

**AGENDA – PART I****ASSEMBLY BUDGET SUBCOMMITTEE NO. 2  
ON EDUCATION FINANCE****Assembly Member Kevin McCarty, Chair****TUESDAY, MAY 24, 2016  
9 AM, STATE CAPITOL, ROOM 444****FINAL SUBCOMMITTEE ACTIONS - HIGHER EDUCATION GENERAL FUND**

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## VOTE-ONLY ITEMS

### 6120 CALIFORNIA STATE LIBRARY

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#### ISSUE 1: INCREASED FACILITIES COSTS

It is requested that Item 6120-011-0001 be increased by \$56,000 to provide additional funds for estimated increases in rent and facilities costs at the State Library's 900 N Street building in Sacramento. The State Library has limited ability to absorb increases in these costs and also maintain existing program levels. Therefore, this request adjusts the appropriation based on changes in those costs in fiscal year 2016-17.

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**Staff Recommendation: Approve the May Revise proposal**

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#### ISSUE 2: INCREASED PUBLICATIONS/DATABASE COSTS

The May Revision proposes \$505,000 ongoing General Fund to support additional costs of publications, database subscriptions, and other resources. Increasing subscription costs have strained current resources, requiring this additional funding, according to the Administration. The funding will allow ongoing subscriptions to 16 databases, including the Los Angeles Times, a legal database, congressional databases, and the Statistical Abstract of the United States, and 28 periodical subscriptions, including Physician's Desk Reference, World Almanac, and national fire codes.

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**Staff Recommendation: Approve the May Revise proposal**

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#### ISSUE 3: CALIFORNIA LIBRARY SERVICES ACT

The Governor's Budget proposes a \$4.8 million General Fund increase for the California Library Services Act, with \$1.8 million in ongoing funding and \$3 million in one-time funding. According to the Administration, the board would determine how to distribute the one-time funding, and it would distribute the ongoing funding based on the number of people residing within each of the cooperative's boundaries. The Administration indicates it intends for the regional cooperatives to use the funding to engage in "new business practices" and adopt new technologies to share resources.

The Governor also proposes trailer bill language to modify the CLSA by removing references to the transaction-based reimbursement, which previously covered a small portion of the costs for local libraries extending lending services beyond their jurisdiction. Since 2011, the state has not provided funding for the transaction-based reimbursement. Trailer bill language also clarifies that cooperatives may use CLSA funding for exchanging print and digital materials.

The State Library wrote a letter to the Subcommittee on April 25, indicating the priorities the board would place in distributing the one-time funding. The board states that the overarching principle for this funding is to ensure the sharing of materials across libraries, encourage a broader use of new technologies to facilitate movement of information throughout the state and to reduce costs, and that attention should be given to those libraries with large, underserved populations.

Specifically, the board states that its spending priorities are:

- Development of regional or statewide E-resources, such as a shareable portfolio of materials and platforms that provide convenient access to materials ranging from periodicals to databases.
- Easing access to library print and E-resources to all Californians, particularly public school students, through regional and statewide digital library cards.
- Expansion of digital content created by local libraries, such as photographs or newspapers that can be used in local school curriculum and the sharing of that digital content among jurisdictions.
- Fostering partnerships between libraries and other public and private entities to expand access to information and services offered both by libraries and other entities.

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**Staff Recommendation: Approve the Governor's Budget proposal**

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#### **ISSUE 4: CALIFORNIA CIVIL LIBERTIES PUBLIC EDUCATION PROGRAM**

The California Civil Liberties Public Education Program was created through legislation in 1998 to inform and educate the California community about the exclusion, forced removal, and internment of Japanese Americans and permanent resident aliens of Japanese ancestry during World War II so that the causes and circumstance of this and similar events may be illuminated and understood. From 1998 through 2010, the program awarded 366 grants to individuals, organizations and education institutions. Grants were also awarded to projects that link the Japanese American experience with the experiences of other populations who face similar violations of civil rights or acts of injustice. Funding was eliminated during the Great Recession.

The Subcommittee has received a request to begin funding this program again. The request is for \$1 million General Fund, with the following parameters: reinstate the grant program, with emphasis and priority placed on projects that link the Japanese American experience with the experiences of other populations who face similar violations of civil rights or acts of injustice, require the State Library to administer the program, and continue to authorize the State Librarian to work with an Advisory Committee to make awards each fiscal year.

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**Staff Recommendation: Approve Budget Bill Language Establishing the California Civil Liberties Public Education Program with \$1 million General Fund. Allow the State Librarian Up to 5% of this Funding to Administer the Program**

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#### **ISSUE 5: CALIFORNIA HISTORICAL SOCIETY**

The 2015 Budget Act provided \$521,000 General Fund on a one-time basis for digital scanning equipment, to help the State Library make critical improvements to better preserve historical materials. In addition to the State Library, the California Historical Society (CHS), headquartered in San Francisco, also conducts preservation activities. CHS is the state's official historical society, and has a collection of 50,000 volumes of books and pamphlets, 4,000 manuscripts, 750,000 photographs, posters, maps and periodicals, and artifacts of California history. CHS also has a Los Angeles office at LA Plaza de Cultura y Artes, which holds interactive exhibits and programs regarding Mexican-American culture. In 2015, the State Library worked with CHS to enhance online access to the CHS collection, including the creation of a digital asset management system, associated archival cloud-based storage infrastructure, and a public facing web-searchable database.

At its May 17<sup>th</sup> hearing, Senate Budget Subcommittee No. 1 voted to augment State Library funding by \$1 million General Fund to support further CHS activities to increase exhibitions and public programs. CHS proposes to develop a rehabilitation strategy for the 1874 Old U.S. Mint as CHS's new home with San Francisco, and create dynamic community and youth engagement programs in the greater Los Angeles area around upcoming exhibitions.

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**Staff Recommendation: Concur with Senate Action**

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#### **6440 UNIVERSITY OF CALIFORNIA**

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#### **ISSUE 6: CIGARETTE AND TOBACCO PRODUCTS SURTAX FUND RESEARCH ACCOUNT**

The May Revision includes a decrease of \$474,000 from the Cigarette and Tobacco Products Surtax Fund Research Account to reflect available resources in this fund. The purpose of this funding is for tobacco-related disease research.

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**Staff Recommendation: Approve the May Revise proposal**

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**ISSUE 7: SUSTAINABILITY PLAN ADJUSTMENT**

The May Revision proposes a change in budget bill language regarding the UC Sustainability Plan to reflect action by the UC Regents for long-term funding consistent with the agreement between the Governor and the UC President. It is requested that paragraph (1) of subdivision (a) of Provision 3 of Item 6440-001-0001 be amended as follows:

“(1) Projections of available resources in the 2017-18, 2018-19, and 2019-20 fiscal years. In projecting General Fund appropriations and student tuition and fee revenues, the university shall use any assumptions provided by the Department of Finance assume the availability of resources consistent with the framework for long-term funding endorsed by the Regents in May 2015.”

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**Staff Recommendation: Approve the May Revise proposal**

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**6600 HASTINGS COLLEGE OF LAW**

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**ISSUE 8: BASE OPERATIONS INCREASE**

The Governor's Budget proposes a \$1 million General Fund ongoing unallocated increase to Hastings budget. Excluding general obligation bond debt service and deferred maintenance funds, this represents a 10% increase to Hastings' budget.

Hastings reports that it will use the additional funding to cover increased retirement costs, employee and annuitant healthcare costs and compensation increases for represented employees. Hastings also plans to increase its tuition discounts by \$3.3 million (25 percent) from \$13.1 million in 2015–16 to \$16.3 million in 2016–17. Hastings' tuition discounts typically are awarded based on merit, not need. As such, Hastings indicates the increase is intended to help it attract more highly-qualified students.

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**Staff Recommendation: Approve the Governor's Budget proposal**

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**ISSUE 9: INCREASED LEASE REVENUE BOND AUTHORITY**

The 2015 Budget Act provided Hastings with \$36.8 million in lease revenue bond financing to develop a new academic building of 57,000 gross square feet on a vacant site owned by Hastings in San Francisco. The new facility will replace an outdated building.

The 2015 Budget Act approved all three phases of this project - preliminary planning, working drawings, construction and equipment phases – at once, but required notice to the Joint Legislative Budget Committee before beginning the construction phase.

An April Finance Letter requests additional lease revenue bond authority to support the project. Total project costs are now estimated to be \$55.6 million, a 51% increase over the previous estimate. According to the letter, a December 2015 analysis and market research indicated significant budget deficiencies in the approved plan. Among the issues raised were:

- The original cost analysis was based on an above-grade structure that did not consider the need for a portion of the building to be built below grade. This structure will connect with other structures, requiring varying grading. In addition, some mechanical systems will be placed below ground to maximize above-ground space for classrooms and other needs.
- Other cost increases are related to communications, technology, and energy efficiency needs.
- Market conditions in San Francisco have changed since the initial cost estimate was created in 2014.

The letter notes that this change would increase estimated debt service costs from \$2.7 million annually beginning in 2018-19 to \$3.7 million annually.

While this increase is alarming, the need for this project is clear. The building to be replaced was built in 1953, and has many deficiencies. In making this proposal last year, Hastings noted that it considered four options, including renovating the existing building, before determining that developing a new facility was the most cost effective. Cost estimates for the other options remain higher than the current plan, even with the added expenses requested in the April letter.

Hastings notes that San Francisco construction costs have escalated rapidly, by 12% to 15% in 2014, another 9% to 10% in 2015, and more increases are projected in 2016. They also note that final, detailed plans indicate a need for subterranean levels in the building, and differing classroom sizes and other infrastructure that have added costs.

The Department of Finance is seeking to minimize this cost increase by using excess bond proceeds from prior bond issuances, which could reduce debt payments and the amount of new bonds sold.

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**Staff Recommendation: Approve the April Finance Letter**

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## **6610 CALIFORNIA STATE UNIVERSITY**

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### **ISSUE 10: VESTING TRAILER BILL LANGUAGE**

In April, the CSU announced a collective bargaining agreement with the California Faculty Association. The agreement covers the 2015-16, 2016-17 and 2017-18 fiscal years and includes the following changes:

- A 5% general salary increase for all faculty on June 30, 2016;
- A 2% general salary increase for all faculty on July 1, 2016;
- A 3.5% general salary increase for all faculty on July 1, 2017;
- A 2.65% service salary increase for all eligible faculty in 2017-18. It is estimated that about 43% of faculty would be eligible for this step increase;
- An increase in the vesting period for full retiree health benefits for new employees from 5 years to 10 years, meaning new employees hired after July 1, 2017 must work for CSU for 10 years to receive retiree health benefits;
- An increase in salaries for faculty when they are promoted. Promoted faculty would receive a minimum 9% salary increase instead of the current minimum of 7.5%.

Recently the CSU has realized that existing statute needs to be altered to allow for implementation of the change in vesting periods. Proposed trailer bill language amends the Education Code to stipulate that employees hired after July 1, 2017 will not receive full retiree health and dental benefits until working for the CSU for 10 years. Language also requires that this change not be adopted until it is agreed to in collective bargaining.

Staff believes that CSU administration, the CFA and the Department of Finance have agreed on this language.

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**Staff Recommendation: Adopt placeholder trailer bill language to state that CSU employees hired after July 1, 2017 shall not be eligible to receive retiree health and dental benefits until they have worked for CSU for 10 years, subject to collective bargaining,**

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## **6980 CALIFORNIA STUDENT AID COMMISSION**

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### **ISSUE 11: CAL GRANT CASELOAD AND TANF ADJUSTMENTS**

The May Revision proposes a decrease of \$101,582,000 to reflect revised cost estimates for the Cal Grant program, primarily due to updated participation information. Additionally, the May Revision assumes a \$51 million decrease to reflect revised estimates of grant recipients and average award amounts in 2015-16.

Additionally, the May Revision proposes a decrease of \$282,965,000 to reflect an increase in the amount of TANF reimbursements budgeted to support costs of the Cal Grant program. These reimbursements directly offset General Fund costs.

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**Staff Recommendation: Approve the May Revision Proposals**

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**ISSUE 12: APRIL FINANCE LETTER**

An April Finance Letter proposes a decrease of \$511,000 in Item 6980-001-0001 to reflect the removal of one-time funds appropriated in the 2015 Budget Act that were inadvertently included in the Governor's Budget.

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**Staff Recommendation: Approve the April Finance Letter**

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**ISSUE 13: GRANT DELIVERY SYSTEM**

The May Revision proposes an increase of \$396,000 on a one-time basis for planning for the procurement of a new grant delivery system. Limited-term spending would be used to hire a project manager, IT project oversight, and an independent verification and validation positions. The Project Approval Lifecycle, as implemented by the Department of Technology, is a four-stage process departments follow when planning information technology projects. CSAC has submitted documents necessary to finish the first stage, which requires a business analysis. CSAC is expected to perform activities required in the second and third stages, which include alternatives analysis and solution development, in fiscal year 2016-17.

The May Revision also requests \$1,971,000 for upgrades to the existing Grant Delivery System. Of this amount, \$526,000 is provided on an ongoing basis and \$1,445,000 is provided on a one-time basis. A recent security audit of the Grant Delivery System identified a number of risks. The proposed resources would be used for staff, consulting, equipment and associated costs to mitigate many of the items described in the audit. CSAC is also expected to reallocate resources to address any remaining issues.

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**Staff Recommendation: Approve the May Revision Proposals**

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**ISSUE 14: COLLEGE FUTURES FOUNDATION**

The May Revision includes a \$500,000 increase on one-time basis to allow CSAC to receive funds for a potential partnership with the College Futures Foundation. The scope of the arrangement is being finalized. To the extent an agreement is not reached, no additional funds would be expended. This is not a General Fund expense.

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**Staff Recommendation: Approve the May Revision Proposal**

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**ISSUE 15: PROGRAM ADJUSTMENTS**

The May Revision proposes an increase of \$2,000 to reflect revised cost estimates for the Graduate Assumption Program of Loans for Education.

The May Revision proposes a decrease of \$91,000 to reflect revised cost estimates for the State Nursing Assumption Program of Loans for Education. The May Revision assumes incremental expenditure of \$67,000 to reflect revised cost estimates for 2015-16.

The May Revision assumes incremental savings of \$3,000 in Item 6980-001-0001 to reflect revised cost estimates for the Law Enforcement Personnel Dependents Grant Program.

The May Revision assumes savings of \$2.3 million in the Assumption Program of Loans for Education to reflect revised cost estimates.

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**Staff Recommendation: Approve the May Revision Proposals**

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**ISSUE 16: COLLEGE ACCESS TAX CREDIT FUND**

The May Revision proposes an increase of \$3,184,000 for a total of \$5,102,000 to reflect available resources in the College Access Tax Credit Fund. This request would allow the Commission to make a supplemental award of \$22 to each student who receives a Cal Grant B access award.

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**Staff Recommendation: Approve the May Revision Proposal**

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## ISSUES TO BE HEARD

### 6440 UNIVERSITY OF CALIFORNIA

#### ISSUE 1: UC BUDGET PACKAGE

The Subcommittee will discuss a UC Budget Package that includes actions taken earlier this month to address California access to UC and UC budget oversight, as well as additional actions to protect UC's pension system, support graduate student enrollment, UC innovation and entrepreneurship activities, student outreach, faculty diversity, policies regarding outside employment for executives, and future state workforce needs.

#### PANEL

- Martiza Urquiza, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Kieran Flaherty, University of California Office of the President

#### BACKGROUND

The Governor's Budget and May Revise proposes the following for UC:

- **Base Increase.** The Governor's Budget proposes a \$125.4 million General Fund increase to UC's base budget, or about 4% above the 2015 Budget Act. UC must complete a Sustainability Plan in November as a requirement to receive this funding, but there is no other direction, leaving UC free to spend this funding as it wishes.
- **Proposition 2 Pension Funding.** Continuing a 2015 agreement, the Governor's Budget provides \$171 million in Proposition 2 funding to support a payment to reduce the unfunded liability in the UC Retirement Program (UCRP). The payment requires UC to adopt a pensionable salary cap in line with the state cap. The May Revise indicates the Administration is satisfied with UC action on this issue.
- **One-Time Online Course Funding.** The May Revise provides UC with \$4 million one-time General Fund to allow the UC Scout program to develop at least 45 high-quality middle school and high school online classes and curriculum that would be approved by UC for purpose of satisfying "a-g" subject requirements. UC would be required to report back to the Legislature on this program by January 1, 2017.

UC is supportive of these proposals, and is also seeking \$6 million General Fund to support graduate student enrollment growth. In addition, UC is supportive of a proposal to distribute \$22 million to the 10 UC campuses and Lawrence Livermore Laboratory to support innovation and entrepreneurship activities.

**Previous Action**

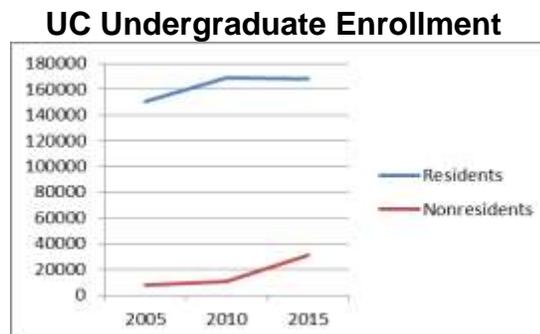
At its May 10<sup>th</sup> hearing, the Subcommittee approved a preliminary UC budget package that included the following:

- Begin a six-year enrollment plan that would add 30,000 new California residents by 2022-23. UC would enroll 5,000 more new Californians each year beginning in 2017-18. At the same time, UC would reduce nonresident enrollment by 1,700 per year during this period, bringing overall nonresident enrollment to 10% of the undergraduate student body by 2022-23.
- Provide \$20.2 million General Fund in the 2016-17 budget, contingent on UC providing evidence by May 1, 2017 that it will increase resident enrollment by 5,000 and decrease nonresident enrollment by 1,700 above in the 2017-18 academic year.
- State legislative intent that UC redirect funds or cut costs to provide \$20.2 million to support enrollment growth.
- State legislative intent that UC increase nonresident supplemental tuition by 3.2% above current Regent policy to support enrollment growth.
- Appropriate \$3 million General Fund to create the Office of the Inspector General for UC Finances to provide oversight of the UC budget.

**STAFF COMMENT**

The Subcommittee discussed UC budget, enrollment and other issues at multiple hearings this spring. Discussion centered around the following issues:

***Recent enrollment trends have reduced access to Californians and increased access for nonresident students.*** During the past decade, overall California resident enrollment grew by 11%, while nonresident enrollment increased by 289%. However, in the last five years, resident enrollment declined, while nonresident enrollment grew by nearly 191%. The charts below reflect overall enrollment trends and freshmen enrollment trends.



**UC Freshmen/Transfer Enrollment**

University Enrollment	2007	2008	2009	2010	2011	2012	2013	2014	2015	Change
CA Freshmen	33,492	34,410	32,425	31,891	32,159	33,111	33,224	34,240	32,923	-2%
CCC Transfer	12,183	12,428	13,523	14,963	14,979	14,353	14,476	14,587	14,223	17%
Nonresidents	3,104	3,623	3,580	4,450	6,259	7,766	9,185	9,885	11,433	335%
Nonresident	6%	7%	7%	9%	12%	14%	16%	17%	20%	

**State Auditor concluded UC's admission policies and actions have hurt resident access, UC has not done enough to cut costs or provide appropriate information on costs.** A lengthy report published by the State Auditor in March raised numerous concerns regarding UC enrollment and budgeting practices. Among the Auditor's findings:

- The Auditor found that about 16,000 admitted nonresident students had lower test scores and high school grade-point-averages than the upper half of admitted California students, and that UC denied admission to 4,300 California students whose academic scores met or exceeded all of the median scores of nonresidents whom the university admitted to the campus of their choice.
- Changes in policy appear to have made it easier for nonresidents to be admitted to UC campuses, and incentivized campuses to increase the number of nonresident students they enroll.
- UC has not presented useable information to the Legislature and public regarding the cost of instruction, and has refused to use a nationally-accepted cost model for universities to outline the annual cost of education.
- UC has not sought to reduce General Fund costs for programs that could be supported with other funds, or used efficiency savings to support resident access.

**UC student outreach programs are effective but have suffered funding reductions.** The University of California's Student Academic Preparation and Educational Partnerships (SAPEP) seek to raise student achievement levels generally and to close achievement gaps among groups of students throughout the K-20 pipeline. Many of these programs, such as Early Academic Outreach Program (EAOP), Mathematics, Engineering, Science Achievement (MESA), PUENTE, and the Community College Transfer Program (CCTP), have reported data indicating positive results. Funding has been reduced during the recession, however. A recent report that interviewed African-American students who were admitted to UC but did not enroll indicated a majority of these students had no contact with UC recruiters or programs during high school.

**UC pension actions undermine legislative intent.** The 2015 Budget Act provided \$96 million in Proposition 2 funding to UC, contingent on the UC Regents approving a pensionable salary cap in line with the state pensionable salary cap. At its March meeting, the UC Regents approved changes to benefits that included the lower salary cap. However, UC enacted a significant amount of other changes as well. Most notably, UC created a defined contribution plan, for which UC would contribute 8% of all

pay up to the IRS limit of \$265,000. This action undermines the intent of the Legislature, which was to cut UC costs by reducing pensionable salary. It also could hurt the current pension system, as highly-paid executives who would make significant contributions to the system take the defined contribution option.

**Charles Drew seeking expansion.** In 1973, \$2 million General Fund was appropriated through SB 1026 authored by Sen. Mervyn M. Dymally and signed by the Governor Ronald Reagan. This funding however, has not kept up with inflation, and an augmentation is needed to help facilitate the growth needed to increase higher education opportunity access in South Los Angeles, while increasing the diversity of the health professions workforce.

Charles Drew has contributed significantly to the diversity of the nation's healthcare workforce by graduating more than 575 medical doctors, 2,700 post-graduate physicians, more than 1,200 physician assistants, and hundreds of other health professionals. More than 70% of the graduates are ethnic minorities. In addition to direct patient care, graduates work in underserved areas, research centers, universities, and government settings to redress health disparities and promote health equity.

Charles Drew plans to increase undergraduate enrollment by as many as 1,500 students in the next five years to achieve two primary objectives. The first is to increase the number of students entering the health professions from underserved communities and populations under-represented in the health professions. The second is to expand greatly needed access to post-secondary education for residents of South Los Angeles and similar communities. With undergraduate expansion, CDU estimates that it could increase the number of African American medical school applicants in California by as much as 30% and Latino applicants by 15% - very meaningful effect sizes.

**UC must increase access and student completion to help meet future state workforce needs.** The Public Policy Institute (PPIC) appeared twice before the Subcommittee this spring to discuss future state workforce needs and educational attainment. PPIC has reported that the state must produce about 1.1 million more bachelor's degrees by 2030 to meet workforce demands. At the May 17<sup>th</sup> hearing, PPIC noted that UC must provide 250,912 more bachelor's degrees by 2030 than it is currently projected to produce to help the state meet this target. PPIC stated that UC must increase its eligibility pool, increase community college transfer, and improve graduation rates to meet this target.

**UC's oversight of outside employment by executives is insufficient and does not ensure that outside employment benefits campuses or the system.** An April 4 joint hearing with the Assembly Higher Education Committee focused on policies and practices regarding outside employment of executives at UC and California State University. Legislators expressed concern regarding this practice, and noted that UC Regents' oversight of this issue may not be sufficient and that it is unclear how UC ensures against perceived conflict of interest, or whether outside employment benefits the campus or system.

**UC faculty not representative of the state's racial and ethnic diversity.** The Subcommittee had asked UC and the other segments for information on faculty ethnicity

and race. UC reported that in 2015, about 73% of its faculty are white, with only 4% Chicano/Latino and only 2% Black/African-American. UC and other higher ed segments do conduct equal employment opportunity practices, such as anti-bias training for faculty search committees, specific efforts to address equal gender representation in STEM fields, and periodic reviews of research into equal employment opportunity best practices.

***Subcommittee also discussed proposal for Aerospace Institute.*** At the May 10<sup>th</sup> hearing, the Subcommittee discussed a proposal to allocate \$4 million General Fund to create a California Institute for Aerospace within UC. The institute would be modeled on other UC institutes, such as the California Institute for Quantitative Biosciences, or the California Institute for Telecommunications and Information Technology. This proposal would create an institute that will focus on education, research, design and development, and serve as an incubator for technological innovation. Staff does not recommend adopting this proposal at this time, as it is unclear at which UC campus this institute would be located, and UC is not supporting this proposal at this time. A more detailed proposal could be discussed during the next budget cycle.

The May 10<sup>th</sup> action addresses multiple concerns the Subcommittee has discussed. The following recommendation adds more detail to that action, makes one change to the oversight component and provides other actions responding to other Subcommittee concerns.

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**Staff Recommendation: Approve budget bill language and placeholder trailer bill language to adopt a UC Budget Package, including:**

**Approve Governor's Budget proposal to increase UC funding by \$125.4 million General Fund.**

**Adopt budget bill language augmenting UC by \$20.2 million General Fund, subject to confirmation by the Department of Finance by May 1, 2017 that UC will increase residential enrollment by 5,000 students and decrease nonresident enrollment by 1,700 students in the 2017-18 academic year.**

**Adopt budget bill language stating legislative intent that UC support resident enrollment growth and reduced nonresident enrollment in the 2017-18 academic year by redirecting \$20.2 million in state General Fund from any of the following programs, entities or activities: the Office of the President, campus communications budgets, the Neuropsychiatric Institute, or savings accumulated through efficiencies in the UC travel program or other Working Smarter initiatives.**

**Adopt budget bill language stating legislative intent that UC support resident enrollment growth and reduced nonresident enrollment in the 2017-18 academic year by generating \$40.3 million through a 3.2% increase of nonresident supplemental tuition.**

**Rescind previous action to create an Office of the Inspector General for UC Finances. Instead, adopt budget bill language augmenting the budget of the State Auditor by \$1.1 million General Fund to allow the Auditor to continue conducting annual audits of UC budgeting practices.**

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Adopt budget bill language augmenting UC by \$6 million General Fund to support an increase in graduate student enrollment by 600 students.

Adopt budget bill language and placeholder trailer bill language augmenting UC by \$22 million General Fund to provide \$2 million to each UC campus and Lawrence Livermore Laboratory for innovation and entrepreneurship activities.

Reject May Revise proposal to provide \$4 million one-time General Fund for the UC Scout program. Adopt budget bill language redirecting this one-time funding, and augmenting UC by \$6 million ongoing General Fund, to support direct student support programs within the Student Academic Preparation and Educational Partnerships program.

Adopt budget bill language augmenting UC by \$2 million General Fund to conduct equal employment opportunity best practices, and requiring UC to report by Dec. 1, 2016, and annually for the next five years, on the racial/ethnic and gender composition of ladder-rank faculty, and efforts to assist campuses in providing equal employment opportunity in faculty recruitment and hiring practices as well as system-wide training, monitoring and compliance activities.

Amend budget bill language to provide UC with \$171 million Proposition 2 only if UC rescinds its actions to provide supplemental defined contribution options or to allow employees to opt out of the UC Retirement Plan for a defined contribution program.

Adopt budget bill language augmenting UC by \$3 million General Fund to the Charles Drew School of Medicine to support an enrollment increase, campus facilities needs and to expand research into health disparities for underserved communities.

Amend state statute requiring UC to bi-annually report on the cost of instruction to require UC to include information on its cost of instruction based on the model used by the National Association of College and University Business Officers.

Adopt budget bill language stating legislative intent that UC review the policies and procedures governing outside activities by university executives and senior management, and provide a report to the Legislature by January 31, 2017 describing the changes and updates to the policies and procedures. The report shall include, but is not limited to, the specific changes discussed and/or adopted to ensure outside employment activities (1) do not create perceived or actual conflicts of interest or of commitment, (2) are properly approved, and reported publicly on an annual basis, (3) are consistent with and further the public mission of the university, (4) contain appropriate consequences associated with violations of the policies and procedures, and (5) require an annual public discussion and approval by the Board of Regents regarding outside employment for senior executives.

Adopt budget bill language requiring UC to report to the Legislature by March 1, 2017 regarding policy and budget changes necessary to meet specified baccalaureate attainment goals. Economic forecasts project California's workforce will need 4.2 million baccalaureate degrees by 2030; the state is currently expected to produce 3.1 million. This report shall propose specific increases in eligibility and freshman enrollment, additional transfer students, and improved completion rates, as necessary for UC to produce approximately 250,000 additional baccalaureate degrees by 2030. The report shall also provide specific actions and recommendations to close the attainment gap for underrepresented minority students.

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**6610 CALIFORNIA STATE UNIVERSITY****ISSUE 2: CSU BUDGET PACKAGE**

The Subcommittee will discuss a CSU Budget Package that addresses access to CSU, access to summer school, improvements to student success, student outreach, faculty diversity, policies regarding outside employment for executives, and future state workforce needs.

**PANEL**

- Martiza Urquiza, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Kara Perkins, California State University Chancellor's Office

**BACKGROUND**

The Governor's Budget and May Revise proposes the following for CSU:

- **Base Increase.** The Governor's Budget proposes a \$140.4 million General Fund increase to CSU's base budget. There is no other direction on how CSU should spend this funding.
- **Student Success.** The May Revise proposes trailer bill language to appropriate \$25 million from the General Fund to CSU on a one-time basis. Release of these funds would be contingent upon certification by the Director of Finance by September 31, 2016 that plans approved by the Board of Trustees would increase system-wide and campus four-year graduation rate targets and two-year transfer graduation rate targets to at least the rate of other institutions and to increase graduation rates for low-income students to at least the rate of other students. Additionally, the May Revise includes \$1.1 million ongoing General Fund to create the CSU Student Success Network. This new network would be led by faculty, staff, and administrators across campuses and administered by the Education Insights Center at CSU Sacramento. The network would support campus leaders who are committed to exploring new ways to improve outcomes for students and scaling effective practices more broadly by convening them to identify common challenges, conducting research on interventions, and disseminating information across the system.

CSU is seeking an additional \$101.3 million above the Governor's proposed increase. CSU's proposed plan for the 2016-17 academic year includes 3% enrollment growth, or about 10,700 full-time equivalent students and \$50 million for student success activities,

## STAFF COMMENT

The Subcommittee discussed CSU budget, enrollment and other issues at multiple hearings this spring. Discussion centered around the following issues:

**Access to CSU Remains an Issue.** During this decade, overall CSU enrollment has grown by 21%, while California undergraduate enrollment has grown by 22%. Despite this growth, CSU admissions are not keeping up with demand. Preliminary numbers show that CSU received 185,932 freshman applications for Fall 2015, a 6% increase from Fall 2013. Seventeen of the system's 23 campuses face some kind of impaction, meaning there are more qualified applicants than there are slots, either on the campus as a whole or for specific majors. Overall, 31,825 qualified students were turned away in Fall 2015, despite significant enrollment growth at every CSU campus.

**Graduation rates have improved but remain too low.** While graduation rates at CSU have improved in recent years, CSU acknowledges it must improve.

Cohort	4-Year Grad Rate	5-Year Grad Rate	6-Year Grad Rate
First-Time Freshman	17.8%	44.7%	57.0%

Cohort	2-Year Grad Rate	3-Year Grad Rate	4-Year Grad Rate
CCC Transfers	26.7%	62.4%	72.9%

Additionally, there are significant achievement gaps, both for low-income students and underrepresented students.

Race/Ethnicity	4-Year Grad Rate	5-Year Grad Rate	6-Year Grad Rate
White	27.1%	55.6%	64.1%
Asian/Pacific Islander	14.1%	43.3%	60%
Black or African-American	8.2%	29.6%	41.8%
Hispanic or Latino	11.7%	37%	51.5%

**Summer School could be an option to improve graduation rates and time-to-degree.** The Subcommittee heard testimony from the president of CSU Sacramento that adding more slots for summer school is a key to improving completion rates. The state funded CSU summer school in the early 2000s, but eliminated support during budget cuts. CSU officials believe as many as 14 campuses are interested in increasing summer school programs. Barriers include financial aid for students, workload for faculty, and facilities issues.

**CSU must increase access and student completion to help meet future state workforce needs.** The Public Policy Institute (PPIC) appeared twice before the Subcommittee this spring to discuss future state workforce needs and educational attainment. PPIC has reported that the state must produce about 1.1 million more bachelor's degrees by 2030 to meet workforce demands. At the May 17<sup>th</sup> hearing, PPIC

noted that CSU must provide 481,061 more bachelor's degrees by 2030 than it is currently projected to produce to help the state meet this target. PPIC stated that CSU must increase its eligibility pool, increase community college transfer, and significantly improve graduation rates to meet this target.

***CSU's oversight of outside employment by executives is insufficient and does not ensure that outside employment benefits campuses or the system.*** An April 4 joint hearing with the Assembly Higher Education Committee focused on policies and practices regarding outside employment of executives at UC and CSU. Legislators expressed concern regarding this practice, and noted that CSU does not have a clear approval process for outside compensation and its conflict-of-interest policy has not been approved by the Fair Political Practices Commission.

***CSU faculty not representative of the state's racial and ethnic diversity.*** The Subcommittee had asked CSU and the other segments for information on faculty ethnicity and race. CSU reported that in 2015, about 63% of its faculty are white, with only 9% Hispanic/Latino and only 3% Black/African-American. CSU and other higher ed segments do conduct equal employment opportunity practices, such as anti-bias training for faculty search committees, specific efforts to address equal gender representation in STEM fields, and periodic reviews of research into equal employment opportunity best practices.

The Subcommittee can consider the following CSU budget package to address access,

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**Staff Recommendation:** Approve budget bill language and placeholder trailer bill language to adopt a UC Budget Package, including:

**Approve the Governor's Budget proposal to increase base CSU funding by \$148.3 million General Fund.**

**Approve the May Revise proposal to create the CSU Student Success Network.**

**Approve the May Revise proposal to provide CSU with \$25 million one-time General Fund. Adopt budget bill language requiring CSU to improve four- and six-year graduation rate targets for first-time freshmen; two- and four-year graduation rate targets for community college transfers; graduation rates for low-income students; and graduation rates for underrepresented students. CSU shall be required to report these changes to the Administration and Legislature by September 30, 2016.**

**Augment the CSU budget by an additional \$76 million General Fund, with budget bill language stating legislative intent that CSU increase enrollment by 10,700 full-time equivalent students in the 2016-17 academic year. Also require that \$10 million of this funding be spent on student outreach programs.**

**Augment the CSU budget by \$25 million ongoing General Fund to create a new CSU Summer School/Graduation Rate Improvement Program beginning in summer 2017. Adopt budget bill language stating that CSU shall use this funding to operate summer courses and provide financial aid to students to assist students in reducing their time to degree. Require CSU to report to the Legislature by January 31, 2017 as to how it plans to use this funding to operate a Summer School Program, including how the \$25 million in state General Fund will be spent, other funds used for the program, number of full-time**

equivalent students expected to be enrolled in the program, campuses participating, and future costs and concerns regarding the program. Funding for this program is available due to savings in the Middle Class Scholarship program, which will be discussed in the next item.

Adopt budget bill language augmenting CSU by \$2 million General Fund to conduct equal employment opportunity best practices, and requiring CSU to report by Dec. 1, 2016, and annually for the next five years, on the racial/ethnic and gender composition of ladder-rank faculty, and efforts to assist campuses in providing equal employment opportunity in faculty recruitment and hiring practices as well as system-wide training, monitoring and compliance activities.

Amend state statute requiring CSU to bi-annually report on the cost of instruction to require UC to include information on its cost of instruction based on the model used by the National Association of College and University Business Officers.

Adopt budget bill language stating legislative intent that CSU review the policies and procedures governing outside activities by university executives and senior management, and provide a report to the Legislature by January 31, 2017 describing the changes and updates to the policies and procedures. The report shall include, but is not limited to, the specific changes discussed and/or adopted to ensure outside employment activities (1) do not create perceived or actual conflicts of interest or of commitment, (2) are properly approved, and reported publicly on an annual basis, (3) are consistent with and further the public mission of the university, (4) contain appropriate consequences associated with violations of the policies and procedures and (5) require an annual public discussion and approval by the Board of Trustees regarding outside employment for senior executives.

Adopt budget bill language requiring CSU to report to the Legislature by March 1, 2017 regarding policy and budget changes necessary to meet specified baccalaureate attainment goals. Economic forecasts project California's workforce will need 4.2 million baccalaureate degrees by 2030; the state is currently expected to produce 3.1 million. This report shall propose specific increases in eligibility and freshman enrollment, additional transfer students, and improved completion rates, as necessary for CSU to produce approximately 480,000 additional baccalaureate degrees by 2030. The report shall also provide specific actions and recommendations to close the attainment gap for underrepresented minority students.

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**6980 CALIFORNIA STUDENT AID COMMISSION****ISSUE 3: FINANCIAL AID PACKAGE**

The Subcommittee will discuss a financial aid package that addresses overwhelming demand for the competitive Cal Grant program, the need to increase the number of teachers in California, and an effort to look at ways to rethink state and institutional financial aid.

**PANEL**

- Jack Zwald, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- Lupita Cortez Alcala, California State University Chancellor's Office

**BACKGROUND**

The Governor's Budget and May Revise propose no new significant financial aid proposals.

**STAFF COMMENT**

The Subcommittee discussed financial aid issues at its March 15 hearing. Among the issues raised during that hearing were:

***Cal Grant program still missing hundreds of thousands of low-income students.***

The Cal Grant program provides access to college for more than 340,000 low-income Californians, mostly through the entitlement program. Californians who are graduating from high school or graduated within one year and had a high school GPA of 2.0 (Cal Grant B) or 3.0 (Cal Grant A) and meet income and asset standards are *entitled* to a Cal Grant.

Students who have been out of high school for more than one year are not eligible for an entitlement award. Instead, these students must seek a competitive Cal Grant award. While the Budget Act of 2015 increased the number of annual competitive Cal Grants to 25,750, this number still falls far short of meeting demand.

In 2014, for example, 309,403 students had the income and asset level to qualify for a competitive Cal Grant. Less than 10% of eligible Californians actually receive a competitive Cal Grant, meaning hundreds of thousands of low-income students miss out on this critical financial aid.

Based on Student Aid Commission data, increasing the number of competitive Cal Grants from 25,750 to 30,000 would add \$15.1 million General Fund in cost for 2016-17.

**Lower participation in Middle Class Scholarship program may free up extra funding.** Based on current participation projections for 2015-16, the May Revise assumes savings in the current year of \$33.5 million. Based on current participation, and the statutory increase in 2016-17 to \$116 million General Fund, the Student Aid Commission estimates that there could be more than \$41 million in unspent funds in 2016-17.

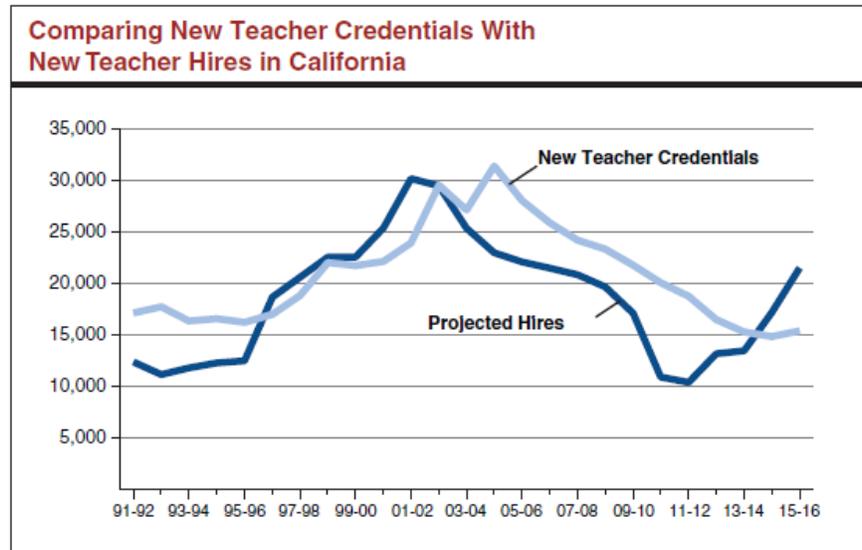
#### CSAC Projections, 2016-17

Segment	Projected Awardees	Total Cost Based on Average Award Amount
UC	9,500	\$18,838,500
CSU	45,500	\$56,010,500
Total	55,000	\$74,849,000
Statutory Appropriation		\$116,000
<b>Anticipated Savings</b>		<b>\$41,151,000</b>

**State and institutions set to spend about \$4.7 billion on major financial aid programs. Is funding organized in the best way to support students?** As the chart below indicates, institutional aid provided by the segments and funding for the two major state-supported financial aid programs add up to about \$4.7 billion in need-based aid for students in 2016-17. Each of these programs has somewhat different eligibility criteria and rules, which can be difficult to oversee from the state perspective, and confusing for students and their families. The Subcommittee may wish to consider whether changes to this structure could simplify financial aid programs in the state and better serve students.

Grant Program	2016-17 Projected Amount
Cal Grant	\$2 Billion
Middle Class Scholarship	\$116 Million
UC Institutional Aid	\$1.1 Billion
CSU Institutional Aid	\$668 Million
Community College BOG Fee Waiver	\$800 Million
<b>Total</b>	<b>\$4.7 Billion</b>

**State faces significant teacher shortage but has not funded key program to incentivize teaching careers.** As discussed in the Subcommittee's April 26<sup>th</sup> hearing, school districts across the state are facing teacher shortages. The number of credentials issued to new teachers is at a historic low, while school districts are expanding programs and restoring positions eliminated during the recession. As shown in the chart below, teacher demand is outpacing supply.



The Assumption Program of Loans for Education (APLE) was created in 1983 and allows students who used federal student loans and work in specified areas, such as teachers in low-performing schools or nurses in state prisons, to access state funds to repay the loans. Most of the program focuses on teachers, and provided up to \$11,000 in loan forgiveness for someone who taught for four consecutive years in a qualifying school.

New APLE warrants were suspended through a gubernatorial veto in the 2012-13 budget. No new students have entered the program since then, as the existing statute is subject to an annual appropriation in the budget and the administration has proposed no new funding. Statutes regarding the APLE program remain in law, but are subject to annual budget language describing how many new loan assumption agreements will be funded in the coming year. Since the veto in the 2012-13 budget, the annual budget process has not included authorization for any new loan agreements.

Based on these concerns, the Subcommittee could consider the following actions.

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**Staff Recommendation: Approve a financial aid package, including:**

**Adopt placeholder trailer bill language increasing the number of competitive Cal Grants from 25,750 to 30,000 for 2016-17 and future years. Augment the Student Aid Commission budget by \$15.1 million General Fund to support this action. Funding is re-directed from Middle Class Scholarship savings.**

**Adopt budget bill language authorizing 800 new APLE warrants.**

**Approve the following supplemental reporting language:**

**Debt Free College Education. On or before January 1, 2017, the Legislative Analyst's Office shall review California financial aid programs and report to the relevant budget subcommittees and policy committees of the Legislature on options to phase in financial aid increases to reduce and eliminate low and middle income students' dependence on student debt to attend college. In developing the options, the LAO shall consider,**

among other options, the consolidation of existing financial aid programs, including: the Cal Grant Program, the Middle Class Scholarship, institutional aid at the CSU and UC, and the Board of Governor's Fee Waiver, into one entitlement grant program that takes into account the full total cost of college attendance, including: tuition and fees, books and supplies, transportation, and room and board. The intent is to establish options that ensure that, once fully phased in, every student will be able to cover the costs of college cost with an appropriate family contribution for middle and higher income families, earnings from a part time job, federal financial aid for eligible students, and a new state entitlement program. The options shall include the estimated additional state costs needed for each year of the phase in period for each option presented. The LAO may convene a group of stakeholders to provide input in the development of the recommendations.

To allow LAO time to complete this report, adopt placeholder trailer bill language that would eliminate an upcoming report on the Cal Grant C program and require reporting regarding the evaluation of UC and community college best-value procurement to be shifted from the LAO to the UC and community colleges.

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