

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Kevin McCarty, Chair

TUESDAY, FEBRUARY 20, 2018
3 PM, STATE CAPITOL - ROOM 447

HIGHER EDUCATION 2018-19 BUDGET PROPOSALS

I. OPENING REMARKS

Assembly Member Kevin McCarty, Chair
Committee Members

II. GOVERNOR'S BUDGET PROPOSALS

Chris Ferguson, Department of Finance
Maritza Urquiza, Department of Finance
Jennifer Kuhn, Legislative Analyst's Office

III. SEGMENT PERSPECTIVES

Seija Virtanen, University of California
Ryan Storm, California State University
Christian Osmeña, California Community Colleges

VI. PUBLIC COMMENT

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

ISSUE 1: GOVERNOR'S 2018-19 HIGHER EDUCATION BUDGET PROPOSALS

The Subcommittee will discuss the Governor's Budget 2018-19 proposals for the University of California (UC), California State University (CSU), and California Community Colleges (CCC).

BACKGROUND

The 2017 Budget Act provided \$17.8 billion in General Fund and local property taxes support for higher education segments and students, an increase of more than \$650 million (about 4%) over the previous year. Among the highlights:

- For UC, an increase in enrollment in 2018 of at least 1,500 students, to be funded through a review and redirection of Office of the President General Fund expenses, and requirements that UC conduct five activities to receive \$50 million of its General Fund support, including implementing recommendations made by the State Auditor regarding the Office of the President budget. The Budget Act for the first time created a separate line item for the Office of the President to fund its operations and eliminate the need for a campus assessment.
- For CSU, funding to support enrollment growth of nearly 2,500 full-time equivalent students, \$12.5 million in one-time funding to support the Graduation Initiative 2025, and direction to the CSU Trustees to change assessment and placement practices and enact policies that give first priority in admissions for impacted programs to local students, as well as automatically redirect admissions applications of students who are denied admission to an impacted campus or program.
- For the CCC, funding to support 1% enrollment growth, \$150 million Proposition 98 General Fund to create the Guided Pathways Initiative, \$50 million Proposition 98 General Fund to increase financial aid for full-time, low-income students, and support for 15 new capital outlay projects using Proposition 51 bond funds.

Governor's 2018-19 Budget Proposals

The Governor's Budget proposes \$18.5 billion General Fund and local property taxes for higher education in 2018-19. The Budget Summary notes that since the passage of Proposition 30 in 2012 and including the Governor's proposal for 2018-19, state funding for UC will have grown by \$1.2 billion, for the CSU by \$1.6 billion, and for the CCCs (excluding funding for the Adult Education Block Grant) by \$2.4 billion. The chart below summarizes recent higher education spending and the proposed amount for next year.

Higher Education Expenditures
(Dollars in Millions)

	2016-17	2017-18	2018-19	Change from 2017-18	
				Dollars	Percent
University of California					
Total Funds ^{1/}	\$8,393.8	\$8,761.7	\$8,946.4	\$184.7	2.1%
Ongoing General Fund	3,234.2	3,367.4	3,469.5	\$102.1	3.0%
One-Time General Fund	261.6 ^{4/}	175.6	0.0	-	-
California State University					
Total Funds ^{1/}	\$6,701.4	\$6,986.5	\$7,056.2	\$69.7	1.0%
Ongoing General Fund	3,454.3	3,719.9	3,833.1	\$113.2	3.0%
One-Time General Fund	109.6	43.5	0.0	-	-
California Community Colleges					
Total Funds	\$14,389.8	\$14,780.1	\$15,350.0	\$569.8	3.9%
General Fund & Property Taxes	9,002.5	9,389.3	9,998.3	\$609.0	6.5%
California Student Aid Commission					
Total Funds	\$2,057.4	\$2,223.4	\$2,290.9	\$67.5	3.0%
General Fund ^{2/}	1,114.6	1,162.9	1,178.6	\$15.8	1.4%
Other Higher Education ^{3/}					
Total Funds	\$87.1	\$65.0	\$66.0	\$1.0	1.5%
General Fund	40.3	13.7	\$14.6	\$0.9	6.6%
Total Funds	\$31,629.5	\$32,816.7	\$33,709.4	\$892.8	2.7%
General Fund	\$17,217.1	\$17,872.3	\$18,494.2	\$621.8	3.5%

^{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 \$1 billion in federal Temporary Assistance for Needy Families (TANF) funds received through an agreement with the Department of Social Services.

^{3/} This category includes expenditures for the Hastings College of the Law and the Awards for Innovation in Higher Education.

^{4/} This amount includes \$39.5 million appropriated in 2016-17 that is projected for expenditure in 2018-19.

The following provides a brief summary of the Governor's Budget proposals for UC, CSU and the CCC.

UC. The Governor's Budget proposes an additional \$92.1 million for the UC, which represents an increase in state-funded base resources of 3%. The Administration will monitor UC's progress in meeting the recommendations the State Auditor made last year related to the Office of the President and the four other provisions in the 2017 Budget Act before releasing \$50 million in current-year funding on May 1.

The Governor's Budget continues a separate line item for the Office of the President and provides \$348.8 million General Fund for the office, the same amount included in the 2017 Budget Act. This funding is broken into two parts: \$296.4 million General Fund for Office operations, and \$52.4 million to support the UC Path project. The funds would only be provided if the UC President certifies that the Office will not charge a campus assessment for Office services.

The Governor's Budget assumes that tuition will remain flat for 2018-19.

CSU. Similarly to UC, the Governor's Budget proposes an additional \$92.1 million for CSU. The Budget Summary notes that the Administration expects this additional funding will be used to support the Graduation Initiative, although there is no requirement in budget bill language regarding this suggestion.

The Governor's Budget assumes tuition will remain flat for 2018-19.

CCC. The Governor's Budget proposes several significant community college proposals. Among the proposals are:

- **New funding formula.** The Budget proposes a new funding formula that would provide colleges with a base grant based on enrollment, which would be 50% of the formula; a supplemental grant based on the number of low-income students being served, which would be 25% of the formula; and a student success incentive grant based on the number of degrees/certificates granted and the number of degrees/certificates granted within three years, as well as additional funds for each Associate Degree for Transfer, which would be 25% of the formula. The Budget also provides an additional \$175 million Proposition 98 General Fund for apportionment and a hold harmless provision intended to ensure that no college receives less funding under the new formula in 2018-19 than it would have received under the current funding formula.
- **Online college.** The Budget proposes \$20 million ongoing Proposition 98 General Fund and \$100 million one-time Proposition 98 General Fund to create a new online community college. The new college would initially be governed by the California Community Colleges Board of Governors and would target working adults with no postsecondary degrees/certificates. Trailer bill language released this month indicates the college would be required to create at least three programs within the first three years of program implementation, developed exclusively to serve the population of students not yet accessing postsecondary education or without their first industry-valued credential. The college also would work on issues such as competency-based programs, increase apprenticeship programs, develop short-term, stackable credentials with labor market value, develop a research and development unit, and create online basic skills courses.
- **California College Promise.** The Budget proposes \$46 million Proposition 98 General Fund to support the implementation of the California College Promise (AB 19). AB 19 waives fees for all first-time, full-time students, and authorizes colleges to spend Promise funds on an array of activities in support of student access and completion goals.
- **Student Success Completion Grant.** The Budget proposes \$32.9 million to support the consolidation of the Full-Time Student Success Grant and the Completion Grant programs, shift to a per-unit grant, and augment grant amounts. The proposed unit range would be between 12 and 15 units per semester or 24 and 30 units per year. Grant levels would increase based on the number of credits taken.

- Physical Plant and Instructional Equipment. The Budget proposes \$275.2 million one-time Proposition 98 General Fund to support college costs related to deferred maintenance, instructional equipment and water conservation projects.
- Capital Outlay. The Budget proposes \$44.9 million in general obligation bond funding for 5 new and 15 continuing projects. This allocation represents the second installment of the \$2 billion available for CCCs under Proposition 51. New projects include College of the Redwood’s Arts Building Replacement, Mt. San Antonio College’s New Physical Education Complex, Laney College’s Learning Resource Center, Merritt College’s Child Development Center, and Golden West College’s Language Arts Complex Replacement.
- Apprenticeship. The Budget proposes \$30.6 million one-time Proposition 98 General Fund to support shortfalls in related and supplemental instruction reimbursements provided to apprenticeship programs between 2013-14 and 2017-18, and \$17.8 million ongoing Proposition 98 General Fund to reimburse K-12 and community college-sponsored apprenticeship programs for estimated instructional hours provided at a new rate.
- Adult Education. The Budget proposes \$20.5 million Proposition 98 General Fund to support a cost-of-living adjustment for the Adult Education Block Grant program, and \$5 million Proposition 98 General Fund for investments in a data collection and account ability system to ensure comprehensive and shared data reporting by Adult Education Block Grant regional consortia members.
- Innovation Awards. The Budget proposes \$20 million one-time Proposition 98 General Fund to provide grants to support another round of Innovation Awards, focused on enhancing equity.
- Chancellor's Office staffing. The Budget proposes \$2 million General Fund to fill 15 vacant positions in the Chancellor's Office.

STAFF COMMENT/POTENTIAL QUESTIONS

The Governor's Budget should be reviewed keeping in mind the Assembly's priorities in higher education - access, affordability and student success. The charts below show enrollment and tuition and systemwide student fee levels at each public segment since 2012. Note that both UC and CSU are considering tuition increases for 2018.

California Undergraduate Enrollment (Full-Time Equivalent Students)	UC	CSU	CCC		Tuition and Systemwide Fees (Full Time Students)	UC	CSU	CCC
2012	172,757	306,233	1,105,031		2012	\$ 12,132	\$ 5,472	\$ 1,380
2013	172,162	315,931	1,121,464		2013	\$ 12,132	\$ 5,472	\$ 1,380
2014	174,681	324,020	1,132,266		2014	\$ 12,132	\$ 5,472	\$ 1,380
2015	173,642	335,218	1,137,331		2015	\$ 12,180	\$ 5,472	\$ 1,380
2016	180,389	340,961	1,124,387		2016	\$ 12,240	\$ 5,472	\$ 1,380
2017	184,732	N/A	1,135,022		2017	\$ 12,630	\$ 5,742	\$ 1,380
Increase, 2012-2017	11,975	34,728	29,991		<i>2018 (proposed)</i>	<i>\$ 12,918</i>	<i>\$ 5,970</i>	<i>\$ 1,380</i>

For UC and CSU, the Governor continues to offer increased funding with no specific direction on enrollment levels. Both segments argue that the Governor's proposed funding level will not allow them to cover inflationary increases, rising compensation for faculty and staff, and other costs, while also addressing access, affordability and student success. Both segments are seeking significantly more funding than the Governor is proposing:

- UC is seeking \$105 million ongoing and \$35 million one-time above the Governor's proposal. UC states this would prevent a proposed tuition increase, fund additional undergraduate and graduate student enrollment growth, fund previous unfunded enrollment growth, and support deferred maintenance projects.
- CSU is seeking about \$171 million above the Governor's proposal. CSU states the requested amount would support 1% enrollment growth (3,641 FTE), Graduation Initiative activities aimed at improving timely graduation rates, and increasing compensation costs based on collective bargaining agreements. Funding CSU's request would likely prevent a proposed tuition increase.

The Governor's Budget proposes two major changes for community colleges: a new funding formula that would alter the manner in which billions of dollars in apportionment funding is distributed, and the creation of a new, statewide online college. Both proposals seek to address access and success issues, but there are significant questions about both. In general, outcomes-based funding has not worked effectively in many other states, and online programs have not been successful with the population targeted for the Governor's proposal.

The Subcommittee may wish to ask some of the following questions of the segments and Administration:

- How will the Administration determine if UC has successfully implemented the Auditor's recommendations? What is the Administration's assessment of UC's work so far?
- What is UC considering for resident enrollment growth for 2019 and beyond? Which UC campuses are seeking to increase enrollment during the next several years?
- CSU continues to deny admission to students who meet minimum qualifications. What policy and funding changes are needed to address this problem?
- For CSU, has Graduation Initiative funding led to a new increase in tenure track faculty? What strategies is CSU considering to increase the percentage of tenure track faculty?
- What would increased tuition at both segments cost the state through the Cal Grant program? How would tuition increases impact low- and middle-income students? Have both segments considered a longer-term tuition plan?
- How will the Administration respond if both segments increase tuition?

- What impact could outcomes-based funding have on the types of students community colleges seek to serve? What other types of metrics could be used in lieu of degrees/certificates awarded that would enhance and reward colleges' efforts to successfully serve traditionally underserved populations?
- Has the Administration considered adopting a funding formula for community colleges modeled more closely on the Local Control Funding Formula?
- What strategies other than a new online college should the state consider to deliver higher education to working adults?
- Why create a new online college, versus enhancing funding and support for existing online programs?
- What specific types of pathways or programs are envisioned for the online college?
- What types of current laws and regulations would be suspended under the Administration's online college proposal?