

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

MONDAY, FEBRUARY 14, 2022

UPON ADJOURNMENT OF FLOOR SESSION, STATE CAPITOL - ROOM 444

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. All are encouraged to watch the hearing from its live stream on the Assembly's website at <https://assembly.ca.gov/todayevents>.

*The Capitol will be open for attendance of this hearing. Any member of the public attending a hearing in the Capitol will need to wear a mask at all times while in the building. A moderated telephone line will be available to assist with public participation. To provide public comment, please call:
Toll free-free: 877-692-8957, access code: 131 54 44*

INFORMATIONAL HEARING

2022-2023 HIGHER EDUCATION SEGMENT BUDGET PROPOSALS

I. OPENING REMARKS

- Assemblymember Kevin McCarty, Chair
- Committee Members

II. GOVERNOR'S 2022-23 BUDGET PROPOSALS

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

III. SEGMENT PERSPECTIVES

- 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
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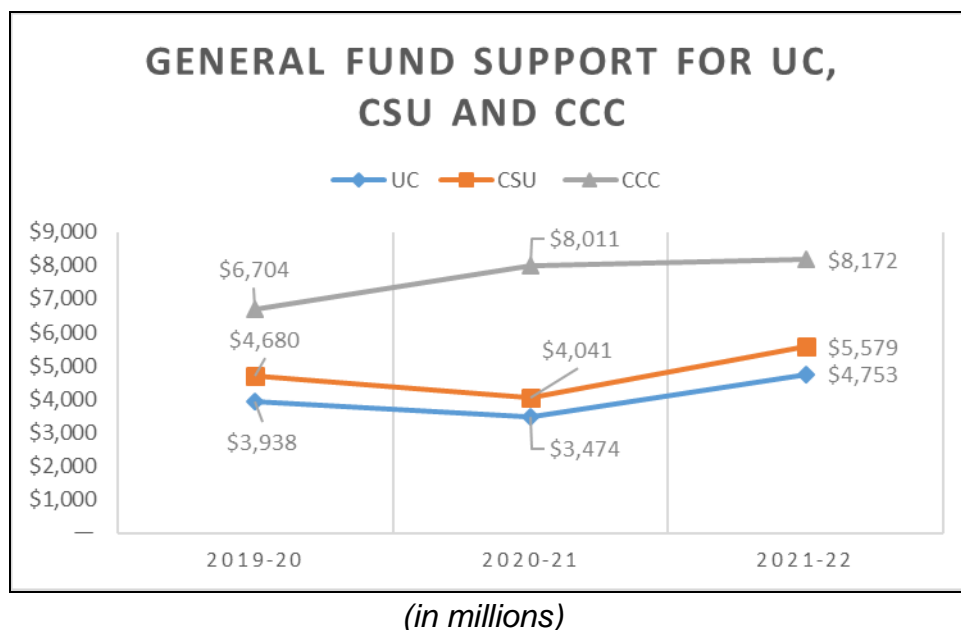
GOVERNOR'S 2022-23 HIGHER EDUCATION SEGMENT BUDGET PROPOSALS

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

After cuts/deferrals in 2020-21, 2021-22 Budget Act saw major growth in higher education funding. Despite the continuing COVID-19 pandemic, unexpectedly strong state revenue led to significant increases in higher education funding in the 2021-22 Budget Act. This marked a major turnaround from the previous year, when fears of an economic recession forced cuts or deferrals for all three public higher education segments. Last year's budget provided \$25.2 billion in General Fund and local property tax support for higher education, an 18% increase from the year before.

The chart below indicates ongoing and one-time state General Fund support for the three segments, based on updated estimates from the Governor's Budget, showing one pre-COVID budget (2019-20) and two COVID-era budgets (2020-21 and 2021-22). Note that UC and CSU sustained budget cuts in 2020-21, while CCC received deferrals, which were paid back in 2021-22 and are not reflected in this chart.



Among the 21-22 higher education budget actions and issues:

- The Budget Act restored cuts and deferrals to UC, CSU, and CCC, and provided about a 5% increase to base funding for each segment. These increases (\$173.2 million ongoing General Fund for UC, \$185.9 million ongoing General Fund for CSU, and \$371.2 million ongoing Proposition 98 General Fund for CCC) were not earmarked for a specific purpose, allowing segments to use this funding to cover various operational cost increases.
- The Budget Act also called for significant enrollment growth at UC and CSU. UC's enrollment target adds 6,230 new California undergraduate students, while CSU's target was 9,434 new California undergraduates. Funding to support this growth is included in the Governor's Budget. The last Budget Act also implemented a program at UC to reduce nonresident enrollment at three campuses – UC Berkeley, UCLA and UC San Diego – over a 5-year period, replacing the nonresident students with California students. To address steep enrollment declines at many community colleges, the Budget Act provided \$100 million one-time Proposition 98 General Fund to CCC to support student retention and recruitment activities.
- In addition, the Budget Act provided numerous increases and new programs aimed at supporting students' financial aid and basic needs, including:
 - Creation of the California Community College Expanded Entitlement Program, which provides a Cal Grant to more than 100,000 more community college students, and a reform of the Middle Class Scholarship program to address students' total cost of attendance at UC and CSU. Financial aid issues will be discussed at a subsequent hearing.
 - Creation of a \$2 billion student housing grant program to support planning and construction of new student housing projects at all three segments. Funding will be distributed over a three-year period, with projects identified in annual budget acts or other legislation. Proposals for the first year of funding were received by the Legislature and Department of Finance in October and will be discussed this Spring.
 - Support for emergency financial aid grants at each segment (\$15 million one-time General Fund for UC, \$30 million one-time General Fund for CSU, and \$150 million one-time Proposition 98 General Fund for CCC), ongoing support for student mental health services at each segment (\$15 million ongoing General Fund each for UC and CSU, \$30 million ongoing Proposition 98 General Fund for CCC), and ongoing support for student basic needs at CSU and CCC (UC already received ongoing basic needs support.) In addition, a sunset on state-funded summer financial aid

programs at UC and CSU was eliminated, allowing for ongoing state support.

Governor's 2022-23 Budget Proposals

The Governor's Budget proposes total funding of \$39.6 billion (\$26 billion General Fund and local property tax and \$13.6 billion other funds) for the three higher education segments and the California Student Aid Commission. The chart below was prepared by the Department of Finance and indicates past and proposed spending on the segments, student financial aid, and other higher education activities. The elevated levels of total funding in 2020-21 and 2021-22 in the figure below reflect the allocation of approximately \$2.7 billion (2020-21) and \$5.5 billion (2021-22) in one-time federal COVID relief funds to the state's public segments of higher education and the California Student Aid Commission.

Higher Education Expenditures (Dollars in Millions)

	2020-21 ^{3/}	2021-22 ^{3/}	2022-23	Change from 2021-22	
				Dollars	Percent
University of California					
Ongoing General Fund	3,465.3	4,011.0	4,318.5	\$307.5	7.7%
One-Time General Fund	8.7	741.8	295.0	-	-
Total Funds^{1/}	\$9,247.8	\$11,328.3	\$10,437.8	-\$890.5	-7.9%
California State University					
Ongoing General Fund	4,025.6	4,597.4	4,983.2	\$385.8	8.4%
One-Time General Fund	15.2	981.4	234.4	-	-
Total Funds^{1/}	\$8,291.5	\$10,471.8	\$8,453.6	-\$2,018.3	-19.3%
California Community Colleges					
General Fund & Property Taxes	11,897.9	12,158.4	12,718.3	\$559.9	4.6%
Total Funds	\$18,068.3	\$19,091.0	\$16,789.1	-\$2,301.8	-12.1%
California Student Aid Commission					
General Fund ^{2/}	2,000.0	2,689.4	3,457.3	\$767.9	28.6%
Total Funds	\$2,427.7	\$3,595.6	\$3,877.8	\$282.1	7.8%
General Fund	\$21,412.7	\$25,179.4	\$26,006.7	\$827.3	3.3%
Total Funds	\$38,035.3	\$44,486.7	\$39,558.2	-\$4,928.5	-11.1%

^{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/} 2020-21 Total Funds include federal Coronavirus Response and Relief Supplemental Appropriations Act funding provided directly to colleges and universities, and 2021-22 Total Funds include federal American Rescue Plan Act of 2021 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. A more detailed discussion of these proposals will occur in subsequent hearings. Overall, the Governor provides significant base funding increases for all three segments, supports enrollment growth at UC and CSU per the agreement reached in the 2021-22 Budget Act, and describes long-term agreements reached with each segment that would provide annual state funding increases, while requiring enrollment growth and numerous other activities. These agreements differ

somewhat for each segment, and the administration states that it will provide more specific metrics and details for each agreement at the May Revise.

UC. The Governor's Budget increases ongoing General Fund for UC by \$308 million over the current year and provides a total of \$295 million General Fund for one-time initiatives. The largest ongoing proposal is a 5 percent unrestricted base increase and the largest one-time proposal is for three climate change-related programs. The budget includes funding to support 6,230 more California undergraduate students, and funding to begin a 5-year program to reduce nonresident undergraduate enrollment with California students at UC Berkeley, UCLA and UC San Diego. These enrollment actions were agreed to in the 2021-22 Budget Act.

The base increase is linked to a compact with UC announced by the Administration, which would provide UC with 5 percent base increases annually through 2026-27, with the expectation that UC increase undergraduate and graduate student enrollment and pursue at least 18 activities spanning six priority areas—increasing access for California students, improving student outcomes and equity, making UC more affordable for students, enhancing intersegmental collaboration, improving workforce alignment, and expanding online education. The Department of Finance indicates that the administration could consider proposing smaller future base increases were UC not to make progress in meeting one or more of these expectations.

The chart on the next page was created by the LAO and indicates the Governor's UC proposals for 2022-23.

Governor Proposes New UC Ongoing and One-Time Spending

General Fund Changes in 2022-23 Over Revised 2021-22 (In Millions)

Ongoing Changes	
Base increase (5 percent)	\$201
Resident undergraduate enrollment growth	68
Nonresident enrollment reduction plan ^a	31
Foster youth programs	6
UC Davis Firearm Violence Center	2
Graduate medical education	1
Subtotal	(\$308)
One Time Initiatives	
Climate initiatives	
Seed and matching grants for applied research	\$100
Regional climate technology incubators	50
Regional workforce and training hubs	35
Deferred maintenance and energy efficiency projects	100
UC San Francisco Dyslexia Center	10
Subtotal	(\$295)
Total	\$603

^a In 2022-23, UC would reduce its nonresident undergraduate enrollment at three campuses (Berkeley, Los Angeles, and San Diego) by a total of 902 students. It would backfill these slots with the same number of additional resident undergraduate students.

CSU. The Governor's Budget increases ongoing General Fund for CSU by \$466.7 million over the current year and provides a total of \$234.4 million General Fund for one-time initiatives. The largest ongoing proposal is a 5 percent unrestricted base increase and the largest one-time proposal is for deferred maintenance and energy efficiency projects. The budget includes funding to support 9,434 more California undergraduate students, an enrollment action agreed to in the 2021-22 Budget Act.

The base increase is linked to a compact with CSU announced by the Administration, which would provide CSU with 5 percent base increases annually through 2026-27, with the expectation that CSU increase undergraduate student enrollment and pursue at least 21 activities spanning six priority areas—increasing access for California students, improving student outcomes and equity, making CSU more affordable for students,

enhancing intersegmental collaboration, improving workforce alignment, and expanding online education. The Department of Finance indicates that the administration could consider proposing smaller future base increases were CSU not to make progress in meeting one or more of these expectations.

The chart below was created by the LAO and indicates the Governor's CSU proposals for 2022-23.

Changes in California State University General Fund Spending

Reflects Governor's Budget Proposals, 2022-23 (In Millions)

Ongoing Changes	
Base augmentation (5 percent)	\$211.1
Retiree health benefit cost increase	81.5
Enrollment growth (2.8 percent) ^a	81.0
Pension cost increase	80.9
Foster youth programs	12.0
Other adjustments	0.1
Subtotal	(\$466.7)
One-Time Initiatives	
Deferred maintenance and energy efficiency projects	\$100.0
CSU Bakersfield Energy Innovation Center	83.0
CSU university farms	50.0
Carryover funds	1.4
Subtotal	(\$234.4)
Remove 2021-22 one-time funding	-\$981.4
Total Changes	-\$280.3
^a Reflects an additional 9,434 full-time equivalent students over the 2021-22 level	

CCC. The Governor's Budget increases ongoing Proposition 98 General Fund support for CCC by \$843 million over the current year and provides a total of \$890 million Proposition 98 General Fund for one-time initiatives. The largest ongoing proposal is a 5.33 percent cost-of-living adjustment (COLA) and the largest one-time proposal is for deferred maintenance and instructional equipment. The budget includes funding to support 0.5% enrollment growth (about 5,500 students).

The budget also includes an agreement between the CCC Chancellor's Office and the Administration, referred to as the "Roadmap to the Future." Key goals and expectations in the road map include increased collaboration across segments and sectors to enhance timely transfer; improved time-to-degree and certificate completion; closure of equity gaps; and better alignment of the system with K-12 and workforce needs.

The Governor's Budget has numerous other Proposition 98-Funded community-college proposals, including a large increase to support health insurance for part-time faculty, an increase to support Student Success Completion Grants, and another round of funding to support student retention and recruitment activities.

Finally, the Governor's Budget indicates the Administration expects colleges to offer at least 50% of their instruction in in-person modalities in 2022-23. The Department of Finance indicates, however, that they are not proposing language to require or incentivize more in-person learning.

Total Changes in California Community Colleges Proposition 98 Spending

2020-21 Through 2022-23 (In Millions)

Ongoing Changes	
COLA for apportionments (5.33 percent)	\$409
Part-Time Faculty Health Insurance Program	200
Student Success Completion Grants (caseload adjustment)	100
COLA for select categorical programs (5.33 percent) ^a	53
Technology security	25
Enrollment growth (0.5 percent)	25
Equal Employment Opportunity program	10
Financial aid administration	10
NextUp foster youth program	10
A2MEND program	1
Subtotal	(\$843)
One-Time Initiatives	
Facilities maintenance and instructional equipment	\$388
Student enrollment and retention strategies	150
Health care pathways for English learners	130
Common course numbering implementation	105
Technology security	75
Transfer reform implementation	65
Intersegmental curricular pathways software	25
STEM, education, and health care pathways grant program	20
Emergency financial assistance for AB 540 students	20
Teacher Credentialing Partnership Pilot	5
Umoja program study	0
Subtotal	(\$983)
Total Changes	\$1,826
<p>^a 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 mandates block grant.</p> <p>COLA = cost-of-living adjustment. A2MEND = African American Male Education Network and Development. STEM = science, technology, engineering, and mathematics. AB = Assembly Bill.</p>	

STAFF COMMENT / POTENTIAL QUESTIONS
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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, and the significant challenges still facing students and campuses due to the COVID-19 pandemic. The Administration, Legislature and segments are aligned in efforts to expand enrollment and create more higher education access across the state, and to leverage federal, state and institutional resources to better support students’ academic, financial and health needs. Within these broad, mutually-shared goals, however, remain numerous details to discuss. Below are key themes to consider during this and future Subcommittee hearings, and potential questions for the administration and segment leaders.

Enrollment at all three segments has been unpredictable. How can the state best support increased access in 2022-23 and beyond? The pandemic, coupled with the important step of eliminating or suspending the SAT as an admissions requirement at UC and CSU, has complicated enrollment patterns at all three segments. Most critically, enrollment has plunged at almost all community colleges, which has significant future budget implications for the segment, and could impact UC and CSU, which enroll thousands of community college transfer students annually. UC saw a major – and unplanned - enrollment increase in Summer and Fall 2020, but is expecting a slight decline in Fall 2021 (Official UC enrollment numbers for Fall 21 have not yet been released.) The UC enrollment jump in 2020 came without state funding or an enrollment target, and will play a significant role in budget discussions this Spring. CSU recorded flat enrollment in 2020 but is reporting a significant decrease in Fall 2021: according to preliminary CSU data, only one campus – CSU Los Angeles – recorded enrollment growth in Fall 21. The chart below was compiled by the LAO and shows enrollment patterns at all three segments during the past 5 years.

	2017-18 Actual	2018-19 Actual	2019-20 Actual	2020-21 Actual	2021-22 Estimated
CCC^a	1,188,872	1,177,205	1,149,078	1,062,572	1,009,443 ^b
Change from prior year		-11,666	-28,128	-86,506	-53,129
Percent change from prior year		-1.0%	-2.4%	-7.5%	-5.0%
CSU	349,004	348,210	352,693	353,262	340,470
Change from prior year		-794	4,483	569	-12,792
Percent change from prior year		-0.2%	1.3%	0.2%	-3.6%
UC	185,416	189,489	193,792	200,075	199,358
Change from prior year		4,073	4,303	6,283	-717
Percent change from prior year		2.2%	2.3%	3.2%	-0.4%

^a Reflects total credit and noncredit FTE students.
^b Reflects LAO estimate. Preliminary data for 2021-22 are not yet available. Early signals indicate CCC enrollment continues to drop, potentially more than is shown here.

Moving forward, the Legislature, Administration and community colleges must work together in a major effort to understand why the system has lost so many students, and what is needed to revamp access at colleges. For UC and CSU, recent enrollment patterns complicate the enrollment growth funding in the Governor’s Budget. Due to its large and unfunded influx in 2020, UC does not intend to add the 6,230 more students

this Fall as the Budget Act calls for, and instead favors using most of the new enrollment funding to cover previous enrollment growth. Given the enrollment drop at CSU in Fall 21, the state could be in the position of providing significant enrollment funding for 2022-23 (9,434 students), but still end up with fewer CSU students than there were two years ago.

COVID-19 continues to challenge campuses and students. How are the segments planning for the 2022-23 academic year, and how can the state ensure students have access to programs and courses in the format that best fits their needs?

After requiring vaccines and conducting most courses in-person last fall, most UC and CSU campus began the Spring semester online, due to a surge in COVID-19 cases caused by the omicron variant. Most community colleges have remained largely online: a report to the Legislature in December showed that only about 25% of community college courses were taught in-person in the Fall. Many colleges intend to increase in-person instruction this Spring.

Campuses continue to try and balance health and safety issues for students, faculty and staff with the desire to return to more in-person instruction and activities. A critical issue for all three segments is to ensure access to programs, courses and student supports in modes that best serve current and future student needs. The segments – and the state – should listen carefully to students as planning takes place.

The Administration's agreements with the three segments have some laudable goals but may not entirely align with legislative priorities. A key component of the higher education portion of the Governor's Budget is agreements with all three segments, called compacts with UC and CSU and the "Roadmap to California's Future" with the CCC Chancellor's Office. Staff concurs with many of the concerns the LAO has raised with these agreements:

- The Legislature was not part of these discussions. Sidestepping a co-equal branch of government that determines the annual budget is a fundamental problem with the agreements.
- The state budget is an annual process, so a 5-year agreement seems unlikely to stand. Previous governors have enacted compacts with higher education segments that ended prematurely due to economic or other changes.
- Many of the goals outlined in the Governor's Budget summary seem reasonable and in line with previous legislative priorities: increasing community college transfer to UC and CSU, eliminating equity gaps in graduation rates, and reducing student costs are all activities with widespread support. But the Governor's call for 1% annual enrollment growth at UC and CSU may be less than the growth desired by the Legislature during the next five years, and other goals, such as increasing online enrollment by an arbitrary amount, have been rejected by the Legislature in the past. In addition, the LAO notes odd inconsistencies among the agreements. For example, UC would be tasked with

a plan to offer a debt-free pathway to its students, while neither the CSU or CCC would be working on a similar plan.

More details about these agreements will be provided in May, but it remains unclear how many proposals will require specific budget action and whether these agreements will be relevant to budget discussions.

All three segments face increasing operational cost pressures that must be balanced with access and affordability goals. All three segments report significant ongoing cost increases that could compete with other legislative priorities. The LAO notes, for example, that CCC face a 2% to 3% increase in pension costs that could require colleges to use about 40% of the proposed COLA just to support that one cost increase. CSU has current and future collective bargaining agreements with employee groups that could require more unallocated state funding than the Governor is providing. UC has noted that under the Governor's Budget proposal, it could cover many cost increases but would lack state funding to support some key activities, such as closing equity gaps in graduation rates and converting a one-time augmentation last year to the Student Academic Preparation and Educational Partnerships (SAPEP) program into ongoing funding.

Staff notes that a key legislative priority is to ensure the segments receive enough state funding to support basic cost increases and to provide fair salary and benefits to its employees. But even in a good budget year, difficult choices have to be made about how to balance segment and student needs.

Student housing remains a critical issue. As discussed in a November Subcommittee hearing, the dearth and cost of housing threatens students' ability to complete college and the state's goals of providing access to affordable higher education. In subsequent hearings this Spring, the Subcommittee will review student housing construction and planning proposals submitted to the Department of Finance and Legislature per a program created in the 2021 Budget Act. That program provides \$500 million this year, and \$750 million for each of the next two years to support housing projects for all three segments. The need appears to be great: despite a very tight timeline between when the program was established and when the first round of applications were due, more than \$3 billion in projects were submitted.

In addition to reviewing proposals, the Subcommittee may wish to discuss other ideas for supporting more student housing.

Suggested Questions:

- What would the segments prioritize should the Governor's level of funding be the final level of state funding for 21-22?
- Why have community colleges seen such a steep drop in enrollment? How can colleges and the state work together to expand community college access?
- Why did CSU enrollment decline in Fall 21? What efforts are CSU campuses undertaking to revive enrollment?
- Why did UC see a major enrollment increase in 2020, and how will that impact California enrollment in Fall 2022?
- What are the cost issues, or other issues, for UC and CSU to increase undergraduate enrollment during the next few years?
- What lessons have been learned about online instruction and student success? What is each segment thinking about the percentage of online courses it will offer in the future? What are the pros and cons of online instruction? Are the segments seeking student input as future plans are developed?
- All three segments report gaps in graduation rates between low-income students and other students, and underrepresented minority students and other students. What are the most proven practices to eliminate these gaps, and what are the costs associated with closing these gaps?
- Does the Department of Finance expect to propose statutory changes in May to reflect components of the agreements it has made with the segments?
- How is the Department of Finance reviewing the student housing proposals submitted last Fall? How will it prioritize projects?
- Do the segments expect to submit many new student housing proposals this Fall? What is the overall need for increased student housing during the next five years?