

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

WEDNESDAY, APRIL 22, 2015

4 PM - STATE CAPITOL ROOM 126

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ISSUES TO BE HEARD

6610 CALIFORNIA STATE UNIVERSITY

ISSUE 1: TRANSFER OF LANTERMAN DEVELOPMENTAL PROPERTY

The Subcommittee will review the Governor's proposal to transfer the Lanterman Developmental Center property to California State Polytechnic University, Pomona. This is not a budget proposal and is therefore an informational item.

PANELISTS

- Christian Osmena, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Ryan Storm, California State University

BACKGROUND

In April 2010, the Department of Developmental Services (DDS) submitted a plan to the Legislature for closure of the Lanterman Developmental Center. AB 89 (Chapter 25, Statutes of 2013) required the department to complete closure of the facility by December 31, 2014. This deadline has been met and currently only certain maintenance operations are being implemented until DDS is no longer responsible for the 287-acre property.

Existing law authorizes the Department of General Services (DGS) to transfer jurisdiction of state property from one state agency to another upon terms and conditions deemed in the best interests of the state. State policy requires DGS to obtain approval from the Department of Finance before such a transfer is made. DGS issued a letter to state agencies on July 22, 2013, requesting that agencies notify them of their interest in the Lanterman property.

CSU Pomona responded to this letter on August 9, 2013 and requested transfer of jurisdiction of the entire property. CSU has expressed interest in relocating certain operations from its existing property as well as developing additional housing for graduate students and faculty. The campus has experience with property development financed in part through private funds and could use similar mechanisms to support the costs of developing this new property. For example, the campus's existing Innovation Village, a mixed-use building project, houses both university departments and private tenants.

The California Highway Patrol, the Air Resources Board, DDS, and the California Conservation Corps also expressed interest in portions of the property.

The Governor's 2015-16 Budget

While there is no specific language in the budget, Department of Finance proposes transfer of the property to the CSU, contingent on the CSU acknowledging that additional state funds

will not be appropriated for the operation, maintenance, or development of this property. Finance is working on a memorandum of understanding with the CSU regarding the transfer of the property to the CSU effective July 1, 2015.

STAFF COMMENTS/QUESTIONS

CSU Pomona states that it would likely use part of the land to relocate some agricultural programs currently on its main campus, which would free up space for engineering and architecture programs. Both of these academic programs are impacted, meaning the campus is receiving more applications for these programs than it can currently accommodate. Staff notes that the Legislature has a pressing concern that CSU increase enrollment and allow more Californians access to higher education. Increasing capacity at any CSU – through essentially free land – could benefit the state's higher education needs.

However, staff notes that there has been much discussion in the Pomona area about potential uses for the Lanterman site. The Subcommittee received letters from the Mayor of Pomona, the city of Diamond Bar, and Congresswoman Norma Torres, who represents the area, all expressing concern that local input about economic development possibilities for the land have not been contemplated by the Administration.

Congresswoman Torres states: "The state's Lanterman property is a potential economic development opportunity with significant potential to help the city of Pomona. Covering almost 300 acres, the property is adjacent to several freeways, houses its own independent generator, and has infrastructure in place. I believe this space could be used to draw research and technology firms to the Inland Empire; industries that would bring high-paying jobs and talent to Pomona."

The city of Pomona requests that consideration be given to allow it to develop 80 acres of the property as a recreational area, including a new regional soccer complex. The city of Diamond Bar expresses concern that new land uses for the property could impact Diamond Bar residents living adjacent to the site, including animal noise and waste, dust, increased traffic. Diamond Bar also is interested in using some part of the land as a public recreational area.

Since this proposal was announced in January, a meeting was held on the property in March involving various interested parties, and there have been ongoing conversations about both the process for transfer and potential uses for the site. Additionally, much work remains to be done to study the site, including whether there are historical preservation issues on the property. Thus it is unclear when a final MOU could be issued.

The Subcommittee may wish to have staff work with the LAO on language that would require CSU to continue discussions with local officials as plans for the property are finalized.

Staff Recommendation: Informational Item

ISSUE 2: CSU BUDGET PROPOSAL

The Subcommittee will review the Governor's proposal to provide an increase of \$119.5 million General Fund to CSU's main appropriation and \$25 million one-time General Fund for deferred maintenance.

PANELISTS

- Christian Osmena, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Ryan Storm, California State University

BACKGROUND

California State University (CSU) provides undergraduate and graduate instruction through the master's degree in the liberal arts and sciences and professional education including teacher education. The system is also authorized to offer selected doctoral programs jointly with UC and private institutions and support research. According to Master Plan goals, the top 33.3 percent of graduating public high school students are eligible for admission to CSU.

CSU is enrolling 447,669 students this year, according data in the Governor's Budget, which includes about 385,000 undergraduate students.

After state budget cuts during the recession, General Fund support for CSU has increased during the past two years, and General Fund support for Cal Grant students at CSU has risen dramatically. The chart below shows CSU's funding sources. Unlike the University of California, which has many sources of revenue, CSU relies almost exclusively on state support and tuition.

California State University (in millions)

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

Despite recent increases, state support for CSU has not kept pace with inflation or student population growth over time. This has led to a significant change in who pays for college. In

short, students are now paying a much higher share of higher education costs. This is a major shift from a long-standing California priority. In 1998-99, state General Fund support provided between 75% and 80% of core funds for CSU, with tuition covering only about 19%, according to data released by the California Budget Project. In 2014-15, direct state support to CSU's main appropriation had dropped to 54% of CSU's core funds. Tuition now accounts for about 45% of CSU core funds.

Ongoing issues for CSU include:

- **Thousands of eligible students are being turned away.** CSU is not meeting demand. More than 760,000 students applied for admission in Fall 2014, a record high. CSU states that funding restrictions do not allow it to accept all eligible applicants. The table below illustrates the number of students admitted and denied who CSU believes qualify to attend CSU under Master Plan guidelines.

Year	Admitted	Denied
Fall 2009	193,928	10,435
Fall 2010	173,562	28,803
Fall 2011	178,615	21,697
Fall 2012	194,564	22,123
Fall 2013	212,152	26,430
Fall 2014	214,939	30,209

The LAO notes that CSU admission data shows that it admitted about 30% of all public high school graduates for Fall 2014, which is short of its Master Plan goals of admitting the top 33% of high school students. However, the LAO notes that without an eligibility study, it is difficult to determine if CSU is meeting its Master Plan goals.

- **Student outcomes must be improved.** Only about 18% of students who entered CSU in Fall 2006 graduated within 4 years. The graduation rate for this cohort rose to 55% in 6 years. CSU has multiple initiatives underway to improve performance, including a Graduation Initiative, which has set improved graduation targets for each campus, and the CSU Enrollment Bottleneck Solutions Initiative, which is designed to improve time to degree.
- **Major Deferred maintenance backlog.** CSU reports about \$1.8 billion in facility maintenance and infrastructure needs, including outdated utilities and technology networks, and health and safety issues, such as structural problems, roofing issues and declining HVAC systems.

The Governor's 2015-16 Budget

As he has done the previous two years, the Governor proposes a slight increase of CSU's with little direction for how to use the funding, including no enrollment target. CSU would receive \$2.9 billion General Fund under this proposal. In the Budget Summary, the Governor states that the funding increase "should obviate the need for CSU to increase student tuition and fees and can be used by the University to meet its most pressing needs."

The budget also provides CSU with \$25 million one-time General Fund to address deferred maintenance issues on campuses. The funding will be allocated after CSU provides a list of deferred maintenance projects it intends to address to the Department of Finance. The department will review the list and allow for a 30-day legislative review process before the money is distributed.

LAO Recommendation

The LAO recommends rejecting unallocated increases for CSU (and UC), and instead providing funding to meet enrollment needs and other costs. For example, the LAO notes that based on the state and local government price index, it might be appropriate to provide a cost-of-living adjustment of 2.2% for CSU. The LAO also recommends setting an enrollment target at current-year enrollment levels, and requiring CSU to provide information on transfer students to better allow the state to determine if it is appropriately serving transfer students at their local campuses.

STAFF COMMENTS/QUESTIONS

Unlike the UC Board of Regents, the CSU Board of Trustees is not proposing a tuition increase for Fall 2015. Instead, the board is seeking more state funding than the Governor is proposing. The Board's budget, approved in the Fall, includes \$269 million in increased expenditures over the current year, which would allow for 3% enrollment growth. The Board's proposed expenditure increases are summarized below. This budget proposal would require \$97 million in additional General Fund support beyond the Governor's proposed \$119.5 million.

Item	Expenditure
Mandatory Costs (employee benefits, news space maintenance, etc)	\$32.1 Million
2% Compensation Increase Pool	\$65.5 Million
3% Enrollment Growth	\$103.2 Million
Student Success and Completion Initiatives	\$38 Million
Information Technology Renewal	\$14 Million
Academic Facilities and Infrastructure	\$25 Million
Center for California Studies	\$204,000
Total	\$269 Million

Staff notes that the CSU Board's plan is a reasonable attempt to address CSU needs and state priorities.

Allowing for 3% enrollment growth would add about 10,000 full-time equivalent students to CSU campuses. Because many students admitted to CSU do not actually enroll, staff believes 3% enrollment growth would likely accommodate all eligible students who do wish to attend CSU.

The CSU budget also would support evidence-based student success initiatives that will help CSU meet its Graduation Initiative 2025 goals. The system-wide goals are shown below. While these 2025 goals appear very modest to staff, CSU should be applauded for attempting to address its completion problems.

Metric	Baseline	2025 Target
Six-year Graduation Rate	51%	60%
Four-year Graduation Rate	16%	24%
Achievement Gap by Ethnicity	14 Points	7 Points
Achievement Gap by Pell Grant Eligibility	11 Points	5 Points
Transfer Four-Year Completion Rate	70%	76%
Transfer Two-Year Completion Rate	27%	35%

Regarding deferred maintenance, CSU has already provided a draft list of projects that it would fund with the \$25 million, and another list of \$25 million in other projects it could fund if funding amounts were increased. CSU's plan would distribute funding to each of its 23 campuses, with most campuses receiving between \$1 and \$2 million to address its most pressing needs. Staff notes that the Assembly twice last year attempted to provide deferred maintenance funding to CSU and UC, but both attempts were rejected by the Governor. The Administration finally appears to be interested in addressing this critical issue.

CSU notes that with the funding levels proposed by the Governor, it would fund only 1% enrollment growth (about 3,500 full-time equivalent students) and would be able to provide little funding for student success initiatives.

Suggested Questions:

- In light of CSU turning away thousands of qualified students, would the Administration support a specified enrollment target at CSU? If not, how does the Administration believe the state should address this access crisis?
- What types of student success initiatives would CSU enact if funding was available?
- How were the Graduation Initiative targets set? Couldn't they be more aggressive?

The Subcommittee may wish to hold this open item until after the May Revise, when it will have more information about General Fund conditions.

Staff Recommendation: Hold Open

ISSUE 3: CENTER FOR CALIFORNIA STUDIES

The Subcommittee will review the Governor's proposal to shift budget information regarding the Center for California Studies from a separate item in the budget bill into the main General Fund appropriation for California State University.

PANELISTS

- Christian Osmena, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Ryan Storm, California State University

BACKGROUND

The Center for California Studies is a public education, public service, and applied research unit of California State University Sacramento. Founded in 1982 and located on the capital campus of the California State University (CSU), the center administers the Capital Fellows Program; LegiSchool Project, a civic education collaboration between Sac State and the Legislature; the Sacramento Semester program, which allows college students the opportunity to intern with the Legislature, executive branch or political associations for a semester; and conducts various policy research projects.

Past budgeting practices displayed the center with a line item and specific amounts for eight programs the center oversees, including legislative, executive and judicial fellowship programs.

The Governor's 2015-16 Budget

The Governor's proposal folds the Center's appropriation into CSU's main appropriation, and instead includes provisional language noting that \$3.5 million of CSU's \$2.9 billion appropriation should be directed toward the Center. Specific schedules for the Fellows programs and LegiSchool Project are eliminated. The Administration notes that Center employees are CSU employees, and it has proven difficult to provide increases to the Center when salary or other changes to costs occur.

LAO Recommendation

The LAO recommends rejecting this proposal. The LAO notes that the Center is a unique program housed at CSU. Most of the center's activities - which primarily consist of its fellows and research programs - directly serve state government, including the Legislature. Keeping the Center's budget item separate correctly recognizes the center as distinct from the rest of CSU's activities. The LAO also notes that the current approach to budgeting provides the Legislature with significant control over funding for the center. Specifically, the current budget item for the Center lists the total appropriation as well as eight schedules that restrict funding for specific purposes. Without these schedules, the Legislature would have less control over funding for the fellows programs as opposed to other Center programs. The Legislature and

the general public also would have less knowledge over how funds for the Center are appropriated.

STAFF COMMENTS/QUESTIONS

Staff concurs with the LAO. This proposal does save the state money or improve governmental efficiency; it only serves to make the CSU and Center budgets less transparent. It does not seem too difficult for the Administration and Legislature to track Center costs related to employee costs and make changes when necessary.

The Center director, however, notes that the budget schedules for the Fellows and other programs as displayed in previous budgets have not always been accurate. The Subcommittee may wish to direct staff to work with the LAO and Center to develop potential budget schedules that accurately reflect program budgets.

Staff Recommendation: Hold Open

ISSUE 4: CSU INVESTMENT POLICIES

The Subcommittee will review current limitations on CSU's investment authority. This is not a Governor's Budget proposal and is therefore an informational item.

PANELISTS

- Christian Osmena, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Ryan Storm, California State University

BACKGROUND

The 2014 Budget Act shifted debt management of State General Obligation and State Public Works Board bonds issued on behalf of the CSU from the state to the CSU. Although the state increased the CSU's support budget to address this shift, this support budget augmentation is not sufficient to support new capital funding to address the CSU's deferred maintenance and critical infrastructure backlog. In order to appropriately address this backlog, CSU believes it must find new revenues to support new capital funding.

One such opportunity is increasing investment earnings on CSU funds. Currently, CSU's authority to invest funds under its control is governed by Education Code Sections 89724(a) and 89725. Most of the CSU funds are invested pursuant to language in EC 89724(a) that reads, in part, that funds received by the CSU "...may be invested, upon approval of the trustees, by the Treasurer or by the chief fiscal officer of a campus of the California State University, in those eligible securities listed in Section 16430 of the Government Code..."

GC 16430 is a list of high quality, low risk fixed income securities that have historically generated lower returns compared to the returns of other potential investment opportunities over the long run. The CSU's existing investment pool, System-wide Investment Fund Trust, or SWIFT, only invests in securities governed by GC 16430. As of June 30 2014, the SWIFT portfolio had investment assets totaling approximately \$2.8 billion with returns of 0.87%, 0.64%, and 1.47% for the trailing 12 months, 5 years, and 7 years (since the inception of the SWIFT portfolio), respectively.

STAFF COMMENTS/QUESTIONS

Based on these very low returns, the Assembly asked CSU for options on how it could improve returns on investment and thus generate increased revenue.

CSU has responded by noting that the Government Code limiting their investment options does not provide them with opportunities to maximize returns.

CSU states: "In addition to the lower return potential inherent in a portfolio composed exclusively of fixed income securities, such a portfolio does not benefit from the advantages

conferred by diversifying investment risk over a broader array of investment asset types. As such, the CSU's SWIFT portfolio does not reflect prudent management of investment risk as established by modern portfolio theory.

Additionally, because it is restricted by GC 16430, the CSU's SWIFT portfolio does not have the flexibility to take advantage of market cycles and capture potential returns that may be available by changing the portfolio's asset mix. For example, in more recent years, returns for fixed income securities have been very low due to ongoing effects of Federal Reserve policy, slow global economic growth, and low inflation."

CSU notes that the University of California has had much greater investment flexibility, and has enjoyed much higher returns over the past few years. The University of California's Total Return Investment Portfolio, or TRIP, includes equities, fixed income, and alternatives. At June 30 2014, it was \$7.5 billion with trailing returns of 14.63% for 12 months and 10.94% for 5 years.

Assuming just 30% of the CSU's SWIFT portfolio, or \$840 million, had been structured similarly to the University of California's TRIP, the excess amounts that the CSU could have earned on its investments for the trailing 12 months and 5 years ended June 30, 2014 would have been roughly \$115.6 million $((14.63\% - 0.87\%) \times \$840 \text{ million})$ and \$86.5 million $((10.94\% - 0.64\%) \times \$840 \text{ million})$, respectively.

Thus, the CSU is proposing that the Government Code restricting its investment authority be amended. CSU states, "CSU proposes to amend EC 89724(a) and EC 89725 by eliminating the restriction that limits the investment of CSU funds to those securities listed in GC 16430 and providing the CSU with broad authority to invest funds in a manner that allows the CSU to meet its educational, operational, and capital needs. This broad authority is consistent with the goal of giving the CSU greater autonomy and responsibility in making decisions on how best to utilize its limited resources and manage risks in meeting its educational mission. By enhancing the potential for higher investment returns on the same amount of investable assets, the CSU would have the ability to generate additional revenues to meet its needs, especially capital needs, and reduce the amount that may be sought from the state or students."

Suggested Questions

- The current restrictions on CSU's investment authority are clearly designed to limit risk. How much risk would be added should the limits be lifted?
- How would CSU investment programs change should these restrictions be changed?
- What would the impact be on the state and CSU should it make bad investments that lose money?

The Subcommittee may wish to continue discussion regarding this topic with CSU, the LAO and the Department of Finance.

Staff Recommendation: Informational Item

6120 CALIFORNIA STATE LIBRARY**ISSUE 5: BUDGET CHANGE PROPOSAL AND APRIL FINANCE LETTER**

The Subcommittee will consider the Governor's Budget proposal to add 2.5 positions to the State Library using redirected funds and an April Finance Letter requesting a \$321,000 General Fund increase to cover increased rent and technology costs.

PANELISTS

- Matthew Saha, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Greg Lucas, California State Librarian

BACKGROUND

The State Library has previously contracted with the Department of General Services (DGS) to perform most of the library's accounting and some budget functions. The library paid DGS \$242,000 in 2013-14 for these services, including contracts, payments, payroll, accounting, and reports.

Additionally, the library pays rent to DGS for the Library and Courts Building and Library Annex. The rent is used by DGS to pay debt service on lease revenue bonds that were used to renovate the building. The Governor's Budget proposed \$2.5 million in payments for 2015-16.

The library also pays the California Department of Technology for services related to information technology. The Governor's Budget proposed \$482,000 in payments for 2015-16.

The Governor's 2015-16 Budget and April Finance Letter

The Governor's proposed budget redirects \$242,000 that had been used to pay DGS for accounting and budget services to the libraries, which would hire 2.5 positions to take over these functions. A Budget Change Proposal notes that the implementation of the Financial Information System for California (FISCAL) necessitates that the library assume accounting and budget services to fully realize the potential efficiencies of the new system. The library proposes ending its contract with DGS on June 30, 2015 and redirecting the funding that had gone to DGS to hire 2.5 permanent accounting positions to take over the duties and help implement FISCAL, which will go live for the library on July 1, 2015.

An April Finance Letter notes that the library has been notified by DGS and the Department of Technology that costs are higher than budgeted for rent and technology services. The letter proposes an additional \$278,000 General Fund in rental costs, and \$43,000 General Fund in technology costs.

STAFF COMMENTS/QUESTIONS

The BCP appears in line with rollout of FISCAL, and the April Finance Letter proposes minor and routine cost adjustments. Staff has no concerns with these proposals.

Staff Recommendation: Approve Budget Change Proposal and April Finance Letter

ISSUE 6: HIGH SPEED INTERNET UPDATE

The Subcommittee will review progress made toward improving Internet speeds at local libraries.

PANELISTS

- Matthew Saha, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Greg Lucas, California State Librarian
- Susan Hildreth, Executive Director, Califa Group

BACKGROUND

The 2014 Budget Act included \$3.3 million General Fund for the State Library to create a new program to increase Internet speeds at local libraries. Of this amount, \$1 million was provided on a one-time basis for grants to local libraries to purchase networking equipment (such as routers). The remainder is provided on an ongoing basis to cover a portion of the annual contract costs associated with local libraries accessing a statewide, high-speed Internet network.

As planned, the State Library, through the Califa Library Group, a nonprofit entity acting as the state's fiscal and administrative agent, has contracted with the Corporation for Education Network Initiatives in California (CENIC), a nonprofit organization that provides Internet-related services to the four segments of California's public education system as well as to several private and out-of-state education and research entities. The annual cost of the CENIC contract is expected to be \$4.5 million (double the statewide appropriation). The remainder of funding needed to cover CENIC's annual contract costs is expected to come from the California Teleconnect Fund (CTF). This state special fund, operated by the California Public Utilities Commission, provides certain organizations, including libraries, with a 50 percent discount on telecommunication and Internet services.

As part of the Budget Act, the State Library was required to provide a progress report to the Legislature this month. The report was delivered on April 2. The report includes the following activities in 2014-15, in addition to joining CENIC:

- 54 library jurisdictions, with 389 individual libraries, have signed up to join the CENIC network, which will begin providing Internet service to libraries on July 1, 2015.
- 65 libraries were awarded grants for technology upgrades. The grants ranged from \$20,000 to \$30,000. (The library used the \$1 million in the budget for this purpose and additional funding from the State Library Act funding to support these grants.)
- The creation of a consortium through CENIC that will allow participating libraries to apply for the federal telecommunication discount program called E-Rate.

The Governor's 2015-16 Budget

The Governor's proposed budget provides \$2.3 million General Fund to allow the state Library to continue contracting with CENIC. The \$1 million provided last year for local library technology upgrades is not provided, however.

STAFF COMMENTS/QUESTIONS

Local libraries have become a key source of Internet access for many communities. Despite this, a 2014 report by the State Library found that two-thirds of libraries reported "slow" or "very slow" Internet speeds. Thus, the CENIC project is clearly addressing a significant statewide need.

Participating libraries appear to be poised to dramatically improve Internet speeds at reduced costs. The recent report notes the following improvements as examples:

- Yolo County's eight libraries will pay a total of \$448.50 each month for 10 gigabits per second. Previously, the county's libraries were at 1 gigabit and paid \$2,250 a month.
- Corona Public Library will pay \$290 a month for 1 gigabit compared to the \$1,250 it currently pays for 10 megabits per second.
- Richmond's three branches jump from 100 megabits per second to 1 gigabit at a new monthly cost of \$145 versus the previous \$400.
- National City will move from 60 megabits to 1 gigabit, falling from \$150 to \$145 a month.
- San Benito County goes from 1.5 megabits to 1 gigabit for \$145 a month instead of the current \$150.
- Long Beach's 11 branches, which now pay \$250 monthly for 50 megabits, will get 1 gigabit at \$145 per month. That's 200 times the bandwidth for 40 percent of the price they currently pay.

The report notes that many more libraries will likely join CENIC in the next few years. Many libraries' Internet services are linked to city and county services, and leaving existing contracts is not possible. In addition, many libraries report local technology deficiencies that will require additional funding before being able to accommodate more sophisticated Internet technology.

Library officials believe local technology needs could be at least \$13 million.

The Subcommittee received letters from the State Library Association, the Napa County Board of Supervisors and Burbank Mayor David Gordon in support of continuing funding for technology grants. The State Library Association suggests \$5 million in grants for this issue, while the State Library report notes that \$1.5 million in ongoing funding for the next several years could provide significant help for this need. The State Library report also notes that \$225,000 in funding is needed to support administrative costs for the Califa Library Group.

Suggested Questions

- Would the administration support increased funding for local technology grants?
- How many libraries will join CENIC in the next few years? Will most libraries eventually join?
- What other barriers exist to ensuring that all libraries can join CENIC?

The Subcommittee may wish to hold this item open until the May Revise to determine whether funding is available for local library technology upgrade grants.

Staff Recommendation: Hold Open

ISSUE 7: LOCAL LIBRARY INVESTMENTS

The Subcommittee will review increased funding provided in the 2014 Budget Act for local libraries.

PANELISTS

- Matthew Saha, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Greg Lucas, California State Librarian

BACKGROUND

The 2014 Budget Act provided a one-time increase of \$3 million General Fund to support adult literacy programs run by libraries (\$1 million) and to support activities associated with the California Library Services Act, which create library networks that act together on lending policies, bulk purchases and joint training programs (\$2 million).

Library literacy programs rely on trained volunteers to work with adult learners, who typically have a very low reading level. Funding supports administration of the program and materials. Past funding levels reached \$4.6 million, allowing 800 libraries to participate. Funding was cut during the recession, and there are currently 4,000 adult learners on waiting lists throughout California. Total funding for library literacy programs was \$3.8 million General Fund, including the \$1 million addition in one-time funding agreed to by the Governor and Legislature. The State Library reports that literacy funds are distributed to participating libraries based on a minimal baseline amount, per capita amounts based on past participation rates, and a match on local funds. The additional funding was distributed in a similar manner, but because it was one-time funding, libraries used the additional money for one-time purchases, such as books, computers, software and other materials to support the literacy programs.

State Library Services Act funding reached a high of \$24 million, but has been dramatically reduced since the recession. The addition of \$2 million in last year's budget brought funding to \$3.8 million. The State Library reports that about \$870,000 of this additional funding was used to supplement technology grants as described in the previous item. Remaining funds were distributed to the library networks to support one-time training and communications needs. Many systems used the funding to purchase E-books and other materials.

The Governor's 2015-16 Budget

The Governor's proposed budget removes the one-time additional funding, providing \$2.8 million General Fund for literacy programs and \$1.8 million General Fund for the Library Services Act.

STAFF COMMENTS/QUESTIONS

Library literacy programs primarily serve 20- to 49-year-olds seeking to keep or find employment. Small amounts of state funding support about 10,000 volunteer tutors who teach adult learners to read and write. About 18,000 adult learners are currently in the program. The State Library reports that 12 library jurisdictions are seeking to add programs but currently cannot due to lack of state funding.

Additionally, the Library Services Act allows local libraries to work together to allow patrons to check out books from various libraries in an area, and also allows libraries to combine resources.

Both of these programs have a long history in California, and both were significantly cut during the recession and have not been restored to pre-recession levels. The Subcommittee received letters urging the state to reinvest in these programs from the State Library Association, Contra Costa County Board of Supervisors, Napa County Board of Supervisors and Burbank Mayor David Gordon.

The Subcommittee may wish to hold this item open until the May Revise to determine whether funding is available to increase local library investments.

Staff Recommendation: Hold Open

6910 AWARDS FOR INNOVATION IN HIGHER EDUCATION**ISSUE 8 : REVIEW OF 2014-15 AWARDS AND 2015-16 PROPOSAL**

The Subcommittee will review the 2014-15 Awards for Innovation in Higher Education program and discuss the Governor's proposal for a 2015-16 program.

PANELISTS

- Mollie Quasebarth, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Ryan Storm, California State University

BACKGROUND

The 2014 Budget Act provided \$50 million in one-time funding to promote innovative models of higher education at UC, CSU, and community colleges campuses. Campuses with initiatives to increase the number of bachelor's degrees awarded, improve four-year completion rates, or ease transfer across segments could apply for awards. Campuses could apply on their own or in collaboration with other campuses.

Award applications were due January 9, 2015. A committee of seven members - five Governor's appointees, as well as two legislative appointees selected by the Speaker of the Assembly and the Senate Rules Committee - made award decisions. The committee was staffed by the Department of Finance, which reports receiving 58 applications. Applications were submitted by 8 UC campuses, 21 CSU campuses, and 29 community college campuses. These were the lead institutions on the application, but it should be noted that 39 of the applications involved more than one campus.

The Committee met on March 20 and announced 14 winners. Seven CSU campuses, 6 community college campuses, and 1 UC campus won the award. Based on criteria and a scoring rubric developed by the Department of Finance, the top 5 scorers will receive \$5 million each, the next 5 will receive \$3 million each, and the final 4 will receive \$2.5 million each. Award winners will have discretion in how they use award funds, including whether to share these funds with partner institutions. The committee will meet again on April 27 to review the award-winners' proposals for how they will use the money.

Below is a list of the lead institutions that won the award and a brief description of the program. Many of the award-winners involved both 4-year institutions and community colleges, as well as K-12 school districts.

- **CSU Monterey Bay.** In partnership with Hartnell College, CSU Monterey Bay developed and implemented an innovative cohort-based, three-year Bachelor of

Science degree program in Computer Science and Information Technology (CSIT) called CSIT-In-3.

- **CSU San Bernardino.** CSU San Bernardino and the University of California, Riverside formed a bi-county K-20 collaborative with the specific programmatic, policy, and institutional goals of systematically addressing college readiness and ultimately increasing baccalaureate degree attainment in the region, particularly among underrepresented groups.
- **Long Beach City College.** The Long Beach College Promise partners the Long Beach Unified School District, Long Beach City College, California State University, Long Beach, and the City of Long Beach to create seamless, supportive student pathways to timely college completion.
- **Santa Ana College.** The Santa Ana Partnership includes the college, the Santa Ana Unified School District and nearby four-year institutions to work on college-going rates of underrepresented students.
- **Shasta College.** By combining fee waivers, enrollment policy changes, on campus programs, concurrent enrollment and, most dramatically, dual enrollment, the college supports interested high school students in earning transferrable units toward degrees at minimal or no cost to students and often without having to leave a high school classroom.
- **CSU Dominguez Hills.** CSU Dominguez Hills is seeking to improve student retention and graduation rates, especially for underrepresented, first-generation and low-income students, freshmen and transfers alike through evidence-based, high impact practices known to increase student learning, persistence and overall success while decreasing time to degree.
- **CSU Monterey Bay.** The math department at CSU Monterey Bay developed an innovative and effective program designed to increase the success of students who are required to take and complete developmental math in their first year of college.
- **City College of San Francisco.** The Bridge To Success program joins the City and County of San Francisco (the City), City College of San Francisco (City College), San Francisco Unified School District, and several community organizations to promote timely postsecondary success, particularly among African American and Latino students.
- **CSU Humboldt.** The Humboldt Post-Secondary Success Collaborative includes K-12, College of the Redwoods, Humboldt State University, and business to initiate, support, and measure strategies county-wide aimed to increase the number of North Coast students pursuing and completing post-secondary education.
- **CSU San Francisco.** Metro College Success Program works to boost timely graduation and transfer for disadvantaged students through a comprehensive re-design of the first two years, the time of heaviest attrition for disadvantaged students.

Each academy creates a personalized educational home for up to 140 students, via three components: (1) a guided pathway of general education courses required for all 289 majors in the CSU, with students taking two linked classes together each semester over four semesters, cohort-style; (2) student services anchored in those courses; and (3) a 45- hour Metro faculty development process.

- **Butte College.** Butte College has increased the number of degrees its awards and the number of students it transfers to University of California and California State University campuses by over 30% over the last five years by working collaboratively with the K-12 school districts, high schools, county offices of education, California State University, Chico and community partners; improving and accelerating its developmental programs, developing transfer degrees that streamline articulation to the university, and focusing the entire institution using widely understood, collaborative and integrated processes on student access, equity, success and completion.
- **CSU San Marcos.** California State University, San Marcos (CSUSM) launched an initiative to increase the number of degrees awarded; increase the 4- and 6-year graduation rates; close the 6-year achievement gap between at-risk and non-at-risk students; and maintain our impressive retention rates.
- **UCLA.** UCLA is working to create a series of teaching schools centered on best practices shaped by scientific research and ongoing evaluation. These teaching schools are being designed to create, evaluate, and demonstrate innovative instructional strategies; to help shape stronger teacher education programs; to serve as sites for training future and current educational professionals; to increase the rate at which California's high school students graduate college-ready; to reduce the need for remedial coursework in college; and to inform educational policy.
- **West Hills College.** West Hills College Registration 365 (REG365) was a consequential redesign of enrollment methods by allowing students to schedule a full year's worth of courses at one time. This change emphasized to students the importance of completion-oriented educational planning, rather than a term-to-term view of class registration and enrollment.

The Governor's 2015-16 Budget

The Governor's budget proposes \$25 million in one-time awards to CSU campuses that are implementing initiatives to improve four-year graduation rates. This proposal is much narrower than the 2014-15 award program - focusing only on CSU and only on one of the three goals of the 2014-15 program. Awards, however, would be competitive and award decisions would be made using the same committee structure as used for the first-year awards. CSU campuses who apply could partner with other CSU campuses, community colleges or UC campuses.

The budget proposal also includes trailer bill language that would establish this program in statute.

LAO Recommendation

The LAO recommends rejecting this proposal. The LAO notes that CSU currently is investigating the underlying causes of poor performance, including: lack of preparation among entering freshmen, low retention rates from freshmen to sophomore year, poor fee and financial aid incentives, weak incentives to take 15 units per term, students working excessive hours, lack of access to required courses, or other problems.

The Governor's approach to innovation awards appears to tackle a single symptom—that is, low graduation rates - without more comprehensively and systematically addressing underlying issues. Secondly, the LAO questions whether small amounts of one-time funding will provide sufficient incentive for CSU campuses to refocus efforts on improving graduation. The proposal targets campuses that have already implemented efforts to improve graduation rates. It is likely that campuses will submit proposals of initiatives that they would have implemented with or without the opportunity to earn additional funding.

The LAO notes the Legislature could use the \$25 million one-time funding in the higher education budget for other, more specific state priorities.

STAFF COMMENTS/QUESTIONS

In its March report to the Legislature, CSU indicated a four-year graduation rate of 18%, and a six-year graduation rate of 55%. While these rates are improving, there is widespread agreement that CSU can and should make improvements.

Thus, the goal of the Governor's proposal for 2015-16 is admirable. The question is whether providing small, one-time prizes to various campuses who apply for the award is the best use of funding to achieve the goal. Staff concurs with LAO that there may be better ways to improve CSU graduation rates.

CSU has launched "Graduation Initiative 2025," which will be discussed further in the CSU budget agenda item. As part of this initiative, CSU is setting graduation improvement goals for each campus and is seeking state funding for various evidence-based practices that improve student success. It is perhaps a better use of money to simply earmark funding for CSU to improve graduation rates, and allow the system to work together on specific improvement strategies.

Staff also notes that the Subcommittee does not yet have information on how the 2014-15 award winners will use their funding. Understanding that issue may help determine this award program is worthwhile.

Suggested Questions

- Can the Department of Finance provide information about how the 2014-15 award winners will use their funding?
- How does the Department of Finance envision that this award will lead to systemic improvements in higher education?

- For 2015-16, shouldn't the Legislature provide CSU with the \$25 million to support its Graduation Initiative, which is a system-wide effort to achieve the same goal as the award proposal?

The Subcommittee may wish to hold this issue open until May to determine legislative priorities for General Fund spending on higher education.

Staff Recommendation: Hold Open
