

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

MONDAY, FEBRUARY 1, 2021
3:00 PM, STATE CAPITOL - ROOM 4202

Due to the regional stay-at-home order and guidance on physical distancing, seating for this hearing will be very limited for press and for the public. All are encouraged to watch the hearing from its live stream on the Assembly's website at <https://www.assembly.ca.gov/todaysevents>.

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.

A moderated telephone line will be available to assist with public participation. The public may provide comment by calling the following toll-free number: 877-692-8957, access code: 131 54 202

INFORMATIONAL HEARING

2021-2022 HIGHER EDUCATION SEGMENT BUDGET PROPOSALS

I. OPENING REMARKS

- Assemblymember Kevin McCarty, Chair
- Committee Members

II. GOVERNOR'S 2021-22 BUDGET PROPOSALS

- Daniel Hanower, Department of Finance
- Jennifer Louie, Department of Finance
- Jennifer Pacella, Legislative Analyst's Office

III. SEGMENT PERSPECTIVES (BEGINS AT 4 PM)

- Michael Drake, President, University of California
- Joseph Castro, Chancellor, California State University
- Eloy Ortiz Oakley, Chancellor, California Community Colleges

IV. PUBLIC COMMENT

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY
6870 CALIFORNIA COMMUNITY COLLEGES

GOVERNOR'S 2021-22 HIGHER EDUCATION SEGMENT BUDGET PROPOSALS

The Subcommittee will discuss the Governor's Budget proposals for the University of California (UC), California State University (CSU), and California Community Colleges (CCC), and hear perspectives from the segment leaders and the public.

BACKGROUND

Central to the 2020-21 Budget Act was the COVID-19 health crisis and a sudden economic recession. In higher education, the pandemic dramatically upended college and university operations, and students' lives and learning. The Budget Act provided \$20.5 billion in General Fund and local property tax support and \$35.2 billion in total funds for higher education. While this was a very slight overall increase from the previous year, the three public segments faced cuts or deferrals in state support for the first time in more than eight years. One-time federal funds helped offset the lessened state support.

Among the 20-21 higher education budget actions and issues:

- While the Budget Act included some increases to specific programs – increased funding for two medical school programs at UC, for example, and support for higher pension and retiree health benefit costs at CSU – there were overall reductions in state support for universities, and significant deferred payments to community colleges. These cuts and about half of the community college deferrals could have been avoided had the state received further federal stimulus funds by October 2020, but those funds did not materialize.

Ongoing General Fund was reduced by about 7% at UC when compared to the previous year, and about 6% at CSU. Instead of base cuts to community colleges, the Budget Act relied mostly on deferrals. Specifically, the revised 2019-20 Budget included \$330 million in community college payment deferrals. The 2020-21 Budget maintained these deferrals and adopted slightly more than \$1.1 billion in additional deferrals. Combined, \$1.45 billion in Proposition 98 funds for 2020-21 college operations were proposed to be paid late. These deferrals require colleges to use cash reserves or borrow internally or externally to continue programs at current levels.

- The Budget Act sought to minimize harm to students and employees in multiple ways. It directed both university segments to use a portion of their operating reserves to offset some of the state General Fund reductions. (CSU had about \$1.7 billion in reserves and UC about \$1 billion going into the 2020-21 fiscal year.) The Budget Act also allowed the universities to redirect unspent deferred maintenance funds provided in 2019-20 (an estimated \$146 million for CSU and \$21.6 million for UC) to help cover instruction and other operating costs in 2020-21. Additionally, the Budget Act paired federal and state funding to provide a \$120 million one-time block grant to community colleges to address student basic needs, technology costs and address learning loss.

Notably, overall funding for state student financial aid programs like Cal Grant and the Middle Class Scholarship actually increased in the 2020-21 Budget Act.

- Higher education institutions benefitted from significant federal funding, although this funding is one-time and therefore limited in covering ongoing costs. Data compiled by the Legislative Analyst's Office (LAO) shows that campuses and students received about \$1.9 billion in funding in Spring 2020, including \$667 million for community colleges, \$564 million for CSU campuses, and about \$268 million for UC campuses. At least half of each segments' federal funds went to direct student financial aid.

A second federal stimulus package was approved in December 2020. Preliminary estimates of funding per segment announced by the U.S Department of Education indicate about \$1.3 billion for community colleges and students, \$845 million for CSU campuses and students, and \$384 million for UC campuses and students, as the LAO chart below indicates. This funding is being distributed to campuses now.

Segment	Student Aid	Institutional Relief ^b	Total
CCC	\$305.0	\$975.3	\$1,280.3
CSU	266.8	578.2	845.0
UC	130.3	253.4	383.7
Private not-for-profit	88.7	163.9	252.6
Other public	2.2	5.9	8.1
Totals	\$793.1	\$1,976.7	\$2,769.7

^a Does not include base grants to for-profit institutions. Also does not include supplemental awards for minority-serving institutions and institutions with unmet need.

^b May be used for institutional expenses (including lost revenue), student support activities, or additional student aid.

Governor's 2021-22 Budget Proposals

The Governor's Budget includes an unexpected surplus in the current year, but continues to project deficits in the future. The Budget proposes \$21.8 billion General Fund and local property taxes for higher education in 2020-21, and \$36.1 billion including other funds. This would be a 6.3% increase in General Fund and local property taxes, and a 2.7% increase in all funds for higher education. The chart below indicates past and proposed spending on the segments, student financial aid, and other higher education activities. The chart below was prepared by the Department of Finance.

Higher Education Expenditures

(Dollars in Millions)

	2019-20 ⁴	2020-21	2021-22	Change from 2020-21	
				Dollars	Percent
University of California					
Total Funds ^{1/}	\$9,649.1	\$8,915.0	\$9,298.8	\$383.8	4.3%
Ongoing General Fund	3,724.3	3,465.3	3,601.3	\$136.0	3.9%
One-Time General Fund	214.0	0.7	225.3	-	-
California State University					
Total Funds ^{1/}	\$8,576.6	\$7,356.3	\$7,766.1	\$409.8	5.6%
Ongoing General Fund	4,351.9	4,041.5	4,241.5	\$200.1	5.0%
One-Time General Fund	328.4	14.2	225.0	-	-
California Community Colleges					
Total Funds	\$16,762.0	\$16,181.3	\$16,189.9	\$8.6	0.1%
General Fund & Property Taxes	10,367.1	10,727.8	11,092.6	\$364.9	3.4%
California Student Aid Commission					
Total Funds	\$2,468.8	\$2,680.0	\$2,826.3	\$146.3	5.5%
General Fund ^{2/}	1,388.0	2,244.4	2,405.7	\$161.3	7.2%
Other Higher Education ^{3/}					
Total Funds	\$97.1	\$65.8	\$67.9	\$2.1	3.2%
Ongoing General Fund	16.9	19.0	20.7	\$1.7	-
One-Time General Fund	26.1	-	-	-	-
Total Funds	\$37,553.6	\$35,198.3	\$36,149.0	\$950.6	2.7%
General Fund	\$20,416.8	\$20,512.9	\$21,812.1	\$1,299.2	6.3%

^{1/} These totals include tuition and fee revenues and other funds the universities report as discretionary.

^{2/} General Fund expenditures for the Cal Grant program are offset by reimbursements, including approximately \$400 million in federal Temporary Assistance for Needy Families (TANF) funds received through an agreement with the Department of Social Services.

^{3/} This category includes Hastings College of the Law and one-time funds in 2019-20 for the Scholarshare California Kids Investment and Development Savings Program.

^{4/} 2019-20 Total Funds include federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding provided directly to colleges and universities.

The following provides a brief summary of the Governor's Budget proposals for UC, CSU and the CCC. Overall, the Governor does not restore ongoing cuts made in 2020-21 to the universities. The proposal pays back community college deferrals, but creates a new deferral. The proposal includes base increases for all three public higher education segments in 2021-22, and links the base increases to the colleges and universities meeting three expectations:

- (1) developing a plan to eliminate equity gaps by 2025,
- (2) permanently increasing the share of courses they offer online by at least 10 percentage points over their pre-pandemic levels, and
- (3) establishing a “dual admissions” pathway, whereby students complete their lower division coursework at community colleges but are guaranteed admission to the public universities upon completion of their associate degree for transfer (or a University of California equivalent).

The administration also expects the universities to improve the alignment of their courses and programs with workforce needs. No explicit repercussions are specified for a segment not meeting these expectations. Additionally, the administration keeps the community college enrollment fee at \$46 per unit and expects the universities to hold their tuition flat at 2020-21 levels.

The Governor’s Budget also includes a myriad of smaller proposals that may be difficult for the Legislature to fully review given continuing constraints on the hearing process.

UC. The Governor's budget increases ongoing General Fund for UC by \$136 million over the current year and provides a total of \$225 million for one-time initiatives. The largest ongoing proposal is a 3 percent unrestricted base increase and the largest one-time proposal is for deferred maintenance. The base increase is linked with the expectations listed above, and, as with CSU, is not connected to specific enrollment expectations. The key ongoing and one-time proposals are listed below in the chart created by the LAO. None of the proposals are part of the Governor's early action package. Note that increased state spending proposed for 2021-22 would still leave UC with less state funding than it had in 2019-20.

Changes in University of California General Fund Spending

Reflects Governor's Budget Proposals (In Millions)

2020-21 Revised Spending	\$3,466.0
Ongoing Changes	
Base increase (3 percent)	\$103.9
Student basic needs (mental health and technology)	15.0
Programs in Medical Education (PRIME)	12.9
Immigrant legal services	1.2
Graduate medical education offset	1.0
UC Davis Firearm Violence Center	1.0
Intersegmental learning management system	1.0
Subtotal	(\$136.0)
One Time Initiatives	
Deferred maintenance and energy efficiency projects	\$175.0
California Institutes for Science and Innovation	20.0
Emergency student financial aid	15.0
Faculty professional development	5.0
Subject Matter Projects in learning loss mitigation	5.0
Subject Matter Projects in ethnic studies	2.0
UC Fire Advisors	2.0
UCSF public health modelling consortium	1.3
Subtotal	(\$225.3)
Remove 2020-21 one-time funding	-0.678
Total Changes	(\$360.6)
2021-22 Proposed Spending	\$3,826.6

CSU. The Governor's Budget increases ongoing General Fund for CSU by \$200 million and provides a total of \$225 million for one-time initiatives. The largest ongoing proposal is a 3 percent unrestricted base increase, linked with the expectations specified above. Similar to the administration's base proposals in previous years, CSU's base increase is not connected to specific enrollment expectations. The key ongoing and one-time proposals are listed below in this chart created by the LAO. None of the proposals are part of the Governor's early action package. Like UC, the Governor's Budget would leave CSU with less state funding in 2021-22 than it received in 2019-20.

Changes in California State University General Fund Spending

Reflects Governor's Budget Proposals (In Millions)

2020-21 Revised Spending	\$4,055.8
Ongoing	
Base increase (3 percent)	\$111.5
Retiree health benefit cost increase	55.2
Student basic needs (Graduation Initiative)	15.0
Student basic needs (mental health and technology)	15.0
Intersegmental learning management system	2.0
Pension cost increase	1.9
Enrollment increase at the Stockton center	1.0
CENIC cost increase	0.2
Subtotal	(\$201.9)
One-Time	
Deferred maintenance	\$175.0
Emergency student financial aid	30.0
Faculty professional development	10.0
Computing Talent Initiative	10.0
Subtotal	(\$225.0)
Remove 2020-21 one-time funding	-\$14.2
Total Changes	\$412.6
2021-22 Proposed Spending	\$4,468.4

CENIC = Corporation for Education Network Initiatives in California.

CCC. The Governor’s Budget does not propose any midyear action to rescind the \$1.453 billion in current-year Proposition 98 payment deferrals for the California Community Colleges (CCC). Instead, the Governor proposes \$1.127 billion one-time Proposition 98 General Fund to pay down deferrals in the budget year. For 2021-22, \$326 million in deferrals would remain in place. Specifically, CCC’s June 2022 apportionment payment (and likely a portion of its May 2022 payment) would be deferred to early 2022-23. Growth in the Proposition 98 minimum guarantee in 2021-22 is sufficient to cover the ongoing program costs that were not covered in 2020-21 due to the deferrals.

The Governor’s Budget has 16 other Proposition 98-Funded community-college proposals. Of these proposals, eight are new ongoing spending commitments (totaling \$213 million) and eight are one-time initiatives (totaling \$428 million). The largest ongoing proposal is to provide apportionments a 1.5 percent cost-of-living adjustment (COLA). This base increase is linked with the overarching expectations listed above. The key ongoing and one-time proposals are listed below. Two of the proposals (identified below) are part of the Governor’s “early action” package, which is intended to be considered by the end of March. Four of the proposals (also identified below) are the same or very similar to proposals introduced last year.

Change in California Community Colleges Proposition 98 Spending	
<i>Reflects Governor’s Budget Proposals (In Millions)</i>	
2020-21 Budget Act	\$8,365
One Time	
Deferral paydown	\$901 ^a
Student emergency financial aid grants	250 ^b
Student retention and enrollment strategies	20
Subtotal	(\$1,171)
SCFF baseline adjustments	\$53
Total Changes	\$1,223
2020-21 Revised Spending \$9,588	
Ongoing	
COLA for apportionments (1.5 percent)	\$111
Student mental health and technology	30
Enrollment growth (0.5 percent)	23
California Apprenticeship Initiative	15
COLA for select categorical programs (1.5 percent) ^c	14
Online education and support block grant	11
CENIC broadband	8
Adult Education Program technical assistance	1
Subtotal	(\$213)
One Time	
Student basic needs	\$100
Deferral paydown	81
Faculty professional development	20
Work-based learning	20
Zero-textbook-cost degrees	15
Instructional materials for dual enrollment students	3
AB 1460 implementation/anti-racism initiatives	1
Subtotal	(\$240)
Remove 2020-21 one-time funding	-\$121
SCFF baseline adjustments	127
Other technical adjustments	-36
Total Changes	\$423
2021-22 Proposed Spending	\$10,011
^a Governor’s budget also includes a deferral paydown of \$145 million attributed to 2019-20.	
^b Of this amount, \$100 million is proposed as part of the “early action” package.	
^c Applies to the Adult Education Program, apprenticeship programs, CalWORKs student services, campus child care support, Disabled Students Programs and Services, Extended Opportunity Programs and Services, and mandales block grant.	
SCFF – Student Centered Funding Formula; COLA – cost-of-living adjustment; AB – Assembly Bill; and CENIC – Corporation for Education Network Initiatives in California.	

STAFF COMMENT / POTENTIAL QUESTIONS

The Governor's Budget can be reviewed by the Subcommittee through the lens of the Assembly's higher education goals, which include increased access, affordability and student support, the significant challenges facing students and campuses due to COVID-19, and the role higher education should play in the state's economic recovery. Students need support to stay in school and continue handling the difficulties of college-by-Zoom, and also for a potential return to campus in the Fall. In addition, the state's efforts to address racial inequity should be a focal point of higher education budget actions. Below are key themes to consider during this and future Subcommittee hearings, and potential questions for the administration and segment leaders.

COVID-19 has dramatically impacted student needs. What are the best ways for the state to support students? Students are struggling. A California Student Aid Commission survey in May 2020 of students who have applied for financial aid found the following:

- Over 70% of current students lost some or all of their sources of income as a result of the COVID-19 pandemic.
- Almost half of all students had their living arrangements change.
- A quarter of students dropped one or more courses in their spring 2020 college term.
- Over 80% of current students either changed some aspect of their plans for Fall 2020 or were uncertain of their plans.

Another 2020 student survey, sponsored by the Education Trust-West, found that one-third of students skipped a meal due to financial issues, and only 49% were confident they could pay for all of their basic needs, such as food and housing.

The Governor's Budget seeks to address student need in multiple ways. There are emergency financial aid proposals for all three segments, and proposals for ongoing support of basic needs such as technology and mental health services. The Subcommittee should consider both the timing of these proposals – should more be done this Spring? – and the best investments to support students: what is the appropriate balance between financial aid for individual students, and infrastructure such as food pantries and basic needs centers?

Enrollment and retention a key concern at community colleges, and enrollment at some CSU campuses may be weak this Fall. COVID-19 has severely impacted community college enrollment and persistence. According to analysis done by the Public Policy Institute of California, a surge in withdrawals in Spring 2020 at community colleges led to a 17% decrease in the total number of courses that students were

enrolled in. Fall 2020 saw enrollment declines at many colleges, and early indicators signal weak enrollment again for Fall 2021.

While CSU reported about 1% enrollment growth in Fall 2020 when compared to the previous fall, the system is a decline in applications for Fall 2021, with 13 campuses extending some application dates to try and attract more students. (UC continues to see relatively strong application and enrollment trends among California students.)

The Governor's Budget does seek to address this issue at community colleges, including early-action proposals for \$100 million in one-time Proposition 98 General Fund for student emergency financial aid and \$20 million in one-time Proposition 98 General Fund to support recruitment and retention issues. The Subcommittee can consider these proposals and others to help keep students in school and advancing toward completion, and other ideas for ensuring that all Californians have access to higher education.

The chart on the next page, compiled by the LAO, shows recent California enrollment at the three segments. Note that the 2021-22 enrollment is based on the Governor's Budget, which does not set enrollment targets at UC, funds enrollment growth only at the Stockton campus of CSU Stanislaus, and supports slight enrollment growth at community colleges.

Enrollment by Higher Education Segment

Resident Full-Time Equivalent (FTE) Students

	2019-20 Actual	2020-21 Revised	2021-22 Proposed	Change from 2020-21	
				Amount	Percent
California Community Colleges	1,109,723	1,100,046	1,107,695	7,649	0.7% ^a
California State University					
Undergraduate	352,693	359,499	359,614	115 ^b	— ^c
Graduate/Other Postbaccalaureate	28,518	29,035	29,035	—	—
Teacher Credential	7,717	7,952	7,952	—	—
Subtotals	(388,928)	(396,486)	(396,601)	(115)	(— ^c)
University of California					
Undergraduate	193,799	200,779	200,779	—	—
Graduate	36,221	36,926	37,229	303	0.8
Subtotals	(230,020)	(237,705)	(238,008)	(303)	(0.1%)
Hastings College of the Law	813	827	882	55	6.7%
Totals	1,729,484	1,735,064	1,743,186	8,122	0.5%

^a Reflects the net of the Governor's proposed 0.5 percent systemwide enrollment growth together with all other enrollment adjustments.

^b Growth would be earmarked for the CSU Stanislaus off-campus center in Stockton.

^c Less than 0.05 percent.

At CCC, 1 FTE student is 525 contact hours per year, which on average generates about 24 credits. For undergraduate education at CSU and UC, 1 FTE student is 30 credit units. For graduate education at CSU, UC, and Hastings, 1 FTE student is 24 credit units. Hastings enrollment reflects resident enrollment in its juris doctor program.

Segments all have significant requests. Each Fall all three public segments' governing boards approve state budget requests for the following year. The segments typically request significantly more state funding than is provided. This year is no different. Below is a summary of each system's request:

- UC Regents requested an increase of \$518.3 million ongoing General Fund. Included in this request is \$300.8 million to restore previous cuts, \$157.7 million to support costs such as salary and benefits increases, and \$59.8 million to close equity gaps, support the PRIME program, and student mental health services.
- CSU Trustees requested an increase of \$556 million ongoing General Fund. Included in this request is \$300 million to restore previous cuts, \$150 million to support the Graduation Initiative, and other funds to support costs such as infrastructure, employee health benefits and the implementation of AB 1460, which added an ethnic studies course as a graduation requirement.

- The Community College Board of Governors have several spending priorities, including a cost-of-living adjustment, \$77 million Proposition 98 General Fund to support the implementation of recommendations from the Faculty and Staff Diversity, Equity and Inclusion Task Force, and funding for part-time faculty, a student support and retention block grant, and online education and student support infrastructure.

It should be noted that the UC Board of Regents has recently signaled interest in considering a tuition increase for Fall 2022. The board will discuss a proposal this Spring to implement a cohort-based tuition model, which would increase tuition for new cohorts of students. Current students would not see a tuition increase, and new students would begin with a higher tuition rate but would be guaranteed no further increases. Any UC action would likely have significant impacts on state Cal Grant costs

A stronger focus on equity gaps in access and graduation rates is critical. All three segments have adopted plans to improve graduation rates and/or the number of degrees or certificates earned by students. Each segments' plan also include goals to reduce or eliminate differences in graduation rates between low-income students and their peers, and underrepresented minority students and their peers. These gaps remain significant at all three segments. UC, for example, reported in 2019 that about 68% of all students graduated in four years, but 55% of African-American and Latino students graduated in four years. CSU reported in 2020 that low-income students had a 9% gap in graduation rates.

Addressing these gaps is critical, and must be met with specific, evidence-based strategies. The Governor's Budget seeks to address this issue by requiring the segments to report on how they will work on this issue. The Subcommittee can discuss this and other proposals to improve outcomes.

Suggested Questions:

- What are internal UC and CSU enrollment targets for Fall 2021? Should the state set enrollment targets for UC and CSU? Does the Administration have any specific expectations for the segments regarding enrollment growth?
- What would the segments prioritize should the Governor's level of funding be the final level of state funding for 21-22?
- About how many employee layoffs has each segment enacted in 20-21? What are the systems doing to avoid or reduce layoffs?
- How much in reserves did each segment spend in 19-20 and 20-21? What will reserve levels be heading into 21-22?

- What types of activities would community colleges pursue if the student enrollment and retention funding was provided?
- How is each segment thinking about student basic needs? Should all campuses have a basic needs center, and basic needs staff/administrator? What are state and campus responsibilities for addressing student basic needs?
- Do the segments have proposals for further early action this year? Why didn't the administration include UC and CSU emergency financial aid or basic needs services for all three segments in its early actions proposal?
- How are the systems handling increased student demand for mental health services?
- What types of student supports will the segments enact to address equity gaps? What are best practices in this area?
- The Governor's Budget proposes a much larger cost-of-living adjustment for the K-12 system than it does for community colleges. Why?
- In light of the significant federal funding for higher education enacted just as the Administration was finalizing its budget proposal, how should the Legislature consider state funding actions that would complement this funding? How will the segments use this round of one-time federal funding?