

# AGENDA

## ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Al Muratsuchi, Chair

WEDNESDAY, MARCH 26, 2014

4:00 PM - STATE CAPITOL ROOM 126

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## ITEMS TO BE HEARD

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### ISSUE 1: STATE SUPPORT FOR HIGHER EDUCATION: A NATIONAL PERSPECTIVE

The speaker will present data regarding state funding for higher education, in comparison to other states.

#### PANELIST

- Dustin Weedon, Policy Specialist, National Conference of State Legislatures

**6440 UNIVERSITY OF CALIFORNIA**  
**6610 CALIFORNIA STATE UNIVERSITY****ISSUE 1: PERFORMANCE METRICS**

The Subcommittee will review data submitted to the Legislature this month by the University of California and California State University, as well as the administration's proposal to require the two segments to set annual goals for improving performance.

**PANELISTS**

- Patrick Lenz, Vice President of Budget and Capital Resources, University of California
- Philip Garcia, Senior Director of Analytic Studies, California State University
- Judy Heiman, Higher Education Analyst, Legislative Analyst's Office
- Christian Osmena, Budget Analyst, Department of Finance

**BACKGROUND**

AB 94 (Committee on Budget), Chapter 50, Statutes of 2013, requires the University of California and the California State University to submit an annual report every March 1 to the Legislature regarding the composition of the student body and performance outcomes. Both segments have submitted their first reports.

Below are notable discussion topics from the data for each segment and summary charts of each segments' report, and a description of the Governor's proposal to begin requiring each segment to develop improvement targets for each measurement:

University of California

- **About 63 percent of UC students graduate in four years; while 83 percent graduate in six years.** UC notes in its report that four-year graduation rates have improved dramatically between the Fall 1997 cohort and the Fall 2009 cohort, going from 46% to 63%. Improvements in course scheduling and adding summer classes may have contributed in part to this increase. Based on direction from the UC Board of Regents at its May 2013 meeting, the president's office is studying factors that contribute to graduation trends and differences in graduation rates by campus.
- **Community college transfer students are about 20 percent of the UC student body and have a 55 percent 2-year graduation rate.** Transfer students have comprised between 17% and 20% of the UC student body during the past decade.

Similar to graduation rates for all students, two-year graduation rates have increased for transfer students. The UC is currently conducting a transfer initiative, aimed at improving the transfer process and transfer students' graduation rates.

- **Low-income students comprise about 42 percent of UC's student body. Low-income students have lower four-year graduation rates than other students, but similar six-year graduation rates.** UC notes that it has a much larger percentage of low-income students than its peer institutions (University of Virginia and University of Michigan) and similar private research universities (Stanford University and the University of Southern California.) Four-year graduation rates for low-income students are 57% for the Fall 2009 cohort, which is less than graduation rates for all students. However, UC notes that six-year graduation rates for low-income students, at 82%, are about the same as other students.
- **UC awarded more than 25,000 degrees in STEM fields in 2012-13.** UC notes that STEM degrees (defined as computer and information sciences, engineering and engineering technologies, biological and biological sciences, mathematics and statistics, physical sciences, and science technologies) have increased since 2002-03, when about 16,000 such degrees were awarded.

**Proportion of California Community College Transfer Students in Undergraduate Student Body**

All Enrolled Undergraduates	Upper-Division Transfer Students	Percentage of Transfer Students
183,198	36,366	19.9%

**Proportion of Low-Income Students in Undergraduate Student Body**

All Enrolled Undergraduates	Low-Income Students	Percentage of Low-Income Students
183,198	76,897	42.0%

*Note: Low-income student is defined by students who receive a Pell Grant*

**Four-Year Freshman Graduation Rates, Fall 2009 Cohort**

Freshman Entrants	4-Year Graduation Rate, All Students	4-Year Graduation Rate, Low-Income Students
21,570	63%	57%

**Six-Year Freshman Graduation Rates, Fall 2007 Cohort**

Freshman Entrants	6-Year Graduation Rate, All Students	6-Year Graduation Rate, Low-Income Students
29,210	83%	82%

**Two-Year Transfer Graduation Rates, Fall 2011 Cohort**

All Transfers	2-Year Graduation Rate, All Transfers	2-Year Graduation Rate, Low-Income Students
9,220	55%	51%

**Four-Year Transfer Graduation Rates, Fall 2009 Cohort**

All Transfers	4-Year Graduation Rate, All Transfers	4-Year Graduation Rate, Low-Income Students
12,920	86%	85%

**Degree Completions, 2012-13 School Year**

Freshman Entrants	CCC Transfers	Low-Income Students	Graduate Students	Other
32,358	14,717	23,035	16,475	1,523

**Percentage of First-Year Undergraduates On-Track to Graduate in Four Years. Fall 2012 Cohort**

Freshman Entrants with 45+ Units	Transfer Entrants with 45+ Units
51.3%	44.2%

**Funds per Degree, 2012-13**

Total Funds	Degrees Awarded	Funds per Degree
\$6.2 Billion	63,523	\$98,304

**Average Number of Units at Degree Completion, 2012-13 Degree Recipients**

Freshman Entrants	Transfer Students
187	97

**STEM Degrees, 2012-13**

Undergraduate Students	Graduate Students	Low-Income Students
16,721	8,186	7,578

*Note: STEM is defined as computer and information sciences, engineering and engineering technologies, biological and biological sciences, mathematics and statistics, physical sciences, and science technologies*

California State University

- **About 16% of CSU students graduate in four years; while 53% graduate in six years.** CSU has launched the Graduation Initiative, which was launched in 2010 and sought to improve six-year graduation rates by 2015 and set specific graduation targets for each campus.
- **Community college transfer students were about 41 percent of the CSU's incoming student body in 2012-13 and have a 23 percent 2-year graduation rate and 52 percent three-year graduation rate.** CSU notes that graduation rates for transfer students appear to be improving, and three-year graduation rates are comparable to the six-year graduation rates for all students.
- **Low-income students comprised about 48 percent of CSU's incoming student body in 2012-13. Low-income students have lower four-year and six-year graduation rates than other students.** Low-income students have a 10% graduation rate in four years and a 46% graduation rate in six years.
- **CSU awarded more than 19,321 degrees in STEM fields in 2012-13.** STEM degrees are defined as computer and information sciences, engineering and engineering technologies, biological and biological sciences, mathematics and statistics, physical sciences, and science technologies.

**Proportion of California Community College Transfer Students in New Undergraduate Student Body, 2012-13**

All Enrolled Undergraduates	Transfer Students	Percentage of Transfer Students
107,217	44,236	41.3%

**Proportion of Low-Income Students in New Undergraduate Student Body, 2012-13**

All Enrolled Undergraduates	Low-Income Students	Percentage of Low-Income Students
107,217	51,693	48.2%

*Note: Low-income student is defined by students who receive a Pell Grant*

**Four-Year Freshman Graduation Rates, Fall 2006 Cohort**

All Students	Low-Income Students
15.9%	10%

**Six-Year Freshman Graduation Rates, Fall 2006 Cohort**

All Students	Low-Income Students
53.4%	45.6%

**Two-Year Transfer Graduation Rates, Fall 2006 Cohort**

All Students	Low-Income Students
22.9%	21.6%

**Three-Year Transfer Graduation Rates, Fall 2006 Cohort**

All Students	Low-Income Students
51.5%	49.1%

**Degree Completions, 2012-13 School Year**

Freshman Entrants	CCC Transfers	Low-Income Students	Graduate Students	Other
30,608	42,651	35,438	19,406	8,544

**Percentage of First-Year Undergraduates On-Track to Graduate in Four Years. Fall 2012 Cohort**

Freshman Entrants with 30+ Units	42.8%
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**Funds per Degree, 2012-13**

Total Funds	Degrees Awarded	Funds per Degree
\$4.1 Billion	111,679	\$36,298

**Average Number of Units at Degree Completion, 2012-13 Degree Recipients**

Freshman Entrants	Transfer Students
138.8	141

**STEM Degrees, 2012-13**

Undergraduate Students	Graduate Students	Low-Income Students
15,361	3,960	6,963

*Note: STEM is defined as computer and information sciences, engineering and engineering technologies, biological and biological sciences, mathematics and statistics, physical sciences, and science technologies*

The Subcommittee should consider differences in the student bodies at each segment when comparing the data. For example, here are a few key differences that could help explain why UC graduation rates are much higher:

- Only 3% of UC students are part-time, while 19% of CSU students are part-time.
- 20% of CSU students are 25 years old or older; only 5% of UC students are 25 or older.
- UC students on average scored between 18 and 26 percent higher on the SAT's.

### Sustainability Plans

The Governor's 2014-15 budget proposal includes budget bill language that would require both the UC Board of Regents and the CSU Board of Trustees to develop sustainability plans and submit them to the Department of Finance by November 30, 2014.

These plans would include projections of revenue and expenditures for the 2015-16, 2016-17 and 2017-18 fiscal years, based on revenue estimates provided to the boards by the Department of Finance. The plans also would include enrollment projections for the same three years, and goals for the performance measures.

### **STAFF COMMENTS/QUESTIONS**

The annual reporting of these performance metrics was included in the 2013-14 budget package after significant debate about performance funding for UC and CSU. Ultimately the Legislature determined that it would not directly tie funding to specific outcomes, in part because both segments had faced significant decreases in state funding in the past five years.

In a report released in February, the Legislative Analyst's Office recommended that the Legislature require UC and CSU to discuss their performance at budget hearings each spring. This would allow the Legislature to use the information to make funding decisions, potentially to steer funding toward specific purposes if performance was not meeting expectations. The LAO does not recommend directly tying funding to outcomes.

The Subcommittee may wish to consider minor changes to the performance metrics adopted last year. For example, UC and CSU provided somewhat differing data to answer questions related to the proportion of low-income and transfer students in their student bodies. While UC provided the number of low-income and transfer students in their entire student body, CSU only provided the numbers in relation to incoming freshman in the 2012-13 school year. The Subcommittee may wish to specify which approach it prefers.

Additionally, both UC and CSU have voiced concerns about one of the measures. They have been asked to provide a number intended to show the cost per degree, by dividing the number of undergraduate degrees in a given year by the total amount of funds expended for undergraduate education. The funds for undergraduate education they are required to use include such things as state General Fund, student tuition and other "core" funds. The results indicate that CSU spent \$36,298 per degree, while UC spent \$98,304 per degree. Both

segments provided the number of both undergraduate and graduate degrees, so the spending per degree indicates spending per undergraduate and graduate degrees.

UC notes that some of the funding they are required to use in this calculation is not intended for undergraduate education, as UC's mission includes research and public service. CSU states that it is uneasy about reporting an imprecise figure. Staff notes that the Legislature's intent was not to provide an exact figure, but to get a better understanding of the costs that go into producing degrees. While this is a simplistic calculation, it does provide useful information. Both UC and CSU will be providing a report in October 2014 regarding the cost of education that may help provide more information for this type of measurement.

Suggested Questions:

- What are appropriate goals for CSU graduation rates?
- How can UC ease the transfer process and success rates for community college transfer students?
- Do the segments have a strategy for increasing the number of STEM degrees?
- Are there other outcome measurements that should be included in this report? For example, is there an appropriate way to measure UC's research outcomes? Are there measurements that would better indicate whether the segments are fulfilling state workforce needs?
- Do UC and CSU have a position on the proposal to require Sustainability Plans?
- These plans would be based in part on revenue projections provided each Fall by the Department of Finance, well before the Legislature determines budget appropriations. How will Finance develop these projections, and doesn't this hinder the Legislature's ability to adopt a budget? What role will the Legislature play in these plans?



**ISSUE 2: ENROLLMENT TRENDS AND FUNDING**

The Subcommittee will discuss recent enrollment trends at UC and CSU, the history and rationale for enrollment targets in the state budget, and segment proposals to fund enrollment growth in 2014-15.

**PANELISTS**

- Patrick Lenz, Vice President of Budget and Capital Resources, University of California
- Ryan Storm, Interim Assistant Vice Chancellor for Budget, California State University
- Rodney Rideau, Acting Deputy Assistant Vice Chancellor for Budget, California State University
- Paul Golaszewski, Higher Education Analyst, Legislative Analyst's Office
- Christian Osmena, Budget Analyst, Department of Finance

**BACKGROUND**

Enrollment at UC and CSU is driven by several factors, including state funding and the college-age population. The table below shows enrollment of California students at both segments just before, during, and just after the Great Recession. Enrollment at both segments has fluctuated somewhat, with UC growing enrollment during this period and CSU decreasing enrollment significantly during the recession, before recently growing enrollment. The population of 18- to 24-year-olds in California grew by more than 5% during this period, according to Department of Finance demographic information.

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Change, 07-08 to 13-14
<b>UC</b>	203,906	210,558	213,589	214,692	213,763	211,212	210,986	3.5%
<b>CSU</b>	353,915	357,223	340,289	328,155	341,280	343,227	350,000	-1.1%

*Note: This depicts Full-Time Equivalent Students, both undergraduate and graduate levels, and is California residents only. Numbers for 2013-14 are estimated.*

This section includes a discussion of enrollment trends at both segments and background information on state funding for enrollment.

University of California

UC has steadily grown enrollment during these years, driven in part by a new campus opening in 2004 – UC Merced – and a significant increase in applications. This enrollment increase occurred despite reduced state funding and the absence in most years of specific enrollment targets tied to that state funding. While it is difficult to definitively verify this without an up-to-date study of high school students' eligibility, UC believes that it is currently

meeting the Master Plan goal of selecting from the pool of the top 12.5% of California high school students.

**Growth in Out-of-State Students.** The most significant change in UC enrollment patterns during this period involves the increase of out-of-state students at some UC campuses.

Students	Fall 2007	Fall 2012	% Change
<b>CA Students</b>	190,023	196,917	3.6%
<b>Non-Resident, Domestic Students</b>	10,338	12,087	16.9%
<b>Non-Resident, Foreign Students</b>	10,841	19,404	79%

*Note: This student headcount includes undergraduate and graduate students*

California students remain about 86% of the overall UC student body. But at specific campuses, the change in recent years is more dramatic. California residents make up about 79% of the UC Berkeley student body, for example. Below are the changes for three campuses with the most significant increase in undergraduate out-of-state students.

UC Berkeley	Fall 2007	Fall 2012	% Change
<b>CA Students</b>	22,242	20,463	-8.0%
<b>Non-Resident, Domestic Students</b>	1,694	2,641	55.9%
<b>Non-Resident, Foreign Students</b>	700	2,670	281.4%

*Note: This student headcount includes undergraduate and graduate students*

UCLA	Fall 2007	Fall 2012	% Change
<b>CA Students</b>	23,463	23,540	0.3%
<b>Non-Resident, Domestic Students</b>	1,392	1,642	18.0%
<b>Non-Resident, Foreign Students</b>	1,073	2,759	157.1%

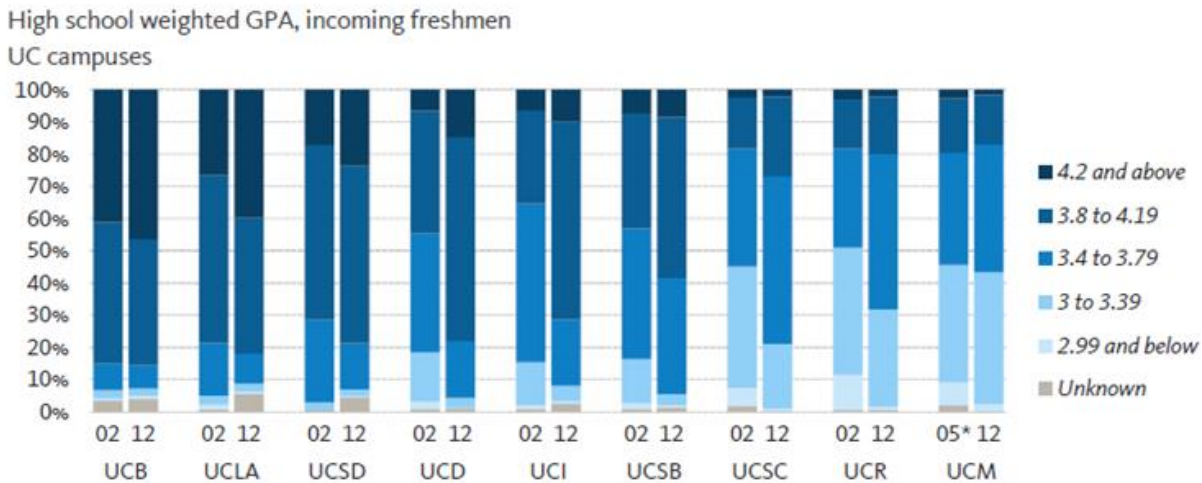
*Note: This student headcount includes undergraduate and graduate students*

UC San Diego	Fall 2007	Fall 2012	% Change
<b>CA Students</b>	20,756	19,686	-5.2%
<b>Non-Resident, Domestic Students</b>	747	1,066	42.7%
<b>Non-Resident, Foreign Students</b>	545	1,924	253.0%

*Note: This student headcount includes undergraduate and graduate students*

UC's strategy of increasing out-of-state students was based in part on funding. Out-of-state students pay \$35,742 in annual tuition – nearly three times the amount California students pay. But this increase in out-of-state students has made it more difficult for California students to get into schools like UC Berkeley and UCLA. For example, the percentages of incoming freshmen at both schools who had high school GPAs of more than 4.2 grew during

this period. Nearly half of incoming UC Berkeley students now have a GPA of more than 4.2; compared to about 40 percent in 2002, based on this chart from the UC Accountability Report.



It should be noted that an increase in incoming GPA might not necessarily be related to admissions being more difficult. Another explanation is grade inflation or better preparation of students in high school.

California State University

CSU enrollment has changed significantly during the last seven years. Unlike UC, CSU dropped enrollment as state funding decreased. CSU officials believe they have, for several years now, failed to meet the Master Plan Goal of selecting from the top one-third of California high school students.

**Demand Up, Enrollment Down.** The chart below indicates the number of qualified undergraduate applicants admitted and denied for CSU.

	Fall 2008	Fall 2009	Fall 2010	Fall 2011	Fall 2012	Fall 2013
Admitted Students	167,606	193,928	173,562	178,615	194,564	212,152
Denied Eligible Students	6,174	10,435	28,803	21,697	22,123	26,430

*Note: The numbers indicate undergraduate student headcount*

This supply and demand imbalance is more profound at some CSU campuses. Campus or program impaction occurs when a campus or program has exhausted existing capacity in terms of the instructional resources and physical capacity of the campus. When campuses or specific programs receive more eligible applicants than they have resources for, impaction occurs and campuses or programs restrict enrollment. For 2014-15, all programs are impacted at CSU Fullerton, CSU Long Beach, San Diego State University, San Jose State University and Cal Poly San Luis Obispo.

The Subcommittee should note that not all applicants to CSU would necessarily attend CSU if there was an open spot. Many students apply to many colleges; therefore it is unclear how many of the denied students would have attended CSU had they been accepted.

### Enrollment Funding

Traditionally, the Legislature has based a significant portion of UC and CSU funding on so-called enrollment targets, which reflect the state's expectations for access to the public universities and are based on the eligibility policies included in the state's Master Plan for Higher Education.

The state typically took into account a number of factors when setting enrollment targets. A main consideration was changes in the college-age population. The state also routinely considered college participation rates and freshman eligibility studies. Freshman eligibility studies were designed to determine if UC and CSU were drawing from less or more than their Master Plan eligibility pools. (These studies were conducted by the California Postsecondary Education Commission, which the state closed down in 2011. The last study conducted was published in 2007.)

To calculate the associated cost of enrollment growth, the state used a marginal cost formula. The formulas approximated the staffing resources and operating expenses necessary to educate an additional student. They estimate teaching costs based on fixed student-to-faculty ratios and actual salaries and benefits for new faculty. Other cost components, such as academic support, are based on the average cost per student. The marginal cost formulas were used both to provide funding to the universities for increases in enrollment targets as well as to take money back from the universities should they fail to meet their targets. Marginal cost formulas were typically negotiated between the Legislature, Governor and segments during the budget process.

Since 2007-08, the state budget only twice included both enrollment targets and enrollment growth funding. This was largely due to difficult budget years in which the state reduced the universities' budgets and, in turn, provided the universities with increased flexibility in how to respond, including setting their own enrollment levels. Though the state recovered its fiscal footing in 2013-14, and the Legislature included an enrollment target in the Budget Act of 2013 (which called for flat enrollment), the Governor vetoed out the target and thus the final budget omitted a target. The Legislature, however, expressed its interest in resuming funding enrollment by adopting reporting language directing the LAO to review enrollment funding practices. To gain further knowledge about enrollment costs, the Legislature also directed UC and CSU to report on the cost of education by student level and discipline categories starting in October 2014.

### **STAFF COMMENTS/QUESTIONS**

California clearly has an access problem. CSU is denying admittance to thousands of eligible students. Admittance to some UC campuses has become more difficult. At the same time, enrollment at community colleges is increasing; this will likely add to demand at UC and CSU.

Both the UC Board of Regents and the CSU Board of Trustees are seeking additional state funding to allow for enrollment growth, based on proposed budgets adopted in the fall. The

Governor proposes a \$142 million increase for both segments over 2013-14 levels. UC is seeking \$267.1 million over 13-14 levels from the state – about a \$125 million difference. CSU is seeking \$237.6 million over 13-14 levels from the state – about a \$95 million difference. Both segments argue that the Governor's proposal will only allow them to meet ongoing cost increases.

The UC Board of Regents included 1% enrollment growth in its adopted budget, at a cost of \$21.8 million. It is unclear how many new students this would actually add to UC, however. While the system does plan on adding 650 new students to UC Merced, enrollment decisions are made on a campus level. UC officials contend that because they added students during the period in which the state cut funding, they have more than 7,000 "unfunded" students in the system. Thus, absent a specific enrollment target, it is unlikely UC would increase the number of actual new California students by 1%, and instead might use the new money to fund some "unfunded" students.

UC's argument is better framed as a discussion about the cost per student provided by the state. As the LAO notes, the concept of unfunded enrollment is unhelpful since in actuality state funding is spread out across as many California students as the universities enroll. UC does not believe the state is providing adequate funding to deliver a quality education to its students. It is also seeking \$50 million in additional state funding for its "Reinvestment in Academic Quality" initiative, which would, among other things, hire more faculty, increase faculty and graduate student compensation, and increase funding for instructional equipment and technology. This would increase the amount of state funding per student.

UC also notes that any new enrollment funding for the 2014-15 year would come after most of the Fall 2014 admission and acceptance process is complete. However, UC believes that enrollment funding in 2014-15 would send a signal to the system that could grow enrollment over a multi-year period.

The CSU Board of Trustees included 5% enrollment growth in its adopted budget, which would require about \$85 million in General Fund support. CSU believes it could add as many as 20,000 new students with this funding.

The administration continues to oppose enrollment funding, stating that the segments should instead focus on improving time-to-graduation for students and other efficiencies. The Governor's proposal simply provides a 5% General Fund increase in 2014-15 with no significant requirements other than submitting a Sustainability Plan in November. Staff would suggest that the best way to ensure efficiency is to create an enrollment target tying a specific funding amount for a specific number of students. This is the clearest way the state can indicate to the segments the amount of money it should take to educate a student.

In its analysis of the higher education budget, the LAO recommends that the Legislature adopt enrollment plans for both UC and CSU, but suggests UC enrollment should remain flat and CSU should grow by 2%, based in part on demographic projections and college participation rates. The LAO notes that without a current eligibility study, it is difficult to determine whether the state is truly meeting - or missing – its Master Plan goals for access. The LAO suggests a marginal per-student cost for each segment, based on current cost estimates. For UC, this cost is \$8,512; for CSU, it is \$5,999. The LAO also recommends setting out-year targets for enrollment, as it is difficult, particularly for UC, to change

enrollment targets for the fall semester once the budget is adopted in June. Finally, the LAO recommends that the Legislature fund a new eligibility study.

It may be possible to come to an agreement with the segments regarding an appropriate cost per student, which could help steer the Legislature toward an appropriate enrollment target for the 2014-15 budget.

Suggested Questions:

- Why would the administration provide specific funding for enrollment growth at community colleges but not UC and CSU? How will enrollment growth at community colleges impact enrollment demand at UC and CSU?
- Do UC and CSU believe that the high demand for access will continue?
- Will UC commit to holding the number of out-of-state students flat, given increased funding from the state? What is an appropriate ratio of in-state and out-of-state students?
- Regarding the 26,430 eligible students who were denied access to CSU in Fall 2013, are there estimates as to what percentage of those students actually would have enrolled in CSU had they been accepted?
- How much would an eligibility study cost? Who should administer the study?