years. Unlike the CSU funding, UC's increase comes with stipulations. Budget language states that the 4% increase will be provided to UC only if the UC Regents do not raise tuition or fees in 2015-16, and the system does not enroll more nonresident students than it previously did. UC must also agree to create a committee to examine ways to reduce the cost structure of the system. (The UC Regents created this committee at their January hearing.) General Fund support for UC's main appropriation line in the budget would be \$3.1 billion under the Governor's proposal.
- **Deferred Maintenance Funding.** The budget provides UC with \$25 million one-time General Fund to address deferred maintenance issues on campuses. The funding will be allocated after UC provides a list of deferred maintenance projects it intends to address to the Department of Finance. The department will review the list and allow for a 30-day legislative review process before the money is distributed.

STAFF COMMENTS/QUESTIONS

Below are comments regarding the proposals for each segment, including information regarding budget proposals put forward by the governing boards of CSU and UC.

California Community Colleges

- **Some student support services remain underfunded.** Less than half of California community college students seeking a degree or certificate accomplish that task within 6 years, according to data compiled for the Community College Scorecard. In recognition that student outcomes must be improved, the state created the Student Success and Support Program in 2012. The administration

continues to provide significant new funding for this program in 2015-16, which will support student orientation, assessment, educational planning, counseling and tutoring. While increasing funding for this program remains critical, other student support programs and research-backed practices for improving student outcomes have not been addressed. The table below shows some categorical programs and their funding levels, which remain far below pre-recession levels. All of these programs are well-established and provide more specific services to specific student populations. The subcommittee could consider whether increased funding for all or some of these programs should be a priority.

Program	Description	2007-08 Funding	2014-15 Funding	% Change
Fund for Student Success	Provides counseling and mentoring to low-income or underrepresented students seeking to transfer to a four-year college	\$6.2 Million	\$3.8 Million	-39%
Extend Opportunity Programs and Services (EOPS)	Provides counseling, tutoring and textbook purchase assistance for low-income students	\$106.8 Million	\$88.6 Million	-17%
CalWORKS	Provides support services for CalWORKS recipients attending college, including child care, work study programs and counseling	\$43.6 Million	\$34.5 Million	-21%
Part-Time Faculty Office Hours	Pays part-time faculty to hold office hours to meet with students. Part-time faculty comprise about 44% of community college faculty	\$7.2 Million	\$3.5 Million	-51%
Campus Child Care Support	Provides child care services to low-income students with children	\$6.8 Million	\$3.4 Million	-50%
Basic Skills	Provides counseling and tutoring for students needing remedial classes; also provides professional development for basic skills faculty	\$33.1 Million	\$20 Million	-40%

In addition to these programs, research overwhelmingly indicates that student outcomes are improved at community colleges when students are taught by and interact more with full-time faculty. Full-time faculty are more available to students and tend to improve the quality of academic programs. Despite this research, only 56% of California Community College faculty are full-time. The subcommittee could consider funding mechanisms that would increase the number of full-time faculty on campuses.

- ***Student Equity Plans require evaluation.*** The 2014 Budget Act provided \$70 million to support student equity plans, which are created by colleges to assess access and completion rates of traditionally underrepresented populations in higher education. The Governor's Budget proposes another \$100 million for these plans in 2015-16. Most colleges have just recently finalized their plans, and the Subcommittee may wish to hear more from colleges about the planning process and proposed activities before committing a new round of funding. It is unclear how current funding will be spent, what the systemwide or local goals are for this funding, or how outcomes will be evaluated.
- ***Overarching questions regarding the Adult Education proposal.*** The Subcommittee should consider the following issues as it considers how to reform the Adult Education system: 1) How can the state increase services to better meet demand; 2) how can the state continue to support improved local coordination of services; 3) and how can the state ensure the preservation of local programs that are working well?

California State University

- ***CSU seeking more state funding.*** CSU is struggling to admit all eligible California students, and graduation rates are a significant problem: only about 16% of students graduated within four years, and about 53% graduated within 6 years, according to performance metrics reported last year.

CSU officials state that the Governor's proposed 4% increase will not allow them to address these issues. With \$119 million of new General Fund support, CSU would only add about 3,500 new full-time students (about a 1% enrollment growth), cover costs such as employee health benefits and operations and maintenance, and provide a 2% compensation increase pool, subject to collective bargaining.

In its November 2014 hearing, the CSU Board of Trustees voted to approve a budget that calls on the state to provide an additional \$97 million in General Fund support. With this additional funding, CSU would increase enrollment by 3% (or about 10,000 full-time students) and use \$38 million on student success and completion initiatives, such as hiring more tenure-track faculty and improving student advising. CSU is not seeking a tuition increase.

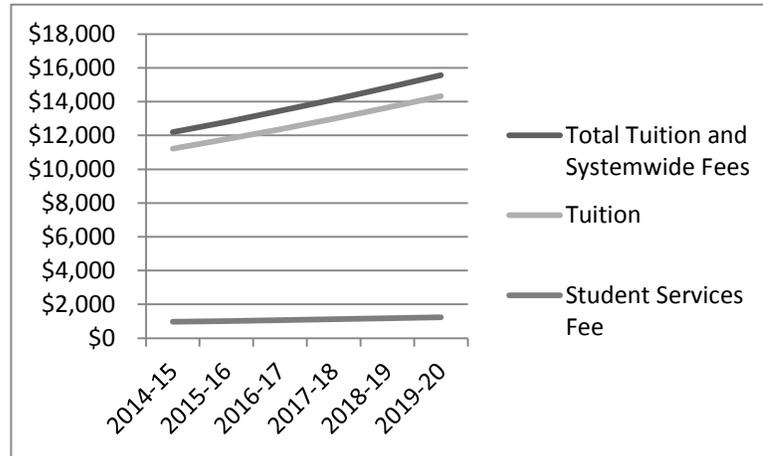
The chart below indicates new spending proposed by CSU Trustees.

Item	Proposed Increase for 2015-16 (in millions)
Employee Benefits, Operation and Maintenance	\$23.1
2% Compensation Increase	\$65.5
3% California Enrollment Growth	\$103.2
Student Success and Completion Initiatives	\$38.0
Information Technology Renewal	\$14.0
Academic Facilities and Infrastructure	\$25.0
Center for California Studies	\$0.2
Total	\$269.0

- ***It is unclear if Innovation Awards are the best use of funding.*** The 2014 Budget Act provided the first funding for Innovation Awards. The state received 57 applications from 52 campuses; award winners will be announced later this month. The LAO continues to raise concerns about this program, noting that a small amount of one-time funding is unlikely to lead to major systemwide changes. The Subcommittee may wish to examine program results in the current year before investing more resources.

University of California

- ***UC Regents' 2015-16 budget includes tuition increase.*** At its November 2014 hearing, the UC Board of Regents approved a tuition plan that would increase tuition on undergraduate California students by 5% per year for five years, beginning in the 2015-16 school year. This would increase tuition and systemwide fees from the current \$12,192 annually to \$15,564 annually by 2019-20, or a 28% increase. The chart below indicates the increase.



Source: UC Board of Regents

Note: Individual campuses also charge fees, which differ from campus to campus and are not included here

The tuition increase, which also includes a 5% increase to nonresident students and graduate students, would provide UC with \$98 million in new net revenue for 2015-16. In addition to increased tuition, the Regents' budget assumes the 4% increase in state General Fund, additional funding from an increase in nonresident students, and other new revenue, including increased philanthropy and shifts in investments.

UC officials state that the Governor's proposed increase alone is not sufficient to pay for increased costs in employee retirement and health benefits, energy, and to support some compensation increases for faculty and staff. Their revenue plan would allow them to cover those costs, provide an additional 3% salary increase for faculty and staff, address some deferred maintenance and capital outlay needs, and increase California enrollment by 1%. The chart below summarizes their proposed new spending for 2015-16.

Item	Proposed Increase for 2015-16 (in millions)
Retirement Contributions	\$17.6
Employee Health Benefits	\$27.0
Annuitant Health Benefits	\$5.2
Bargained Compensation Increases	\$15.6
Faculty Merit Program	\$32.0
Energy, Instructional Equipment, Other Non-Salary Increases	\$28.0
Investment in Academic Quality	\$60.0
1% California Enrollment Growth	\$22.0
3% Compensation Increase	\$109.8
Deferred Maintenance	\$55.0
High Priority Capital Needs	\$13.9
Financial Aid	\$72.9
Total	\$459.0

The Regents' tuition vote does allow the UC President to roll back some or all of the tuition increase should the state provide funding above the Governor's proposed amount.

- ***UC plan would add more new nonresident students than California students.*** The UC Regents' budget plan calls for 1% enrollment growth, which amounts to about 2,200 students. However, UC indicates that about 1,200 of these slots would go toward graduate student enrollment and backfilling past enrollment growth that occurred while the state was cutting UC funding. Thus, UC states it would enroll about 1,000 new California undergraduate students in 2015-16.

In comparison, the plan would add about 2,000 more nonresident undergraduate students. These students pay \$22,878 more than resident students. UC has increasingly added nonresident students during the past five years as a way to boost campus revenue: while resident undergraduate enrollment grew by 4% between 2007-08 and 2014-15, nonresident undergraduate enrollment grew by 253%. Nonresidents now comprise about 14% of the undergraduate student body.

UC's 2015-16 budget plan would continue its recent practice of enrolling more new nonresident students than resident students.