

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Al Muratsuchi, Chair

WEDNESDAY, MAY 21, 2014

1:30 PM - STATE CAPITOL ROOM 126

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VOTE-ONLY ITEMS**6120 CALIFORNIA STATE LIBRARY**

ISSUE 1: CALIFORNIA STATE LAW LIBRARY SPECIAL ACCOUNT

The Governor's Budget includes trailer bill language that would extend the sunset date of a filing fee that supports the California State Law Library. Current law requires that \$65 of each fee collected in civil cases filed in each state court of appeals be paid into an account to support the law library. The funds are appropriated each year by the Legislature to the law library. The Governor's Budget proposes \$454,000 for the law library for 2014-15.

Current law sunsets this fee on January 1, 2015. Trailer bill language would extend the sunset date until January 1, 2020. Staff has no concerns with this request.

Staff Recommendation: Approve the Trailer Bill Language

6440 UNIVERSITY OF CALIFORNIA

ISSUE 2: UC CAPITAL OUTLAY TRAILER BILL LANGUAGE

The Governor's Budget includes trailer bill language that makes minor technical changes to the UC capital outlay process approved last year, moves language regarding energy conservation projects that had been included in provisional budget language into statute, and creates one process to authorize UC energy conservation projects instead of two.

Last year the Legislature created a new process for UC capital outlay projects, in which UC is allowed to pledge its General Fund support to finance bonds and UC has greater authority to determine its own capital outlay projects. Trailer bill language proposed this year makes minor word changes to statute for clarification purposes.

The language also moves some provisional budget language regarding energy conservation projects and other capital outlay projects into statute. Finally, the trailer bill language consolidates the process UC must undertake to receive approval for energy conservation projects. Previously there were separate processes for such projects, depending on whether the project was a general energy conservation project or a project with an investor-owned utility. The language would consolidate these processes into one, requiring 30-day legislative notice before UC can move forward with either type of project.

Staff has no concerns with this language.

Staff Recommendation: Approve the Trailer Bill Language

ISSUE 3: UC TOBACCO RESEARCH

The May Revise requests a decrease of \$876,000 in the Cigarette and Tobacco Products Surtax Fund Research Account to reflect decreasing revenues. The fund derives from taxes on tobacco products and funds UC research on tobacco and its impacts. The Governor's Budget set this fund at \$11 million for 2014-15.

Staff has no concerns with this proposal.

Staff Recommendation: Approve the May Revise Request

6440 and 6610 UNIVERSITY OF CALIFORNIA AND CALIFORNIA STATE UNIVERSITY

ISSUE 4: PERFORMANCE MEASUREMENT REPORTING LANGUAGE

AB 94 (Committee on Budget), Chapter 50, Statutes of 2013, requires the University of California and the California State University to submit an annual report every March 1 to the Legislature regarding the composition of the student body and performance outcomes. The Subcommittee discussed the first reports provided by the segments at its March 26, 2014 hearing. Due to differences in the way the two segments interpreted the reporting requirements, the chair directed Subcommittee staff to work with the segments, the Department of Finance and the Legislative Analyst's Office to clarify and improve the reporting language.

Based on input from Finance, the segments and LAO, staff suggests the following changes to the reporting language:

- Require the segments to report on the number of California Community College transfer students and low-income students as a percentage of their overall student body, and in relation to the incoming freshman class;
- Require the segments to report the average number of course credits accumulated by students at the time they complete their degrees, including units accrued at other colleges.
- For CSU, add a requirement to report the four-year graduation rate of California Community College transfer students, in addition to the two- and three-year graduation rates.
- Change the annual reporting date from March 1 to March 15 to allow the segments more time to gather and report the data.

Staff Recommendation: Approve placeholder Trailer Bill Language to clarify the Performance Measurement reporting language

6600 HASTINGS COLLEGE OF LAW

ISSUE 5: HASTINGS BUDGET

The Subcommittee discussed the Governor's proposal to provide a \$1.3 million General Fund increase to Hastings for 2014-15 at its April 23 hearing but held the issue open.

Like other public higher education segments, Hastings' General Fund support has been reduced during the past decade and tuition has grown dramatically – tuition will be \$43,486 in 2014-15. Hastings differs from the other segments, however, due its size (an estimated 959 students in 2014-15), and its reliance on tuition for most of its operating budget. The General Fund only comprises about 17 percent of the Hastings budget.

Due to its small size and reliance on tuition, the Governor's budget proposes a larger percentage increase in 2014-15 for Hastings than the 5% increases proposed for the University of California and California State University. The budget proposes a 15% increase, or \$1.3 million, which would bring total General Fund support for Hastings to \$9.6 million. The budget proposal is predicated on the Governor's desire that Hastings' tuition remain flat, which Hastings has agreed to.

The LAO raised concerns at the previous hearing that the Governor is proposing additional funding for Hastings despite declining enrollment. Hastings has decreased enrollment by 20% during the past three years due to a poor employment climate for lawyers. Hastings, argues, however, that the declining enrollment and increased funding will allow it to come closer to other UC law schools in relation to student-faculty ratios. Hastings currently has a 17-to-1 student-faculty ratio, compared to 5-to-1 at UC Irvine, and 11-to-1 at UCLA and UC Davis.

Hastings also faces more cost pressures as a stand-alone institution, compared to other UC law schools which are part of larger UC campuses.

For these reasons, staff recommends approving the Governor's proposal.

Staff Recommendation: Approve the Budget Proposal

6610 CALIFORNIA STATE UNIVERSITY**ISSUE 6: CSU TRAILER BILL LANGUAGE**

The Governor's Budget includes trailer bill language that would make the following changes:

- Allows the State Fire Marshall to designate a campus fire official on each CSU campus to enforce building standards and other fire regulations on each campus. This authority has previously been granted to the University of California, and creates greater efficiency in state government by allowing CSU fire officials, instead of a separate state agency, to oversee building standards and fire regulations on campuses.
- Allows CSU to receive bids for the construction of public works projects on multiple CSU campuses as a single project. CSU already uses a single contract for multiple projects on a single campus; this language would allow CSU to do the same for projects on multiple campuses. CSU argues that this language would allow it to reduce time and costs within the procurement process and could increase the competitive environment because larger projects would attract more bidders.
- Allows CSU to publish notices of upcoming construction bid opportunities on CSU's website instead of newspapers. CSU argues this proposal will reduce procurement costs and reach the same number or more potential bidders, who already receive notices of potential projects via the Internet.

Staff has no concerns with this language.

Staff Recommendation: Approve the Trailer Bill Language

6645 HEALTH BENEFITS FOR CSU ANNUITANTS**ISSUE 7: HEALTH BENEFITS FOR CSU ANNUITANTS**

The item proposes provisional language to ensure that final health rates for CSU employees can be updated after they are updated at the end of June 2014. The budget currently includes an estimated \$270.1 million General Fund for this cost.

Proposed Provisional Language:

- *The Director of Finance may adjust this item of appropriation to reflect the health benefit premium rates approved by the Board of Administration of the California Public Employees' Retirement System for the 2015 calendar year. Within 30 days of making any adjustment pursuant to this provision, the Director of Finance shall report the adjustment in writing to the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committees in each house of the Legislature that consider appropriations.*

Staff has no concerns with this proposal.

Staff Recommendation: Adopt the Provisional Language

6980 CALIFORNIA STUDENT AID COMMISSION

ISSUE 8: CAL GRANT RENEWAL PROPOSAL

Under current practice, a Cal Grant recipient must reapply for aid each year. Based on action taken in the 2011 budget, Cal Grant students applying for renewals must annually meet income and asset requirements. If a recipient's family income exceeds the Cal Grant income cap in any year, that student is no longer eligible for renewals. This policy led to 8,817 students losing their Cal Grant before the 2013-14 school year, according to data from the Student Aid Commission.

The Governor's Budget proposes trailer bill language that would allow students who become ineligible because they exceed the income cap in one year to become eligible again in a subsequent year if their income falls below the cap. The policy would apply only to students who reapply no more than three academic years after receiving an initial award. This is somewhat similar to legislation (AB 1287, Quirk-Silva) approved by the Legislature last year but vetoed by the Governor.

The Department of Finance estimates that under this proposal, about 2,100 students will become re-eligible for Cal Grants in 2014-15, at a cost to the state of about \$15 million. The Governor's Budget accounts for this increase. The May Revise increases this amount to \$15.8 million.

The Legislative Analyst's Office recommends approving this proposal, noting they see no justification for denying a Cal Grant renewal to an otherwise eligible recipient who temporarily exceeds financial limits in one of the past few years. Staff has no concerns with this proposal.

Staff Recommendation: Approve the Cal Grant Renewal Proposal

ISSUE 9: STUDENT AID COMMISSION BUDGET ADJUSTMENTS

The May Revise makes the following adjustments to the Student Aid Commission budget. One other technical error is included in this chart that was brought to the Subcommittee's attention:

Change	Cost
Cal Grant Caseload Increase	\$25.1 Million GF
Loan Assumption Program Decrease	-\$735,000 GF
Decrease Offset of Cal Grant Costs with Student Loan Operating Fund	\$60 Million GF -\$60 M SLOF
Decrease Offset of Cal Grant Costs with TANF Reimbursement	\$104.5 Million GF -\$104.5 Million TANF
Increase Reimbursement Authority for Providing Financial Aid Data	\$52,000 Reimbursements
Increase Funding for 12-month positions due to technical error	\$133,250 GF

In addition, the Subcommittee could consider adding placeholder trailer bill language that would modify an existing exemption to Cal Grant performance requirements. The exemption allows institutions with a three year cohort default rate less than 10% and a graduation rate above 20% to remain eligible for the Cal Grant program through the 2016-17 fiscal year. The Subcommittee may wish to remove the language regarding the cohort default rate.

Staff Recommendation: Approve the Governor's Budget, May Revise Adjustments and Correct Technical Error to the Student Aid Commission and add placeholder Trailer Bill Language regarding Cal Grant performance requirements

ISSUES TO BE HEARD

6440 UNIVERSITY OF CALIFORNIA

ISSUE 1: UC BUDGET PACKAGE

The Subcommittee will take action on state support for the University of California.

BACKGROUND

The Governor's Budget proposes a base budget increase of 5%, or \$142.2 million General Fund, over the current year funding. The Governor also proposes new budget language requiring the UC Board of Regents to adopt a three-year sustainability plan by November 30, 2014.

The Subcommittee discussed the UC budget at its Feb. 19th, March 26th and April 23rd hearings. Concerns regarding the UC budget include:

State support for UC remains significantly reduced. Even with the 5% increase in the current year, General Fund support for UC operations remains at least \$400 million below 2007-08 levels. UC officials note this drop in funding, which led to major tuition increases, has hurt their ability to hire new faculty and keep up with mandatory costs such as retirement contributions and employee health benefits. Student-faculty ratios, which UC considers a key measurement of the quality of instruction have risen during this period.

The number of California undergraduate students admitted to six UC campuses in 2014 is less than last year. While UC admitted more California students into its system for Fall 2014 than the previous year, key UC campuses are shrinking the number of California undergraduate students they admit and growing the number of out-of-state and foreign students. This is despite an overall increase in the number of in-state students applying to the University.

Campus	2013 In-State Admits	2014 In-State Admits	% Change
Berkeley	9,219	8,391	-9%
Irvine	19,494	17,396	-10.8%
Los Angeles	9,539	9,128	-4.3%
Merced	9,478	9,313	-1.7%
San Diego	16,566	15,762	-4.9%
Santa Barbara	19,411	18,815	-3.1%
Systemwide	82,850	86,865	4.8%

The number of community college students seeking to transfer to UC is down. A report released last week by UC notes that since 2011-12, the number of students from California community colleges seeking to transfer to UC has declined by nearly 9%.

Legislative priorities have been removed from the budget. Despite historical practice of placing conditions on the UC budget reflecting statewide priorities determined by the Legislature and Governor, the current administration has removed these conditions through line-item veto the previous two years. These priorities have varied over the years in keeping with the Legislature's and Governor's particular concerns at the time and have covered such programs as nursing and medicine, AIDS research, and science and math teaching initiatives.

STAFF COMMENTS

Given these concerns, and given the revenue forecast provided by the Legislative Analyst's Office, the Subcommittee could consider the following issues as it develops a package for UC's General Fund budget:

The Governor's proposal does not meet UC's basic costs. UC officials indicate that they face rising mandatory costs, such as retirement contributions and employee health benefits, that would not be entirely covered by the Governor's proposed 5% increase. The budget proposed by the UC Board of Regents last fall seeks an additional \$120.9 million above the Governor's proposal, which UC notes would allow it to fund some enrollment growth and address quality of education issues such as reducing student-faculty ratios and increasing support for graduate students.

The Governor's proposal does not address the enrollment issues the Subcommittee has identified as its top priority. Traditionally the state has funded UC based in part on enrollment targets for California students. The Governor has abandoned this approach and is therefore staking out a position that undermines the state's Master Plan for Higher Education. Key UC campuses are seeking this Fall to continue increasing out-of-state and foreign students, which lessens the number of spots for California students. Statewide, UC admitted nearly 9% more out-of-state students and nearly 18% more international students for Fall 2014, while admitting only 4.8% more California students. This is an alarming trend that could be reversed if the Subcommittee were to specify funding for in-state enrollment growth.

The Governor's proposal does not address state priorities such as ensuring more California students are ready for college and more community college students transfer to UC. The state has long supported numerous student outreach programs administered by UC, referred to as the Student Academic Preparation and Educational Partnerships (SAPEP). These programs work with at-risk middle school, high school and community college students to increase students' admission to UC or other four-year universities. These programs' outcomes are significant, with participating students completing college-preparatory high school classes at higher rates, taking the SAT or ACT at higher rates, and attending two- or four-years colleges at higher rates than comparable non-participating students. These programs have received as much \$82 million in General Fund support in some years but have received only \$12.6 million in the last two years.

Additionally, UC's recent report, "Preparing California for its Future," outlined 5 strategies to improving community college transfers to UC, including student outreach, streamlining the transfer process, and support services for transfer students on UC campuses.

The Governor's proposal does not include other priority programs. As discussed at the April 23rd hearing, the following programs have been earmarked in the UC budget because they address legislative priorities. UC has signaled its support for these programs during Subcommittee hearings. Despite this, the Governor does not include them in his budget.

Program	UC Budget	Description
UC - Charles R. Drew Medical Program	\$8,300,000	The Charles R. Drew University of Medicine and Science (CDU), a private, nonprofit corporation with its own Board of Trustees, conducts educational and research programs in south central Los Angeles.
UC - AIDS Research	\$8,800,000	Since its founding in 1983 by the Legislature, the California HIV/AIDS Research Program (CHRP) has supported research that is attentive to the needs of California, accelerating progress towards prevention and treatment for HIV/AIDS.
UC - Subject Matter Projects	\$5,000,000	The California Subject Matter Project (CSMP) is a statewide network of subject-specific professional development programs for teachers. CSMP engages K-12 educators with faculty in various disciplines from UC to develop and deliver intensive institutes for education professionals.
UC - Cal Institutes for Science & Innovation (Gray Davis Institutes)	\$4,800,000	The state, UC, and hundreds of the state's businesses run the California Institutes for Science and Innovation, using state money and federal and private sources. The four Institutes, each jointly operated by multiple UC campuses, engage UC's world-class research faculty directly with California, national, and international companies in attacking large-scale issues critical to the state's economy and its citizens' quality of life.
UC - COSMOS	\$1,700,000	The California State Summer School for Mathematics and Science (COSMOS) provides an intensive academic experience for students who wish to learn advanced mathematics and science and prepare for careers in these areas.

UC Science and Math Teacher Initiative	\$885,000	CalTeach encourages students majoring in science, technology, engineering, and mathematics (STEM) to augment their studies with a sequence of CalTeach courses and fieldwork in K-12 classrooms that ready them to pursue teaching credentials after receiving their baccalaureate degrees.
UC - PRIME	\$2,000,000	Programs In Medical Education (PRIME) are innovative training programs focused on meeting the health needs of California’s underserved populations in both rural and urban areas by combining specialized coursework and clinical training experiences designed to prepare future clinician experts, leaders, and advocates for the communities they will serve.
UC Nursing Programs	\$1,700,000	To help meet the state’s future nursing needs, both university systems have expanding nursing programs
UC Labor Centers	\$2 Million	The Labor Centers at UC Berkeley and UCLA conduct research on issues such as the implementation of the Affordable Care Act, green jobs, workforce development, the underground economy and low-wage industries.

The proposed Sustainability Plans appear unnecessary and could limit Legislative input. The Governor's proposal raises several concerns. It appears somewhat duplicative of the budget report the UC Regents already adapt each fall, but adds new workload for UC. Perhaps more importantly, the process in which the Administration would provide the UC each fall with its proposed funding for the following budget year creates a public budget negotiation before the Legislature has input. This could limit the Legislature's ability to determine its budget levels and priorities for the UC. Between enrollment growth planning and the annual performance measurement report now required of UC, the Legislature should be receiving adequate information about UC to make appropriate budget decisions in the Spring, which is the appropriate timeframe for UC's budget to be determined.

Staff Recommendation: Adopt the following UC Budget Package:

Augment General Fund support for UC by \$100 million over the Governor's Budget proposal.

Add Provisional Budget Language requiring a \$25 million enrollment growth plan for UC. Provisional budget language would state that \$25 million of UC's state support is intended to incentivize the UC to add 2,500 new California students at UC in 2014-15 and 2015-16. UC would be directed to use wait lists, spring admissions or other means to enroll as many new students as possible at UC campuses in the 2014-15 academic year, with the state paying \$10,000 per student. Funding would not be distributed unless UC increased enrollment at all campuses. Unused funding would be carried over to the 2015-16 fiscal year to continue increasing enrollment. In addition, UC would be directed to provide a three-year plan for enrollment growth that includes costs associated with new students and students UC believes are currently unfunded by the state. The amount of \$10,000 per student is nearly \$2,000 more than the LAO has suggested, which the Subcommittee believes will begin to address UC's concerns that the state is not providing enough funding per student.

Add Provisional Budget Language requiring \$10 million to be spent on increasing student outreach support over current levels or supporting activities outlined in UC's Community College Transfer Report. Provisional budget language would require UC to spend \$10 million of its General Fund support to increase spending on SAPEP programs and/or activities outlined in its recent transfer report.

Add Provisional Language re-inserting statewide priorities into the budget. Make two changes to the previous chart. Increase the funding level for the UC Labor Centers from \$2 million to \$6 million to better support the centers' research programs, and add the Statewide Database at UC Berkeley. This database houses voter registration information used in the redistricting processes. Funding for this program will be set at \$770,000.

Reject the Sustainability Plan proposal.

6910 AWARDS FOR INNOVATION IN HIGHER EDUCATION

ISSUE 2: FUNDING PROPOSAL

The Subcommittee will take action on the Governor's proposal to provide \$50 million General Fund to create the Awards for Innovation in Higher Education program.

BACKGROUND

The Governor's budget proposes \$50 million General Fund, on a onetime basis, to create the Awards for Innovation in Higher Education program. The Governor proposes that applications for awards can be submitted by a UC, CSU, community college, or a group of any of these entities. These incentive awards are proposed to encourage and recognize models of innovation in higher education that focus on increasing bachelor's degrees, improving the time it takes to complete a bachelor's degree or easing the transfer process. Winning applications will be selected by a committee chaired by the Department of Finance.

The May Revise makes clarifying changes to the budget language but no substantive changes.

STAFF COMMENTS/QUESTIONS

While the goals of this new program are laudable, staff notes that all three higher education segments are emerging from significant cutbacks in state funding. All three face major cost pressures, including retirement and infrastructure needs.

Additionally, the LAO has raised multiple concerns, including that by earmarking a relatively small amount of one-time funding for individual campuses or groups of campuses to address state priorities, the state seems to be implying this is somehow different from how the segments should be using the remainder of their funding. The LAO also states that this proposal is poorly timed, coming too soon after funding discussed in last year's budget to expand the use of technology to remove course bottlenecks and reduce the costs of education. The results of those efforts are not yet clear, and the LAO suggests that expanding in this area before giving the existing efforts time to show results would be premature.

Staff also notes that this proposal sets up a significant bureaucratic infrastructure to determine "winners," which will require staff time for both the newly-created committee and the campuses and segments writing grant proposals. Finally, it is unclear what the Administration's intent is for the funding: is it to expand programs or projects, create new programs or projects, or reward innovation? What will this relatively small amount of funding actually buy?

There are much better ways to spend one-time funding that could address critical higher education needs. For example, both UC and CSU have noted significant issue regarding deferred maintenance on their campuses. CSU has pegged their deferred maintenance costs at more than \$1.8 billion, while UC's 2014-15 budget report noted that it will need to spend between \$250 million and \$400 million per year between 2013-14 and 2021-22 on capital renewal needs.

Additionally, the state has gone without an eligibility study for seven years; funding a revised study could help the Legislature determine appropriate enrollment funding levels at both UC and CSU.

Staff Recommendation: Reject the Governor's Proposal. Re-direct the \$50 million by providing \$24.5 million in one-time funding for deferred maintenance projects at UC and \$24.5 million in one-time funding for deferred maintenance projects at CSU

ELIGIBILITY STUDY

ISSUE 3: ELIGIBILITY STUDY

The Subcommittee can take action on funding an eligibility study.

BACKGROUND

The state has historically set enrollment targets in UC and CSU budgets, reflecting the state's expectations for access to the public universities. These expectations are based on the eligibility policies included in the state's Master Plan for Higher Education. Specifically, the Master Plan requires UC and CSU to admit freshmen students from among the top 12.5 percent and 33 percent, respectively, of the state's high school graduates.

The state typically took into account a number of factors when setting enrollment targets. One main consideration was changes in the college-age population. The state also routinely considered college participation rates and freshman eligibility studies. Freshman eligibility studies were designed to determine if UC and CSU were drawing from less or more than their Master Plan eligibility pools. These studies were conducted by the California Postsecondary Education Commission (CPEC), which the state closed down in 2011.

The last study conducted was published in 2007.

STAFF COMMENTS/QUESTIONS

In a report this year on UC and CSU budgetary practices, the LAO recommended that the Legislature revive the eligibility study. An updated study could help the state as it determines enrollment targets in the future.

Current legislation, AB 2548 (Ting) calls for periodic studies to be conducted by the Department of Education. Without CPEC, there is not an obvious entity to administer or contract out for the study. The Subcommittee could set aside funding to be used for an eligibility study, while allowing the policy process to determine the appropriate process and entity to conduct the study. Funding could be used for the statistical analysis conducted and other costs for UC and CSU, as well as administrative oversight of the study.

Staff Recommendation: Use \$1 million in one-time funding from the Awards for Innovation in Higher Education proposal to authorize an eligibility study. Create a new budget item to set aside this funding and adopt provisional budget bill language to make the appropriation based on legislation determining the appropriate entity to administer the study.

6610 CALIFORNIA STATE UNIVERSITY**ISSUE 4: CSU BUDGET PACKAGE**

The Subcommittee will take action on a CSU budget package.

BACKGROUND

Like UC, the Governor's Budget proposes a base budget increase of 5%, or \$142.2 million General Fund, over the current year funding for CSU. The Governor also proposes new budget language requiring the CSU Board of Trustees to adopt a three-year sustainability plan by November 30, 2014.

The Subcommittee discussed the CSU budget at its Feb. 19th, March 26th and April 23rd hearings. Concerns regarding CSU include:

Thousands of eligible California students are being turned away. The chart below indicates the number of qualified undergraduate applicants admitted and denied for CSU.

	Fall 2008	Fall 2009	Fall 2010	Fall 2011	Fall 2012	Fall 2013
Admitted Students	167,606	193,928	173,562	178,615	194,564	212,152
Denied Eligible Students	6,174	10,435	28,803	21,697	22,123	26,430

Note: The numbers indicate undergraduate student headcount

This supply and demand imbalance is more profound at some CSU campuses. Campus or program impaction occurs when a campus or program has exhausted existing capacity in terms of the instructional resources and physical capacity of the campus. When campuses or specific programs receive more eligible applicants than they have resources for, impaction occurs and campuses or programs restrict enrollment. For 2014-15, all programs are impacted at CSU Fullerton, CSU Long Beach, San Diego State University, San Jose State University and Cal Poly San Luis Obispo.

There are numerous problems with so-called student success fees. Twelve CSU campuses have implemented student success fees, which charges students between \$162 and \$630 annually for various campus activities, including expanded library hours, the hiring of more academic counselors, technology upgrades, and athletics. Subcommittee concerns about these fees include:

- It is difficult to find information about how these fees are being used;
- They are an end-run around the current tuition freeze;
- They create have- and have-not campuses and could pressure all campuses to enact these fees;
- And it is difficult to tell whether students are able to voice concerns before these fees are enacted. At its May 15th hearing, the Subcommittee received testimony from

students at CSU Fullerton and CSU Dominguez Hills noting student petitions against these new fees appear to have been ignored before the fees were enacted.

Legislative priorities have been removed from the budget. Despite historical practice of placing conditions on the CSU budget reflecting statewide priorities determined by the Legislature and Governor, the current administration has removed these conditions through line-item veto the previous two years. These priorities have varied over the years in keeping with the Legislature's and Governor's particular concerns at the time and have covered such programs as nursing and medicine, student outreach, and science and math teaching initiatives.

STAFF COMMENTS/QUESTIONS

Given these concerns, and given the revenue forecast provided by the Legislative Analyst's Office, the Subcommittee could consider the following issues as it develops a package for CSU's General Fund budget:

The Governor's proposal does not allow CSU to address enrollment and completion concerns. CSU is clearly failing to meet its Master Plan obligation of allowing admission to the top one-third of graduating California high school students. In addition, CSU's first performance report, submitted to the Legislature in March, indicated only 16% of its students graduate in four years, while 53% graduate in six years. CSU has a proposal to spend \$50 million to address student success issues, but this initiative would be dramatically underfunded under the Governor's Budget.

The Governor's proposal does not address student success fees. Despite the Governor and Legislature's desire to hold tuition levels flat at CSU, student success fees are being implemented or contemplated at more campuses. This seems to undercut the principal of holding down students' costs.

The Governor's proposal does not address state priorities such as ensuring more California students are ready for college and more community college students transfer to CSU. Like UC, CSU has student outreach programs that target disadvantaged middle school, high school and community college students and work to improve the four-year college-going and completion rates of these students. These programs interacted with more than 1.2 million K-14 students in 2012-13, using \$21.6 million in state General Fund. The General Fund support came despite the Governor vetoing the funding out of the budget. In addition, the Subcommittee is aware of a Budget Chance Proposal (BCP) from CSU and the California community colleges that seeks \$5 million to improve outreach and marketing on community college campuses to raise participation and awareness of the new Associate Degree for Transfer, which was authorized by SB 1440 (Padilla, Chapter 428, Statutes of 2011.) The BCP would allow CSU and community colleges to work together to develop a media campaign in multiple languages regarding the transfer program and conduct outreach programs. This BCP was not included in the Governor's Budget.

The Governor's proposal does not include additional support for the Capitol Fellows program. Capitol Fellows, who are paid through the CSU Center for California Studies program, have not received a raise since 2004-05. The 64 Fellows earn \$1,972 per month,

which makes it difficult to pay for all living expenses in Sacramento and discourages low-income students from entering the program. The Subcommittee is aware of a Budget Change Proposal that sought additional funding for this program to allow for raises for Fellows and a relocation grant. This BCP was not included in the Governor's Budget. The current Capitol Fellows budget is \$735,000.

The Governor's proposal does not include other priority programs. Similarly to UC, the Legislature has traditionally included earmarks in CSU's budgets to ensure funding of statewide priority programs. Aside from the student outreach programs referenced above, these programs include:

Program	CSU Budget	Description
CSU Mathematics and Science Teacher Initiative	\$2,700,000	The Initiative seeks to (1) recruit new students into teaching, (2) increase new credential pathways, (3) provide financial support, (4) align programs with community colleges, (5) provide online resources and preparation, (6) develop partnerships with federal labs and industry, and (7) identify successful approaches to replicate on other campuses.
CSU Nursing Programs	\$4,600,000	To help meet the state's future nursing needs, both university systems have expanding nursing programs

Staff Recommendation: Adopt the Following CSU Budget Package:**Augment General Fund support for CSU by \$100 million over the Governor's Budget Proposal**

Add Provisional Budget Language requiring 5% enrollment growth. Provisional budget language would require the CSU to increase enrollment of California students by 5% over 2013-14 levels, which would allow nearly 20,000 more students into CSU campuses. This is a CSU proposal.

Add Provisional Budget Language declaring a moratorium on new student success fees in 2014-15 and placeholder trailer bill language modifying the student success fee development process. Budget bill language would prohibit the Chancellor from authorizing new student success fees in 2014-15. Placeholder Trailer Bill language would require the Board of Trustees to develop a new policy for student success fees that require a student vote, implement a five-year sunset review process, and require that campuses with student success fees post annual reports on their campus websites that describe the use of the fees.

Add Provisional Budget Language requiring \$10 million over current levels to be spent on expanding student outreach programs.

Add Provisional Budget Language to increase funding for the Capitol Fellows program by \$442,000. This would allow Fellows to earn about \$15 per hour, which is in line with some government summer internship programs.

Add Provisional Language re-inserting statewide priorities into the budget. Both the CSU Math and Science Teacher Initiative and the Nursing Program should stay at current funding levels.

Reject the Sustainability Plan proposal.

ISSUE 5: CSU INFRASTRUCTURE

The Subcommittee will discuss the Governor's proposal to change the CSU capital outlay process and take action to address CSU's infrastructure needs.

BACKGROUND

Similar to a new capital outlay process approved for UC last year, the Governor proposes to shift general obligation and lease revenue bond debt-service payments into CSU's main appropriation. Moving forward, the state no longer would adjust CSU's budget for changes in debt-service costs. Instead, the state would provide annual, unallocated base increases and the university would be responsible for funding all maintenance and debt-service from within its main appropriation.

Budget bill and trailer bill language would allow CSU to issue its own university bonds for various types of capital and maintenance projects and could restructure its existing lease revenue bond debt. To use its new authority, CSU would be required to submit project proposals to DOF for approval, with a 60-day notification period provided to the Joint Legislative Budget Committee. The CSU's capital and maintenance projects no longer would be reviewed as part of the regular budget process. CSU would be limited to using 12% or less of its state appropriation for capital infrastructure projects.

For 2014-15, debt service related to CSU projects amounts to \$188 million for general obligation bonds and \$99 million for lease revenue bonds. This amount is folded into CSU's main appropriation in the Governor's Budget.

STAFF COMMENTS/QUESTIONS

The Subcommittee discussed this issue at its April 23rd hearing. CSU has a major infrastructure problem. According to its five-year capital improvement plan, CSU has more than \$7 billion in need during the next five years. It faces \$1.8 billion in deferred maintenance costs alone. Concerns regarding the Governor's proposal include:

The proposal does not solve CSU's serious infrastructure problems and may make them worse. As the LAO noted in the April hearing, CSU's infrastructure woes are largely due to a lack of funding, not a problem with the capital outlay process. The Governor's proposal would provide CSU with essentially the same amount of funding for debt service, and thus all infrastructure costs, in perpetuity. CSU officials note that this is despite upcoming increased debt service costs: the current amount will be \$40 million less than needed for debt service in 2016-17, for example. Thus, it does appear that the Governor's proposal will allow CSU to address capital needs in the short term.

The proposal limits the Legislature's oversight of CSU capital projects. The LAO notes the Governor's approach diminishes the Legislature's role in capital and maintenance decisions for the university by removing the traditional public review of CSU projects through the regular budget process. The DOF would approve the university's projects through an abbreviated review process, further reducing transparency and precluding public input.

The proposal will require CSU to make debt service its first priority in its operations budget. In years when debt service costs are high or state support for CSU operations diminishes, CSU will still be obligated to make debt service payments. The CSU is not obligated to enroll students or provide classes; thus, debt service becomes the highest priority for CSU's funding in tight budget years.

The CSU Board of Trustees is not in full support of this proposal. Staff notes that this proposal has been discussed at several CSU Board of Trustees meetings, with several board members voicing concern. This is in contrast to the UC Regents last year, which supported this proposal as it pertained to UC.

Given these concerns, and given available funding, the Subcommittee could consider options that would allow CSU to begin addressing deferred maintenance issues in 2014-15. In its Fall budget proposal, the CSU Trustees proposed using \$15 million from state funds in the next three years to finance \$750 to \$800 million worth of deferred maintenance projects.

Staff Recommendation: Reject the Governor's Proposal.

Re-create the separate line item in CSU's budget for lease revenue bond debt service costs, and return CSU's GO bond debt service costs to the statewide GO debt service appropriation.

Adapt placeholder trailer bill language that allows CSU to finance deferred maintenance projects by pledging its main General Fund appropriation and requiring an annual report from CSU to the Governor and Legislature on completed deferred maintenance projects, details on financing used to fund these projects, and ongoing deferred maintenance needs and costs.

ISSUE 6: CAPITAL OUTLAY EQUIPMENT PROPOSALS

The Subcommittee will take action on proposals to use GO bonds to fund three CSU capital outlay projects.

BACKGROUND

The Governor’s Budget includes \$5.8 million, from the balance of the 2004 Higher Education Capital Outlay Bond, to fund the equipment phases for the following projects:

- Monterey Bay (Academic Building II) - \$1.97 million. Funding will support instructional equipment for the School of Information Technology and Communications Design and the School of Business in the new facility at Monterey Bay, which was approved in the the 2009 budget.
- Chico (Taylor II Replacement Building) - \$2.74 million. Funding will support instructional equipment for the College of Humanities and Fine Arts in the new facility at Chico, which was approved in the 2010 budget.
- East Bay (Warren Hall Replacement Building) - \$1.06 million. Funding will support equipment for 113 administrative and faculty offices in the new office building at East Bay, which was approved in the 2011 budget.

This is the final phase of these three projects; other phases were previously approved by the Legislature.

STAFF COMMENTS/QUESTIONS

This issue was held open at the April 23 Subcommittee hearing due to concerns related to using long-term bond funds for short-term equipment such as computers.

Based on these concerns, CSU prepared calculations of the average service life of the fixtures, furniture and other equipment proposed for purchase with these bond funds. The service life estimates for the equipment were calculated using typical durations for each equipment class weighted by the cost of the equipment.

Campus	Project	Average Service Life
Monterey Bay	Academic Building II	22.6 Years
Chico	Taylor II	32.2 Years
East Bay	Warren Hall Replacement	27.9 Years

CSU and the Department of Finance also note that Government Code Section 16727, which describes uses for state General Obligation bonds, allows bond funds to be used for any equipment with a useful life of two years or more. Additionally, GO bond sales are tailored to a specific program, and thus are sold with varying lengths of maturities. Thus, bond funds used for equipment typically have a much shorter maturity than 30 years.

Staff also notes that the Legislature has historically approved CSU equipment funding via GO bonds, including 5 proposals last year.

Staff Recommendation: Approve the Governor's Budget Proposals

6980 CALIFORNIA STUDENT AID COMMISSION

ISSUE 7: MIDDLE CLASS SCHOLARSHIP PROGRAM

The Subcommittee will take action on the Middle Class Scholarship Program.

BACKGROUND

AB 94 (Committee on Budget), Chapter 50, Statutes of 2013, created the Middle Class Scholarship Program. The program provides undergraduate students with family incomes up to \$150,000 a scholarship to attend the University of California or California State University. Students with family incomes up to \$100,000 qualify to have up to 40% of their tuition covered (when combined with all other public financial aid). The percent of tuition covered declines for students with family income between \$100,000 and \$150,000, such that a student with a family income of \$150,000 qualifies to have up to 10% of tuition covered.

The program is to be phased in over four years, beginning in 2014-15, with awards in 2014-15 set at 35 percent of full award levels, then 50 percent, 75 percent, and 100 percent of full award levels the following three years, respectively. The budget legislation includes annual appropriations for the program beginning with \$107 million for 2014-15 and capped at \$305 million for 2017-18 and thereafter. The legislation also notes that, "in any fiscal year, additional appropriations may be enacted pursuant to statute to carry out the purposes of this article."

The Governor's Budget proposes \$107 million in 2014-15 to begin phasing in the program.

Based on preliminary information from UC and CSU, the California Student Aid Commission estimates that 157,294 students will qualify for discounted tuition under this program. Based on the statutory language setting the first year of the program at 35% of the full amount of the award, CSAC has provided the following breakdown for qualified UC and CSU students.

UC

Students	Number of Students	Maximum/Midpoint/Average Award	Total Cost
Income Below \$100,000	17,706	Maximum Award: \$1,707	\$30.2 Million
Income From \$100,001 to \$149,999	7,588	Midpoint Award: \$1,054	\$8 Million
All Incomes	25,294	Average Award: \$1,511	\$38.2 Million

CSU

Students	Number of Students	Maximum/Midpoint/Average Award	Total Cost
Income Below \$100,000	92,400	Maximum Award: \$766	\$70.8 Million
Income From \$100,001 to \$149,999	39,600	Midpoint Award: \$473	\$18.7 Million
All Incomes	132,000	Average Award: \$678	\$89.5 Million

STAFF COMMENTS/QUESTIONS

The program was designed to provide aid to students who haven't benefitted from financial aid programs aimed at low-income students and therefore have suffered the most during recent tuition hikes at both UC and CSU. Based on the numbers above, the program is a success.

The average discount provided to all eligible UC or CSU students would be \$812, which is 15% of CSU tuition. More than 110,000 students with family incomes below \$100,000 will receive discounted tuition.

However, CSAC notes that the \$107 million allocated in 2014-15 would not provide the full amount to students. To do that, the state would need to provide \$127.7 million. Statutory language does allow increased appropriation to fully fund the program.

In addition to funding, staff has worked with the Student Aid Commission and UC and CSU financial aid officials to develop minor technical adjustments to the statute to ensure more clarity as to how the program should be administered. Proposed changes include:

- A minor change to the definition of other financial aid, to ensure the award goes only to students paying tuition/fees.
- A new requirement that students seeking the scholarship fill out the federal financial aid application by March 2, which is the same deadline as other financial aid programs.
- Language that limits the award to a student's first bachelor's degree or teaching credential, similar to Cal Grant policy.
- Allows part-time students to also receive the scholarship, but bases scholarship on the amount students are paying for tuition.
- Technical changes to the language describing the award amounts for students whose family income is between \$100,000 and 150,000.
- Sets the minimum award amount at \$90.

These are all technical changes intended to help the Student Aid Commission and the segments better administer the program and increase clarity for students seeking the award.

Staff Recommendation: Augment the Middle Class Scholarship Program by \$20.7 Million to fully fund the program in 2014-15

Approve Placeholder Trailer Bill Language clarifying the intent of the program

ISSUE 8: CAL GRANT PROGRAM

The Subcommittee will take action on the Cal Grant Program.

BACKGROUND

The Governor's Budget provides no major policy changes regarding the Cal Grant program.

At its March 5 hearing, the Subcommittee discussed concerns with the current program and ideas for improvement. Concerns included:

The Cal Grant program's focus on tuition largely ignores the considerable living expenses that students face. As the Legislative Analyst notes in its analysis of the higher education budget, living expenses such as food and housing, transportation and other personal expenses make up the majority of undergraduate student expenses. These costs are relatively high in California – about 20 percent higher than national averages, according to the LAO. These expenses are similar for students at community colleges, California State University and the University of California.

Despite this fact, Cal Grants remain largely focused on covering tuition for students.

Many low-income California students are not served by the Cal Grant program.

According to research done by The Institute for College Access and Success (TICAS), only 23 percent of very low income students who apply for aid receive a Cal Grant. This is largely due to age restrictions on the Cal Grant entitlement program, which is reserved for recent high school graduates.

Cal Grant awards for students attending private non-profit schools and accredited for-profit schools are set to decline. During the recession, the Legislature agreed to reduce the amount of Cal Grants for students attending private, non-profit colleges in California. The Governor's Budget calls for this amount to go from \$9,804 to \$8,056 in 2014-15. These awards assist more than 32,000 low-income California students in attending the school of their choice.

STAFF COMMENTS/QUESTIONS

The Subcommittee could consider the following issues as it determines an appropriate Cal Grant program.

The only major Cal Grant program that seeks to cover living expenses remains low.

Only the stipend associated with the Cal Grant B program provides some aid for living expenses, and at \$1,473 annually, the stipend does not come close to meeting total expenses. Accounting for inflation, the Cal Grant B stipend is worth one quarter of what it was worth when it was first introduced in 1969-70. According to Student Aid Commission data, the average cost of books and supplies for students in 2014-15 will be \$1,746. The Cal Grant B stipend does not even cover this amount.

Older, low-income students have very low odds of receiving a Cal Grant. The Cal Grant competitive program offers a limited number of Cal Grant A or B awards to older students who do not qualify for the entitlement program. The number of grants has been limited to 22,500 per year in statute, despite tremendous demand: the Student Aid Commission noted at the Subcommittee's May 15th hearing that more than 301,000 Californians applied for and were eligible for this grant in 2013-14. The Student Aid Commission testified that increasing the number of competitive Cal Grants is a top priority for the Commission. In addition, the Subcommittee discussed at its March 5 hearing that the Commission has not distributed all 22,500 awards annually. Averages during the past three years range from 69% to 76% of awards being actually paid. Current legislation, AB 1976 by Quirk-Silva, seeks to address this program by allowing the Commission to increase the number of awards it offers and make other changes to allow the Commission more ability to actually distribute the amount of awards it is authorized.

The decline in the Cal Grant amount for private non-profits and accredited for-profits may limit student choice. UC and CSU cannot meet the demand for all California students. Thus, it is in the state's interest to ensure that some California students attend private colleges. The cut that will take place in 2014-15 will impact more than 32,000 students, who will have to make up the difference via work, loans, or institutional aid that could go to help other needy students. The Student Aid Commission testified that blocking this cut is a top priority for the Commission

Staff Recommendation: Expand the Cal Grant program through the following actions:

Increase the amount of the Cal Grant B stipend from \$1,473 to \$1,746 to cover books and supplies for Cal Grant B students. This increases Cal Grant costs by \$46.8 Million in 2014-15.

Restore the Cal Grant award for students attending private non-profit and accredited for-profit schools to current year levels. This increases Cal Grant costs by \$9 Million in 2014-15.

Approve placeholder trailer bill language increasing the number of competitive Cal Grant awards to 40,000 in 2015-16 and making changes to allow the Student Aid Commission more flexibility in issuing awards. This increases Cal Grant costs by \$42.5 Million in 2015-16.

6120 CALIFORNIA STATE LIBRARY

ISSUE 9: STATE LIBRARY BUDGET PACKAGE

The Subcommittee will take action on a State Library Budget Package.

BACKGROUND

The Governor's Budget provided one major change to the State Library budget, which was approved by the Subcommittee at its April 23rd hearing. The May Revise requests \$192,000 General Fund and two positions to support the State Librarian. One position is for an administrative assistant; the other is for a special assistant who will focus on issues such as adult literacy and modernizing public libraries.

STAFF COMMENTS/QUESTIONS

Staff has no concerns with the May Revise request.

The Subcommittee could also consider other issues within library funding. The state has traditionally provided some amount of funding for local library activities. Included in this are activities under the California Library Services Act, which encourages reading by funding bookmobiles and a program that allows patrons to use library services even if they are not a resident of the library's jurisdiction. The state also has provided funding for adult literacy programs. A recent report on literacy programs indicate that adults in the program increased their rate of applying for jobs, among other things.

State funding for these programs was \$85 million in 2000 but has been cut dramatically. The Governor's Budget proposes \$4.7 million, the same as the current year. These severe cutbacks have had profound impacts: 90% of library literacy programs have a waiting list, with more than 3,700 Californians waiting for a spot.

A May 6 letter from Assemblyman Mike Gatto and signed by 13 other members of the Assembly – both Democrats and Republicans – is seeking restoration of some of these funds.

Staff Recommendation: Approve the May Revise Request for \$192,000 and Two Positions.

Increase Funding to Local Libraries by \$10 Million, with \$2 Million going to the California Library Literacy and English Acquisition Services Program and \$8 Million to the California Library Services Act
