

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE****Assembly Member Kevin McCarty, Chair****WEDNESDAY, APRIL 26, 2017
4 PM, STATE CAPITOL ROOM 126**

CALIFORNIA STATE UNIVERSITY

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6610 CALIFORNIA STATE UNIVERSITY

The Governor's Budget proposes \$3.7 billion in General Fund support for California State University (CSU) budget in 2017-18, a 4% increase from the current year. The chart below also reflects a 5% tuition increase for the 2017-18 academic year approved by the CSU Board of Trustees at its March meeting. The increase, which will raise tuition by about \$270 per student, generates \$119 million in new tuition revenue, although \$39.5 million of this increase is used for financial aid. This chart also reflects no enrollment growth.

Overall, the CSU budget would grow to \$10.1 billion under the Governor's Budget and the tuition increase.

Fund Source	2015-16 Actual	2016-17 Estimate	2017-18 Proposed	Amount Change, 2016-17 to 2017-18	% Change, 2016- 17 to 2017-18
General Fund - ongoing	\$3,271	\$3,479	\$3,714	\$235	7%
General Fund - one time	\$5	\$110	\$1	(\$109)	-99%
General Fund Subtotal	\$3,276	\$3,589	\$3,715	\$126	4%
Lottery	\$58	\$55	\$55	\$0	0%
Tuition/Fees	\$3,022	\$2,963	\$3,082	\$119	4%
Core Funds Subtotal	\$6,356	\$6,607	\$6,852	\$245	4%
Federal Funds	\$1,256	\$1,385	\$1,385	\$0	0%
Other CSU Funds	\$2,104	\$1,844	\$1,899	\$55	3%
Total	\$9,716	\$9,836	\$10,136	\$300	3%

Notes: Amounts in millions. General Fund revenue includes debt service payments, and support for pension and retiree health benefits. Tuition amount includes funds that CSU uses for financial aid. About \$700 million in 2017-18 of tuition revenue would be used for aid. "Other CSU Funds" includes housing fees, parking fees, and extended education charges.

ITEMS TO BE HEARD

ISSUE 1: GOVERNOR'S BUDGET PROPOSAL AND CSU FUNDING REQUEST

The Subcommittee will discuss the Governor's proposal to increase General Fund support for CSU by \$157 million General Fund, and CSU's request for an additional \$167.7 million General Fund above the Governor's proposed amount.

PANEL

- Yong Salas, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Ryan Storm, Assistant Vice Chancellor for Budget, California State University Chancellor's Office

BACKGROUND

The 2016 Budget Act provided CSU with \$3.6 billion General Fund. Budget language set an enrollment target to increase undergraduate enrollment by 5,194 full-time equivalent students. Included in this amount was \$35 million one-time General Fund, which was provided to CSU after it completed a plan to increase graduation rates.

Governor's 2017-18 Budget Proposal

The Governor's Budget provides an increase in General Fund support of \$131 million associated with the Governor's multi-year funding plan for CSU. This is the same amount proposed for UC. The Governor's Budget also provides an additional \$26 million General Fund due to savings from the Middle Class Scholarship program; this funding is part of an agreement from the 2015 Budget Act. Together, this provides CSU with an unallocated ongoing increase of \$157 million General Fund.

The budget also provides CSU with an additional \$5 million related to lease revenue bond debt service payments and \$83 million to cover increased pension and retiree health costs.

The *Governor's Budget Summary* highlights the administration's focus on improving graduation rates at CSU, including improving processes related to placing students in remedial education, which hinders timely progress toward a bachelor's degree. However, the Governor does not include any budget language providing direction to CSU on how it should use increased funding to achieve better graduation rates or any other goal.

CSU Funding Request

The CSU Board of Trustees approved a 2017-18 budget at its November 2016 hearing. CSU assumes \$343.7 million in new costs for 2017-18, when compared to 2016-17. These costs are described in the following chart.

Increased Costs	Amount Proposed
Compensation Increases (already Bargained)	\$139.1 million
Graduation Initiative	\$75 million
Compensation Increases (in bargaining or proposed for exempt employees)	\$55.1 million
1% Enrollment Growth (3,616 FTEs)	\$38.5 million
Mandatory Costs	\$26 million
Deferred Maintenance	\$10 million
Total Increase over 2016-17	\$343.7 million

Based on this budget, CSU is requesting an additional \$167.7 million General Fund beyond the Governor's proposed funding level. CSU states that under the Governor's proposed level, it would support compensation increases and mandatory costs but would not increase enrollment or address deferred maintenance.

The Board of Trustees voted in March to use the funds raised from the tuition increase to support the Graduation Initiative. CSU estimates the tuition increase will generate \$79.5 million net revenue (after financial aid is subtracted out), which matches the approximate amount of revenue needed to fund Graduation Initiative activities. The Trustees voted to rescind the tuition increase if the state provides its full funding request.

LAO Recommendation

The LAO notes that the Legislature can consider which CSU activities to fund, and at what level. The LAO states that CSU faces several cost pressures, including compensation increases negotiated last year (such as one with the California Faculty Association). It also faces pressure to cover basic cost increases (for example, health care and pension cost increases). Given that CSU continues to report denying admission to eligible transfer students, another notable cost pressure is funding enrollment growth for transfer students. Given recent compensation increases for faculty, pressure also exists to provide some compensation increases for other employee groups with open contracts in 2017-18.

The LAO states that the Legislature could consider an appropriate level of General Fund support in conjunction with revenue generated by a tuition increase to support its priorities, such as enrollment growth.

STAFF COMMENT/QUESTIONS

The Governor's Budget Summary notes that since the passage of Proposition 30 in 2012 and assuming the Governor's proposed funding level for 2017-18, General Fund support for CSU has increased by \$1.1 billion.

Regarding CSU, the Subcommittee and the Assembly have been focused largely on enrollment and improving graduation rates. A deeper discussion of the Graduation Initiative and enrollment trends at CSU will occur later in this hearing, and can inform a final CSU budget package once the Legislature has a better sense of General Fund revenues after the May Revise.

Potential Questions

- How many bargaining units are in bargaining for 2017-18? What is the state of these negotiations?
- What types of mandatory costs does CSU contemplate for 2017-18?
- What types of deferred maintenance projects does CSU wish to support? Would funding be distributed to campuses evenly or based on specific projects?

ISSUE 2: GRADUATION INITIATIVE UPDATE

The Subcommittee will discuss the CSU Graduation Initiative 2025, which seeks to increase graduation rates and eliminate achievement gaps systemwide and at each CSU campus by 2025.

PANEL

- Nathan Evans, Chief of Staff and Senior Advisor, Academic and Student Affairs, California State University Chancellor's Office
- Robert S. Nelsen, President, California State University, Sacramento
- Anil K. Puri, Interim Provost and Vice President of Academic Affairs, California State University, Fullerton
- Paul Steenhausen, Legislative Analyst's Office

BACKGROUND

The 2016 Budget Act provided CSU with \$35 million one-time General Fund to develop a plan to improve four-year and two-year graduation rates for freshman and transfer students, respectively, and close gaps in graduation rates for three groups of students: those who are (1) low income, (2) underrepresented minorities, and (3) first-generation college-goers. Trailer bill language stated the Department of Finance would not release the funding unless CSU submitted the required plan by September 30, 2016. The Graduation Initiative 2025 plan was completed on time and the funding was released to CSU.

The table below indicates current graduation rates and systemwide improvement goals to be achieved by 2025. As part of the plan, each campus prepared a report listing specific campus improvement goals and activities it would undertake to achieve its goals.

Completion Metric	Current Rates	Revised 2025 Target
First-Time Freshmen Four-Year Graduation Rate	19%	40%
First-Time Freshmen: Six-Year Graduation Rate	57%	70%
Transfer Students: Two-Year Graduation Rate	31%	45%
Transfer Students: Four-Year Graduation Rate	73%	85%
Achievement Gap by Ethnicity	11 points	0 points
Achievement Gap by Pell Eligibility	8 points	0 points
Achievement Gap by First Generation Status	13 points	0 points

CSU reports that it distributed the \$35 million in state funding to the campuses in the following method:

- \$12 million was proportionally allocated to campuses based on historic numbers of freshmen who graduated in 4.5 years and transfers who graduated in 2.5 years, with a goal of accelerating those seniors currently on 4.5 and 2.5 tracks;
- \$20.5M was proportionally allocated to campuses based upon the number of students receiving Pell awards or enrolled in developmental education (remediation);
- \$2.5M was distributed to small campuses (less than 11,000 FTES).

The Chancellor's Office states that campuses are spending most of this one-time funding on the following activities:

- Increasing course offerings in spring 2017 based on high-demand courses needed by students near graduation;
- Increasing enrollment in summer 2017;
- One-time technology purchases for eAdvising;
- Implementing faculty buy-outs for expanded advising and intervention with students;
- Analyzing course demand and course scheduling models;
- Increasing campus capacity for data analytics;
- Focusing additional campus advising efforts on students who are on the cusp of graduating in two years or four years.

Governor's 2017-18 Budget Proposal

The Governor's Budget provides no new specific funding for this initiative, but the *Governor's Budget Summary* indicates the Administration expects CSU to continue working toward its goals. The *Budget Summary* notes that about 40% of incoming CSU students are placed in remediation, and that evidence from California community colleges and other higher education contexts may suggest methods to reduce the number of students placed into remediation, which clearly prolongs a student's time to degree.

CSU Proposal

The CSU Trustees propose spending \$75 million ongoing for Graduation Initiative activities. As noted earlier, the Trustees approved a tuition increase to provide the revenue needed to support these activities. While each campus has a specific plan, the Chancellor's Office expects the funding to support the following systemwide:

- 3,000 new courses
- 400 new faculty
- 200 new academic advisors
- Improved technology systems that will help advisors and students stay on track to graduate in a shorter time period.

The Chancellor's Office anticipates distributing funding through a funding formula similar to the formula used to distribute the current-year funding.

LAO Recommendation

The LAO recommends that CSU consider addressing changes to remedial education and excessive unit-taking before spending significantly more money on the Graduation Initiative.

Specifically, the LAO believes that CSU could improve its assessment and placement policies to potentially reduce the number of students placed in remedial education. This issue was also highlighted by the Administration in the *Governor's Budget Summary*. Currently, CSU primarily uses placement tests to assess college readiness. Based on these test results, CSU deems more than 40% of its admitted freshmen as unprepared for college-level math, English, or both. Students who do not demonstrate college-level skills are required to enroll in remedial coursework. National research has shown that relying solely on placement tests routinely results in college-ready students being misplaced into remedial courses, which, in turn, increases education costs for them and the state while also reducing their chances of graduating on time. The LAO notes that a growing amount of research is finding that a better way to assess college readiness is to use multiple measures (including data from students' high school records) to place students.

Additionally, a number of CSU campuses currently have policies requiring even students who are deemed college ready in math to take a second diagnostic (department) test in order to enroll in many lower-division math courses (such as calculus and college-level algebra). Students who fail to obtain a specified cut score on these department exams may be required to enroll in precollegiate-level courses (such as intermediate algebra), thereby delaying their progress toward a degree. These secondary diagnostic tests also are at odds with national research on effective ways to identify students who are capable of success in college-level coursework.

The LAO also reports that CSU continues to have a problem with excess unit-taking by both freshman entrants and transfer students. Students who accrue more units than their degree requires generally take longer to graduate, generate higher costs for the state and themselves, and crowd out other students. Based on the experience of other institutions, a number of causes may be contributing to CSU's high rate of excess units, including unclear degree pathways for students and uneven articulation of lower-division transfer courses between community colleges and CSU. Were CSU to reduce excess course-taking, it could increase the availability of required courses within existing resources.

The LAO recommends that the Legislature direct CSU to study these issues in more depth and, based on its findings, implement new policies using existing Graduation Initiative monies and other system resources. The LAO recommends that the Legislature require the segment to report by January 1, 2018 on (1) its plans to put in place research-based methods for assessment and placement, as well as (2) opportunities for campuses to make available more course slots by reducing the number of excess units that students earn.

STAFF COMMENT/QUESTIONS

Improving graduation rates at CSU is a shared goal of the CSU, Administration and the Legislature. CSU should be commended for setting ambitious targets and focusing specifically on eliminating achievement gaps. The Subcommittee can consider the following issues as it determines an appropriate level of funding and policy direction regarding the Graduation Initiative:

Remedial issues must be addressed. Staff notes that CSU appears to be starting to address the remedial education issues outlined by the LAO and the Administration. At the March CSU Board of Trustees meeting, CSU administrators discussed four ways in which the system was looking at this issue to improve student outcomes and time-to-degree:

- Promoting the completion of four years – instead of three – of mathematics and quantitative reasoning during high school, which will better prepare Californians to begin CSU at college-level math courses;
- Shift to a heavier reliance on high school grades to place students as they enter CSU;
- Strengthen the Early Start program, which provides remedial courses for students in the summer before they begin CSU;
- Restructuring remedial education programs to reflect national best practices.

This issue is similar to the discussion occurring around Basic Skills programs at the community college level. As the LAO notes, there is significant research indicating that at least 30% of students placed in remedial courses would succeed in college-level work. There is also ample evidence that high school grades are a far more accurate predictor of student success in college-level courses than a placement test, and there is significant research into methods in which remedial courses can be redesigned to speed up students' paths toward college-level courses.

This issue must be addressed if CSU wishes to improve graduation rates. For example: About half of incoming Hispanic/Latino students at CSU are placed into remediation. Hispanic/Latino students comprise about 39% of the CSU student body; therefore a major improvement in overall graduation rates will not occur unless CSU improves outcomes for Hispanic and Latino students.

The Subcommittee could consider the LAO's recommendation to require CSU to report on its progress in making these types of changes, or go further by requiring CSU to change its placement process or implement best practices in its remedial programs.

More courses and more faculty appear to be needed, and will increase per-student costs. CSU reports that the average student takes 13.1 units per semester, which would not allow a student to graduate in four years. CSU also reports that student surveys indicate that a key reason students do not take more courses per semester is their inability to find available courses at times or days when they can take the course. Thus a major focus of the Graduation Initiative will be to encourage

students to take more units per semester, and in turn the system must offer more courses at times and days when students can access the courses.

Students appear willing to take more courses. Sacramento State University, whose president will testify at this hearing, launched a major initiative in Fall 2016 to encourage students to take 15 units. Sacramento State reports that the "Finish in Four" campaign increased the percent of freshmen taking 15 units from 12.6% in Fall 2010 to 64.4% in Fall 2016.

This clearly leads to higher campus costs. Campuses must offer more courses, requiring more faculty. Staff notes that despite increased state funding to CSU during the past five years, the percentage of faculty who are tenure track has gone down. Tenure track faculty improve student outcomes, as they are more available to students and more engaged in campus efforts to improve programs and outcomes.

Faculty	2012	2013	2014	2015	2016	% Change
Tenure Track	9,656	9,599	9,709	9,953	10,293	6.6%
Lecturers	6,274	6,892	7,547	8,000	8,258	31.6%
Total	15,930	16,491	17,256	17,953	18,551	16.5%
% Tenure Track	60.6%	58.2%	56.3%	55.4%	55.5%	

CSU reports that it intends to use new funding to increase courses and hire more faculty. The Subcommittee may wish to consider whether any increased state funding should be tied to ensuring this occurs.

Which best practices are best? The LAO notes that CSU has not undertaken a systematic evaluation to assess the impact different strategies are having on graduation rates. The Subcommittee may wish to discuss with CSU the ways in which it intends to study the Graduation Initiative, to ensure the CSU and state begin to understand the most cost-effective approaches to improving graduation rates.

Potential Questions

- What specific steps is CSU taking to reform remedial education? When will these reforms be complete?
- What specific practices are CSU campuses undertaking to close achievement gaps?
- Does CSU have a goal for the appropriate percentage of tenure track faculty? What role does hiring more tenure track faculty play in improving graduation rates?
- How will CSU track outcomes to determine which activities produce the best results?

ISSUE 3: ENROLLMENT AND IMPACTION

The Subcommittee will discuss enrollment trends at CSU, including the effects of campus and program impaction and the number of qualified students denied admission by CSU campuses.

PANEL

- Nathan Evans, Chief of Staff and Senior Advisor, Academic and Student Affairs, California State University Chancellor's Office
- Paul Steenhausen, Legislative Analyst's Office

BACKGROUND

The state Master Plan for Higher Education directs CSU to select its freshmen from the top one-third of high school graduates. Minimum qualifications for CSU include:

- 1) High school graduation;
- 2) Completion of A-G courses in high school;
- 3) Meeting the "eligibility index," which typically is a 3.0 grade-point average in high school or a lower grade point average with a specified SAT/ACT score.

CSU requires that upper-division community college transfer students have completed at least 60 semester units of coursework with an overall GPA of at least 2.0.

State law directs CSU to maintain a student body comprised of 40 percent lower division students and 60 percent upper division students (achieved in part through transfer admissions). Statute also directs the universities to assign admission priority to specified groups of students, particularly community college transfer students.

A 2011 report by the LAO noted that historically most CSU campuses have served as regional institutions, with admissions policies and practices reflecting a focus on regional needs. Most campuses have a "local service area," which allows for priority admission for local students, and campus outreach programs target high schools within the local service area. This regional focus, however, is not specifically required by statute.

Enrollment is growing, but so is demand. California undergraduate enrollment has grown at CSU during the past five years, as the chart indicates. Recent Budget Acts have provided CSU with increased funding and enrollment expectations: the 2015 Budget Act called for 3% enrollment growth, while the 2016 Budget Act called for an increase of about 1.3%. These enrollment targets were in line with CSU proposals.

CSU Resident Undergraduate Enrollment

	Fall 2012	Fall 2013	Fall 2014	Fall 2015	Fall 2016	% Change
Resident Undergraduates	309,584	319,671	328,548	339,517	343,978	11.1%

Note: Full-Time Equivalent Students

Applications to CSU have increased significantly during this period. California freshmen applications grew from 167,321 in Fall 2012 to 188,192, a 12.5% increase. Applications from community college transfer students grew from 93,983 to 106,883, a 13.7% increase.

Impaction a major factor in CSU admissions and enrollment. When a CSU campus receives more applications than it can accommodate, it can declare "impaction," whereby admissions criteria can be raised above the systemwide requirements for certain programs or groups of students. Impaction allows campuses or programs to deny admission to applicants who do not meet enhanced requirements beyond statewide eligibility. There are two primary categories of impaction:

- Campus impaction can be triggered when the number of qualified applicants to a campus exceeds campus capacity. An impacted campus may establish admissions criteria for all nonlocal applicants that are stricter than systemwide minimum eligibility. All local applicants who meet systemwide eligibility, however, are guaranteed admission to the campus.
- Program impaction can be triggered when the number of qualified applicants to a particular program—such as mechanical engineering or nursing—exceeds available space. Impacted programs may establish supplemental admissions criteria for all applicants. In other words, there is no local admissions guarantee for impacted programs, although local students may be awarded extra eligibility index points to help make them more competitive. Currently, there are 6 CSU campuses that have declared impaction in all programs.

The chart below indicates the impaction status of all CSU campuses for the 2017-18 academic year.

No Campus Impaction	Campus Impaction	Impaction in All Programs
Bakersfield	Chico	Fresno
Channel Islands	Humboldt (for first-time freshmen but not transfers)	Fullerton
Dominguez Hills	Los Angeles	Long Beach
East Bay	Monterey Bay	San Diego
Maritime Academy	Northridge	San Jose
Stanislaus	Pomona	San Luis Obispo
	Sacramento	
	San Bernardino	
	San Francisco	
	San Marcos	
	Sonoma	

Impaction has existed in the CSU system since the 1970s, though all-program impaction generally is a more recent phenomenon. For example, Fresno State University declared all of its programs impacted in 2016-17. An impaction process was codified by AB 2402 (Block) in 2010, “to provide notice to the public and ensure the transparency of decisions affecting admissions criteria for all of the campuses of the California State University” in response to concerns that impaction was happening without considering the needs of local stakeholders.

STAFF COMMENT/QUESTIONS

An eligibility study conducted by the Administration should be ready by this summer, which will provide the Legislature with information on whether CSU (and UC) are meeting Master Plan admissions targets. Regardless of this study, however, it is clear that CSU campuses are not keeping up with demand. More and more California high school students are graduating with the minimum qualifications for CSU admittance. The Public Policy Institute of California, for example, noted recently that during the last 10 years there has been a 48% increase in the number of California high school students taking the courses to become college eligible — an increase of 60,000 more high school graduates. Staff notes the following specific concerns regarding enrollment and impaction trends at CSU:

Thousands of qualified students continue to be turned away. Despite significant increases in state funding for CSU during the past five years, CSU continues to deny admission to thousands of students who have the minimum qualifications for systemwide admission. That number increased by more than 9,000 students between 2012 and 2016, as the chart below indicates.

	Fall 2012	Fall 2013	Fall 2014	Fall 2015	Fall 2016
Admitted	194,564	212,152	212,538	216,755	222,192
Qualified But Not Admitted	22,123	26,430	30,665	31,825	31,402

CSU has conducted an analysis of these qualified-but-denied students and found that about 57% of these students appear to be attending a California college somewhere other than CSU: either a UC, private college or a community college. CSU also notes that about three-fourths of the 31,402 students denied admission applied to only one CSU campus, and may have therefore been seeking admission to a specific, selective program. Data provided to the Subcommittee indicate, for example, that, 6,748 students denied admission to CSU applied only to San Luis Obispo, and 5,479 students applied only to San Diego State. These are generally considered to be among the most selective CSU campuses, with highly-impacted programs. It is not clear how many of these qualified-but-denied students are local area students.

But CSU notes that about 7,100 students cannot be found in national college databases, indicating these students had good enough grades and test scores to attend CSU but may not be attending college. (CSU notes, however, that not all colleges report their attendance to a national clearinghouse, so it is possible that some of these students have enrolled in college.)

Denying admission to transfer students is particularly problematic. To improve the community college transfer process, the state enacted the Student Transfer Achievement Reform Act in 2010, with various amendments subsequently enacted in 2013. The act is designed to create clearer pathways from community colleges to CSU, provide an incentive for transfer students to obtain an associate degree, and reduce the number of excess units students must take to fulfill CSU's graduation requirements. Specifically, the act requires community colleges to develop two-year (60 unit) degrees (known as "associate degrees for transfer"). Students who earn such a degree are guaranteed admission into a CSU bachelor's degree program that can be completed within an additional two years (60 units) of CSU coursework.

Although not guaranteed admission to a particular campus or degree program, these students receive priority admission to their local CSU campus and a degree program that is similar to their associate degree major.

Given both historic and recent legislative interest in improving transfer between community colleges and CSU, it is particularly troubling that qualified transfer students are being turned away by CSU. CSU data indicates that 10,406 qualified transfer students were denied admission to CSU in Fall 2016. It is not clear how many of these students earned an associate's degree for transfer.

The state and CSU must work together to ensure that students who earn an associate's degree for transfer have more access to the CSU of their choice than is currently offered. These are students who have done everything the state has asked them to follow an efficient path to a bachelor's degree, yet they are finding doors to CSU closed through no fault of their own.

In addition, this issue poses problems for non-impacted campuses, which must take students with a transfer degree who are denied admission to a preferred impacted campus and redirected to another non-impacted campus. This causes difficulty for non-impacted campuses who have already admitted their desired number of students for the year.

Program impact may unfairly harm local students' admittance to the CSU closest to home. While local students do receive significant preference in the admissions process to the CSU campus closest to their homes, they may receive no preference or only a slight preference in admission to specific programs that are impacted. For local students seeking admission to campuses with all programs impacted, this may unfairly limit their ability to stay close to home and obtain a bachelor's degree at CSU.

Many potential solutions to addressing this issue. CSU officials suggest that lack of funding is the biggest reason why thousands of qualified students are being turned away. They also note that they are addressing this issue in several ways. A revamped application system will now warn students that they are applying to an impacted campus or program, and provide suggestions for other CSU campuses and programs that may have more room. CSU also notes that it sent \$2.9 million in extra funding to four campuses in 2016-17 that were forced to admit transfer students redirected from impacted campuses.

More could be done to help qualified students gain admission to CSU, however. The LAO recommended in 2011, for example, that the Legislature should enact statute formalizing CSU's role as a regional education system and consider specifying that local students be given admission priority at CSU. CSU could adopt a more formalized redirection process for students who are denied admission to a specific program or campus. And staff sees no reason why program impaction should differ from campus impaction in the preferences given to local students. CSU could change program impaction to provide significantly more preference to local students.

Potential Questions

- In addition to more enrollment funding, how does CSU propose to ensure that all qualified students have access to CSU campuses?
- Should CSU implement a more formal redirection policy, by sending applications for qualified-but-denied students to other non-impacted programs or campuses?
- Why doesn't program impaction provide the same local preferences as campus impaction?
- How can CSU better ensure that associate degree for transfer students are admitted to the program of their choice?
- What is CSU's position on a statutory change to confirm CSU as a regional educational institution, which could give more preferences to local students?

ISSUE 4: REVIEW OF OUTSIDE COMPENSATION POLICY

The Subcommittee will review the CSU Trustees policies and procedures governing outside employment by university executives and senior management. The 2016 Budget Act required CSU to review their policy and consider several changes.

PANEL

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

BACKGROUND

The Budget Act of 2016 directed CSU (and UC) to review its policy governing outside employment by senior management. Budget language required CSU to report back to the Legislature by Jan. 1, 2017 on discussions or changes to the policy regarding the following issues:

- Require that outside employment does not create conflicts of interest or conflicts of commitment, whether those are actual or perceived;
- Require that outside employment is properly approved;
- Require that outside employment is consistent with, and furthers, the public mission of the university;
- Specify appropriate consequences for violations of policies and procedures;
- Report outside employment publicly on an annual basis.
- In cases of outside employment for executives, require annual public discussion and approval.

This issue was the focus of an April 4, 2016 joint hearing between this Subcommittee and the Assembly Committee on Higher Education, amid concerns that the then-Chancellor of UC Davis had accepted a position on the board of DeVry Education Group without proper approval, and had also earned more than \$300,000 serving on the board of college textbook publisher John Wiley & Sons. A review of UC and CSU policies and practices regarding this issue raised several concerns, including whether there was sufficient review of proposed outside employment, whether the universities considered whether the potential employment was beneficial or harmful to the university's reputation; whether there were appropriate penalties for violating policies, and whether there was sufficient transparency regarding executives' outside employment.

CSU Policy Changes

CSU submitted a report to the Legislature in December stating that they had made changes to three policies relating to this issue. The policies are the Outside Employment Disclosure Requirements for Management Personnel Plan (MPP) and Executive Employees; limits on executives serving on corporate boards; and Form 700 disclosures.

Below is a summary of the changes:

Outside Employment Disclosure Requirements for Management Personnel Plan (MPP) and Executive Employees. On November 15, 2016, the Board of Trustees of formally adopted the revised policy for Outside Employment Disclosure Requirements for Management Personnel Plan (MPP) and Executive Employees. The updated policy continues to require that all members of the MPP, nearly 4,000 employees, including executives, disclose any outside employment at several intervals: at the time of hire, annually, within 30 days of accepting outside employment, and within 10 days of request by a supervisor. As revised, all MPPs must complete an outside employment disclosure form annually (even if the employee has nothing to report) to confirm the outside employment does not pose a conflict of commitment or interest. All MPP employees are expected to reduce or eliminate outside employment if any perceived or actual conflicts of commitment or interest are found. Outside employment disclosures will be reviewed for any perceived or actual conflicts of commitment or interest by an appropriate administrator.

Additionally, the policy was substantially revised as it applies to senior management employees, which includes executives (Chancellor, Executive Vice Chancellors, Vice Chancellors, and Presidents) and Vice Presidents. In addition to disclosing the nature of outside employment, the time commitment, and the expected duration, members of senior management are required to disclose the organization's name, total compensation received, whether the business has had dealings with the CSU, and whether the employee was involved in making any decisions that affect CSU's dealings with the outside employer. Disclosures by Vice Presidents will be reviewed by the campus President or his/her designee. Disclosures by executives will be reviewed by the Chancellor or his/her designee. If the outside employment requires a second level of review for approval, an independent review committee appointed by the Chancellor (or the Board of Trustees for the Chancellor) or his/her designee and the Vice Chancellor of Human Resources, in consultation with the Office of General Counsel, shall review the outside employment disclosure.

The Board of Trustees shall annually review, provide the opportunity for public discussion, and approve the outside employment endeavors of all senior management employees. To increase transparency, protect public interest, and ensure public trust, the CSU will publicly post the outside employment activities of senior management employees on its website.

Limitations on Executives Serving on Corporate Boards. Since becoming Chancellor, Timothy White has added language to the appointment letter of every Executive Vice Chancellor, Vice Chancellor and President that limits their service to two corporate boards and requires that they obtain his approval before accepting a position on a board. Chancellor White has extended this requirement to all executives (Executive Vice Chancellors, Vice Chancellors and Presidents). This is to make sure that board service does not pose a conflict of commitment or interest. Additionally, executive service on corporate boards will be publicly reported in the annual outside employment report noted above.

Form 700 Disclosures. CSU fully complies with the Political Reform Act and has been working diligently with the Fair Political Practices Commission to update its Conflict of Interest Code since 2007. The Board of Trustees amended the CSU Conflict of Interest Code in Article 20 of Subchapter 7, Chapter 1, Division 5 of Title 5 of the California Code of Regulations. The amended Code has been submitted to the FPPC for final approval. The revised Code includes a streamlined list of disclosure categories. The disclosure categories were re-written so that they are easier to understand and cover broader reporting interests. Additionally, the Code was revised to develop greater consistency in how the disclosure categories are assigned to designated positions across the system.

STAFF COMMENT/QUESTIONS

The changes appear to improve CSU policies and address many legislative concerns.

However, staff notes that the current practice required by Chancellor White, which limits executive service to no more than two corporate boards, would be strengthened by becoming a Board of Trustees policy. It also remains unclear as to what types of penalties an executive would face if the policy was violated.

ISSUE 5: REVIEW OF EQUAL EMPLOYMENT OPPORTUNITY FUNDING

The Subcommittee will review how CSU used \$2 million one-time General Fund provided in the 2016 Budget Act to support best practices in equal employment opportunity.

PANEL

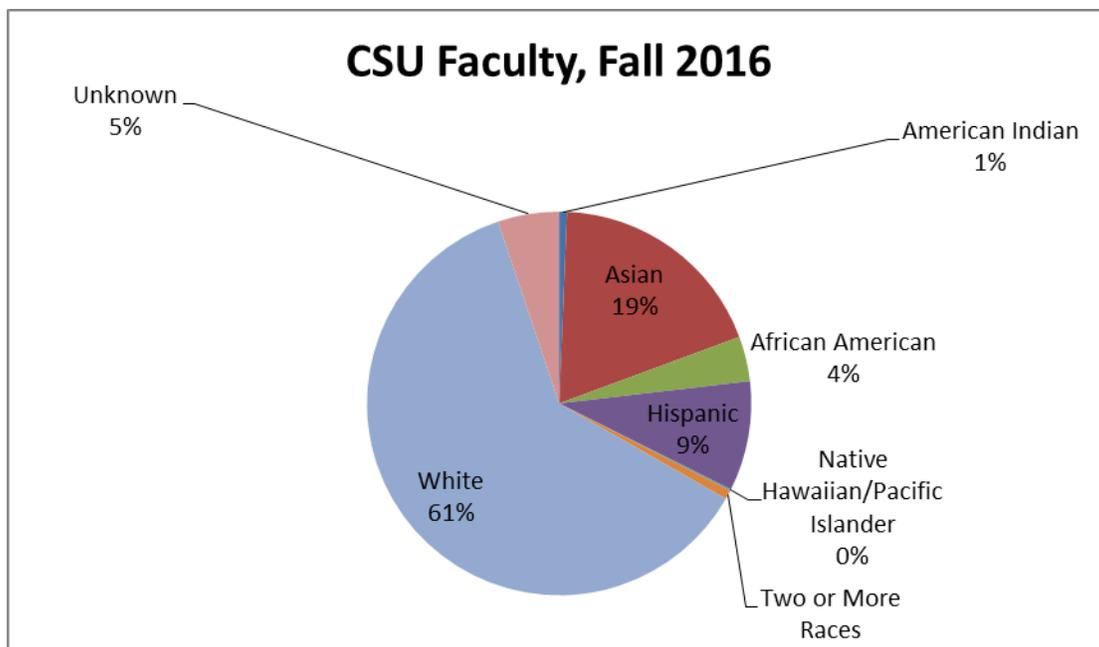
- Margaret Merryfield, Assistant Vice Chancellor for Academic Human Resources, California State University Chancellor's Office

BACKGROUND

The Budget Act of 2016 provided CSU and the other two public segments with one-time funding to support efforts to support equal employment opportunity in faculty employment. The funding was first proposed by this Subcommittee. As discussed in an October 2016 joint hearing between this Subcommittee and the Assembly Committee on Higher Education, a growing body of research indicates the educational benefits of a diverse campus faculty, in terms of closing achievement gaps, improving campus climate and expanding areas of instruction, research and public service.

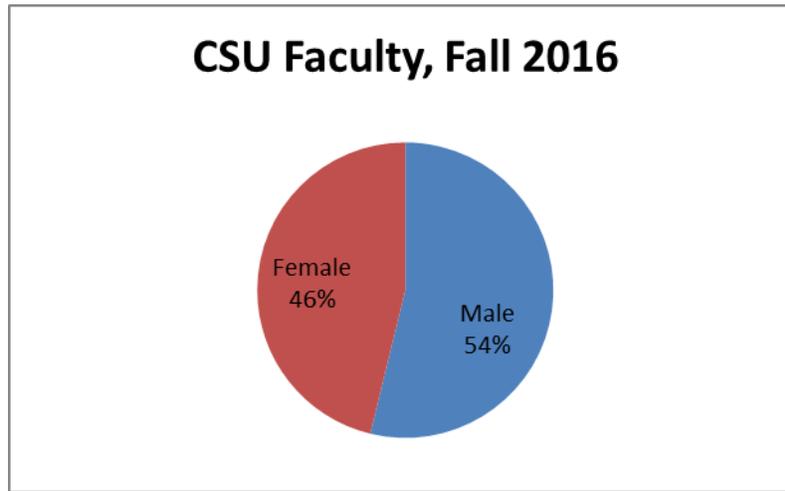
Budget language also required a report due by Dec. 1, 2016, that included the number of ladder-rank faculty disaggregated by race, ethnicity and gender, as well as how the segment used the funding.

Data provided in the report is shown below. CSU reports that recent faculty hiring has been more diverse. However, 61% of faculty remain white as of Fall 2016.



Note: Includes professor, associate professor and assistant professor positions

CSU reports significant recent increases in female faculty, and as of Fall 2016, 46% of faculty were female.



Note: Includes professor, associate professor and assistant professor positions

CSU reports using the additional one-time funding in the following manner.

Outreach and faculty recruitment (\$1,000,000). Activities include:

- Grants to campuses to implement pilot programs to recruit and retain diverse faculty; preference given to efforts targeted to disciplines with lower levels of gender, racial, or ethnic diversity and campuses where student diversity is not reflected in faculty composition. (\$500,000)
- Pipeline Program Recruitment Incentives (\$200,000). Provide funds to campuses to defray the costs associated with providing “start-up” funding, including first-year course releases, for new hires who were participants in the California Predoctoral Program or the Chancellor’s Doctoral Incentive Program.
- Support for CSU participation in professional organizations and conferences that reach underrepresented minorities in higher education; systemwide advertising spotlighting employment opportunities in the CSU and its commitment to diversity. (\$300,000)

Best practices in recruiting and retaining diverse faculty (\$800,000). Activities include:

- Faculty 2025. “Faculty 2025,” in alignment with the Graduation Initiative 2025, includes:
 - Convening focus groups of faculty from all 23 campuses who will work with an expert facilitator to discuss challenges, issues, and potential strategies associated with recruiting and retaining faculty of color, with the skills and abilities necessary to support the success of CSU’s diverse student population.
 - Campus development of action plans, with the goal of creating sustainable changes to campus culture.
 - Creation of a dedicated web site as an ongoing resource, which would post recommendations from the focus groups, information on campus

projects, resources developed, existing successful campus approaches, relevant literature, etc.

- Systemwide Training. Revising and improving existing on-line training for search committees. Developing and deploying face-to-face training on all campuses, including unconscious bias in recruitment processes, benefits of diversity, and other topics as appropriate.

Reporting and assessment (\$200,000). The CSU anticipates a need to engage an evaluator to determine whether these changes are having the desired impact, especially in the area of retention. The CSU may also employ an instrument, such as the Faculty Retention and Exit Survey developed by the Collaborative on Academic Careers in Higher Education (COACHE) to better understand factors associated with faculty attrition, especially for faculty of color. Finally, the evaluation component will include identifying potential sources of ongoing support for successful activities.

STAFF COMMENT/QUESTIONS

CSU appears committed to improving faculty diversity through equal employment opportunity programs. Staff notes that while UC used almost all of its funding on direct faculty outreach and recruitment, CSU spent half of its funding on those activities, while also spending a significant amount on campus-based meetings and planning. The Subcommittee should be able to look at data in the next few years to determine which types of approaches may have produced better results.

Potential Questions

- Can CSU provide an update on faculty hiring this year? How has the additional funding helped in recruiting faculty?
- Does CSU have specific goals for this funding?
- How will CSU use the information gathered from direct outreach and recruiting to inform practices throughout the system?
- Is there a need for more funding of this type? How would CSU use additional resources toward the same goal?
- Absent new resources, how will CSU continue to develop better EEO practices?