AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

TUESDAY, MARCH 28, 2023
9 AM, STATE CAPITOL - ROOM 447*

** This hearing is scheduled from 9 am to noon in Room 447. If more time is needed, the hearing will resume in Room 127 at 1:30 pm*

This hearing can be viewed via live stream on the Assembly's website at https://assembly.ca.gov/todayevents.

We encourage the public to provide written testimony before the hearing. Please send your written testimony to: BudgetSub2@asm.ca.gov. Please note that any written testimony submitted to the committee is considered public comment and may be read into the record or reprinted.

To provide public comment, please call the toll-free number below:

9:00 am Hearing: 877-692-8957 / Access Code: 131 54 47
1:30 pm Hearing: 877-692-8957 / Access Code: 131 51 27

UNIVERSITY OF CALIFORNIA
CALIFORNIA STATE UNIVERSITY

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6440 UNIVERSITY OF CALIFORNIA

The Governor's Budget proposes about $10.4 billion in core operational support for the University of California (UC) in 2023-24, with about $4.7 billion from the state General Fund and about $5.3 billion in student tuition and fees. The chart below was compiled by the LAO and indicates 23-24 funding based on the Governor's Budget. Note the overall UC budget, including medical centers, is $49.4 billion.

University of California Funding by Source

(Dollars in Millions Except Funding Per Student)

	2021-22 Actual	2022-23 Revised	2023-24 Proposed	Change from 2022-23 Amount	Change from 2022-23 Percent
Core Funds					
General Fund					
Ongoing	$4,011	$4,374	$4,630	$256	5.9%
One time	1,131	654	101	-553	-84.6%
Subtotals	($5,142)	($5,028)	($4,731)	(-$297)	(-5.9%)
Tuition and fees[a]	5,017	5,081	5,276	194	3.8%
Lottery	53	46	46	—[c]	-0.1
Other core funds[b]	207	301	301	—[c]	0.0
Subtotals	**($10,419)**	**($10,456)**	**($10,353)**	**(-$103)**	**(-1.0%)**
Other Funds					
Medical centers	$15,486	$16,987	$18,686	$1,699	10.0%
Sales and services	9,420	10,151	10,843	692	6.8
Federal	4,910	4,907	4,927	21	0.4
Private	2,930	2,780	2,897	117	4.2
State	606	521	522	1	0.2
Other	1,155	1,147	1,147	—[c]	0.0
Subtotals	**($34,507)**	**($36,492)**	**($39,022)**	**($2,530)**	**(6.9%)**
Totals	**$44,926**	**$46,948**	**$49,375**	**$2,427**	**5.2%**
FTE Students[d]	289,913	288,664	292,891	4,227	1.5%
Ongoing Core Funding Per Student	$32,037	$33,988	$35,003	$1,015	3.0%

[a] Includes funds that UC uses to provide tuition discounts and waivers to certain students.

[b] Includes a portion of overhead funding on federal and state grants and a portion of patent royalty income.

[c] Less than $500,000 or 0.5 percent.

[d] FTE is 30 credit units for an undergraduate and 24 credit units for a graduate student. Student counts includes residents and nonresident students.

FTE = full-time equivalent.

ISSUE 1: ENROLLMENT

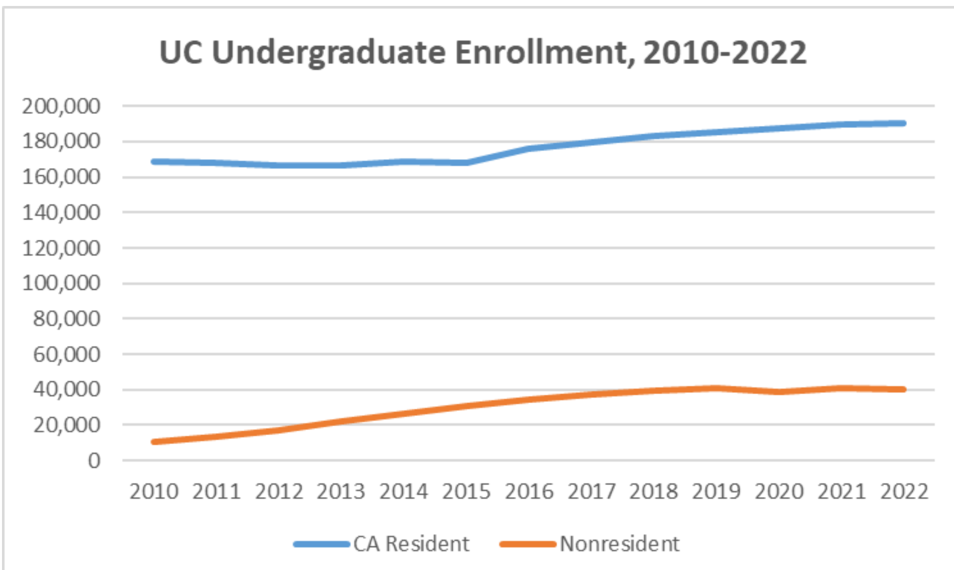
The Subcommittee will discuss UC enrollment issues.

PANEL

- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office
- Seija Virtanen, University of California

BACKGROUND

UC has added more than 50,000 undergraduates since 2010. Recent undergraduate enrollment growth at UC has come in two waves: a significant increase in out-of-state and international students in the early to mid 2010s while California enrollment was flat; followed by a larger increase of California students in recent years. California undergraduate enrollment grew by more than 21,000 students between 2010 and 2022, while nonresident enrollment grew by more than 29,000 students.



State Typically Sets Enrollment Targets and Provides Associated Funding. Over the past two decades, the state's typical enrollment approach for UC has been to set systemwide resident enrollment targets. These targets typically have applied to overall resident enrollment, giving UC flexibility to determine the mix of additional undergraduate and graduate students. If the overall systemwide target has reflected growth (sometimes the state leaves the target flat), the state typically has provided associated General Fund augmentations. Augmentations have been determined using an agreed-upon per-student funding rate derived from the "marginal cost" formula. This formula estimates the cost to enroll each additional student and shares the cost between state General Fund and anticipated tuition revenue.

Concerns over nonresident enrollment has led to multiple budget actions. Per language in the 2016 Budget Act, the UC Board of Regents adopted a nonresident undergraduate enrollment cap in 2017. This policy required that five UC campuses keep undergraduate nonresidents at 18% or less of all undergraduate enrollment. At the other four campuses where the proportion of nonresidents exceeded 18 percent — UC Berkeley, UC Irvine, UCLA and UC San Diego — nonresident enrollment was capped at the proportion that each campus enrolled in the 2017–18 academic year.

The 2022 Budget Act directed UC to reduce incoming nonresident undergraduate enrollment at the Berkeley, Los Angeles, and San Diego campuses by a total of 902 FTE students and increase resident undergraduate enrollment by the same amount. The budget act provided UC with $30 million General Fund to backfill for the loss of associated nonresident tuition revenue. The 2022-23 actions were intended to be the first year of a multiyear plan (stretching through 2026-27) to reduce nonresident undergraduate enrollment at those three campuses down to no more than 18 percent of total undergraduate enrollment. The planned reductions are spread evenly over each year of the phase-down period.

Preliminary enrollment data for Fall 2022 indicates that the three campuses hit the target associated with the resident-nonresident swap, and increased California enrollment. The chart below is headcount enrollment. Between the three campuses, 1,711 more California residents were enrolled in Fall 2022 when compared to Fall 2021, while nonresident enrollment was reduced by 992 students.

Cal	**Fall 2021 Enrollment**	**Fall 2021 % of Enrollment**	**Fall 2022 Enrollment**	**Fall 2022 % of Enrollment**	**Change, Fall 21 to Fall 22**
CA Resident	24,031	75.5%	24,784	76.3%	753
Nonresident	7,783	24.5%	7,695	23.7%	-88

UCLA	**Fall 2021 Enrollment**	**Fall 2021 % of Enrollment**	**Fall 2022 Enrollment**	**Fall 2022 % of Enrollment**	**Change, Fall 21 to Fall 22**
CA Resident	24,561	76.5%	25,268	77.9%	707
Nonresident	7,561	23.5%	7,155	22.1%	-406

San Diego	**Fall 2021 Enrollment**	**Fall 2021 % of Enrollment**	**Fall 2022 Enrollment**	**Fall 2022 % of Enrollment**	**Change, Fall 21 to Fall 22**
CA Resident	25,396	76.2%	25,647	77.5%	251
Nonresident	7,947	23.8%	7,449	22.5%	-498

State Set Resident Enrollment Target for 2023-24. The state set an expectation in the 2022 Budget Act that UC grow by a total of 7,632 resident undergraduate FTE students in 2023-24 above the 2021-22 level. This amount consists of three components. First, it includes 4,730 additional students to be funded at a state marginal cost rate of $10,886. The budget act provided $51.5 million to fund this group of students. Second, it includes another 2,000 students (reflecting roughly 1 percent additional growth). UC is to cover the cost of these students from the base increase it receives in 2023-24. Third, it includes 902 additional resident students due to the planned replacement of nonresident students. The cost to cover these students is to be provided through the nonresident reduction plan.

State Funded UC for Prior "Over-Target" Enrollment. In addition to the new enrollment targets set for UC, the 2022 Budget Act funded UC for students it had enrolled over previous state targets. Specifically, the budget act provided $16 million for 1,500 undergraduate FTE students UC enrolled over target from 2018-19 through 2021-22.

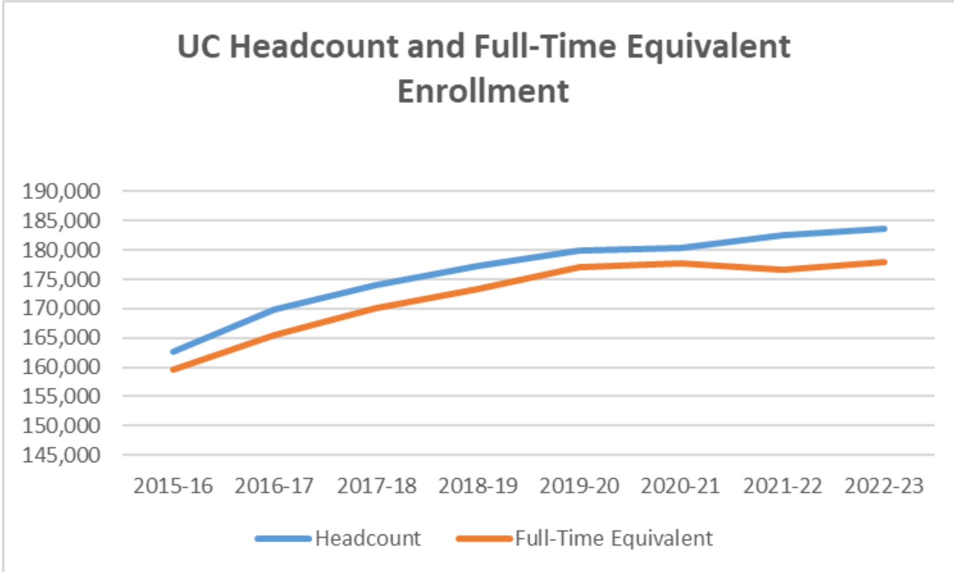
UC reporting flat enrollment for Fall 2022. Preliminary Fall 2022 enrollment data indicates UC may have slightly fewer full-time equivalent California undergraduate students in the 2022-23 academic year than the year before. UC expects Spring and Summer enrollment numbers to lead to slightly increased FTE enrollment.

UC Enrollment	2020-21 Actual	2021-22 Actual	2022-23 Estimated	Change, 21-22 to 22-23
CA Undergraduate FTE	200,075	195,860	195,597	-263

UC notes a few explanations for the enrollment dip:

- Like CSU, UC has seen a significant decline in transfer enrollment, which was down by 9% in Fall 2022 when compared to Fall 2021.

- UC also notes a change in student behavior, with many students taking fewer summer courses and fewer units per term than previously. This decline in average unit load – from 14.8 units in Fall 2020 to 14.4 in Fall 2022 – has lowered full-time enrollment, even as headcount has increased. The graph on the next page shows the increase in headcount versus the decrease in FTE. UC is working to increase FTE in part by offering more summer courses at many campuses.



UC has a proposed plan for significant enrollment growth. UC has acknowledged that it is unlikely that they will achieve the 2023-24 enrollment target as described in the 2022 Budget Act. However, they have proposed a plan that would meet that target in the following year, adhere to the 1% annual enrollment growth that is included in the compact with the Governor, and continue the replacement of nonresident students with California residents at the Berkeley, Los Angeles and San Diego campuses. In all, UC's plan would lead to more than 17,000 more California students by 2026-27.

The chart below is UC's plan, which would add more than 4,000 new California students per year for the next four years.

University of California Undergraduate FTE	2021-22	2022-23 Estimated*	2023-24	2024-25	2025-26	2026-27	Growth 2021-22 to 2026-27	Growth from 2022-23 to 2026-27
California Undergraduates Systemwide FTE	**195,861**	**195,597**	**199,794**	**204,237**	**208,709**	**213,167**	**17,306**	**17,570**
CA undergrad growth without NR replacement			3,297	3,523	3,547	3,533		13,900
Nonresident replacement FTE		1,033	902	920	925	925	4,705	3,672
Total California Undergraduate Growth Systemwide		-264	4,197	4,443	4,472	4,458	17,306	17,570

UC also planning to increase graduate student enrollment. Per the compact with the Governor, UC is planning to increase graduate student enrollment during the next few years as well. The compact calls for an increase of 2,500 graduate students by 2026-27. UC plans to meet this target by growing total graduate enrollment by 625 FTE students annually—reaching the cumulative goal of 2,500 additional graduate students by 2026-27. Beyond that target, UC's 2030 Capacity Plan calls for adding 6,000 more graduate students by 2030, which would include the 2,500 called for in the compact.

GOVERNOR'S 2023-24 BUDGET PROPOSAL

Per the compact, the Governor's Budget proposes that UC grow resident undergraduate enrollment by around 1 percent (roughly 2,000 FTE students) in 2023-24, as well as meet the legislative target set in last year's budget. Under the budget, UC is to use some of the 5% base increase to support this 1% enrollment growth, and $51.5 million to support the legislative target.

In addition to resident undergraduate enrollment targets, the compact specifies that UC is to grow graduate student enrollment (resident and nonresident enrollment combined) by a total of about 2,500 students over the same time period. To meet this goal, UC plans to increase total graduate enrollment by 625 FTE students in 2023-24. UC is to cover the cost of this enrollment growth also from within its 5 percent annual base augmentations.

The Governor's Budget also includes $30 million ongoing General Fund to continue reducing nonresident enrollment at the Berkeley, Los Angeles, and San Diego campuses by a total of 902 FTE students in 2023-24. The $30 million is intended to replace lost nonresident supplemental tuition revenue as well as lost base tuition revenue that supports financial aid for resident students.

LAO ASSESSMENT AND RECOMMENDATION

Assessment

UC Is Likely to Meet 2022-23 Nonresident Undergraduate Enrollment Target. Compared to the fall 2021 term, nonresident undergraduate headcount in the fall 2022 term declined at the Berkeley, Los Angeles, and San Diego campuses by a total of 992 students. This reduction equates to 913 FTE students, which exceeds the state reduction target of 902 FTE students. Though UC exceeded the overall reduction target for the fall term, one campus reduced nonresident undergraduate enrollment only slightly. Specifically, the smallest decline occurred at the Berkeley campus (88 students), with the Los Angeles campus declining by 406 students and the San Diego campus declining by 498 students. Of the three campuses, Berkeley has the highest percentage of nonresident undergraduate enrollment (23.7 percent of total undergraduate enrollment in fall 2022). Given the Berkeley campus experienced the smallest decline in fall 2022, it will need even greater reductions over the next several years to meet the 18 percent campus cap by 2026-27. As intended, the three campuses increased their resident undergraduate enrollment in fall 2022—growing by a combined 1,711 students, more than backfilling for the reduction in nonresident undergraduates.

2023-24 Resident Undergraduate Enrollment Target Will Most Likely Not Be Met. UC has revised its resident undergraduate enrollment plans to account for the slight drop in 2022-23 systemwide enrollment as well as the expectation that it will not meet its budget act enrollment target for 2023-24. As the bottom part of Figure 7 shows, UC expects to grow by 4,197 FTE resident undergraduate students (2.1 percent) in 2023-24, short of the 7,632 FTE student target. (The 4,197 FTE students is a point-in-time estimate from UC, which will be refined in the coming months.) UC effectively plans to speed up growth in subsequent years—growing at 1.6 percent rather than 1 percent each year. Under this modified plan, UC would reach the ultimate compact enrollment target by 2026-27.

Different Set of Considerations for Graduate Enrollment. In contrast to undergraduate enrollment, access has not been the primary focus of the state when deciding whether to support graduate enrollment growth. Rather, the focus has been on workforce needs—both within the UC system and in the state. Existing workforce demand likely varies for academic doctoral, academic master's, and professional graduate students, with some graduate programs (including certain health care programs) in higher demand than others. Beyond these workforce considerations, UC campuses also often seek to grow graduate enrollment proportionate to undergraduate enrollment. This practice ensures campuses have an adequate number of teaching and research assistants to accommodate the higher level of undergraduate courses and faculty workload. Over the last five years, the ratio of total UC undergraduate students to graduate students has consistently been about five to one. The level of growth identified in the Governor's budget is consistent with maintaining that ratio.

Legislature Has More Time to Influence 2024-25 Enrollment Levels. As UC already is making its 2023-24 enrollment decisions, the Legislature has less ability to influence its enrollment level that year. The Legislature could, however, send an early signal to campuses about its enrollment expectations for 2024-25. In setting an enrollment target for 2024-25, the Legislature likely would want to consider certain demographic, academic, and economic factors. The number of high school graduates next year, for instance, is projected to increase by 0.6 percent, potentially spurring some demographically driven growth among new students in 2024-25. At this time, other factors such as application volume, retention rates, average unit load, and the job market are uncertain for 2024-25.

Setting Funded Enrollment Level Is Helpful Budget Practice. Over the past few years, the state has set an enrollment growth target for UC (for example, 2,000 additional resident undergraduates), without specifying the associated total funded enrollment level (for example, a total of 202,000 resident undergraduates). Such an approach can lead to confusion and unintended consequences. This is particularly the case when the baseline level of enrollment comes in notably lower or higher than expected. Take, for example, a stylized case in which the Legislature at the time of budget enactment believes 2022-23 enrollment will be 200,000 and provides UC enrollment growth funding to serve an additional 2,000 students in 2023-24. If the Legislature has not specified its expectation that UC enroll a total of 202,000 students in 2023-24, disagreements might arise. As enrollment data is finalized, if total 2022-23 enrollment is 198,000 students, then UC might still expect to receive funding if it grows back to 200,000 in 2023-24. The Legislature, however, might have expected UC to grow beyond its previously funded level of 200,000 students. These types of situations can be avoided if the state sets expectations regarding both enrollment growth targets and resulting funded enrollment levels.

Recommendations

Consider Adding a Budget Solution Related to Lower-Than-Expected Enrollment. As we discuss in The 2023-24 Budget: Overview of the Governor's Budget, we recommend the Legislature plan for the risk of a larger budget problem by developing a larger set of potential budget solutions than the Governor has proposed. Given UC expects enrollment growth in 2023-24 to be below the level funded in the 2022-23 Budget Act, the Legislature may wish to consider adding an associated budget solution. Specifically, the Legislature could reduce 2023-24 funding by $8.6 million to align with UC's planned 2023-24 enrollment level. (The $8.6 million in savings is based on a $10,886 state marginal cost rate for the estimated 790 student shortfall.) If the Legislature wanted to go further in aligning UC's funding with enrollment, it also could adjust UC's funding in 2022-23. Specifically, it could reduce UC enrollment growth funding by $51.5 million in 2022-23, as UC does not plan to enroll any of the additional associated students this year.

Set Resident Undergraduate Enrollment Target in 2024-25. To help influence UC's future enrollment decisions, we recommend the Legislature set a resident undergraduate enrollment target for 2024-25. Based the factors discussed earlier, the Legislature could consider any number of options, ranging from holding enrollment flat to funding moderate growth. Regardless of the exact growth target, we recommend the Legislature also specify an expected enrollment level for 2024-25. Such an approach clarifies legislative intent, thereby improving transparency, and enhances accountability. Lastly, though we recommend setting enrollment targets for UC one year in advance, we recommend providing associated enrollment growth funding the same year the additional students enroll. This is because the bulk of the costs incurred to educate new students begins the year those students enroll, rather than a full year earlier.

Approve Continued Implementation of Nonresident Reduction Plan. We recommend the Legislature approve the Governor's proposed $30 million to continue implementing the state's nonresident undergraduate enrollment reduction plan for UC. The proposal is consistent with state law and recent state budget actions. The nonresident enrollment reduction plan continues to serve the state's objective of freeing up slots for resident undergraduates at high-demand campuses.

Seek Better Information on How UC Will Cover Cost of Graduate Enrollment Growth. If the Legislature has specific workforce priorities that entail graduate enrollment growth, it could set a target for 2024-25. That said, the Legislature could continue its current approach of not setting a graduate enrollment target if it has no specific graduate student-related priorities. Regardless of which of these options it takes, we recommend the Legislature ask UC to provide further documentation on how it intends to cover the associated cost of enrolling additional graduate students. As graduate academic students do not tend to cover their full associated education costs, enrolling more graduate students could worsen UC's projected operating shortfall.

STAFF COMMENT

Increasing California undergraduate enrollment at UC has been a top priority for this Subcommittee and the Assembly for the past decade, and currently the Administration, Legislature and UC are all committed to enrollment growth going forward. It is disappointing that Fall 2022 did not increase full-time enrollment, although staff notes that UC appears to be making good faith efforts to grow.

At issue this year is whether the Legislature and Administration will accept UC's plan, which would likely fall short of its 2023-24 enrollment target, but would meet the target by the next year.

In the longer run, UC is working on several strategies to increase campus capacity, including increasing summer course offerings and off-campus programs. Notably, UCLA purchased the 35-acre Marymount California University in Rancho Palos Verdes last year, and the Berkeley campus is working on a project that could add academic programs and student housing at Moffett Field in Santa Clara County. Both of these campuses could use these new sites to increase enrollment, although it is not clear how soon either will be available.

Regarding graduate student enrollment, staff notes some conflicting messages. While UC has committed to graduate student growth, some reports indicate campuses may be reducing some graduate student enrollment as they seek to absorb increased costs related to recent contracts with academic workers and researchers, graduate student researchers, and postdoctoral students. More information on the contracts is included in the next item in this agenda.

The Subcommittee can consider these questions about enrollment:

- Does UC have any updated enrollment date from Spring 2023? How is UC working to increase FTE enrollment for the 2022-23 academic year?

- Based on UC's plan, which campuses will grow the most in 2023-24?

- Given recent, unpredictable enrollment trends, how confident is UC that it will be able to implement its plan?

- Some news reports have indicated UC may be lowering enrollment for some graduate and phD programs. Is that accurate, and how do those plans interact with the compact goal of increased graduate student enrollment?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 2: BASE BUDGET

The Subcommittee will review the Governor's Budget proposal to provide a 5% base increase ($216 million ongoing General Fund) for UC core operations.

PANEL

- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office
- Seija Virtanen, University of California

BACKGROUND

UC Has Considerable Flexibility in Managing Its Operating Costs. UC has more control than most state agencies over its operating costs. Of UC's core-funded compensation, more than 90 percent is associated with employees who are not represented by a labor union. The Board of Regents directly sets salaries and benefits for these employees. UC negotiates salaries and benefits with its represented employee groups. As with CSU, the Legislature does not ratify UC's collective bargaining agreements. UC also has more control than other state agencies in that it operates its own retirement system—the UC Retirement Plan (UCRP).

UC's Largest Operating Cost Is Compensation. As with most state agencies, UC spends the majority of its ongoing core funds (about 68 percent in 2021-22) on employee compensation, including salaries, employee health benefits, retiree health benefits, and pensions. Beyond employee compensation, UC faces other annual costs, such as paying debt service on its systemwide bonds, supporting student financial aid programs, and covering other operating expenses and equipment (OE&E). Each year, campuses typically face pressure to increase employee salaries at least at the pace of inflation. Certain other operating costs, including health care and utility costs, also tend to rise over time in step with sector-specific cost trends. In addition, UC is responsible for setting its pension contribution rates, and it expects to increase these rates over the next several years, primarily as a result of weaker-than-expected stock market performance. Though operational spending grows in most years, UC has pursued certain actions to contain this growth. For example, over the past several years, UC has achieved operational savings through changing certain procurement practices.

Per the UC budget approved by the Board of Regents in November 2022, UC anticipates more than $405 million in new core operating expenses in 2023-24, as the LAO chart on the next page indicates.

Figure 4

UC Has Identified Many Cost Pressures

Proposed Changes for Core Operations, 2023-24
(In Millions)

Core Operations	
Faculty compensation	$97.4
Retirement contributions	72.7
Nonrepresented staff compensation	69.0
Operating expenses and equipment	55.4
Faculty merit program	37.1
Represented staff compensation	37.0
Health benefits for active employees	24.3
Health benefits for retirees	6.8
Debt service[a]	6.0
Total Cost Increases	**$405.7**
Funding	
General Fund	$252.0[b]
Tuition and fee revenue	58.3[c]
Alternative fund sources	54.6[d]
Total Funding Increases	**$364.9**
Operating Shortfall	**-$40.8[e]**

[a] Reflects debt service on certain academic buildings.

[b] Reflects Governor's proposed 5 percent base increase, $30 million for nonresident enrollment reductions, and $6.5 million in higher debt-service costs.

[c] Reflects revenue from tuition and fee rate increases net of institutional student financial aid and after accounting for the loss of nonresident supplemental tuition resulting from the nonresident enrollment reduction plan.

[d] Consists of $30 million in investment earnings, $13.8 million in procurement savings, and $10.8 million in additional tuition revenue from nonresident enrollment growth.

[e] Reflects estimated shortfall. Assumes enrollment growth below the existing state-funded level generates no new state costs.

UC Covers Its Operating Cost Increases From Three Main Sources. In most years, the state provides additional ongoing General Fund support to cover some of UC's operating cost increases. Since 2013-14, the state has provided UC with General Fund base increases in all years but one. (In 2020-21, the state reduced General Fund base support due to a projected shortfall, but it restored funding the following year.) UC sometimes supplements General Fund increases with additional systemwide tuition and fee revenue. Though it raised systemwide tuition rates only once between 2013-14 and 2020-21 (in 2017-18), UC is in the midst of implementing its new tuition policy that raises systemwide tuition rates for certain students annually. Thirdly, UC relies on various alternative fund sources to help cover some of its operating cost increases. In particular, UC relies on nonresident supplemental tuition revenue and investment earnings to increase its budget capacity. In recent years, UC also has been estimating the amount of operational savings it achieves through changing certain procurement practices and other efficiencies. It has identified these freed-up funds as an additional alternative source of support for core operations.

The chart below indicates recent tuition levels, and the amount new students will pay in 2023-24.

Undergraduate	Tuition	Student Services Fee	Nonresident Supplemental Tuition
2021-22	$11,442	$1,128	$29,754
2022-23	$11,928	$1,176	$31,026
2023-24	$12,522	$1,230	$32,574

Note: The UC Board of Regents adopted the Tuition Stability Plan in 2021. Beginning in Fall 2022 and continuing for five years, tuition is adjusted upward for each incoming class, but does not increase for that class again. For example, a California freshmen beginning in Fall 2023 will pay $12,522 for tuition each year, while a freshman who began in Fall 2022 will pay $11,928.

UC's budget proposal is not balanced. The budget plan adopted by the Regents for 2023-24 included a $67.9 million deficit, meaning the Regents could not identify enough revenue to cover anticipated or desired cost increases, even with the 5% state General Fund increase. UC campuses may be forced to make cuts under the Regents' proposal.

GOVERNOR'S 2023-24 BUDGET PROPOSAL

The Governor's Budget proposes a $216 million (5%) unrestricted General Fund increase for UC in 2023-24. The proposal is part of the multiyear compact with UC that the Governor announced last year. Per the compact, the Governor proposes to provide 5% base increases annually through 2026-27, with future increases contingent on UC meeting certain expectations. The only restriction on this funding is that it must support 1% California undergraduate enrollment growth.

LAO ASSESSMENT AND RECOMMENDATION

Assessment

Unrestricted Base Increase Lacks Transparency and Accountability. The Governor's proposed unrestricted base increase for UC lacks transparency, as the funds are not designated for particular purposes. Compounding this uncertainty, the Board of Regents does not adopt a corresponding spending plan until after final state budget enactment. Though UC's fall 2022 budget request provides some indication of how UC could use the proposed funds, no statutory language requires UC to spend the base increase consistent with that preliminary plan. For all these reasons, the Legislature does not have assurance that the proposed augmentation will be spent in ways that are aligned with its priorities. Furthermore, the state has not put in place a funding formula or accountability system for UC that is akin to the one in place for CCC, which provides fiscal incentives to achieve certain outcomes. (Under the CCC Student Centered Funding Formula, community colleges effectively earn funds by achieving certain enrollment and performance outcomes.) Though the Governor's compact describes some performance expectations, no clear mechanism exists to increase or decrease UC's funding in response to its outcomes.

Amount of Governor's Proposed Base Increase Is Arbitrary. The 5 percent annual base increases proposed in the Governor's compact are not tied to projections of UC's operating costs. Since the initial agreement was made last year, new information has become available on UC's cost increases as well as the state's budget condition. Each year of the compact moving forward, new information will continue to emerge. Typically, the Legislature desires to use the most recent and accurate information available to guide its budget decisions instead of relying on arbitrary increases previously proposed by the administration.

Proposed General Fund Augmentation Does Not Fully Cover UC's Projected Cost Increases. Figure 4 shows the $406 million in 2023-24 operating cost increases that UC identified in its fall 2022 budget plan. UC is planning for faculty and other nonrepresented staff salary increases. In addition, it already has 2023-24 contracts in place for its represented employee groups, with most groups receiving salary increases in the range of 3 percent to 5 percent. UC's employer contribution rate for UCRP also is set to increase by 1 percentage point, with the total employer rate rising from 15.4 percent to 16.4 percent in 2023-24. UC projects a 4 percent increase in its health care costs for active employees and retirees. UC also projects cost increases for OE&E and debt service. Altogether, we estimate these operating cost increases exceed UC's available core fund increases by approximately $40 million. UC indicates it would respond to any operating shortfall through operational savings and redirections of existing resources.

UC Is Likely to Face Heightened Salary Pressures in 2023-24. Though UC already has 2023-24 contracts in place for its represented groups, it has yet to make salary decisions for its nonrepresented faculty and staff, who comprise the vast bulk of UC's workforce. In 2023-24, UC is likely to face significant pressure to provide these employees with salary increases. Over the past year, both inflation and wage growth (across the nation and in California) were at their highest levels in several decades. These trends could continue into 2023-24. The decisions UC ultimately makes in this area will affect its operating balance.

Governor's Budget Includes No Funding for Capital Renewal. Though the Governor's budget includes no capital renewal funding, UC requested $1.2 billion in one-time state funds for this purpose in its fall 2022 budget request. UC estimates it needs this amount annually to keep its capital renewal backlog from growing. UC's capital renewal backlog is currently estimated at $7.3 billion (not including seismic upgrades). UC's backlog of projects has been growing as emerging projects outpace funding. Absent a plan to address these capital renewal needs, project backlogs very likely will continue to grow—leading to higher costs and greater risk of programmatic disruptions.

Recommendation

Build Base Increase Around Identified Operating Cost Increases. We recommend the Legislature decide the level of base increase to provide UC by considering the operating cost increases it wants to support in 2023-24. Given the state's projected budget deficit, we recommend considering the proposed 5 percent base increase an upper bound. With the General Fund augmentation that the Governor proposes, together with additional revenue from tuition increases and alternative fund sources, UC could cover most of its projected cost increases. However, it would need to find some savings. For example, it might consider revisiting its projected OE&E spending. UC included $55 million for projected OE&E cost increases in its spending plan, which is about $15 million more than our estimate of UC's budget shortfall. Further downward spending adjustments would become more difficult for UC, as those reductions could begin to affect salary increases for nonrepresented employees. Though smaller salary increases likely are unpalatable, UC does not appear to be having special difficulty attracting and retaining most of its faculty and staff. For example, UC faculty salaries on average are higher than most public universities engaging in a similar level of research. In addition, faculty separations have remained about the same over the last ten years. Finally, given UC's sizable and growing capital renewal needs, the Legislature could consider reallocating some proposed funding for this purpose

STAFF COMMENT/POTENTIAL QUESTIONS

Staff concurs with the LAO's concern that base increases lack transparency and limit legislative oversight. However, base increases have been a regular part of recent budget acts, and act as a general cost-of-living adjustment for campuses. Staff is not aware of any examples of a campus using base funding for activities that are not in line with general legislative priorities, such as supporting wages and benefits for employees, so it may be prudent to allow the system some flexibility in how this increased funding is used, should it be approved by the Legislature. The Subcommittee could consider more detailed reporting requirements that could provide information on how increased funding was spent.

More concerning is UC's overall budget position, which indicated a deficit in 2023-24 even before a new contract was reached in December with bargaining units representing academic workers and researchers, graduate student researchers, and postdoctoral scholars. After a six-week strike in the Fall, UC agreed to significant (and appropriate) compensation increases for these employees. While more than half of these employees are paid with federal funds, it is unclear how campuses will absorb some of these increases.

The Subcommittee could consider the following questions:

- How will UC use this 5% increase? What types of cost increases will be covered by this 5%? What won't be covered?
- How much in new revenue will the 23-24 tuition increase net, and how does UC plan to use this funding?
- The amount of new funding proposed by the Governor would still leave UC with a budget deficit, under the Regents' budget plan adopted in November. How will UC address its budget deficit?
- How are campuses going to cover increased costs related to the recently-signed contracts with academic employees, researchers and postdoctoral scholars?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 3: CAPITAL OUTLAY FUNDING DELAYS

The Subcommittee will discuss the Governor's Budget proposal to delay funding for four capital outlay projects that were approved with one-time General Fund in the 2022 Budget Act.

PANEL

- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office
- Seija Virtanen, University of California

BACKGROUND

State Funds Academic Facilities and Infrastructure at UC. Traditionally, the state has funded UC's academic facilities, including classrooms, laboratories, and faculty offices. It has also funded certain campus infrastructure, such as central plants, utility distribution systems, and pedestrian pathways. In addition to these state-supported assets, UC has self-supporting facilities, including student housing, parking structures, certain athletic facilities, and student unions. These types of facilities generate their own fee revenue, which covers associated capital and operating costs. The UC system also operates several medical centers, which provide clinical care for patients, train medical school students and residents in clinical environments, and support the university's health science research. Most medical center funding comes from clinical revenues, primarily generated from Medi-Cal, Medicare, and private insurance.

UC Has Identified Many Capital Projects. Under state law, UC is to submit a capital outlay plan to the Legislature annually by November 30 that identifies the projects proposed for each campus over the next five years. UC's most recent plan (Capital Financing Plan 2022-2028) covers the current year (2022-23) and the next five years (through 2027-28). This plan identifies $23.2 billion in projects proposed for this period, subject to available funding. The total amount consists of $10.2 billion in academic facilities and infrastructure projects, $6.6 billion in self-supporting projects, and $6.4 billion in medical center projects.

State Funds UC Capital Projects in Two Ways. The main way the state funds UC's academic facilities and infrastructure is through supporting debt-service payments. As of 2013-14, state law allows UC to sell university bonds to finance its academic facilities. UC uses the proceeds to cover the cost of projects, then repays the bonds over time (typically 30 years). UC may use its main General Fund appropriation in the annual state budget act, along with other available funds, to make these payments. In state law, UC may use up to 15 percent of its main General Fund appropriation for debt service on state-approved capital projects. This debt-financing approach is particularly common for larger projects, such as projects to renovate, replace, or construct an entire facility. A second way the state funds UC's capital projects is by providing cash up front. Particularly when the state has a budget surplus, it can use this approach to fund deferred maintenance, seismic safety, and energy efficiency projects—projects that tend to be narrower in scope and lower in cost relative to entire renovations or new facilities.

Campuses sought one-time funding last year for various projects. Given the significant budget surplus last year, several UC campuses asked for one-time funding to support various projects.

The UC Riverside and Merced campuses developed a major proposal to expand both campuses to increase enrollment capacity, support climate change research programs, and expand health care operations and research. In total, the Inland Rising proposal sought $1.3 billion one-time and $157 ongoing General Fund. Most of the one-time funding was proposed for capital projects, including student housing.

UC Berkeley proposed a $700 million project – with a request of $365 million from the state – to replace an outdated cogeneration energy plant on campus with a large-scale microgrid system. The project would reduce campus carbon emissions by 80%.

Finally, the Administration's May Revision proposal included support for a project at the UCLA campus that would create the Institute for Immunology and Immunotherapy. The institute would be a public-private partnership and would conduct bioscience research on immunology, or how to harness the body's immune system to fight disease.

Final Budget Act supported some or all of the funding requested. The 2022 Budget Act provided a three-year plan to partially or fully fund these projects. Specifically, the budget provided:

- $83 million in 2022-23 and called for $83 million in each of the next two budget years for a total of $249 million for the UC Berkeley Clean Energy Campus Project.

- $51.5 million in 2022-23 and called for another $51.5 million in each of the next two budget years to support campus expansion at UC Riverside.

- $31.5 million in 2022-23 and called for another $31.5 million in each of the next two budget years to support campus expansion at UC Merced.

- $200 million in 2022-23 and called for $200 million in 2023-24 and $100 million in 2024-25 for the UCLA Institute for Immunology and Immunotherapy.

GOVERNOR'S 2023-24 BUDGET PROPOSAL

The Governor's Budget proposes to delay a total of $366 million one-time General Fund provided for four UC capital projects until 2024-25. Figure 8 lists the four projects, along with the associated one-time funds that would be delayed under the Governor's proposal. The Governor includes these funding delays as part of his overall package of solutions to address the state's budget deficit.

Figure 8

Governor Proposes to Change Funding Schedule for Four UC Capital Projects

(In Millions)

	2022-23	2023-24	2024-25	Totals
Original Funding Schedule				
UC Los Angeles, Institute for Immunology and Immunotherapy	$200.0	$200.0	$100.0	$500.0
UC Berkeley, Clean Energy Campus Project	83.0	83.0	83.0	249.0
UC Riverside, campus expansion	51.5	51.5	51.5	154.5
UC Merced, campus expansion	31.5	31.5	31.5	94.5
Totals	**$366.0**	**$366.0**	**$266.0**	**$998.0**
Modified Funding Schedule				
UC Los Angeles, Institute for Immunology and Immunotherapy	$100.0	$100.0	$300.0	$500.0
UC Berkeley, Clean Energy Campus Project	83.0	—	166.0	249.0
UC Riverside, campus expansion	51.5	—	103.0	154.5
UC Merced, campus expansion	31.5	—	63.0	94.5
Totals	**$266.0**	**$100.0**	**$632.0**	**$998.0**
Difference	**-$100.0**	**-$266.0**	**$366.0**	**—**

LAO ASSESSMENT AND RECOMMENDATION

Assessment

Projects Generally Do Not Address UC's Highest Capital Outlay Priorities. Some of the capital projects identified in UC's Capital Financing Plan 2022-28 are critical and urgent. Those projects address deficiencies with existing facilities and infrastructure that could otherwise present life safety concerns or disrupt campus operations. In contrast, most the projects identified for delays under the Governor's proposal do not address these types of deficiencies with existing space. Three of the four projects add new space. Moreover, adding new space increases ongoing operations and maintenance costs, and it creates future capital renewal costs as building components age. To date, UC has not provided documentation identifying how those additional costs would be covered for these new projects.

Little Information Is Available on the Institute for Immunology and Immunotherapy (Institute). Based on information provided by UC, the four projects identified for delays are in early project phases. Of the four projects, the proposed Institute is in the earliest phase. According to UC, the Institute would be an independent research institute funded through a public-private partnership and classified for federal tax purposes as a California nonprofit public benefit corporation. UCLA and the Institute founders are currently negotiating the terms of the public-private partnership. To date, UC has spent no state (or nonstate) funds on the project. Additionally, standard project information on the scope, schedule, cost, ownership, and operations of the proposed facility have not yet been provided to the state. Without this information, the Legislature is unable to assess the project and compare it with other budget priorities. Moreover, unlike the other new projects the state funded in 2022-23, UC did not add this facility to its Capital Financing Plan 2022-28. While UC did identify capacity constraints for the UCLA health facilities, the Institute was not mentioned as a project to alleviate those capacity constraints.

Merced Campus Expansion Project Does Not Serve Immediate Need. UC Merced plans to add an academic facility that would provide new classrooms, faculty offices, and research space. The project remains in an early planning phase, with no state or nonstate funds spent on the project to date. The project also lacks justification at this time, as UC Merced very likely does not have the enrollment demand over the next several years to support an expansion project. UC Merced has indicated that it likely will need additional academic facility space once its enrollment reaches 12,500 students. If UC Merced continued growing at the same pace over the next five years as it has over the past five years, its enrollment would reach 10,377 students by 2027-28, still far below the level needed to justify the expansion project.

Riverside Campus Expansion Project Has Stronger Justification. UC Riverside plans to add an Undergraduate Teaching and Learning Facility that would provide up to 78,000 assignable square feet for general assignment classrooms, specialized teaching spaces, and teaching assistant preparation spaces. UC estimates the project would add approximately 900 classroom seats. In UC's Capital Financial Plan 2021-27, UC Riverside listed this project as its top funding priority. UC Riverside has justification for the additional space. In UC's most recent utilization report (using data from fall 2018), UC Riverside was using its existing classroom space at 104 percent of legislative standards and its laboratory space at 121 percent of legislative standards. Moreover, since fall 2018, total campus enrollment (headcount) has increased approximately 2,900 students (12 percent). The project is expected to address some of the campus's existing space shortages. Though no state (or nonstate) funds have been spent on the project to date, the campus expects to encumber $6.8 million over the next several months for preliminary plans.

Many Key Details Missing for Berkeley Clean Energy Campus Project. UC's Capital Financial Plan 2021-27 included a $360 million state-eligible energy project for the Berkeley campus that was not yet funded. UC's Capital Financial Plan 2022-28 includes the $249 million the state authorized for the project last year, but it also identifies $700 million in state-eligible project costs not yet funded. In response to our questions, UC clarified that the project likely will entail many phases, with the total cost currently estimated at $700 million. Given the plan, it appears UC would be requesting substantial additional state funding for the project in the out-years. It is not clear how much energy savings the campus will generate from the various phases that could offset project costs. If the campus is choosing to go beyond state clean-energy requirements, it also raises the issue of which entity should pay for those associated costs. Furthermore, supporting such a costly project at one campus likely will create significant cost pressure for similar projects at other UC campuses, and do so at a time the state is facing projected budget deficits.

Delays Could Result in Higher Overall Project Costs. If the Legislature wanted to delay funding for any of the four projects, the overall cost of those projects likely will increase due to construction cost escalation. Construction costs in California were an estimated 9.3 percent higher in December 2022 than December 2021. This rate of increase was historically high, but some amount of construction cost escalation is expected most years, including over the next couple of years. The four affected UC capital projects are in different parts of the state, such that the exact effect of funding delays on each project's costs very likely will vary. For example, construction cost escalation last year was 10.4 percent in Los Angeles compared to 8.4 percent in San Francisco. (This most recent variance differs from the trends over the past several decades, in which construction cost escalation tends to be somewhat higher in San Francisco than Los Angeles.)

Proposed Funding Is Not Linked to Project Milestones. Typically, the state tries to keep General Fund authorizations linked to the progress of capital projects. This approach substantially reduces programmatic and fiscal risks to the state, as important discoveries can be made in early project phases that notably affect both design and constructions costs. Linking funding to sequential project phases also facilitates legislative oversight throughout the life of a project. Under the Governor's funding delay proposals, funding for the four UC projects is not connected to key phases. Importantly, most of the four projects likely retain substantially more funding than needed to cover the cost of reaching key milestones (such as completing working drawings or the design phase) in 2023-24.

Recommendations

Recommend Adding Institute to Budget Solutions List. Given the deterioration in the state's budget condition, together with projected out-year deficits, we recommend the Legislature expand its budget solutions list by removing funding for the Institute. Specifically, we recommend the Legislature remove the entire $500 million General Fund scheduled to be provided for the Institute from 2022-23 through 2024-25. Given the lack of information about the project, the benefit of any smaller amount of funding for the project remains unclear. Were more information to become available about the project in future years and the project were to show stronger justification relative to UC's other pressing capital needs, the Legislature could reconsider the project at that time, funds permitting.

Recommend Adding UC Merced Campus Expansion to Budget Solutions List. We recommend the Legislature further expand its budget solutions list by removing funding for the UC Merced expansion project given its lack of justification at this time. Specifically, we recommend removing the entire $94.5 million General Fund scheduled for the project from 2022-23 through 2024-25, as any smaller amount likely would be insufficient to cover proposed project costs. Were enrollment at UC Merced to grow substantially over the next several years and the campus's existing space to reach and exceed legislative utilization standards, the campus could resubmit the project to the Legislature for funding consideration at that time.

Sweep 2022-23 Funds for These Two Projects If Proceeding With Them. Neither the Institute nor the UC Merced project have demonstrated they will use their first round of funding in 2022-23. Were the Legislature to decide to maintain authorization for these projects, we recommend the Legislature still sweep the associated 2022-23 funding (and 2023-24 funding, as the Governor proposes). Leaving large amounts of funding with projects that are not ready to use the funding raises risks and opportunity costs for the state. The state could minimize these risks and mitigate opportunity costs by better aligning funding with project phases. That is, the Legislature could provide the first allotment of funding in 2024-25 (or thereafter) when the projects have demonstrated they could spend it.

Consider Financing UC Riverside Project With University Bonds. If the Legislature were to conclude that the UC Riverside campus expansion project is one of UC's most pressing capital needs, it could consider debt-financing the project, with UC selling university bonds. Most capital projects of this scale are debt-financed, with costs effectively spread over many years consistent with a facility's useful life. Using such an approach, the state would save a total of $154.5 million General Fund from 2022-23 through 2024-25. Moving forward, it could provide UC with additional General Fund to cover the associated debt service, or, as it does with most similar UC capital projects, it could have UC cover the cost from within its base budget. We estimate annual debt service on the project would be approximately $10 million. Debt-financing a project raises overall costs substantially due to interest payments, with total project costs likely to at least double. A small portion of this increased cost, however, might be offset by proceeding with the budget in the budget year and avoiding some potential cost escalation that would otherwise occur were the project delayed.

Gather More Information About the Berkeley Clean Energy Campus Project. Before deciding what approach to take with the Berkeley project, we recommend the Legislature request UC to provide more information about the project. Specifically, we recommend the Legislature request a full financial plan for the project that, at a minimum, identifies the total state cost, total nonstate cost, annual cost by fund source by year, projected energy savings, and projected climate-related benefits. If the Legislature concludes that UC has a sound, comprehensive financial plan for the project, it then could decide how best to finance the state share. Given the scale of the project, the Legislature could consider having UC sell university bonds. As mentioned above, this is the typical approach used for projects of this scale.

STAFF COMMENT/POTENTIAL QUESTIONS

Staff notes that this proposal is part of the Governor's effort to address the state's budget problem, and this issue will likely be discussed as part of the overall budget architecture this year.

As noted in the background section of this item, three of these projects were developed and proposed by the campuses, and then received initial support from specific legislators during the 2022 budget cycle. The Inland Rising project, which sought funding for the Merced and Riverside campuses, was discussed in the Subcommittee in Spring 2022. The UCLA project was proposed by the Administration in the May Revise.

Staff has received updated information on all of these projects from UC:

- The Riverside project has expended or encumbered about $170,000 in non-state funds, and anticipates encumbering about $6.8 million within the next seven months to complete a Design-Build procurement package, including development of detailed project program and performance criteria, site surveys, cost analysis, and environmental analyses pursuant to the California Environmental Quality Act. Delayed funding would push back the opening of the new building by at least one year, from Fall 2026 to Fall 2027.

- The Merced project is expected to encumber about $6.4 million by October for preliminary planning work. The classroom and office building will allow the campus to add at least 20 new undergraduate programs. A delay would push back design and construction.

- The Berkeley project has spent $3 million in non-state funds, and $2 million in state funds. The campus anticipates encumbering the remaining 2022-23 state funds within the next six months to support preliminary planning and working drawings. A delay would push back construction by at least one year, likely increasing costs by 5 to 10%, and could cause increased operational costs related to the outdated campus cogeneration plant.

- The UCLA project has expended no funds yet, and the campus is working with the Institute's founders on the terms of the public-private partnership. A delay will slow the project.

The Subcommittee could consider the following questions:

- Given that UCLA has not expended or encumbered any of its 2022-23 funds, how likely is it that the campus would spend $100 million in 2023-24, in addition to the $100 million already available?

- Which of the these projects would most likely be in a position to expend funding in 2023-24?
- What are the pros and cons of moving some or all of these projects to bond financing, as the Administration is proposing for CSU capital outlay projects?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 4: TRANSFER REQUIREMENTS FOR UCLA

The Subcommittee will discuss the Governor's Budget proposal to require the UCLA campus to implement two strategies to improve community college transfer processes, or face the loss of $20 million in ongoing state funding.

PANEL

- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office
- Seija Virtanen, University of California
- Han Mi Yoon-Wu, University of California

BACKGROUND

Simplifying the Transfer Process Has Been a Longstanding Legislative Priority. The Legislature has enacted many policies over the years intended to simplify the transfer process, reduce excess course units (which often arise as a result of transferring from community colleges to universities), and reduce students' time-to-degree. Toward these ends, the Legislature has directed the segments to take steps toward streamlining their lower-division course requirements. Most recently, the Student Transfer Achievement Reform Act of 2021 (AB 928, Berman) requires UC, CSU, and CCC to develop a single lower-division general education set of courses that would meet all three segments' academic standards. (The new set of courses would apply only to general education, not major preparation. As a result, important differences still would remain among UC and CSU in terms of their transfer admission requirements.) The 2022 Budget Act provided $65 million one-time Proposition 98 General Fund to help the community colleges in implementing the most recent round of transfer reforms.

UC Has Goal to Enroll One Transfer Student for Every Two Freshmen. For many decades, UC has aimed to achieve a certain mix of upper-division and lower-division students. Specifically, UC aims to have 60 percent of undergraduate instruction at the upper-division level and 40 percent at the lower-division level. To this end, UC aims to enroll one transfer student to every two freshmen. Over the past 15 years, UC generally has been making progress toward this goal, with its freshman-to-transfer ratio declining from 2.5 in 2008-09 to 2.1 in 2021-22.

Transfer Students Must Meet Certain Academic Criteria to Be Eligible for UC Admission. Community college students generally must complete certain UC-transferable, lower-division courses with a minimum grade point average (GPA) of 2.4. If a campus has more transfer applicants than slots, it uses UC's comprehensive review policy to select students for admissions. (This process is very similar to the process used when a campus has more freshman applicants than slots.) Under comprehensive review, when reviewing an applicant, campuses may consider courses, grades, honors classes, completion of special projects, and academic accomplishments in light of the student's life experiences, among other factors. Eligible transfer students who are not accepted to their campus(es) of choice are redirected to the UC Merced or UC Riverside campus.

Transfer Students Have Additional Options for Being Admitted to UC. One longstanding option is the TAG program. Students choosing the TAG option submit a supplemental TAG application to their UC campus of choice. As long as they meet the course and GPA requirements, they are guaranteed admission into their campus of choice. Six UC campuses participate in the TAG program, with three campuses (Berkeley, Los Angeles, and San Diego) not participating. A more recent admission option is UC Transfer Pathways. Under this option, students complete a specific set of courses in their major of choice. Pathways are offered in 20 of UC's most popular majors. All nine general UC campuses participate in this program, though campus GPA requirements vary.

UC and CSU Transfer Pathways Are Different. UC Transfer Pathways do not have complete overlap with CSU's transfer pathways. Many students transferring to CSU take a different pathway, which involves obtaining an ADT. The ADT was developed collaboratively between the CCC and CSU. Under the ADT process, students complete 60 units of lower-division, major-specific coursework at community colleges, then transfer and complete 60 units of upper-division coursework at a CSU campus. The ADT is specifically designed to enable students to graduate with a bachelor's degree from a CSU campus in a coordinated 120-unit, four-year academic program. The ADT is offered in many academic subject areas.

Compact Contains Certain UC Transfer Expectations. The Governor expects UC to meet a 2:1 freshman-to-transfer ratio. UC's first compact progress report (released in November 2022) identified several strategies it plans to use to achieve this goal. These strategies include expanding the number of UC Transfer Pathways and expanding support programs for transfer students from underrepresented groups.

GOVERNOR'S 2023-24 BUDGET PROPOSAL

The Governor's Budget requires the UCLA campus to implement new processes with the goal of facilitating community college students' ability to transfer to the campus. Specifically, by 2025-26, the campus would need to (1) enact and maintain policies to participate in the TAG program as well as (2) create and maintain pathways for students transferring with an ADT. By March 31, 2024, the campus would need to submit a report to the Director of Finance indicating its commitment to meeting these requirements.

The Governor does not provide a General Fund augmentation to UC for meeting the new transfer requirements at the Los Angeles campus, but he proposes trailer bill language making $20 million of that campus's ongoing core funding contingent on it meeting the new requirements. Based upon the UC Office of the President's determination, if the campus does not meet the new requirements, UC is to redirect the $20 million to the other nine UC campuses using its regular campus allocation model.

LAO ASSESSMENT AND RECOMMENDATION

Assessment

UCLA Does Relatively Well on Enrolling and Graduating Transfer Students. In 2022-23, UCLA expects to enroll approximately 3,300 new transfer students—more than any other UC campus. (UC San Diego expects to enroll the next largest group of new transfer students, approximately 2,700.) Even more importantly, UCLA has the lowest ratio of freshmen to transfer students. The UCLA ratio is 1.53—much better than the systemwide target rate of two freshmen to one transfer student, as well as notably lower than any other campus. (UC Davis has the next best ratio, 1.90.) Furthermore, transfer students at UCLA graduate at higher rates than the system overall. At UCLA, 74 percent of transfer students graduate within two years, increasing to 91 percent graduating within three years—compared to 63 percent and 85 percent, respectively, systemwide.

No Compelling Justification for Singling Out UCLA. UCLA is one of four campuses (together with Davis, Irvine, and San Diego) that already meets the compact goal of having a freshman-to-transfer ratio of 2.0 or below. Together with its relatively good transfer and graduation rates, the campus does not show evidence of requiring special rules to promote better transfer access or outcomes. Moreover, UCLA is not anomalous in its participation in transfer programs. Two other UC campuses do not participate in the TAG program, and no UC campus currently participates in the ADT program. UC Transfer Pathways, for which all nine UC general campuses participate, effectively are UC's alternatives to CSU's ADT pathways.

Governor's Approach Sets Very Poor Policy Precedence. The Governor proposes linking base funding to a very narrow set of outcomes at a single campus. Such an approach is particularly myopic. It also is of questionable design in terms of promoting appropriate incentives. The Governor's approach focuses solely on inputs (participating in certain transfer programs) rather than outcomes, which is counter to the basic notion of performance-based budgeting. Moreover, the Governor's approach violates the basic tenet of fairness in that it potentially punishes a single campus for not doing certain things, while other campuses acting in the same ways would experience no state repercussions.

Recommendations

Recommend Rejecting Proposal and Considering More Holistic Approach. For all the reasons discussed above, we recommend the Legislature reject this proposal. We recommend the Legislature consider whether it would like to require all UC campuses to participate in the TAG and ADT programs. If the Legislature is interested in pursuing these new requirements, we encourage it to coordinate with UC on how best to navigate the associated transitions. In the case of both the TAG and ADT programs, affected UC campuses would need to make important changes to their admission requirements. We also recommend the Legislature have a broader conversation regarding whether it would like to develop a performance-based budgeting model for UC. If the Legislature is interested in linking funding to performance, we recommend it focus on a set of key expectations and apply the model to all UC campuses. As with the funding model the state uses for CCC, the Legislature could consider having both access and outcome components embedded in the model, along with further incentives to serve underrepresented students.

STAFF COMMENT/POTENTIAL QUESTIONS

Staff concurs with much of the LAO analysis: UCLA is an odd campus to single out as in need of major reform in its transfer process. The chart below, provided by UC, indicates transfer and freshmen enrollment for all of the undergraduate-serving campuses in the system. UCLA is far exceeding the 2:1 freshmen to transfer ratio goal, and enrolls far more transfer students than other UC campuses, even those similar in size.

	2020-21			2021-22			2022-23 (estimated)		
Campus	CA Resident Freshmen	CA Resident Transfers	2 to 1 Ratio	CA Resident Freshmen	CA Resident Transfers	2 to 1 Ratio	CA Resident Freshmen	CA Resident Transfers	2 to 1 Ratio
Berkeley	4,557	2,352	1.938	4,861	2,432	1.999	5,234	2,452	2.135
Davis	4,898	2,830	1.731	5,718	2,747	2.082	4,975	2,616	1.902
Irvine	4,564	2,287	1.996	4,682	2,420	1.935	4,636	2,335	1.985
Los Angeles	4,806	3,155	1.523	4,574	2,903	1.576	4,984	3,267	1.526
Merced	1,936	271	7.144	2,408	330	7.297	2,397	271	8.845
Riverside	4,688	2,340	2.003	5,002	2,231	2.242	5,213	1,607	3.244
San Diego	4,802	2,596	1.850	5,265	2,818	1.868	5,321	2,701	1.970
Santa Barbara	4,050	2,260	1.792	3,660	1,872	1.955	3,846	1,866	2.061
Santa Cruz	3,948	1,699	2.324	3,851	1,733	2.222	3,462	1,307	2.649
UC Total	38,249	19,790	1.933	40,021	19,486	2.054	40,068	18,422	2.175
Excluding Merced	36,313	19,519	1.860	37,613	19,156	1.964	37,671	18,151	2.075

Furthermore, the main concern expressed by the Legislature in recent years regarding the transfer process in the state is that it remains overly complicated for community college students, who face slightly different requirements for transferring to various CSU and UC campuses. This complexity can force students to take longer to graduate from either their community college campus, or their UC or CSU campus, or both.

Singling out one UC campus to adopt new processes could actually add complexity. At its February 21st hearing, Subcommittee members suggested that whatever policy comes from this issue would be better as a systemwide policy.

Staff would add that any major change in transfer policy would be best if it involved all three public higher education segments. As noted in the background section, legislation enacted in 2021 (AB 928, Berman) and funded in the 2022 Budget Act requires UC, CSU, and CCC to develop a single lower-division general education set of courses that would meet all three segments' academic standards. That process is underway. It is unclear how this proposal will interact with that process.

UC has been working internally on a counter-proposal that would impact all campuses, and may have an update on that process at this hearing.

The Subcommittee could consider the following questions for the Department of Finance and UC:

- What is the rationale for singling out one UC campus for new transfer processes? Couldn't this lead to a more complex transfer process for students?
- Recent legislation requires the three segments to develop a common set of general education requirements. Did the Department of Finance consider how this proposal will interact with the AB 928 process?
- What are the differences between the UC Transfer Pathways and TAG programs, and the CSU ADT program? What are UC's objections to the CSU ADT program?
- Are there other examples of financially penalizing one campus for not adopting certain policies or procedures?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 5: OFFICE OF THE PRESIDENT BUDGET

The Subcommittee will discuss the UC Office of the President budget. This is an oversight item.

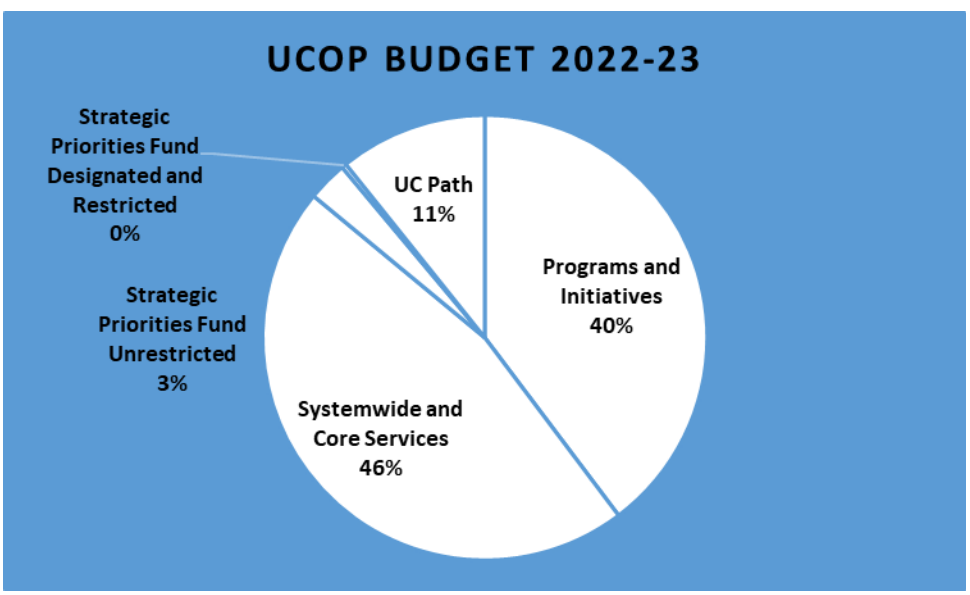
PANEL

- Seija Virtanen, University of California

BACKGROUND

As the systemwide headquarters of the university, UC Office of the President (UCOP) serves two distinct functions: it provides certain central administrative services, and it manages systemwide initiatives that benefit a campus or multiple campuses. Examples of central administrative services include reporting at Regents meetings, managing the university's retirement programs, and developing the university's budget.

The chart below indicates UCOP's budget for 2022-23, which is $1.04 billion, which is a $29.3 million increase when compared to 2021-22. UCOP is funded by numerous sources of revenue, including state General Fund and federal funds. The main expenditure categories include Systemwide and Core Services, which provides services to campus in areas such as finance, legal, human resources and communications; Programs and Initiatives, which include activities such as research and the Agriculture and Natural Resources division; and UC Path, which is the systemwide human resources and payroll system.



2017 audit critical of UCOP budgeting practices. A 2017 report by the State Auditor found numerous concerns with UCOP's budget, including:

- UCOP accumulated more than $175 million in undisclosed restricted and discretionary reserves, and advocated for more funding even while accumulating these reserves;

- UCOP did not track systemwide initiatives, their costs, or provide an assessment of their continued benefit to the university;

- UCOP lacked consistent definitions of and methods for tracking the university's administrative expenses.

In response to the audit, UCOP implemented numerous changes to its budget practices, including new budget processes that include more formalized campus input, an end to the practice of using undisclosed budget surpluses to support various activities, more systemized tracking of systemwide initiatives and programs, and some reorganization.

Budget Act created new line item, specific state funding for UCOP. Based on a recommendation from the State Auditor, the 2017 Budget Act created a new mechanism for funding UCOP. Previously UCOP assessed campuses a fee for various services. Beginning in the 2017-18 fiscal year, this campus assessment was largely abolished, and a new line item in the state budget was created for UCOP. Under this model, the state provided General Fund to support UCOP operations. The 2018 Budget Act provided UCOP with $340.2 million, with $215.2 million for UCOP, $52.4 million for the UC Path payroll system, and $72.6 million for the Agriculture and Natural Resources (ANR) division, which is housed within UCOP. Budget language stated that the funding would only be provided if the UC President certified that there would be no campus assessment, although language did allow an assessment to increase the UC Path budget by up to $15.3 million.

The new structure allowed the state to cut support for UCOP in 2018-19 and redirect General Fund to support campus enrollment growth. The UCOP budget was again cut in 2020-21, when the state reduced funding for UC systemwide due to the COVID-19 pandemic. (The reduced funding was restored in the 2021-22 budget.)

2021 Budget Act eliminated UCOP line item. UCOP's budget was returned to the main UC budget item in 2021, and UCOP was allowed to return to the campus assessment funding model. State General Fund is no longer directly supporting UCOP; instead campuses can use General Fund or other revenue sources to pay for UCOP services. The General Fund that was supporting UCOP was folded into the main UC appropriation. The ANR division remains its own item, with specific General Fund support, however.

Campuses use various funds, including General Fund and tuition, to support UCOP. The campus assessment increased in 2022-23. Under the current structure, UCOP bills each campus for its services through a formula called the campus assessment. Campuses provided $215.2 million to UCOP in 2021-22, and the chart below indicates which types of funds campuses used to support UCOP.

	Core Funds	Medical Center Funds	Sales & Services (incl. Auxiliary Enterprises)	Other Unrestricted Funds	Total
Berkeley	$ 6,141	$ -	$ 10,917	$ -	$ 17,057
Davis	$ 806	$ 16,147	$ 5,226	$ 10,268	$ 32,447
Irvine	$ 2,332	$ 2,259	$ -	$ 19,138	$ 23,729
Los Angeles	$ 6,763	$ 9,211	$ 12,377	$ 17,840	$ 46,191
Merced	$ 3,657	$ -	$ 433	$ 89	$ 4,180
Riverside	$ 8,204	$ -	$ 2,839	$ 102	$ 11,145
San Diego	$ 13,941	$ 7,611	$ 5,522	$ 5,862	$ 32,937
San Francisco	$ 7,121	$ 14,768	$ 155	$ 5,851	$ 27,895
Santa Barbara	$ 6,697	$ -	$ 2,858	$ 1,495	$ 11,051
Santa Cruz	$ 1,908	$ -	$ -	$ 6,709	$ 8,617
Total	**$ 57,571**	**$ 49,996**	**$ 40,327**	**$ 67,355**	**$ 215,249**

Core Funds includes State General Funds, systemwide Tuition and Fees, Nonresident Supplemental Tuition, and other UC General Funds (e.g., a portion of federal contract and grant overhead). Other Unrestricted Funds includes other indirect cost recovery funds, local administrative fees or assessments used by some campuses to fund campus operations, patent royalty income, short-term investment returns, and other miscellaneous sources, depending on the campus.

The campus assessment was increased by about 4%, or $8.4 million, in 2022-23, when compared to 2021-22, for a total of $223.6 million.

STAFF COMMENT/POTENTIAL QUESTIONS

Staff notes that the 2017 audit has led to significant transparency improvements at UCOP. Routine reporting to the UC Board of Regents now includes more information on previous budgets and much better tracking of programs, allowing for a better understanding of trends in UCOP spending.

Similarly, the separate line item in the state budget allowed the Legislature significantly more understanding of how state dollars are used by UCOP. During the four years of the separate line item, the Legislature was able to divert some UCOP funding to support its top priority, enrollment growth, and ensure that state spending remained flat or was reduced, while increasing funding for campuses. It may be more difficult to monitor state funding levels for UCOP under the campus assessment model.

UC has argued the campus assessment model allows campuses to use a mixture of revenue sources – including General Fund, tuition, and other funding sources, such as medical center revenue – and will reduce state spending on UCOP. The Subcommittee could consider the following oversight questions:

- How does UC determine how much each campus is assessed?

- Is UCOP considering increasing the campus assessment in 2023-24?

- Is UCOP on track to spend what it estimated it would spend in 2022-23, or will there be unspent funds? How does UC use unspent UCOP funds?

- Has UC completed all of the State Auditor's recommendations?

- How is UC monitoring UCOP programs to ensure programs are fulfilling goals and should continue receiving funding?

6610 CALIFORNIA STATE UNIVERSITY

The Governor's Budget proposes about $12.3 billion in total funds for the California State University (CSU) in 2023-24, with about $5.3 billion from the state General Fund and about $3.1 billion in student tuition and fees. The chart below was compiled by the LAO and indicates 2023-24 funding based on the Governor's Budget.

California State University Funding by Source

(Dollars in Millions Except Funding Per Student)

	2021-22 Actual	2022-23 Revised	2023-24 Proposed	Change from 2022-23 Amount	Change from 2022-23 Percent
Ongoing Core Funds					
General Fund[a]	$4,606	$5,050	$5,344	$294	5.8%
Tuition and fees[b]	3,240	3,061	3,077[c]	16	0.5
Lottery	74	65	65	—[d]	-0.1
Subtotals	**($7,920)**	**($8,176)**	**($8,485)**	**($310)**	**(3.8%)**
Other Funds					
Federal funds	$1,576	$1,655	$1,655	—	—
Other CSU funds[e]	2,583	2,172	2,172	—[d]	0.4%
Other state funds[f]	2	2	3	$1	25.0%
Subtotals	**($4,160)**	**($3,829)**	**($3,830)**	**($1)**	**0.0%**
Totals	**$12,081**	**$12,005**	**$12,315**	**$310**	**2.6%**
FTE Students	394,930	377,757	381,191	3,434	0.9%
Ongoing Core Funding Per Student	$20,055	$21,643	$22,260	$618	2.9%

[a] Includes funding for pensions and retiree health benefits.

[b] Includes funds used for student financial aid.

[c] Reflects Governor's budget level adjusted to reflect CSU's estimate of additional revenue from proposed enrollment growth.

[d] Less than $500,000 or 0.5 percent.

[e] Includes housing fees, parking fees, extended education charges, and fees for other noncore programs.

[f] Consists of State Transportation Fund monies designated for transportation research and workforce development. The amount shown in 2023-24 includes $500,000 in reappropriations.

FTE = full-time equivalent.

ISSUE 6: ENROLLMENT

The Subcommittee will discuss CSU enrollment issues.

PANEL

- Jennifer Louie, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Nathan Evans, California State University
- Ryan Storm, California State University

BACKGROUND

After nearly a decade of steady growth, CSU reports reduced enrollment. After adding almost 50,000 students in the post-recession decade, CSU's California undergraduate enrollment has shrunk during the past few years. The LAO chart on the next page depicts full-time equivalent student (FTES) enrollment since 2011-12. CSU suggests multiple reasons for the recent decline:

- Reflecting a significant decline in community college enrollment, community college transfer enrollment at CSU has dropped by about 12,000 FTES in two years.

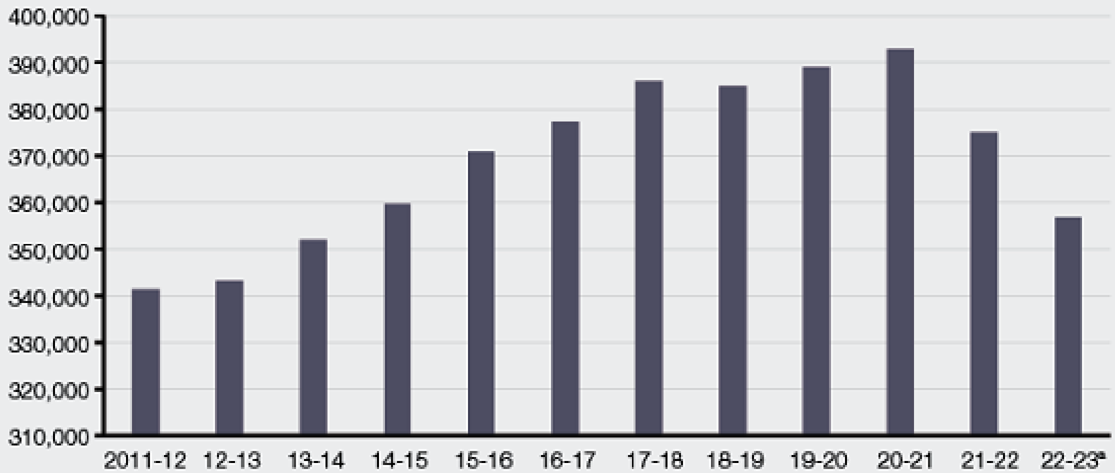
- CSU also has seen a significant number of continuing students, drop out of school. CSU enrolled 15,000 fewer continuing students between 2022 and 2021.

- CSU also reports that like UC, students have reduced the number of units they are taking per semester. Average unit loads fell from 13.3 units in Fall 2020 to 12.9 units in Fall 2022, according to the LAO.

Figure 8

After Many Years of Growth, CSU Enrollment Drops Notably

Resident Full-Time Equivalent Students



[a] Reflects estimated enrollment level as of Governor's budget.

LAO

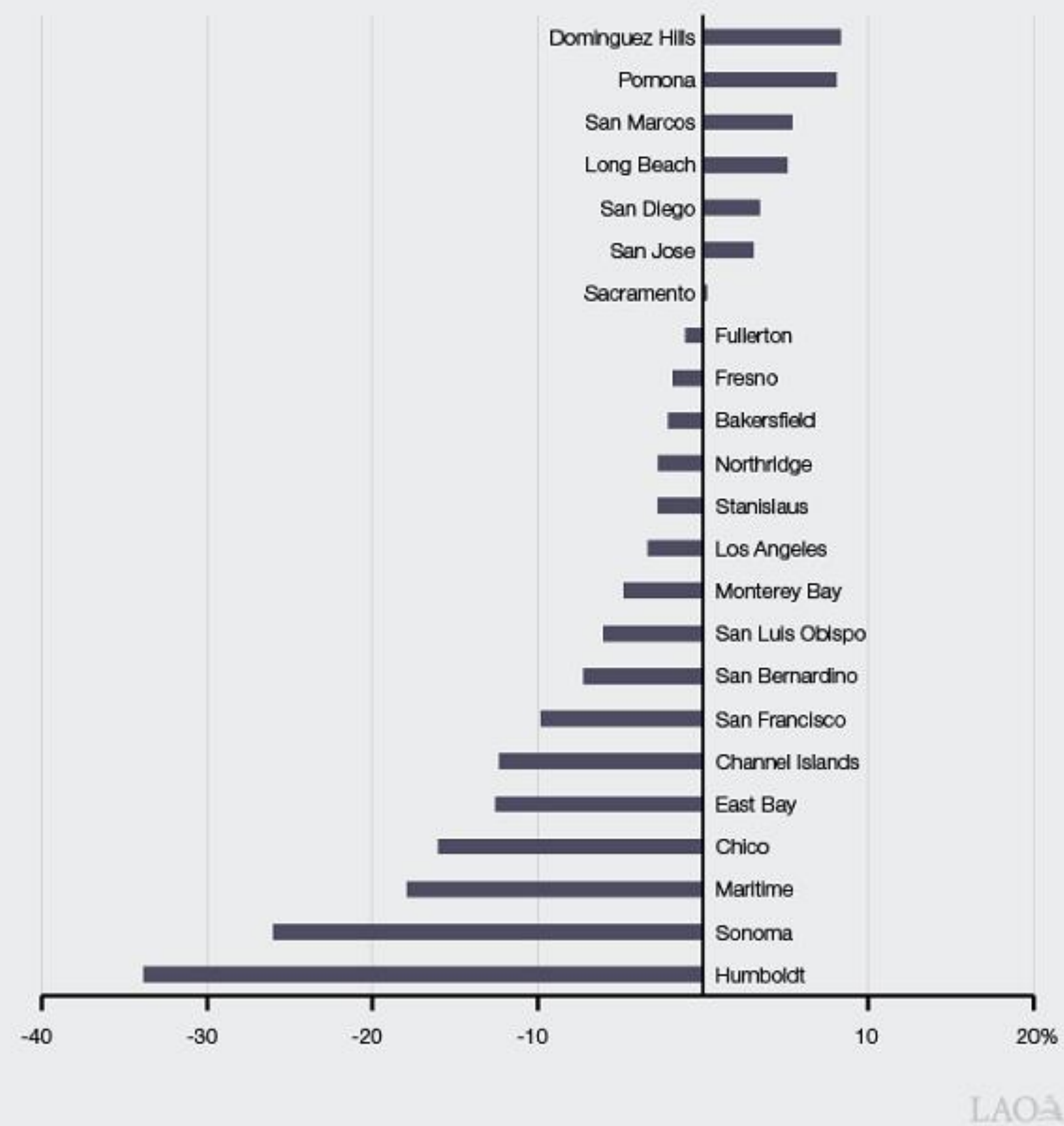
Campus-by-campus comparison shows significant differences across the system. Enrollment trends have varied widely by campus, with many Southern California campuses growing, and most Northern California campuses reporting decreased enrollment. The LAO notes that from 2017-18 through 2021-22, the cumulative change in resident undergraduate enrollment ranged from an 8.3 percent increase (at Dominguez Hills) to a 34 percent decrease (at Humboldt). A LAO chart on the next page indicates enrollment trends by campus. Seven campuses in particular — CSU Channel Islands, Chico State, Cal State East Bay, Cal Poly Humboldt, Cal Maritime, Sonoma State and San Francisco State — have seen significant declines.

CSU has adopted a new enrollment model that will move more funds toward some campuses, and away from others. CSU has responded to this imbalance in its system by adopting a budget reallocation plan. Beginning in 2024-25, some enrollment funding could be permanently reallocated from campuses with enrollment declines to campus who can grow and help achieve the CSU's systemwide resident student enrollment target. Rates of reallocation will increase in subsequent years to give all campuses time to adjust to these shifts.

Figure 10

Enrollment Trends Vary Among Campuses

Cumulative Percent Change in Resident Full-Time Equivalent Students, 2017-18 to 2021-22



State Typically Funds Enrollment Growth According to Per-Student Formula. Typically, the state supports enrollment growth at CSU by providing a General Fund augmentation based on the number of additional students CSU is to enroll. The per-student funding rate is derived using a "marginal cost" formula. This formula estimates the cost of the additional faculty, support services, and other resources required to serve each additional student. It then shares those costs between state General Fund and anticipated tuition revenue.

Last Year's Budget Provided Enrollment Growth Funding for 2022-23. The 2022-23 Budget Act provided $81 million ongoing General Fund for CSU to grow resident undergraduate enrollment by 9,434 FTE students. The funding level was calculated at the 2021-22 marginal cost per student of $13,087, with a state share of $8,586. (The state used the 2021-22 rate because it had originally signaled its enrollment growth expectation that year, providing CSU more time to plan for growth.) Should CSU not meet the enrollment target, provisional language in the 2022-23 Budget Act directed the administration to reduce the enrollment growth funding in proportion to the shortfall.

GOVERNOR'S 2023-24 BUDGET PROPOSAL

Despite the budget language allowing the administration to reduce CSU funding if they do not their enrollment target, the Governor's Budget does not propose a reduction in funding.

As part of the multiyear compact established between the Governor and CSU, the Governor expects CSU to increase resident undergraduate enrollment by 1 percent (3,434 FTE students) in 2023-24. The Governor also expects CSU to continue increasing resident undergraduate enrollment by 1 percent annually through 2026-27 (the last year of the compact). The compact does not specify the number of students CSU is to enroll each year, but it sets forth that CSU is to add approximately 14,000 FTE students in total over the next four years. Rather than provide designated funding for this enrollment growth, the Governor expects CSU to cover the associated cost from within its base increase each year.

LAO ANALYSIS AND RECOMMENDATION

Assessment

2022-23 Enrollment Growth Funds Are Not Serving Intended Purpose. The $81 million ongoing General Fund provided in 2022-23 was intended to support costs associated with adding students, such as hiring more faculty and staff. Based on fall term data, most CSU campuses are likely to experience enrollment declines in 2022-23, such that they are not expected to incur these additional costs. By allowing CSU to retain the enrollment growth funding, the Governor is effectively allowing it to use the funding for purposes other than the original intent.

Some Early Signs Suggest Enrollment Challenges Are Likely to Persist Into 2023-24. While the 2023-24 admissions cycle remains in its early stages, several early indicators suggest that growth could be challenging.

- High School Graduates. The number of high school graduates in California is projected to be roughly flat in 2022-23 compared to the previous year. As a result, we do not expect to see demographically driven growth in the incoming freshmen class for fall 2023.

- New Applicants. As of January 2023, CSU reports a modest (3.1 percent) increase in freshmen applicants for fall 2023 compared to the previous year. However, this is offset by a larger (11 percent) decrease in transfer applicants, reflecting the continued impact of community enrollment declines on CSU's transfer pipeline.

- Continuing Cohorts. In the past couple of years, CSU has enrolled smaller cohorts of new students. New resident student headcount decreased by 6.8 percent compared to the previous year in fall 2021, and then decreased an additional 1.6 percent in fall 2022. These smaller cohorts will remain at CSU in 2023-24, leading to smaller cohorts of continuing students.

Legislature Has More Time to Influence 2024-25 Enrollment. As CSU is already in the midst of making 2023-24 enrollment decisions, the Legislature has less ability to influence its enrollment level in the budget year. The Legislature could, however, send an early signal to campuses about its enrollment expectations for 2024-25. In setting an enrollment target for 2024-25, it would likely want to consider the trends described above. The number of high school graduates next year is projected to increase by 0.6 percent, allowing for some demographically driven growth among new students in 2024-25. However, the smaller incoming cohorts from the past couple of years will still be enrolled, potentially leading continuing student enrollment to remain low. At this time, other factors such as application volume, retention rates, and average unit load are uncertain for 2024-25.

CSU Is Taking Certain Actions to Increase Enrollment. While various factors are likely to create enrollment challenges in the coming years, CSU is also taking certain actions that could offset those effects. For example, if CSU continues to remove stricter admissions criteria from previously impacted campuses or programs, yield rates might increase as more students get into their campus of choice. In addition, given the incentives created under CSU's new enrollment reallocation plan, campuses might pursue additional recruitment and retention strategies. The potential reallocation of unused enrollment slots to higher-demand campuses might also expand the number of students served systemwide in the out-years.

Under CSU's Plan, Enrollment Would Remain Below Previously Funded Levels in 2023-24 and 2024-25. The rates of enrollment growth under CSU's plan (2 percent to 3 percent annually) are relatively high compared to historical averages. For comparison, CSU grew at an average annual rate of 1.6 percent during the decade of growth preceding the pandemic. Nonetheless, even if CSU were to achieve the planned growth, its enrollment level would remain below the previously funded level (that is, the 2022-23 enrollment target of 383,680 resident FTE students) in both 2023-24 and

2024-25. This suggests CSU could support its planned enrollment levels in these years within existing resources.

Under CSU's Plan, Enrollment Would Recover Over Multiyear Period

Resident Full-Time Equivalent Students

	2022-23	2023-24	2024-25	2025-26	2026-27
Enrollment target under compact	383,680	387,114	390,582	394,085	397,623
Annual percentage growth		1%	1%	1%	1%
CSU's planned enrollment level	356,848[a]	364,140	375,064	386,316	397,906
Annual percentage growth		2%	3%	3%	3%
CSU's planned enrollment relative to compact target	-7%	-6%	-4%	-2%	—[b]

[a]Reflects CSU's estimated enrollment level as of Governor's budget.

[b]In 2026-27, CSU plans to slightly exceed the enrollment target under the compact (0.1 percent higher).

Recommendations

Consider Reducing 2022-23 Enrollment Growth Funds as Budget Solution. As we discuss in The 2023-24 Budget: Overview of the Governor's Budget, we recommend the Legislature plan for the risk of a larger budget problem by developing a larger set of potential budget solutions than the Governor has proposed. Given the 2022-23 enrollment growth funds provided to CSU are not serving their intended purpose, the Legislature could consider adding these funds ($81 million) to the set of potential budget solutions. Removing these funds also would align with the provisional language enacted in the 2022-23 Budget Act.

Recommend Setting 2023-24 Enrollment Target in Budget Act. We recommend the Legislature specify the total number of students it expects CSU to enroll in 2023-24 in the 2023-24 Budget Act. This would enhance accountability by providing a clear goal against which CSU's actual enrollment level can be measured. In deciding upon a target, the Legislature could use CSU's planned enrollment level of 364,140 resident FTE students as a starting point. It could choose to increase or decrease this target based on the factors described above. As long as the target remains below the previously funded level (383,680 resident FTE students), we do not recommend providing any new enrollment growth funding.

Recommend Also Signaling Enrollment Growth Intentions for 2024-25. Given the timing of the admissions cycle, we recommend the Legislature also signal any intent for additional enrollment growth in 2024-25 in the 2023-24 Budget Act. As with the budget-year target, we recommend providing an augmentation for this enrollment growth only if the new target exceeds previously funded levels. The augmentation, if warranted, could be provided in the 2024-25 budget to align the timing of the funding with the arrival of the students.

STAFF COMMENT

CSU has indicated that a larger Spring 2023 transfer class and increased average unit loads by students in this academic year may lead to higher 2022-23 enrollment than is currently projected. CSU officials may be able to provide an update at this hearing.

Access is a top legislative priority for higher education, so it is troubling that CSU has not been able to increase enrollment recently, despite receiving significant state funding to do so. CSU campuses must adjust admissions practices, improve outreach and retention programs, and consider other strategies to increase enrollment. Staff notes that CSU is taking recent enrollment declines seriously, including adopting the new enrollment funding model that will penalize campuses with low enrollment.

The Subcommittee could consider the following questions:

- What is the most current information on CSU enrollment? What does CSU project to be final 2022-23 numbers? Will campuses be successful in adding enrollment this Spring?

- CSU proposes to grow by more than 10,000 FTES between the current year and 2023-24. Which campuses will grow the most? Is CSU confident it can meet this target?

- Why are some in-demand campuses, such as Cal Poly San Luis Obispo or Fullerton, showing reduced enrollment during the past few years? Are campuses adjusting their admissions policies to ensure they meet enrollment targets?

- What are the long-term trends for CSU enrollment? Which campuses are poised to increase enrollment in the next few years?

- What strategies are declining-enrollment campuses using to reverse recent trends?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 7: BASE OPERATIONS

The Subcommittee will discuss CSU operational issues and the Governor's Budget proposal to provide a 5% base increase ($227 million) for CSU for 2023-24.

PANEL

- Jennifer Louie, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Ryan Storm, California State University

BACKGROUND

CSU Has Several Core Operating Costs. Like most state agencies, CSU spends the majority of its ongoing core funds (about 70 percent in 2020-21) on employee compensation, including salaries, employee health benefits, and pensions. Beyond employee compensation, CSU spends its core funds on other annual costs, such as paying debt service on its systemwide bonds, supporting student financial aid programs, and covering other operating expenses and equipment (OE&E). Each year, campuses typically face pressure to increase employee salaries at least at the pace of inflation, with certain other operating costs (such as health care, pension, and utility costs) also tending to rise over time.

In recent years, the state has also provided ongoing support for programs like CSU's Graduation Initiative 2025 and student basic needs.

State General Fund and tuition are main sources of CSU revenue. Based on the Governor's Budget, CSU receives about 63% of its base budget support from the General Fund, and about 36% from student tuition. State General Fund support for CSU has risen each year during the past decade, except for 2020-21, when funding was cut but then restored a year later. CSU has increased tuition only once during the past decade. Currently, systemwide tuition is $5,742 (although about 60% of students receive financial aid awards to cover tuition.)\

Like many other universities, CSU maintains reserves. CSU commits part of its reserves for planned one-time activities, such as renovating a building or launching a new academic program. It also leaves some of its reserves purposefully uncommitted to prepare for economic uncertainties, including recessions. CSU's systemwide reserves policy sets a target to maintain uncommitted reserves worth between three and six months of expenditures. At the end of 2021-22 (the most recent data available), CSU had $2.5 billion in total core reserves, of which $714 million was uncommitted.

California State University Funding by Source

(Dollars in Millions Except Funding Per Student)

	2021-22 Actual	2022-23 Revised	2023-24 Proposed	Change from 2022-23 Amount	Change from 2022-23 Percent
Ongoing Core Funds					
General Fund[a]	$4,606	$5,050	$5,344	$294	5.8%
Tuition and fees[b]	3,240	3,061	3,077[c]	16	0.5
Lottery	74	65	65	—[d]	-0.1
Subtotals	**($7,920)**	**($8,176)**	**($8,485)**	**($310)**	**(3.8%)**
Other Funds					
Federal funds	$1,576	$1,655	$1,655	—	—
Other CSU funds[e]	2,583	2,172	2,172	—[d]	0.4%
Other state funds[f]	2	2	3	$1	25.0%
Subtotals	**($4,160)**	**($3,829)**	**($3,830)**	**($1)**	**0.0%**
Totals	**$12,081**	**$12,005**	**$12,315**	**$310**	**2.6%**
FTE Students	394,930	377,757	381,191	3,434	0.9%
Ongoing Core Funding Per Student	$20,055	$21,643	$22,260	$618	2.9%

[a] Includes funding for pensions and retiree health benefits.

[b] Includes funds used for student financial aid.

[c] Reflects Governor's budget level adjusted to reflect CSU's estimate of additional revenue from proposed enrollment growth.

[d] Less than $500,000 or 0.5 percent.

[e] Includes housing fees, parking fees, extended education charges, and fees for other noncore programs.

[f] Consists of State Transportation Fund monies designated for transportation research and workforce development. The amount shown in 2023-24 includes $500,000 in reappropriations.

FTE = full-time equivalent.

Most CSU bargaining units have salary questions for 2023-24. CSU's employees have received general salary increases in most of the past several years. However, no employee groups received general salary increases in 2020-21 when the state reduced General Fund support for CSU to address a projected shortfall in revenues due to the COVID-19 pandemic. Some groups also received no increases in 2021-22, followed by larger-than-average increases in 2022-23.

While most of CSU's represented employees have agreements in place for 2023-24, those agreements do not specify salary increases for that year, instead allowing the union to reopen salary negotiations after the Governor's May Revision is released. Two of CSU's smaller bargaining units have collective bargaining agreements that expire before or during 2023-24, meaning salary increases for these bargaining units also likely will be negotiated in the coming months. The LAO chart below shows recent salary increases for various employee groups.

CSU Employees Have Had Salary Increases in Most Years

General Salary Increases by Employee Group[a]

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
California Faculty Association	3.5%	3.5%	2.5%	—	4.0%	3.0%
California State University Employees Union	3.0	3.0	3.0	—	—	7.0
Other represented employees	2.0-3.1	3.0	3.0-3.8	—	0-4.0	0-7.0[b]
Nonrepresented employees[c]	2.5	3.0	3.0	—	—	7.0

[a]Unless otherwise noted, chart does not reflect other salary provisions, such as equity increases, service salary increases, and post-promotion increases.

[b]Employee groups received 3 percent to 7 percent general salary increases, with the exception of represented student employees. Represented student employees received 1.3 percent increases in salary range minimums and maximums, but no general salary increase.

[c]Chart reflects merit salary increases for executives, managers, and confidential employees. Chart does not include "excluded employees," who are primarily temporary staff (such as student assistants and consultants).

GOVERNOR'S 2023-24 BUDGET PROPOSAL

The Governor's Budget proposes a $227 million (5 percent) unrestricted General Fund increase for CSU in 2023-24. (As part of his multiyear compact, the Governor proposes to provide 5 percent base increases annually through 2026-27, with future increases linked with CSU meeting certain expectations.) In addition to the 5 percent base increase, the Governor's budget would provide a combined $39 million for CSU pension and retiree health cost increases.

The only specific requirement for the increase is that some funding should be used to support 1% enrollment growth.

LAO ANALYSIS AND RECOMMENDATION

Analysis

Unrestricted Base Increase Lacks Transparency and Accountability. The Governor's proposed unrestricted base increase for CSU lacks transparency, as the funds are not designated for particular purposes. CSU has added some transparency to the Governor's proposal by providing a spending plan, thereby allowing the Legislature to consider whether the funds would likely be used in ways that align with its priorities. Unlike with other types of augmentations, however, no statutory language requires CSU to spend the base increase consistent with its initial plan. As a result, the Legislature does not have assurance that the funds will be spent in ways that advance the outcomes it desires. While some amount of spending discretion can be appropriate when the state has put in place accountability systems with clear fiscal incentives for performance (such as the Student Centered Funding Formula for community colleges), the state has not put these conditions in place for CSU. Despite the performance expectations included in the Governor's compact, no clear mechanism exists to increase or decrease CSU's funding in response to its outcomes.

Amount of Governor's Proposed Base Increase Is Arbitrary. The amount of the proposed 2023-24 base increase was determined in an agreement made between the Governor and CSU, without being codified by the Legislature. At the time of the initial agreement, the Governor did not provide clear justification for the proposed amount based on CSU's identified operating costs. Moreover, since the initial agreement was made last year, new information has become available on CSU's cost increases as well as the state budget condition. We believe these factors warrant revisiting the amount of General Fund augmentation proposed for CSU in 2023-24.

Proposed General Fund Augmentation Does Not Fully Cover CSU's Projected Cost Increases. Under the Governor's proposed General Fund augmentation of $227 million, some of CSU's projected operating cost increases would not be covered in 2023-24. For example, CSU's associated spending plan for the proposed base increase does not include funding for projected cost increases due to inflation on OE&E. CSU's spending plan also does not provide any funding for projects to address the system's large and growing capital renewal needs. Under the multiyear compact, CSU would likely continue to have unaddressed costs in the out-years. As we discuss in The 2023-24 Budget: Higher Education Overview, we estimate that the Governor's proposed General Fund increases would fall short of covering CSU's projected operating cost increases every year through 2026-27.

CSU Is Likely to Face Heightened Salary Cost Pressures. Notably, CSU's spending plan for the proposed $227 million base increase in 2023-24 accommodates a less than 2 percent increase to its compensation pool. CSU, however, faces significant upward pressure on employee compensation. Over the past year, both inflation and wage growth (across the nation and in California) were at their highest levels in several decades. Furthermore, inflation and broad-based wage growth are expected to exceed 2 percent in 2023. Two employee compensation studies are also likely to contribute to salary cost pressures at CSU. The 2021-22 Budget Act provided funding for a staff salary structure study, which was submitted to the Legislature in spring 2022. The study found wage stagnation at CSU relative to other higher education and general industry employers, with CSU salaries falling 12 percent below the market median on average. (The study did not examine differences in employee benefits.) In addition to the staff salary study, CSU has initiated a study focused on faculty salaries. It expects the findings of the faculty salary study to be available in spring 2023, in time to inform the Legislature's final budget deliberations.

Recommendation

Build Base Increase Around Identified Operating Cost Increases. We recommend the Legislature decide the level of base increase to provide CSU by considering the operating cost increases it wants to support in 2022-23. This could include employee health benefits ($14 million), salary increases for employee groups with previously negotiated agreements ($86 million at the Governor's proposed base funding level), increases in the salary pool for other employee groups (around $23 million for each 1 percent increase), and various other operating costs identified by CSU ($40 million). For illustration, at the Governor's proposed augmentation level ($211 million), the Legislature could cover benefit cost increases, the previously negotiated salary increases, an approximately 3 percent increase in the salary pool for all other employee groups, and certain other operating costs identified by CSU.

STAFF COMMENT/POTENTIAL QUESTIONS

Staff concurs with the LAO's concern that base increases lack transparency and limit legislative oversight. However, base increases have been a regular part of recent budget acts, and act as a general cost-of-living adjustment for campuses. While annual compact reports may provide the Legislature with more specific information on how CSU spends state dollars, the Subcommittee could consider more specific reporting requirements.

CSU has developed two potential spending plans. The CSU Trustees' 2023-24 proposed budget includes two budgets: one with the Governor's Budget amount of state funding, and another that would require significantly more state funding. A chart on the following page indicates the two proposals. CSU is requesting an additional $286.5 million ongoing General Fund, above the Governor's proposed 5% increase.

CSU indicates that within the Governor's Budget framework, it could support some increases to Graduation Initiative 2025 activities, an average 1.7% compensation increase for employees, and support for other cost increases, such as health premiums, maintenance of new facilities, and the enrollment growth required by the compact. Under its full budget request CSU would increase funding for the Graduation Initiative, increase support for student basic needs, provide higher compensation increases for employees, and support for new academic facilities and infrastructure.

TABLE 3: SOURCES AND USES OF FUNDS

SOURCES OF FUNDS	WITHIN COMPACT	ABOVE COMPACT	BUDGET REQUEST
Incremental New Revenue			
State General Fund: Compact	$227,302,000		**$227,302,000**
Tuition from Strategic Resident Enrollment Growth	16,068,000		**16,068,000**
State General Fund: Above Compact		$286,478,000	**286,478,000**
TOTAL NEW SOURCES	**$243,370,000**	**$286,478,000**	**$529,848,000**

USES OF FUNDS	WITHIN COMPACT	ABOVE COMPACT	BUDGET REQUEST
Incremental New Expenditures			
Graduation Initiative 2025	$30,000,000	$25,000,000	**$55,000,000**
Student Basic Needs		$20,000,000	**$20,000,000**
Workforce Investments			
Faculty & Staff Compensation Pool	92,466,000	168,444,000	**260,910,000**
Health Premium Increases	50,524,000		**50,524,000**
Academic Facilities and Infrastructure		50,000,000	**50,000,000**
Strategic Resident Enrollment Growth	50,648,000		**50,648,000**
Required Operational Costs			
Maintenance of New Facilities	6,032,000		**6,032,000**
Liability and Property Insurance Premium Increases	13,700,000		**13,700,000**
Inflation on Non-Personnel Costs		23,034,000	**23,034,000**
TOTAL NEW USES	**$243,370,000**	**$286,478,000**	**$529,848,000**

Staff notes that the 5% ongoing fund increase proposed in the Governor's Budget makes CSU one of the clear winners in the state budget, as most agencies and programs are not receiving such an increase. While the Legislature has clearly supported issues like the Graduation Initiative and student basic needs in the past, it may be difficult to grant CSU's wish for more ongoing funding given the state's current budget condition.

Staff also notes that CSU employee compensation has been an ongoing discussion issue in both legislative budget and policy committees during the past few years. The 2021 Budget Act provided the CSU with funding to conduct a study of non-faculty staff salaries. The ensuring study, released in Spring 2022, found that the average non-faculty staff member at CSU makes 12% below market rate. Some jobs, such as those in hospitality and guest services, are as much as 20% below comparable positions elsewhere. Ongoing funding to support non-faculty staff salaries was discussed during the budget cycle last year, but was ultimately not included in the 2022 Budget Act. Subsequent legislation (SB 410, Leyva) to require CSU to implement a step salary structure for non-faculty staff was approved by the Legislature but vetoed by the Governor.

The Subcommittee could consider the following questions for the Department of Finance and CSU:

- Can CSU support all operational cost increases with the Governor's Budget level of funding?
- Can CSU provide an update on collective bargaining with employees planned for this year?
- What would increased support for the Graduation Initiative and/or student basic needs allow? What types of activities would be funded?
- Why is CSU seeing such an increase in liability and property insurance premiums?
- Does CSU believe it has adequate reserves? Under what circumstances would CSU use reserves to support some cost increases?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 8: CAPITAL OUTLAY FUNDING SHIFT

The Subcommittee will discuss the Governor's Budget proposal to shift six capital outlay projects supported with state General Fund in the 2022 Budget Act to CSU debt financing.

PANEL

- Jennifer Louie, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Elvyra San Juan, California State University
- Ryan Storm, California State University

BACKGROUND

State Funds Academic Facilities and Infrastructure at CSU. Traditionally, the state has funded CSU's academic facilities, including classrooms, laboratories, and faculty offices. It has also funded certain campus infrastructure, such as central plants, utility distribution systems, and pedestrian pathways. In addition to these state-supported assets, CSU has self-supporting facilities, including student housing, parking structures, certain athletic facilities, and student unions. These types of facilities typically generate their own fee revenue, which covers associated capital and operating costs.

CSU Has Identified Many Capital Outlay Priorities. Under state law, CSU is to submit a capital outlay plan to the Legislature annually by November 30, identifying the projects proposed for each campus over the next five years. CSU's most recent five-year plan identifies $29.6 billion in projects proposed for 2023-24 through 2027-28, subject to available funding. The total amount consists of $22.7 billion in academic facilities and infrastructure projects as well as $6.9 billion in self-supporting projects. Of the total amount, more than 70 percent is for improvements to existing facilities. This includes projects to address fire and life safety concerns, seismic risks, capital renewal (including the deferred maintenance backlog), and other programmatic issues. Less than 30 percent is for projects to add new space to support campus growth.

Two Main Ways to Fund CSU Capital Projects Are Cash and Debt Financing. One way the state may fund capital projects is by providing one-time General Fund to CSU to pay for the project upfront in cash. The state commonly uses this approach to fund deferred maintenance projects, for example. A second way is by supporting the debt financing of capital projects. Under this approach, CSU borrows money for the projects by issuing university bonds, then repays the associated debt using its core funds. (State law authorizes CSU to use its main General Fund appropriation for this purpose.) CSU commonly uses this approach for larger projects, such as projects to renovate, replace, or construct an entire facility. Debt financing decreases the up-front cost of these projects by spreading the cost out over many years. However, it increases the total project cost because CSU must pay interest on the borrowed amount.

In 2022-23, State Funded Many CSU Capital Projects in Cash. At the 2022-23 Budget Act, the state had a significant General Fund surplus. In addition, the state appropriations limit (SAL) constrained how the state could use revenues above a certain limit. One way the state addressed its SAL requirements was by spending on purposes excluded from the limit, including capital outlay. The 2022-23 Budget Act provided over $400 million in one-time General Fund to CSU for specific capital projects, in addition to $125 million for deferred maintenance, seismic mitigation, and energy efficiency projects across the system.

GOVERNOR'S 2023-24 BUDGET PROPOSAL

The Governor's Budget proposes to rescind $405 million one-time General Fund provided for six CSU capital projects in 2022-23 and instead provide $27 million ongoing General Fund beginning in 2023-24 to debt finance these projects using university bonds. The LAO chart below lists the six projects, along with the associated one-time funds that would be rescinded and the associated debt service augmentation that would be provided under the Governor's proposal.

Governor Proposes Changing How Six CSU Capital Projects Are Funded

(In Millions)

Campus	Project	2022-23 One-Time Funding Rescinded	New Estimated Annual Debt Service
Bakersfield	New Energy Innovation Center	$83.0	$5.5
San Diego (Brawley center)	New STEM building	80.0	5.3
San Bernardino (Palm Desert center)	New student services building	79.0	5.3
Chico, Fresno, Pomona, San Luis Obispo	University farms facilities and equipment	75.0	5.0
Fullerton	New Engineering and Computer Science Innovation Hub	67.5	4.5
San Luis Obispo	Swanton Pacific Ranch rebuilding	20.3	1.4
Totals		**$404.8**	**$27.0**

STEM = science, technology, engineering, and math.

LAO ASSESSMENT AND RECOMMENDATION

Assessment

Shifting Projects to Debt Financing Can Be a Reasonable Budget Solution. Changes in the state's budget condition have made it more difficult to pay for large capital projects up front in cash. Given that facilities are typically used over many years, debt financing can be a reasonable alternative that spreads a facility's costs across its useful life. In converting projects from cash to debt financing, the state can achieve near-term savings. The state also maintains the flexibility to accelerate debt payments in the future, if it has a large surplus in any given year.

Debt Financing Would Increase Overall Project Costs. Although the Governor proposes to use a reasonable alternative financing option for these six CSU capital projects, his proposal also contributes to the state's out-year operating deficits. Moreover, it results in higher total project costs due to the associated interest payments. Under the Governor's proposal, we estimate the state would spend roughly $810 million on the six projects—twice as much as originally budgeted—assuming the debt is repaid over 30 years at the proposed funding level of $27 million annually. (Depending on interest rates, actual debt service might be higher or lower than the proposed level.) Given the significantly higher cost, we think it would be reasonable to hold these projects to a more stringent standard before approving them for debt financing.

Projects Likely Do Not Address Highest Capital Outlay Priorities at CSU. Some of the capital projects identified in CSU's five-year plan are critical and urgent. Those projects often address deficiencies with existing facilities and infrastructure that could otherwise present life safety concerns or disrupt campus operations. In contrast, most of the projects that would be debt financed under the Governor's proposal do not address these types of deficiencies with existing space. Moreover, four of the six projects primarily would add new space. Adding new space increases ongoing operations and maintenance costs, and it creates future capital renewal costs as building components eventually age.

Projects Affected by Proposal Are in Early Stages. Based on information provided by CSU, the six projects to be converted to debt financing are in planning and design stages. One project at the San Bernardino campus began preliminary plans in July 2022 and has spent $3.3 million to date. The remaining five projects are scheduled to begin preliminary plans in the coming months, with small amounts (less than $36,000 total) spent on these projects to date. To minimize project delays and the associated construction cost escalation, CSU is exploring options for these projects to move forward as budget deliberations over their funding continue. For example, campuses might use reserves to fund these projects over the next few months, or CSU might issue short-term debt if authorized by the Board of Trustees. (Under the latter approach, CSU would be responsible for the debt service if the state were to withdraw its support for the projects.)

Recommendation

Revisit Whether to Move Forward With Each Project. Given that the Governor's proposal to debt finance the six projects significantly increases their total costs, we recommend the Legislature revisit whether each project is justified under the new circumstances. In making this determination, it could consider the following criteria:

- Whether the project is among the most pressing of CSU's capital needs, including projects that address critical life safety issues and minimize the risk of disruptions to existing campus operations.

- Whether justification for any new facilities has been provided based on factors such as unmet enrollment demand and overutilization of existing facilities.

- Whether the campuses constructing new facilities have a plan for covering any associated operating cost increases, as well as a plan to keep the facility in good condition across its life.

If the Legislature finds that a given project meets these criteria, it could approve the Governor's proposal to debt finance that project. On the other hand, if the Legislature finds that a given project does not meet these criteria, it could consider withdrawing state support for that project at this time. CSU could consider including any affected projects in one of its future five-year capital plans, with the Legislature reconsidering funding those projects at that time.

STAFF COMMENT/POTENTIAL QUESTIONS

Staff notes that CSU has not objected to this proposal. CSU reports it has about $8.5 billion in borrowing currently on its books, and could absorb this $400 million without threatening its credit rating, and that the proposed $27 million in ongoing General Fund would support financing costs.

As the LAO notes, however, borrowing to support these projects will essentially double their cost, which could warrant further review of each project to ensure it is a top priority.

The Subcommittee could consider the following questions:

- Will borrowing for these projects limit other, future CSU projects? How would this proposal impact CSU's capital outlay plans in the next few years?

- Which of these projects will help campuses accommodate more students?

- How much of the 2022-23 funds has CSU spent so far, or will spend by the end of the current fiscal year?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 9: CAL POLY HUMBOLDT UPDATE

The Subcommittee will discuss the transition of the Humboldt campus to Cal Poly Humboldt. This is an oversight item.

PANEL

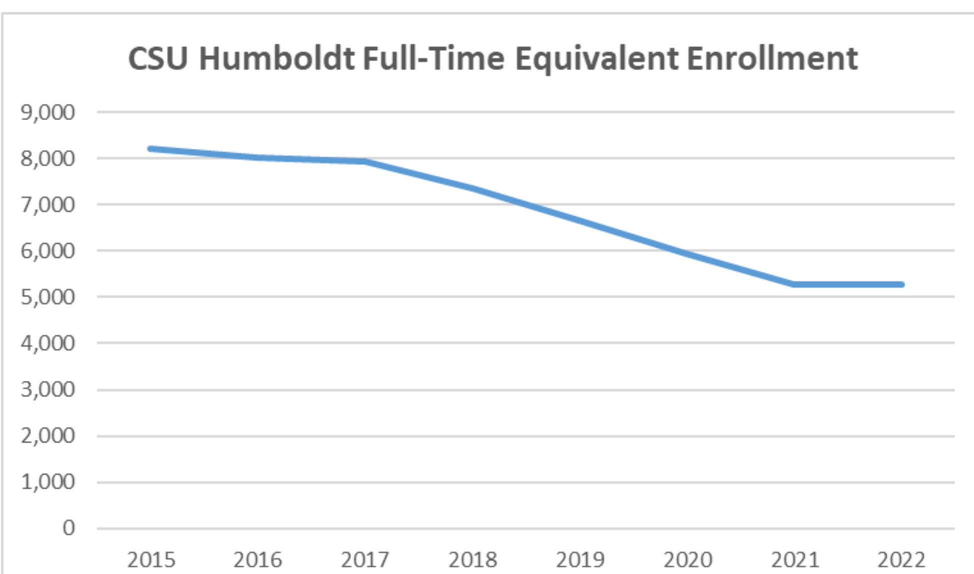
- Jenn Capps, Provost and Vice President for Academic Affairs, Cal Poly Humboldt
- Sherie Cornish Gordon, Vice President for Administration and Finance, Cal Poly Humboldt
- Michael Fisher, Associate Vice President for Facilities Management, Cal Poly Humboldt

BACKGROUND

The 2021 Budget Act provided the CSU Humboldt campus with $433 million one-time General Fund and $25 million ongoing General Fund to support the campus' transition to a polytechnic university. According to CSU, a polytechnic university emphasizes experiential learning. Polytechnic institutions specialize in STEM courses, providing students with hands-on learning and educational experiences in addition to a strong liberal arts foundation. Cal Poly Humboldt is now the third polytechnic university in the CSU system, alongside the San Luis Obispo and Pomona campuses.

In addition to this funding, the campus also received a student housing grant for $27.1 million in the 2022 Budget Act.

State funding and the campus' effort to change its programming came on the heels of a significant enrollment decline, which saw a 36% decrease in full-time equivalent students between 2015 and 2022.



Cal Poly Humboldt officials have been asked to provide an update of their activities and spending at this hearing. The campus provided a preview of their testimony in a February memo to the Subcommittee. Updates include:

- The campus received a major increase in applications for Fall 2023. As of January 30, Fall 2023 applications total 18,832, an increase of 89% from the prior year. First time undergraduate applications increased by 103%. This should lead to a significant enrollment increase.

- The campus has added 13 new programs, as the chart below indicates.

New Polytechnic Academic Programs	Type of Degree	Launch Year	Number of Applicants
Applied Fire Science and Management	BS	2023	241
Cannabis Studies	BA	2023	108
Cybersecurity	Certificate	2023	TBD
Data Science	BS	2023	172
Engineering and Community Practice	MA	2023	TBD
Energy Systems Engineering	BS	2023	136
Geospatial Science and Technology	BS	2023	25
Gerontology	Certificate	2023	TBD
Information Technology	Certificate	2023	TBD
Marine Biology	BS	2023	581
Mechanical Engineering	BS	2023	1082
Software Engineering	BS	2023	219
Sustainability	Certificate	2023	TBD

- The campus has hired 14 new faculty and 13 more recruitments are underway.

- The campus has broken ground on a new student housing project and is planning multiple other construction projects, land acquisition and other campus improvements.

STAFF COMMENT/POTENTIAL QUESTIONS

Staff notes that Humboldt's significantly declining enrollment during the past several years warranted a major change, and the campus benefitted from an unusually healthy state budget in 2021. Had the campus come forward with this plan this year, it is very unlikely hundreds of millions in new funding would have been available.

Staff also notes that information provided by the campus in February indicated that of the $433 million in one-time state funding provided in the 2021 Budget Act, the campus had spent about $8.5 million and encumbered another $3 million.

Finally, staff notes that some recent media reports indicate the campus may be struggling to accommodate an influx of new students before it can expend the state funds to expand programs and services. For example, a report in the *San Francisco Chronicle* in February indicated the campus was considering housing some students on a floating barge anchored in the city of Eureka, which is about 8 miles from campus.

The Subcommittee may wish to ask the following questions:

- Can the campus accommodate significant enrollment growth in Fall 2023? What are the challenges associated with adding hundreds or thousands of students to campus in one year?

- What strategies has the campus used to boost applications and enrollment?

- How is the campus using the ongoing funding provided by the state? Given that this is the only CSU campus with a significant set-aside of ongoing state funding, what can the state expect in terms of outcomes from this extra support?

- What would be the impact on the campus if the state rescinded or otherwise delayed some of the funding provided in 2021?

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