

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Kevin McCarty, Chair

TUESDAY, MARCH 1, 2016
9 AM, STATE CAPITOL - ROOM 444

HIGHER EDUCATION 2016-17 BUDGET PROPOSALS

I. OPENING REMARKS

Assembly Member Kevin McCarty, Chair

Committee Members

II. GOVERNOR'S BUDGET PROPOSALS

Maritza Urquiza, Budget Analyst, Department of Finance

Keith Nezaam, Budget Analyst, Department of Finance

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

III. SEGMENT PERSPECTIVES

Kieran Flaherty, Deputy to the Chief Financial Officer, State Budget Relations,
University of California Office of the President

Ryan Storm, Assistant Vice Chancellor for Budget, California State University
Chancellor's Office

Dan Troy, Vice Chancellor of College Finance and Facilities Planning, California
Community Colleges Chancellor's Office

VI. PUBLIC COMMENT

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

BACKGROUND

2015 Budget Act addressed major higher education concerns. The 2015 Budget Act provided significant new support for higher education segments and students, addressing the key Assembly priorities of access, affordability and student success. Among the highlights:

- \$25 million in incentive enrollment funding for the University of California. Per the Budget Act, UC will receive \$25 million in additional funding in May if they are able to show they will increase California undergraduate enrollment by at least 5,000 students in the 2016-17 school year, when compared to the 2014-15 enrollment level of 159,725 full-time equivalent students. UC has indicated it will increase enrollment to earn the funding.
- Fully funding the California State University budget request. CSU received \$97 million above the Governor's proposal with the expectation that CSU would enroll an additional 10,000 California undergraduate students in the 2015-16 school year, increase tenure-track faculty and report by April 1 on factors that impact graduation rates, particularly for low-income and underrepresented student populations. CSU has indicated its Fall 2015 enrollment did add more than 10,000 full-time equivalent students.
- Funding access and student success at community colleges. The budget supported 3% enrollment growth at community colleges, in addition to programs and actions that should improve student completion rates, such as \$62 million to increase full-time faculty, \$60 million to implement evidence-based practices within basic skills programs and increased funding for orientation, counseling and advising and other student support programs, as well as student equity planning, which seeks to reduce achievement gaps on campuses.
- New financial aid for students. The budget provided about \$2 billion in support for the Cal Grant program, including increasing the number of competitive Cal Grants from 22,500 to 25,750 per year. The budget also created a new supplement for Cal Grant B students attending community college full-time, setting aside \$39 million in Proposition 98 General Fund to increase support for living expenses of these students. The budget also delayed by two years a reduction in the Cal Grant amount for students attending private colleges.

Access still an issue. Despite these increases, California students still face a crisis of access at UC and CSU. Fall 2015 enrollment numbers at UC indicate declining enrollment of Californians as UC continues to increase the numbers of nonresident students at many campuses. The first chart below indicates total undergraduate enrollment numbers at UC for this decade. The second chart shows freshmen and new-student enrollment.

UC Total Undergraduate Enrollment

All Undergraduate Students	2010	2011	2012	2013	2014	2015	% Change
California Students	168,622	167,890	166,269	166,254	168,624	167,959	-0.4%
Nonresident Students	10,623	13,307	16,929	21,754	26,188	30,907	190.9%
Total	179,245	181,197	183,198	188,008	194,812	198,866	10.9%

UC Freshmen Enrollment

	Fall 2010	Fall 2011	Fall 2012	Fall 2013	Fall 2014	Fall 2015	% Change
California Students	46,854	47,138	47,464	47,700	48,827	47,146	1%
Nonresident Students	4,450	6,259	7,766	9,185	9,885	11,433	157%
Total	51,304	53,397	55,230	56,885	58,712	58,579	14.2%

CSU students also face difficulties getting into the campuses they seek. Despite an increase in enrollment in Fall 2015, CSU continues to report turning away thousands of students who qualify, as the chart below indicates. These numbers are not yet available for Fall 2015. CSU admissions are complicated by impaction, which means some campuses and programs receive more applicants than they have room for, while other campuses do have spaces but may not receive as many applicants as they could accommodate. CSU does yet not have a referral process to alert students about which campuses and programs have openings. The Assembly should discuss the implications of impaction in budget discussions this year.

CSU Undergraduate Admissions

	Fall 2012	Fall 2013	Fall 2014
Admitted	194,564	212,152	212,538
Qualified But Not Admitted	22,123	26,430	30,665

Living expenses threaten college affordability. Average annual tuition and system-wide fees at UC are \$12,240. At CSU, these costs are \$5,472. And at community colleges, a full-time student will pay on average \$1,380. Tuition and fees, however, are not the whole story. Living expenses for full-time California college students are much more than just tuition: UC estimates its “total cost of attendance” for 2015-16 is \$33,600 for an undergraduate student living on campus. At CSU, that estimate ranges from \$19,493 at Fresno State to \$27,451 at San Diego State.

While the state's robust financial aid programs provide significant help to low-income and middle-income students in covering tuition, there is less support for living expenses. The Cal Grant B stipend, which was increased for the first time in a decade in the 2014 Budget Act, provides \$1,656 for the lowest-income students in the system. Federal Pell Grants and institutional aid offered by UC and CSU can help offset some costs, but not all. Notably, community college students, who are typically the poorest students in higher education, tend to receive the least amount of support for living expenses, largely because community colleges do not have the same institutional aid that UC and CSU provide. Research done by The Institute for College Access and Success (TICAS) notes that the net price of college, when adding up average tuition and living expenses and financial aid, can be higher for community college students than it is for UC or CSU students.

Lack of support to cover living expenses leaves students in a bind: they must work more or borrow more. Average California college student debt was more than \$21,382 in 2014, according to a recent TICAS study. And there is overwhelming data that students who work more than 20 hours a week have much lower college completion rates.

The state must look for ways to offer broader support to students to help them stay in college and complete their program without accumulating crippling debt or working long hours.

Graduation Rates Can Improve. One solution to producing more degrees and increasing access to higher education is to improve student outcomes and ensure students complete degree programs in a timely manner. This is a major concern for the Administration, and all three public higher education segments are using significant resources to improve graduation rates and time-to-degree rates. The three segments report the following outcomes information:

- UC states that about 62% of the 2010 cohort of students graduated within 4 years, and six-year graduation rates are over 80%. UC notes that while four-year graduation rates for low-income students are lower than other students, six-year graduation rates are about the same. About 55% of the 2012 cohort of students who transferred from community colleges graduated within two years.
- CSU reports that about 19% of its 2010 cohort graduated within 4 years, and about the system reports a 55% graduation rate within 6 years. There is an achievement gap of 10% or more for low-income students at CSU, when comparing both 4- and 6-year graduation rates. About 27% of community college transfer students graduate within 2 years, while about 60% graduate within 3 years.
- According to the 2015 Student Success Scorecard, about 47% of students complete their program within 6 years. Students who enter community colleges prepared to do college-level work have much higher graduation rates: 70%;

compared to 39% for students who enter needing remedial education. About 50% of students seeking a career technical education complete their program within 6 years.

All three segments have ongoing programs to improve outcomes and time-to-degree. Based on a 2015 agreement between the Administration and UC President Janet Napolitano, UC is working on improving pathways for community college students to transfer more easily to UC, developing three-year degree programs and exploring efforts to increase the use of summer school. CSU has launched the 2025 Graduation Initiative, which sets system-wide and campus-specific targets for improved graduation rates through the use of curriculum redesign, enhanced student support programs and other evidence-based practices. The state provides community colleges with \$285 million Proposition 98 General Fund for the Student Success and Support Program and \$155 million Proposition 98 General Fund for Student Equity Plans; both programs seek to improve outcomes and close achievement gaps by investing in counseling, supplemental instruction, and coordination with local education agencies to improve transitions from high school to community college.

Boosting graduation rates is a key component to improving access and keeping state and student costs down.

GOVERNOR'S 2016-17 BUDGET PROPOSALS

The following section provides brief summaries of the Governor's budget proposals for each segment. This section also includes capital outlay proposals from UC and CSU that are now outside of the budget process but still subject to legislative review this spring.

LAO Segments' Funding Table

	2014-15 Actual	2015-16 Estimated	2016-17 Proposed	Change From 2015-16	
				Amount	Percent
UC					
General Fund	\$2,991	\$3,257	\$3,467	\$209	6%
Tuition ^b	2,932	3,028	3,186	158	5
Other	20,868	21,508	22,044	536	2
Subtotals	(\$26,791)	(\$27,793)	(\$28,696)	(\$903)	(3%)
CSU					
General Fund	\$3,018	\$3,297	\$3,484	\$187	6%
Tuition ^b	2,259	2,273	2,288	16	1
Other	3,383	3,178	3,213	35	1
Subtotals	(\$8,659)	(\$8,748)	(\$8,985)	(\$238)	(3%)
CCC					
General Fund	\$5,343	\$5,813	\$5,946	\$133	2%
Local property tax	2,302	2,624	2,812	188	7
Enrollment fees	410	420	426	6	1
Other	275	298	297	— ^c	— ^c
Subtotals	(\$8,330)	(\$9,154)	(\$9,481)	(\$327)	(4%)

b Reflects tuition after discounts and other tuition aid from all sources. In 2016-17, UC and CSU plan to provide \$1.1 billion and \$668 million, respectively, in such aid.

University of California. The Governor's budget includes \$29.8 billion all funds for the University of California in 2016-17, an increase of 3.1% from the current year. Of this funding, \$3.4 billion is direct General Fund support, or about 11.5% of UC's overall budget. Another \$943 million is provided by the state to UC students via the Cal Grant financial aid program.

- Continues Small Increase in General Fund Support.** Direct General Fund support to UC increases by \$125.4 million over the current year, continuing the Administration's recent practice of 4% to 5% annual increases for UC (and CSU.) The Budget Summary notes the Administration expects UC to continue work on reforms agreed to between the Governor and UC President Napolitano, as mentioned earlier in this section. As in previous year, budget bill language

requires the UC Board of Regents to submit a sustainability plan by Nov. 30, 2016 outlining enrollment and expenditure projections for the next three years, but there is no further direction to UC on how it should use state funding.

- **Provides Funding for Pension Liability.** The Budget provides \$171 million of Proposition 2 funding to address some of the unfunded liability of the UC Retirement Plan. This is the second of three proposed payments from Proposition 2 to UC to address this liability, and like the payment approved last year, requires the UC Regents to adopt a pension reform by June 30 that will cap pensionable earnings at the same level as other state workers.
- **Deferred Maintenance.** The Budget proposes \$35 million in one-time General Fund to support various deferred maintenance projects at UC campuses. Funding also was provided last year for this purpose, which UC distributed to campuses for projects ranging from roof repair to fire alarm replacements. UC has reported in the past that it has an annual shortfall of \$200 million for basic maintenance and \$250 million for deferred maintenance and capital renewal needs.
- **Energy Projects.** The Budget proposes \$25 million in one-time Cap and Trade funds to support various energy efficiency projects at UC campuses. UC has requested \$69.1 million, which it would match with \$81 million of university funds, to meet its goal of carbon neutrality by 2025. UC proposes using this funding for energy efficiency improvements, solar installations, and biogas development, which seeks to convert agricultural waste into energy.
- **UC Merced 2020 Project.** A major expansion of the Merced campus is UC's only state-eligible capital outlay proposal for 2016-17. This proposal received preliminary approval from the Department of Finance in a Feb. 17 letter to the Legislature. The UC Regents approved this proposal in November 2015. The proposal aims to grow the Merced campus from 6,000 to 10,000 FTE students by 2020. UC asserts that the campus is currently operating at physical capacity and projects that student demand for the campus will continue to grow as in past years. In addition, UC asserts that enrollment growth at Merced will provide the campus a larger base of tuition revenue and generate economies of scale, thereby reducing per-student instructional costs.

The project would add 917,500 square feet of facility space to the campus, of which 414,400 square feet would be state-eligible. Over 40 percent of the state-eligible space would be for new research laboratories and another 35 percent would be office space for faculty and academic administrators. Of the 17 percent of space dedicated for instruction, a majority would be for small classrooms (24 to 30 seats per room) and teaching laboratories. UC estimates the total cost of construction to be \$1.1 billion, with \$527 million attributable to state-eligible facilities.

UC plans to use a public private partnership to develop this project. Under the partnership, the partner would design and construct the facilities. UC would issue \$400 million in bonds for construction of the state-eligible facilities. The partner would finance the remaining \$127 million for these facilities. (UC and the partner also would share responsibility for financing the facilities that are not state-eligible.) Under the contract, UC would pay the partner for the construction costs in three installments upon completion of certain construction milestones. UC states that this payment schedule would provide an incentive for the partner to complete construction without delays.

UC would cover annual debt service on the bonds it issued for state-eligible facilities (\$21 million) and would perform annual routine maintenance on the new facilities (\$7.3 million). In addition, UC would make annual payments to the partner for the partner's financing costs (\$13 million) and for the partner to perform maintenance on major building systems (\$5.4 million). UC indicates that the contract it plans for the partnership would allow it to reduce or withhold these payments if the facilities do not meet certain operational standards. In 2055, UC would assume full responsibility for the operation and maintenance of the facilities. (Annual ongoing costs for the facilities that are not state eligible initially would total \$58 million.)

California State University. The Governor's budget includes \$9.3 billion all funds for California State University in 2016-17, an increase of 2% from the current year. Of this funding, \$3.2 billion is direct General Fund, or about 33.9% of CSU's overall budget. Another \$734 million is provided by the state to CSU students via the Cal Grant financial aid program.

- **Continues Small Increase in General Fund Support.** Direct General Fund support to CSU increases by \$148.3 million over the current year. This funding includes \$125.4 million, which continues the Administration's recent practice of 4% to 5% annual increases for CSU (and UC), \$15 million available as a result of change to the Middle Class Scholarship program, and \$7.9 million for lease revenue bond payments that were previously agreed to by the Administration. The Budget Summary notes the Administration expects CSU to continue work on its Graduation Initiative. As in previous years, budget bill language requires the CSU Board of Trustees to submit a sustainability plan by Nov. 30, 2016 outlining enrollment and expenditure projections for the next three years, but there is no further direction to CSU on how it should use state funding.
- **Deferred Maintenance.** The Budget proposes \$35 million in one-time General Fund to support various deferred maintenance projects at CSU campuses. Funding also was provided last year for this purpose, which CSU distributed to campuses for projects ranging from roof repair to fire alarm replacements. CSU has reported that it has roughly \$2 billion in deferred maintenance needs.

- **Energy Projects.** The Budget proposes \$35 million in one-time Cap and Trade funds to support various energy efficiency projects at CSU campuses. CSU states that it would fund several types of projects with this money, including mechanical retrofit projects (\$18 million), such as replacing fan motors, insulation, boilers, and chilling systems, lighting replacement projects (\$10.4 million), and projects to replace and improve energy information systems on campuses (\$6.6 million).
- **Capital Outlay Projects.** In a February 17 letter, the Department of Finance gave preliminary approval to 21 capital outlay projects totaling \$535.1 million for 2016-17. CSU is proposing to spend \$156.9 million for system-wide infrastructure improvement projects, such as roofing and HVAC system replacements, and 20 other campus-specific projects, including building, library and classroom renovations. CSU plans to raise \$473.2 million for these projects through CSU System-wide Revenue Bonds and another \$62 million will be funded with designated campus reserves funds. CSU is requesting \$25 million in additional funding from the state to help finance its 2016-17 capital outlay program; but this funding is not included in the Governor's budget and not included in the Feb. 17 Finance letter.

California Community Colleges. The Governor's budget includes \$9 billion all funds for California Community Colleges in 2016-17, an increase of 3.4% from the current year. Of this funding, \$5.4 billion is Proposition 98 General Fund.

- **2% Enrollment Growth.** The Budget provides \$114.7 million Proposition 98 General Fund to support 2% growth in full-time equivalent enrollment. This amounts to about 50,000 students. The 2015 Budget Act allowed for 3% enrollment growth.
- **Career Technical Education Programs.** The Budget proposes an increase of \$200 million in ongoing Proposition 98 General Fund to support the Strong Workforce program. The funding seeks to expand access to career technical education (CTE) and to implement a regional accountability structure with one college acting as a fiscal agent for all colleges in the region. Trailer bill language states that funding would be distributed to regions aligned with Workforce Innovation and Opportunity Act (WIOA) regions and based on regional workforce needs. The funding could be used for program development, equipment, and even to pay for faculty with specialized skills. This money will be distributed through the already existing Economic and Workforce Development categorical program. Additionally, the budget proposes \$48 million ongoing Proposition 98 General Fund for the CTE Pathways Program and to eliminate the sunset date on this program.
- **Remedial Education Support.** The Budget increases support for the Basic Skills categorical program by \$30 million ongoing Proposition 98 General Fund, bringing total spending on this program to \$50 million. This funding supports remedial math and English courses and students. Trailer bill language repeals

the previous categorical program and ties increased funding to the use of evidence-based practices and improved outcomes in transitioning students from basic skills courses to college-level work.

- **Deferred Maintenance and Instructional Equipment.** The Budget provides \$283 million for maintenance, instructional equipment and drought response activities. This is one-time funding, although \$255 million is from ongoing sources.
- **Innovation Awards.** The Budget proposes \$25 million Proposition 98 General Fund for a second round of innovation awards. The 2014 Budget Act provided \$50 million General Fund for this program, which sought to reward higher education segments for specific programs that eased transfer, increased graduation rates or reduced time to degree. This proposal would be open only to community colleges and would provide incentive funding for colleges seeking to implement programs that allow students to simultaneously earn high school diplomas and industry credentials or transfer degrees, develop online basic skills or zero-textbook-cost degree programs. Similar to the previous program, colleges would submit proposals for the funding, and a committee chaired by the Department of Finance would select winners. Winners would receive at least \$4 million.
- **New Zero-Textbook-Cost Degree Program.** The Budget proposes \$5 million Proposition 98 General Fund to support colleges in efforts to create two-year degree programs that have no textbook costs for students. Colleges would be eligible for up to \$500,000 per degree program.
- **Funding for Institutional Effectiveness Division.** The Budget proposes an increase of \$10 million Proposition 98 General Fund to support Chancellor's Office efforts to help districts and colleges improve student outcomes and administrative efficiencies. Of this amount, \$2 million will provide local technical assistance and \$8 million will help the Chancellor's Office develop and disseminate effective practices, policies and curriculum in support of the Strong Workforce program. This proposal brings funding for these purposes from \$17.5 million in the current year to \$27.5 million.
- **System-wide Data Security Improvements.** The Budget proposes \$3 million Proposition 98 General Fund to address system-wide data security efforts. The funding will be provided through the Telecommunications and Technology Infrastructure categorical program.
- **Proposition 39 Funding.** The Budget provides \$45.2 million in Proposition 39 funding to support energy efficiency projects at campuses. The 2015 Budget Act provided \$39.7 million for these projects.

- **Cost-of-Living Adjustments.** The Budget proposes a .47 percent cost-of-living adjustment to community college apportionments, which amounts to \$29.3 million Proposition 98 General Fund, and to four categorical programs: the Disabled Student Programs and Services program, the Extended Opportunities Programs and Services programs, the Special Services for CalWORKS Recipients program, and the Child Care Tax Bailout program. The increase to the categorical program totals \$1.3 million Proposition 98 General Fund. Additionally, the Budget provides \$1.8 million Proposition 98 General Fund to support an hourly rate increase for the apprenticeship program.

POTENTIAL QUESTIONS

Continued budget stability may allow the Assembly to continue to support its higher education priorities in 2016-17. The subcommittee may wish to ask some of the following questions of the segments and Administration:

- In their 2016-17 budget proposal, the UC Board of Regents requested an additional \$6 million General Fund to support growth in graduate student enrollment, which the board believes will help support the undergraduate student enrollment growth it is pursuing. Why does UC need additional funding for graduate students? What does the Administration think of this proposal?
- UC has committed to the 5,000-student increase the Legislature sought with incentive funding in the 2015 Budget Act. But due to reductions in California enrollment in Fall 2015, UC will actually need to increase California residents by about 6,600 over Fall 2015. How will UC achieve that increase?
- Regarding the UC Merced 2020 Project, why does UC believe a public-private partnership is the appropriate method to construct and operate new buildings? Will UC seek state funding for the \$47 million annual payment associated with this project once it is completed in 2020? Wouldn't a traditional method save money and allow UC more control over its facilities? IS UC considering other public-private partnerships?
- President Napolitano has imposed a cap on nonresident students at the Berkeley and Los Angeles campuses. Is there such a consideration for other campuses? Why or why not?
- CSU has reported that it added more than 10,000 full-time equivalent students in Fall 2015, when compared to 2014. Which campuses added students? Which CSU campuses are in the best position to increase enrollment going forward?

- In their 2016-17 budget proposal, the CSU Board of Trustees is seeking a General Fund increase of \$216.7 million instead of the \$148.3 million proposed by the Governor. How would CSU propose to use this additional funding?
- How many qualified students were not admitted to CSU in Fall 2015? Can CSU develop a referral process to ensure students understand which campuses and programs have openings?
- For CSU, please provide an update on the collective bargaining process with faculty.
- How does CSU prioritize capital outlay projects? How would CSU handle its capital outlay proposal without the extra funding it is seeking?
- For the administration, would it be more efficient and easier to simply distribute Strong Workforce funding directly to colleges, instead of creating a fiscal agent in each region? What are the benefits of having a fiscal agent?
- Is 2% the appropriate enrollment growth for community colleges? How many colleges will fall short of the 2015-16 enrollment target?
- The Innovation Awards will provide only enough funding for 6 or 7 projects. Is that enough to develop projects that could spark system-wide change? How did the Administration select the types of programs it wishes to fund through this program?
- Regarding performance funding for the basic skills proposal, how would the Administration and the Chancellor's Office ensure that this mechanism does not punish schools and programs with the most educationally-disadvantaged student populations?