

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Kevin McCarty, Chair

WEDNESDAY, MARCH 6, 2019
4 PM, STATE CAPITOL - ROOM 126

HIGHER EDUCATION 2019-20 SEGMENT BUDGET PROPOSALS

I. OPENING REMARKS

Assembly Member Kevin McCarty, Chair
Committee Members

II. GOVERNOR'S BUDGET PROPOSALS

Jack Zwald, Department of Finance
Michelle Nguyen, Department of Finance
Jennifer Kuhn Pacella, Legislative Analyst's Office

III. SEGMENT PERSPECTIVES

Janet Napolitano, President, University of California
Timothy P. White, Chancellor, California State University
Eloy Ortiz Oakley, Chancellor, California Community Colleges

VI. PUBLIC COMMENT

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

GOVERNOR'S 2019-20 HIGHER EDUCATION SEGMENT BUDGET PROPOSALS

The Subcommittee will discuss the Governor's Budget 2019-20 proposals for the University of California (UC), California State University (CSU), and California Community Colleges (CCC) and hear perspectives from the segments' leaders.

BACKGROUND

The 2018 Budget Act provided \$19.5 billion in General Fund and local property taxes spending on higher education, and included \$35 billion in total funds for higher education. This was an increase of about 8% in General Fund compared to the previous year, and 5% in total funds. Among the highlights:

- For UC, an increase of \$108.1 million in ongoing General Fund, and one-time funds of \$105 million General Fund. The budget supported 2018-19 enrollment growth of 2,000 undergraduate students, through a combination of new funding and funding redirected to campuses from the Office of the President. The budget also included \$40 million one-time General Fund to supplement Proposition 56 funds to increase physician residency slots, \$35 million one-time General Fund for deferred maintenance projects, and other one-time funds to address various issues, including an operating deficit at the Berkeley campus, planning activities for the UC Davis Aggie Square project, several research projects, and support to address student food insecurity and basic needs.
- For CSU, an increase of \$240.1 million in ongoing General Fund and \$120 million in one-time funds to support enrollment growth of 1%, or 3,641 students. Ongoing funds included \$75 million to support activities related to the Graduation Initiative 2025. The budget also included \$35 million one-time General Fund to support deferred maintenance projects, while other one-time funds supported shark research, the Merv Dymally Institute at the Dominguez Hills campus and support to address student food insecurity and basic needs.
- For the CCC, an increase of \$1.2 billion in Proposition 98 General Fund for the 2016-17, 2017-18, and 2018-19 fiscal years, with \$797 million ongoing and \$398 million in one-time funds. The budget created a new apportionment funding formula, a new online community college district, supported 1% enrollment growth, supported fee waivers for all first-time, full-time students and provided funding to increase full-time faculty and support part-time faculty office hours. The budget also supported for 6 new capital outlay projects and continued support for 15 other projects using Proposition 51 bond funds.

Governor's 2019-20 Budget Proposals

The Governor's Budget proposes \$20.5 billion General Fund and local property taxes for higher education in 2019-20, and \$36.4 billion including other funds. This would be a 5.4% increase in General Fund and local property taxes, and a 4.1% 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.

Higher Education Expenditures

(Dollars in Millions)

	2017-18	2018-19	2019-20	Change from 2018-19	
				Dollars	Percent
University of California					
Total Funds ^{1/}	\$8,963.6	\$9,286.2	\$9,560.8	\$274.6	3.0%
Ongoing General Fund	3,393.3	3,475.5	3,715.5	\$240.0	6.9%
One-Time General Fund	176.6	232.7	153.0	-	-
California State University					
Total Funds ^{1/}	\$7,090.2	\$7,379.8	\$7,835.7	\$455.9	6.2%
Ongoing General Fund	3,713.3	3,960.8	4,279.4	\$318.6	8.0%
One-Time General Fund	46.2	126.6	264.0	-	-
California Community Colleges					
Total Funds	\$14,920.1	\$15,846.4	\$16,257.5	\$411.1	2.6%
General Fund & Property Taxes	9,498.3	10,323.8	10,474.0	\$150.2	1.5%
California Student Aid Commission					
Total Funds	\$2,244.5	\$2,424.2	\$2,712.9	\$288.7	11.9%
General Fund ^{2/}	1,184.8	1,337.3	1,626.0	\$288.7	21.6%
Other Higher Education ^{3/}					
Total Funds	\$109.1	\$67.0	\$68.5	\$1.5	2.2%
General Fund	13.7	20.6	\$17.9	-\$2.7	-13.1%
Total Funds	\$33,327.5	\$35,003.6	\$36,435.4	\$1,431.8	4.1%
General Fund	\$18,026.2	\$19,477.3	\$20,529.8	\$1,052.5	5.4%

^{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.

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 increase of \$240 million in ongoing General Fund support, and \$153 million in one-time General Fund. The *Governor's Budget Summary* states that "these investments are provided with the expectation that tuition will remain flat, access will be increased, and time to degree will improve. The significant investments proposed for the UC should begin an in-depth conversation between the Administration and the Regents regarding the short- and long-term goals and expectations of the state and the UC. This conversation should include a discussion of four broad goals and expectations: providing fiscal certainty for students and their families, increasing access to the UC and improving student success, creating a more cost-efficient UC, and improving the link between higher education and skills needed for the economy, now and into the future."

The Governor's Budget provides specific direction to UC for the funding increases. The charts below indicate the Administration's direction:

Gov. Newsom UC Budget Proposals - Ongoing Funding	Description	Cost
Base Increase/Operational Costs	<i>Supports cost increases for retirement contributions, employee health benefits, retiree health benefits, contractually committed compensation, and non-salary price increases</i>	\$119,800,000
Degree Attainment and Student Success	<i>Supports UC plan to hire more faculty and graduate teaching assistants</i>	\$49,900,000
Financial Aid for Basic Needs	<i>Supports UC proposal to provide increased financial aid to neediest students</i>	\$15,000,000
Overenrollment (1,000 FTE)	<i>Provides \$10,000 per student to address some 2018-19 overenrollment</i>	\$10,000,000
Student Mental Health	<i>Supports UC proposal to increase mental health services for students</i>	\$5,300,000
Graduate Medical Education	<i>Provides ongoing funding to allow Prop 56 funds to support increased graduate medical education slots</i>	\$40,000,000
Total Ongoing Increase		\$240,000,000

Gov. Newsom UC Budget Proposals - One-Time Funding	Description	Cost
Deferred Maintenance	<i>Supports campus deferred maintenance projects</i>	\$138,000,000
UC Extension Degree Completion Programs	<i>Supports new program to allow former students to complete degree or certificate programs</i>	\$15,000,000
Total One-Time Increase		\$153,000,000

The Governor's Budget also converts one-time funding provided in the 2019 Budget Act to support immigration legal services for students, staff and faculty into ongoing funding. UC would receive \$1.3 million ongoing General Fund support for these services beginning in 2022-23.

CSU. The Governor's Budget proposes an increase of about \$300 million ongoing General Fund support, and \$264 million in one-time General Fund. Like UC, the *Governor's Budget Summary* states that "these investments are provided with the expectation that tuition will remain flat, access will be increased, and time to degree will improve. The Budget should begin an in-depth conversation between the Administration

and the Trustees regarding the short- and long-term goals and expectations of the state and the CSU. This conversation should include a discussion of four broad goals and expectations: providing fiscal certainty for students and their families, increasing access to the CSU and improving student success, creating a more cost-efficient CSU, and improving the link between higher education and skills needed for the economy, now and in the future.”

The charts below indicate the Administration’s direction for spending increases:

Gov. Newsom CSU Budget Proposals - Ongoing Funding	Description	Cost
Graduation Initiative	<i>Continues support for CSU's effort to improve systemwide and campus graduation rates and eliminate achievement gaps by 2025</i>	\$45,000,000
Compensation Increases	<i>Supports contractually committed compensation and salary increased for nonrepresented employees</i>	\$147,785,000
Enrollment Growth	<i>Supports 2% enrollment growth, or about 7,295 full-time equivalent students</i>	\$62,000,000
Mandatory Cost Increases	<i>Supports cost increases for health benefits, retirement contributions, minimum wage increase, and maintenance costs associated with new facilities</i>	\$45,215,000
Project Rebound	<i>Supports campus programs to assist formerly incarcerated students</i>	\$250,000
Total Ongoing		\$300,250,000

Note: The Governor’s Budget also includes \$44.2 million General Fund to support pension costs and \$19.8 million General Fund to support retiree health costs. These funds are provided in separate line items.

Gov. Newsom CSU Budget Proposals - One-Time Funding	Description	Cost
Deferred Maintenance/Child Care Centers	<i>Supports campus deferred maintenance projects and expansion of campus-based child care facilities</i>	\$247,000,000
Basic Needs Partnerships	<i>Supports CSU proposal to address student food and housing insecurity and overall student health and safety challenges</i>	\$15,000,000
Stockton Campus Study	<i>Allows Chancellor's Office to review a potential new CSU campus in San Joaquin County</i>	\$2,000,000
Total One-Time		\$264,000,000

CCC. The Governor's Budget provides an increase of \$62 million General Fund and \$202 million in local property tax revenues for California Community Colleges. This is an increase of about 2.9% from the current year.

The chart below indicates the Administration's proposals:

Gov. Newsom CCC Budget Proposals	Description	Cost
COLA	<i>Provides 3.46% cost-of-living adjustment for apportionments</i>	\$248,000,000
Extend College Promise	<i>Supports fee waivers for full-time students in their second year</i>	\$40,000,000
COLA for some categoricals	<i>Cost-of-living adjustment for Adult Education, Apprenticeships, EOPS, DSPS, CalWORKS student services, campus child care support, and mandates block grant</i>	\$32,000,000
Enrollment Growth	<i>Supports .55% enrollment growth, or about 6,000 full-time equivalent students</i>	\$26,000,000
Student Success Completion Grants	<i>Caseload Adjustment</i>	\$11,000,000
Immigration Legal Services	<i>Makes ongoing support for legal services for students, staff and faculty</i>	\$10,000,000
Strong Workforce Program	<i>Uses one-time resources for ongoing supports</i>	(\$77,000,000)
Total		\$264,000,000

In addition to the proposals above, the Governor's budget also makes two policy adjustments to the new funding formula adopted last year. The Governor postpones a scheduled change in the share of funding linked to outcomes; instead of accounting for 15% of the formula in 2019-20, outcomes would remain at 10% of the formula. In addition, the Governor proposes a cap on the amount of growth in a district's outcomes allocation, such that it cannot increase by more than 10% per year. Both of these proposals are related to uncertainty around outcomes data; the Chancellor's Office is working with the Administration and districts this spring to resolve data issues.

Also included in the Governor's Budget are 12 new capital outlay projects funded by Proposition 51, which was approved by voters in 2016. The Budget also continues support for 15 projects already approved by the Legislature. The charts on the next page compiled by the LAO list the 12 new projects and 15 continuing projects.

Additionally, it should be noted that there are 27 additional projects approved by the Chancellor's Office but not included in the Governor's budget. Those projects are also listed in a chart compiled by the LAO.

Figure 6**Governor Proposes to Fund 12 New CCC Capital Outlay Projects***(In Thousands)*

College	Project	2019-20 State Cost	All Years	
			State Cost	Total Cost ^a
San Bernardino	Technology replacement building	\$2,313	\$34,411	\$75,647
Redwoods	Physical education replacement building	5,379	60,648	60,648
American River	Technology replacement building	1,258	29,959	57,966
Saddleback	New Gateway Building	1,719	26,080	52,338
Alameda	Auto and diesel technologies replacement building	1,278	17,044	33,650
Los Angeles City	Theater arts replacement building	1,112	15,140	30,095
Merced	New agricultural science and industrial technologies complex	431	12,974	25,629
Santa Monica	Art replacement complex	793	10,901	21,526
Rio Hondo	Music/Wray theater renovation	847	9,873	20,486
Sequoias	Basic skills replacement center	1,365	15,635	17,350
Fresno	Child development replacement center	1,036	13,520	16,850
Butte	Technology building renovation	518	8,088	10,722
Totals		\$18,049	\$254,273	\$422,907

^a Community college districts typically issue local general obligation bonds to pay for a share of project costs.**Figure 7****State Would Support 15 Continuing CCC Capital Outlay Projects***(In Thousands)*

College	Project	2019-20 State Cost	All Years	
			State Cost	Total Cost ^a
Santa Monica	Science and mathematics building addition	\$37,031	\$39,615	\$78,102
Laney	Learning resource replacement center	22,812	24,417	75,686
Mount San Antonio	New physical education complex	53,993	57,541	72,238
Santa Rosa	Science and mathematics replacement building	30,882	33,076	65,589
Orange Coast	Language arts and social sciences replacement building	28,305	30,353	59,803
Allan Hancock	Fine arts replacement complex	22,873	24,526	48,318
Golden West	Language arts replacement complex	21,925	23,540	46,478
West Hills (North District Center)	New library and instructional facility	40,275	42,403	43,285
Santa Ana	Russell Hall replacement	19,192	20,729	40,948
Solano	Library replacement building	17,396	20,148	39,739
Compton	Instructional replacement building	14,891	16,167	24,995
Mission	Portables replacement	10,073	10,814	21,500
Merritt	New child development center	5,692	6,128	20,013
Imperial	Academic buildings renovation	8,647	9,043	17,741
Long Beach (Pacific Coast Campus)	Construction trades building renovation, phase 1	6,712	7,304	13,107
Totals		\$340,699	\$365,804	\$667,542

^a Community college districts typically issue local general obligation bonds to pay for a share of project costs.

Figure 9**Projects Approved by Chancellor's Office but Not Included in Governor's Budget***(In Thousands)*

College	Project	Priority Category ^a	2019-20 State Cost ^b	All Years	
				State Cost	Total Cost
Folsom Lake	Instructional buildings phase 2	2	\$1,280	\$31,374	\$58,488
Mount San Jacinto	Math and Sciences building	2	1,560	26,816	50,673
Clovis	Applied Technology building	2	1,794	26,091	49,893
Irvine Valley	Fine arts building	2	1,624	23,202	45,072
Long Beach City	Music/theatre complex	2	1,681	23,212	44,606
Mount San Jacinto	Science and Technology building	2	1,854	23,203	44,071
Santa Barbara City	Physical education replacement	1	3,189	41,103	41,928
West Valley	Learning resource center renovation	3	1,623	19,993	40,132
Los Rios (Natomas Education Center)	Natomas Center phases 2 and 3	2	886	27,805	39,386
Woodland	Performing arts facility	4	1,427	19,426	37,659
West Hills Lemoore	Instructional Center phase 1	2	1,634	23,413	31,726
Kern (Delano Center)	LRC multipurpose building	2	1,191	16,106	31,242
Skyline	Workforce development center	3	860	14,621	28,750
Laney	Theater buildings renovation	3	709	8,213	26,454
Chaffey	Instructional Building 1	2	951	12,990	26,132
Cerritos	Health Sciences Building 26 renovation	3	1,054	12,665	24,712
Merritt	Horticulture building replacement	3	755	10,065	24,506
Cañada	Instructional center renovation	3	676	8,253	23,682
Lake Tahoe	RFE and Science renovation	3	1,447	11,056	21,564
Porterville	Allied health building	2	835	10,919	20,827
Monterey Peninsula	Public safety center phase 1	4	714	9,223	19,058
Los Rios (Elk Grove Center)	Elk Grove Center phase 2	2	410	8,946	17,013
Reedley	New child development center	4	818	10,388	14,366
Canyons	Boykin Hall renovation	3	334	4,057	7,755
Cabrillo	Buildings 500, 600 and 1600 renovation	3	252	3,622	7,268
Monterey Peninsula	Music facilities phase 1 renovation	3	222	2,454	6,347
San Mateo	Water supply tank replacement	1	505	5,669	6,298
Totals			\$30,285	\$434,885	\$789,608

^a Reflects Chancellor's Office priority categories.^b Reflects cost of preliminary plans and working drawings.

STAFF COMMENT/POTENTIAL QUESTIONS
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The Governor's budget provides significant new resources for both UC and CSU. And in a departure from the Brown Administration, which typically provided each segment with a base increase and little direction on how to spend new funding, the Newsom Administration does dictate how new revenues should be spent. The direction is based, on the segments' budget requests.

Although neither segment received the full amount of new state spending it requested, the Governor's Budget marks a great opportunity for the Administration, segments and Legislature to work together to develop a spending plan that responds to system concerns and state priorities.

For the community colleges, the Governor's budget indicates a lack of major new ongoing Proposition 98 General Fund: new ongoing money is spent on a cost-of-living adjustment and one new policy, the expansion of the Promise program launched last year. Colleges badly need the flexible spending authority that a COLA allows them, and the Promise program is a key Assembly priority. This leaves little room for addressing other longstanding priorities, however, such as supporting full-time and part-time faculty and expanding student support programs, such as veterans resource centers, basic needs services, and programs like Puente or EOPS. A key focus will be on ensuring that all current resources are being utilized to their best effect.

Enrollment concerns. Staff notes that UC and CSU have reported disappointing news regarding enrollment. Three UC campuses went beyond their caps on nonresident enrollment in Fall 2018, the first year that a new cap limiting nonresident enrollment was in place. And CSU saw a decline in California undergraduate enrollment in Fall 2018 when compared to Fall 2017.

Based on direction in the 2017 Budget Act, the UC Regents imposed a first-ever enrollment cap on nonresident students beginning in the 2018-19 academic year. Campuses are either required to keep nonresident students at 18% or less of the undergraduate student body, or for the three campuses that were already above 18%, go no higher than their current levels. Fall 2018 data indicate that the Berkeley and Los Angeles campuses, which were already higher than 18%, increased their nonresident percentages, and Davis exceeded the 18% cap. The charts below show Fall 2017 and Fall 2018 enrollment data for the three campuses:

Berkeley					Davis				
	Fall 2017	% of Student Body	Fall 2018	% of Student Body		Fall 2017	% of Student Body	Fall 2018	% of Student Body
CA Resident	23,070	75.5	23,235	75.3	CA Resident	24,955	83.0	25,111	81.7
Nonresident	7,504	24.5	7,618	24.7	Nonresident	5,111	17.0	5,607	18.3
Total	30,574		30,853		Total	30,066		30,718	

UCLA				
	Fall 2017	% of Student Body	Fall 2018	% of Student Body
CA Resident	23,926	77.2	24,135	76.4
Nonresident	7,076	22.8	7,442	23.6
Total	31,002		31,577	

Source: UC Information Center

The Office of the President has stated that it has reached an agreement with these campuses to use increased revenue from nonresident students to support basic needs issues at all campuses. The three campuses will also work in the next admissions cycle to get back under the required cap.

It should also be noted that Fall 2018 saw another increase in California enrollment throughout the UC, and UC is seeking support to increase California enrollment again in Fall 2019. Nonetheless, the fact that one-third of the system's undergraduate campuses violated the new nonresident policy is troubling.

For CSU, after years of increasing California enrollment, Fall 2018 saw a decline, as the chart below indicates:

CSU California Undergraduate Enrollment	Fall 2017	Fall 2018	% Change
FTES	359,021.80	358,622.70	-0.1%
Headcount	407,890	406,736	-0.3%

Source: CSU Institutional Research and Analyses

CSU notes that because the Governor's budget in January last year included no new enrollment funding, campuses were given flat enrollment targets. By the time the budget was enacted in July, CSU was provided one-time funding to increase enrollment, but the admissions cycle had been completed. Campuses may have increased California enrollment during Spring admissions, but that data is not yet available. CSU is seeking to grow California enrollment by 5% for the 2019-20 academic year, although the Governor's Budget supports 2% enrollment growth.

Suggested Questions

- Why did the Governor not support new California enrollment for UC?
- Why did the Governor support a new degree completion program at UC and not CSU? Shouldn't both segments be involved in this activity?
- UC has relatively high graduation rates. Is spending \$50 million on increased degree attainment and student success the appropriate action, given limited resources?
- Which UC campuses are most crowded? Which have the most capacity to grow?
- What are the main costs related to the CSU Graduation Initiative?
- Please describe Project Rebound? Why did the Administration choose to support this program? Is \$250,000 enough funding?
- How much funding would CSU use to expand child care centers through the deferred maintenance funding?

- How would CSU use the \$2 million to study the possibility of a Stockton campus? What would be the timeline and goals for this study?
- Have both the UC Regents and CSU Trustees ruled out a tuition increase for 2019?
- How has the new Promise program impacted community colleges? What issues should the Legislature consider as it looks to expand the program?
- How significant are the data issues regarding outcomes funding in the new community college funding formula? Does the administration support the general concept of outcomes funding?
- Can the Administration and Board of Governors work together to ensure their criteria for approving capital outlay projects is similar?
- How are all three segments addressing student basic needs issues? How can the state best help the segments address student food and housing insecurity?
- How can all three segments work to better maintain facilities and actually lower their deferred maintenance backlog?