

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Kevin McCarty, Chair

WEDNESDAY, MAY 1, 2019

4 PM, STATE CAPITOL, ROOM 126

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6400 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY
6870 CALIFORNIA COMMUNITY COLLEGES

ISSUE 1: STUDENT MENTAL HEALTH SERVICES

The Subcommittee has asked each of the segments to discuss their current mental health services for students, gaps in services, and ideas for improvement if funding were available. In addition, the Steinberg Institute has been asked to discuss the importance of mental health services for college students, and ideas for using Proposition 63 funding to support these services.

PANEL

- Brad Buchman, Medical Director, Student Health and Counseling, University of California Office of the President
- Denise Bevely, Director, Student Wellness & Basic Needs Initiative, California State University Office of the Chancellor
- Ray Murillo, Student Programs, California State University Office of the Chancellor
- Colleen Ganley, Program Specialist, Student Services Division at California Community Colleges Chancellor's Office
- Adrienne Shilton, Government Affairs Director, Steinberg Institute

Governor's 2019-20 Budget Proposal

The Governor's Budget provides UC with \$5.3 million in ongoing General Fund to expand mental health services for students.

STAFF COMMENT

Staff notes that current legislation seeks to expand mental health services for college students. Assembly Bill 1689 (McCarty) seeks to use state administrative funds within Proposition 63, the Mental Health Services Act, to support mental health services at campuses at UC, CSU and community colleges. The legislation creates the College Mental Health Services Program, which would allow the governing boards of each segment to distribute funding to campuses and to allocate funding to provide statewide training on matters related to student mental health.

6400 UNIVERSITY OF CALIFORNIA

The Governor's Budget proposes about \$3.9 billion in General Fund support for the University of California (UC) in 2019-20. Overall revenue for UC in 2018-19 is estimated to be about \$38.2 billion. The chart below was compiled by the LAO and indicates funding based on the Governor's Budget. *Note that the Subcommittee discussed UC enrollment and admissions issues at its March 19 hearing.*

University of California Funding by Source

(Dollars in Millions Except Funding Per Student)

	2017-18	2018-19	2019-20	Change from 2018-19	
	Actual	Revised	Proposed	Amount	Percent
Core Funds					
General Fund					
Ongoing	\$3,367	\$3,475	\$3,715	\$240	6.9%
One time	177	249	\$153	-96	-38.5
Carryover ^a	26	19	—	-19	-100.0
Subtotals	(\$3,570)	(\$3,743)	(\$3,868)	(\$125)	(3.3%)
Tuition and fees ^b	\$5,012	\$5,206	\$5,269	\$63	1.2%
Lottery	43	27	27	— ^c	-0.1
Other core funds ^d	388	384	381	-3	-0.9
Subtotals	(\$9,013)	(\$9,361)	(\$9,545)	(\$184)	(2.0%)
Other Funds					
Medical centers	\$10,780	\$11,534	\$12,342	\$807	7.0%
Sales and services	7,688	8,115	8,542	426	5.3
Federal	3,762	3,917	3,978	61	1.6
Private	2,431	2,679	2,905	226	8.4
State	518	465	465	1	0.1
Other	378	381	383	2	0.6
Subtotals	(\$25,557)	(\$27,090)	(\$28,614)	(\$1,524)	(5.6%)
Totals	\$34,570	\$36,452	\$38,159	\$1,708	4.7%
FTE students^e	272,104	279,002	279,802	800	0.3%
Total Core Funding Per Student	\$33,125	\$33,552	\$34,114	\$562	1.7%
Ongoing Core Funding Per Student	\$32,381	\$32,593	\$33,569	\$977	3.0%
^a Reflects unspent one-time funds in 2016-17 and 2017-18 carried forward.					
^b Includes funds that UC uses to provide tuition discounts and waivers to certain students. In 2019-20, UC plans to provide \$1.1 billion in such aid. We estimate 2019-20 based on UC's plans to grow nonresident enrollment.					
^c Less than \$500,000.					
^d Includes a portion of overhead on federal and state grants, a portion of patent royalty income, and Proposition 56 funding designated for graduate medical education.					
^e 1 FTE is 30 credit units for an undergraduate and 24 credit units for a graduate student. Student counts includes resident and nonresident students.					
FTE = full-time equivalent.					

ISSUE 2: OPERATIONAL COSTS

The Subcommittee will discuss the Governor's Budget proposal to provide \$119.8 million in ongoing General Fund support for UC operational cost increases.

PANEL

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Seija Virtanen, University of California Office of the President

BACKGROUND

During its November 2018 budget discussion, the UC Board of Regents and UC Office of the President noted significant increases in various operational costs for the 2019-20 fiscal year. Cost increases include employee benefits and salary, as well as other issues such as energy and equipment and supplies. The LAO provides the following description of some of these cost drivers.

Compensation Is the Largest Component of UC's Core Budget. Like most state and educational agencies, salaries and benefits comprise a significant share of UC's budget. In 2017-18, 67 percent of UC's core budget was for salaries and benefits. The remaining share of UC's budget was for equipment and utilities (17 percent) and student financial aid (16 percent).

A Portion of UC Employees Are Supported by Core Funds. In 2017-18, UC employed 159,000 FTE faculty and staff, of which 41,000 (26 percent) were supported by core funds. Core funds support faculty, librarians, academic advisors, and other academic employees. Noncore funds generally cover staff, such as medical center employees and dining services staff, who are involved in other aspects of the university's operations. In some cases, UC uses a mix of funds to support employees who oversee both core and noncore functions of the university. For example, UC uses a mix of core funds, federal grants, and private philanthropy to pay graduate teaching assistants and research assistants.

Many UC Employees Are Not Represented by a Union. Tenured and tenure-track faculty at UC, along with many academic administrators and certain other employees, are not represented by a union. Approximately one-third of UC employees who are supported by core funds are represented by a union. These employees are members of one of 13 systemwide bargaining units. Examples of represented employees include lecturers, teaching assistants, librarians, clerical workers, and custodial staff.

UC, Rather Than Legislature, Approves Compensation Increases. Unlike most other state agencies, state law grants the UC Board of Regents authority to negotiate collective bargaining agreements directly with its employee unions. The Office of the President represents the board during these negotiations and the resulting agreements must be ratified by the board. (As with CSU's bargaining agreements, the Legislature does not ratify UC's bargaining agreements.) The Board also grants the UC President authority to determine compensation increases for nonrepresented employees. The President typically determines compensation increases for tenured and tenure-track faculty after consulting with the Academic Senate.

UC Also Determines Employee and Retiree Health Benefits. In addition to setting salary increases, UC operates its own health benefit programs for current employees and retirees. Under the program, the Office of the President negotiates premiums with health care providers. The Board of Regents, in turn, adopts policies establishing what share of premium costs UC and its employees each pay. Under existing policy, UC's share of premium costs depends on the employees' health plan and salary level. On average, UC estimates it covers 87 percent of premium costs for active employees. For retirees, the maximum UC share of premium costs is 70 percent.

UC Operates Its Own Pension Program. UC's pension program is known as the UC Retirement Program. Like most other state employees, UC pensions are based on employees' salary and years of service upon retiring. The Board of Regents oversees UC's pension program and is responsible for determining benefits, establishing the plan's funding policy, and setting contribution rates.

In Recent Years, State Has Mostly Supported Compensation Costs With Unrestricted Increases. Because of UC's substantial control over its staffing and compensation costs, the state is not required to cover compensation decisions made by the Board of Regents. Nonetheless, the Legislature historically has recognized UC's compensation-related cost pressures. Consistent with past practice, the state in recent years has generally provided unrestricted, ongoing General Fund augmentations to help UC cover these costs.

UC Also Incurs Operational Costs for Equipment and Utilities. In addition to compensation decisions, the university purchases equipment that supports its operations. Academic-related equipment includes laboratory supplies, computers, and library materials. Campuses also have utility costs. Similar to compensation, equipment and utility costs that are not related to the university's academic mission are supported by noncore funds.

Governor's 2019-20 Budget Proposal

Based on UC's reported cost increases, the Governor's Budget provides UC with \$119.8 million in ongoing General Fund to support operational costs. The Administration states that it reviewed UC's budget request and provided support for what it considers to be UC's most pressing cost pressures. The chart on the next page summarizes those costs.

UC Cost Increases	Cost (in millions)
Retirement Contributions	\$20.2
Employee Health Benefits	\$21.2
Retiree Health Benefits	\$7.0
Contractually Committed Compensation	\$30.4
Non-Salary Price Increases	\$41.0
Total	\$119.8

As the chart shows, the largest single component supports non-salary price increases, such as utility and equipment costs. For planning purposes, UC assumes this portion of its budget will grow roughly at the rate of inflation. The next largest component supports negotiated salary increases for represented employees. According to the university, the anticipated cost increase reflects a mix of final contracts and contracts that are still under negotiation. The remaining increase would cover projected cost increases for UC's employee health, pension, and retiree health programs. The increase relating to health benefits is due to an anticipated 4 percent increase in premium costs, as well as growth in the number of retirees. Pension cost increases are based on projected growth in payroll.

It should be noted that the Administration does not provide state support for two other costs the UC Regents approved in setting their 2019-20 budget: faculty and staff compensation increases, which UC projects would total \$137 million.

LAO Recommendation

The LAO notes that absent making changes to its existing policies, UC very likely will face cost increases in the budget year for its health and pension benefits. It also likely will face cost increases for its equipment purchases and utilities. The state may want to start its UC budget planning by recognizing these cost increases.

With regard to whether to provide compensation increases in the budget year, the LAO encourages the Legislature to consider UC's ability to recruit and retain employees—whether they are represented or nonrepresented. At a minimum, the Legislature could consider UC's ability to attract top candidates to open positions, retain existing employees, and offer competitive compensation. If UC is able to recruit top candidates and retain tenured and tenure-track faculty but not represented staff, for example, the

Legislature might agree with the Governor's proposal to prioritize additional funding for represented employees. Alternatively, the Legislature might wish to target compensation increases toward different groups or provide higher or lower compensation increases. At the time of this analysis, UC was not able to provide data on these key indicators. The LAO does note that some data suggest UC is competitive in recruiting faculty.

STAFF COMMENT

Staff has no reason to doubt the cost increases UC believes will incur in 2019-20. It also seems reasonable for the state to share in supporting some operational cost increases, and staff agrees with the Administration's assessment that nonrepresented faculty and staff salary increases could be considered optional for UC, and therefore less of a priority for the state. Thus, the proposed amount of state support for UC's cost increases may be appropriate.

However, staff notes that the Assembly has other significant priorities for UC that are not supported in the Governor's Budget. Enrollment growth for 2019-20 is the key priority, but there may be other funding requests for research projects, or outreach to prospective high school students, that may also warrant state support.

Staff also notes that UC's budget request includes turning the \$105 million in one-time funding provided for the current year into ongoing funding. UC was not able to provide a specific breakdown of how campuses are spending this one-time money, but it is clear that some campuses hired faculty or incurred other ongoing costs. The Governor's Budget transitions \$10 million of that one-time funding into ongoing funding, to support enrollment, but does not provide the other \$95 million.

The Legislature should wait until the state's revenue picture is clearer in May before working with the Administration and UC to determine an appropriate UC package that addresses UC's costs, state priorities and other funding proposals. For example, the Subcommittee is aware of the following requests:

- SEIU is seeking \$1.5 million over 3 years to support research on the future of work and workers by the UC Berkeley Center for Labor Research and Education.
- The College for All Coalition – a group of 70 organizations representing community, education, student, parent, labor, faith and civil rights groups – are requesting a \$20 million investment in UC, coupled with \$200 million for K-12 school districts, to continue work to ensure that more student from LCFF school districts go to college.
- The Charles R. Drew University of Medicine and Science, which is affiliated with UC, is seeking \$15 million ongoing General Fund to expand its programs for undergraduate and graduate students.

ISSUE 3: STUDENT SUCCESS

The Subcommittee will discuss the Governor's Budget proposal to provide \$49.9 million ongoing General Fund to support efforts to increase degree attainment and student success.

PANEL

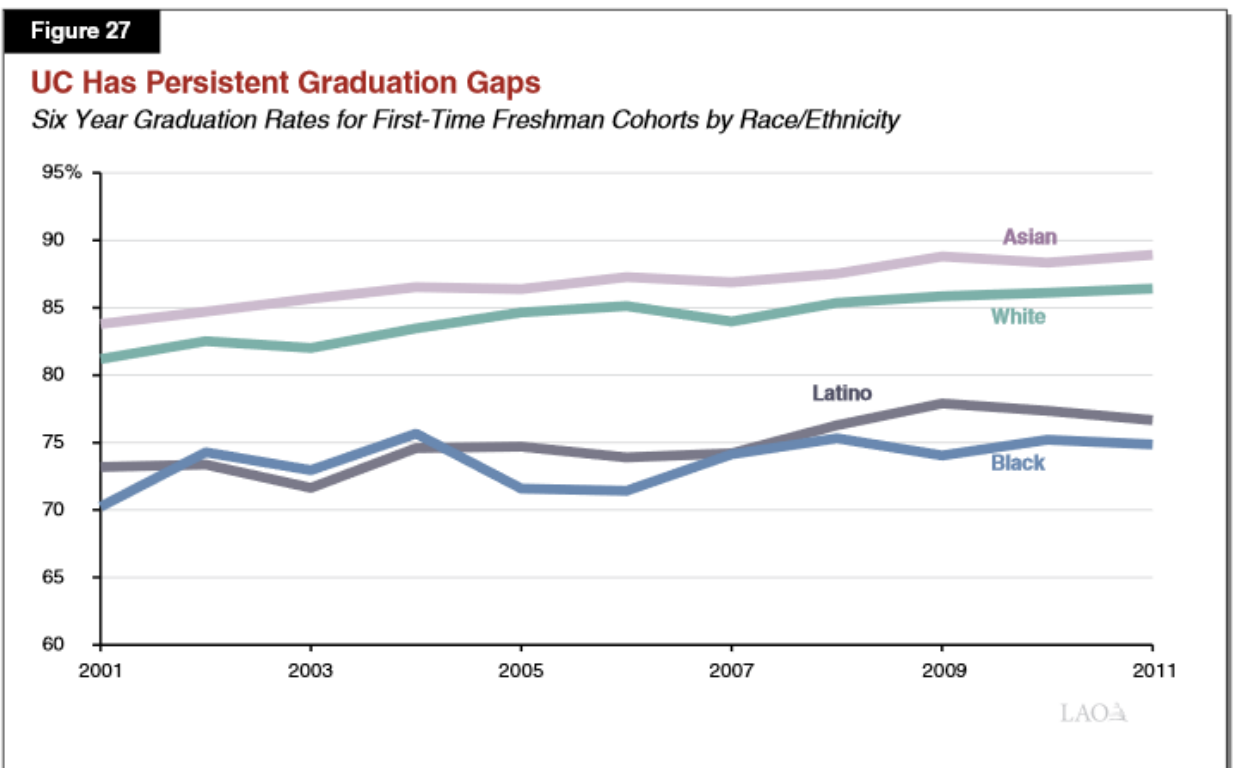
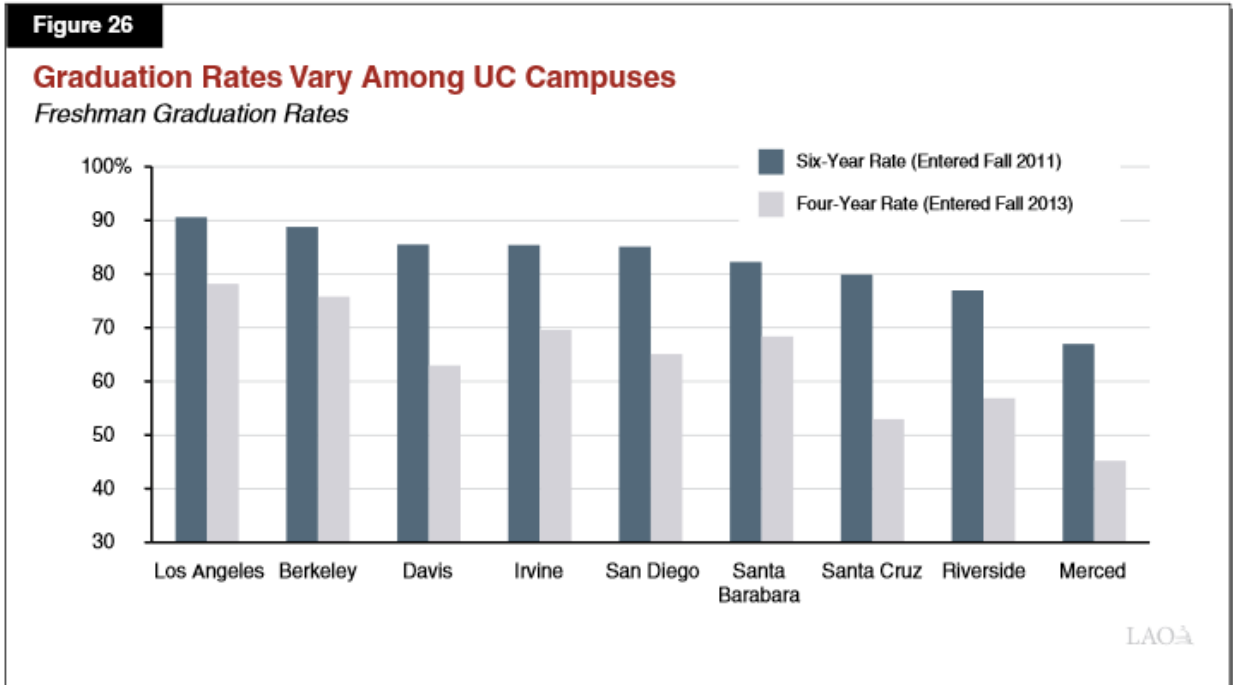
- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Seija Virtanen, University of California Office of the President

BACKGROUND

UC reports relatively high graduation rates, with 84% of freshmen graduating within 6 years and 89% of transfer students graduating within 4 years. There are achievement gaps for low-income students in shorter-term graduation rates, although those gaps largely disappear in the longer term. The chart below indicates varying rates for different students.

Student Groups	All Students	Pell Students
Freshmen 4-Year Grad Rate	66%	60%
Freshmen 6-Year Grad Rate	84%	82%
Transfer 2-Year Grad Rate	55%	51%
Transfer 4-Year Grad Rate	89%	88%

The LAO notes that graduation rates do vary considerably by campus, however, and graduation rates also vary by race/ethnicity. The charts on the next page, created by the LAO, indicate these differences.



The UC Board of Regents have recently discussed improving campus graduation rates as part of a larger discussion regarding multi-year planning. Among the goals discussed are:

- By 2030, five UC campuses - Berkeley, Davis, UCLA, San Diego and Santa Barbara - will have freshman six-year graduation rates of 90 percent or higher, and all nine undergraduate UC campuses will have transfer four-year graduation rates of 90 percent or higher. Today, only Berkeley and UCLA achieve that goal for freshmen, and only Berkeley, UCLA, and Irvine achieve that goal for transfer students.
- By 2030, eight UC campuses--Berkeley, Davis, Irvine, UCLA, Riverside, San Diego, Santa Barbara and Santa Cruz--will have four-year freshman graduation rates of 70 percent or higher and six campuses – Berkeley, Los Angeles, Riverside, San Diego, Santa Barbara, and Santa Cruz – will have two-year transfer graduation rates of 70 percent or higher. Today, only Berkeley and UCLA achieve that goal for freshmen, and no campus achieves that goal for transfer students.
- Eight UC campuses – Berkeley, Davis, Irvine, Los Angeles, Riverside, San Diego, Santa Barbara, and Santa Cruz - will eliminate significant gaps in overall freshman graduation rates and all UC campuses will eliminate significant gaps in overall transfer graduation rates between Pell Grant recipients (who are generally from low-income families), students from underrepresented groups, first-generation college students, and the overall student population. Five UC campuses - Davis, Irvine, Merced, San Diego, and Santa Cruz--will eliminate significant gaps in timely (i.e., four-year) freshman graduation rates, and eight UC campuses – Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, Santa Barbara, and Santa Cruz - will eliminate significant gaps in timely (i.e., two-year) transfer graduation rates.

Governor's 2019-20 Budget Proposal

The Governor's Budget provides \$49.9 million ongoing General Fund "to support efforts to increase degree attainment and student success." The Administration provides no further direction than this budget bill language.

LAO Recommendation

The LAO notes that the state has typically not focused on UC graduation rates, given the relatively good student outcomes. The LAO states that Legislature may wish to address UC's achievement gaps, although it must weigh this priority against other possible UC priorities (such as increasing access, reducing cost, enhancing graduate education, and addressing faculty issues).

The LAO is critical of the Administration's proposal, noting it lacks focus, there is no justification for the amount of funding provided, and the proposal neither specifies allowable uses of the funds nor establishes performance expectations.

Should the Legislature choose to support this type of funding, the LAO recommends directing UC to focus on explicit goals, establish performance expectations, develop an expenditure plan, and require regular reporting on activities and outcomes.

STAFF COMMENT

Staff notes that UC should address achievement gaps for low-income and underrepresented students. Equity should be a key priority in student outcomes.

However, staff concurs with the LAO that it is unclear whether this proposal will actually address this problem. UC states that the new funding would be used to improve academic advising, create new IT systems to track student progress, improve student services programs and hire more faculty and graduate student instructors, but plans remain vague.

The Subcommittee may wish to ask UC to develop a more specific plan before funding this kind of activity. As noted previously, this funding must be considered among the overall UC budget package, and other priorities, such as enrollment growth.

ISSUE 4: DEGREE COMPLETION

The Subcommittee will discuss the Governor's Budget proposal to provide \$15 million one-time General Fund to support a new program at UC Extension offices to allow former UC students to return and complete unfinished bachelor's degree programs.

PANEL

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Seija Virtanen, University of California Office of the President

BACKGROUND

The LAO provides the following background information on the current UC Extension program:

Extended Education Offers Classes to Adults Outside of Campuses' Regular Academic Programs. In California, all three public higher education segments operate extended education programs. At UC, each of the nine general campuses has its own extended education division called UC Extension. UC Extension primarily serves lifelong learners and working professionals. Students enrolling in UC Extension do not have to meet the same academic standards as students seeking admission to UC's regular academic programs. Whereas the state intends for UC is to enroll any eligible freshmen or transfer student into its undergraduate degree programs, extended education classes and programs generally are offered on a first-come, first-served basis.

Extended Education Is Self-Supporting. Extension programs do not receive state funding. Instead, programs are self-supporting—generally receiving their support from course fees charged to students. Because they must earn enough money to cover costs, extension divisions tend to be entrepreneurial. Extension staff develop and offer courses largely based on market research that gauges student demand. Extension divisions cover some marketing costs as part of their annual operating budgets. They also maintain reserves to cover special one-time costs associated with developing new courses.

UC Extended Education Programs Generally Offer Three Types of Courses. First, campuses offer a variety of noncredit classes and seminars covering topics ranging from conflict resolution to music appreciation. Extension divisions have considerable latitude to develop these classes. Second, extended education offers programs that confer professional certificates and awards. In contrast to noncredit courses, UC has

developed common academic standards for professional certification programs. For example, these programs must contain at least 120 hours of instruction. Third, UC offers a limited number of courses that confer academic credit toward a UC degree. To develop a degree-applicable course, extended education divisions must undergo the same Academic Senate approval process as regular degree programs. These courses tend to be taught by regular UC faculty. In 2016-17, 52 percent of extended education was in noncredit courses, 41 percent in professional certification courses, and 7 percent in degree courses.

Unlike UC, CSU Grants Some Bachelor's Degrees Through Its Extended Education Programs. Although certain classes can count for credit toward a degree, UC Extension currently does not confer bachelor's degrees. In a limited number of cases, academic departments have partnered with their campus's extension division to offer graduate degrees. In these partnerships, UC Extension provides much of the administrative support, such as marketing the degree and providing student services. UC faculty develop the curriculum and instruct students in these programs. In contrast to UC, CSU campuses offer both bachelor's and master's degrees through extended education. CSU's extended education bachelor's degree programs focus on upper-division instruction (with the expectation that applicants complete lower-division coursework at a community college or elsewhere before applying). Currently, CSU campuses offer a total of 38 bachelor's degree completion programs through their extended education divisions. Many of these programs are offered online or in a hybrid format (a combination of online and face-to-face instruction) to make them more accessible, particularly for students with work and family responsibilities

Governor's 2019-20 Budget Proposal

The Governor's Budget provides \$15 million one-time General Fund to develop or expand degree and certificate completion programs at UC extension centers. The Department of Finance has indicated the funds would support initial planning, curriculum development, outreach, and other start-up costs for the new programs. The budget bill specifies that the funds would remain available until June 30, 2024. The Governor expects the new programs would be offered on a fee-basis and be self-supporting after initial start-up. UC has indicated that it is developing a more specific proposal that should be ready by May.

LAO Recommendation

The LAO notes that students who did not complete a degree program have several options for returning to school. An individual could apply for readmission to the school or seek to transfer to another institution. Beyond these options, a student could enroll in one of CSU's bachelor's degree completion programs. The Administration has not provided data indicating that these existing re-entry options are insufficient to meet students' needs.

In addition to lacking a clear problem statement, the LAO states that the proposal does not have clear objectives. While it is true that millions of Californians have some college experience but no degree, the Governor's proposal does not specify whether the new UC programs would be for former UC students only or for a larger group of Californians who previously attended other schools. In addition, the Governor's proposal suggests various possible uses of the funds—each of which is centered around a different objective. Under the Governor's proposal, UC could use the funds to create new degree completion programs, add professional certificate programs, or undertake outreach to noncompleters.

The LAO also notes that UC extension centers could launch this program without new state funding.

The LAO recommends rejecting this proposal.

STAFF COMMENT

Staff believes the Administration has identified a significant problem that the state should address: there are hundreds of thousands of Californians who started college but did not finish. Data indicates that these former students likely do not benefit economically from “some college;” crossing the finish line is typically the key to a better-paying job and/or career advancement. There is also a clear state economic need for more workers with bachelor's degrees.

UC indicates that there are about 60,000 former UC students who did not complete their program, and about one-quarter of those students completed about 100 units, meaning they only have 20 or so units to go to obtain a degree.

Despite the clear need for increased degree completion, staff concurs with the LAO: this proposal is not developed enough yet to warrant support. How would the new funding be spent? Will financial aid be available to returning students? Would non-UC students be allowed to enter into this program? Perhaps UC will present a more detailed proposal this Spring, but there are currently significant implementation questions.

Perhaps most importantly, the LAO notes that CSU already offers degree completion programs. Using state funds to support UC launching a new program that is duplicative of an existing CSU program may not be the best use of scarce state funding.

The Subcommittee can revisit this proposal once UC has submitted a more thorough plan.

ISSUE 5: BASIC NEEDS

The Subcommittee will discuss the Governor's Budget proposal to provide \$15 million ongoing General Fund to address student hunger and homelessness.

PANEL

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Seija Virtanen, University of California Office of the President

BACKGROUND

The 2017 Budget Act created the Hunger Free Campus program, which provided funding to all three public segments to encourage campus activities aimed at addressing student food insecurity issues. The budget provided UC and CSU with \$2.5 million one-time General Fund and the community colleges with \$2.5 million one-time Proposition 98 General Fund to support this program. Trailer bill language called on campuses to conduct the following activities to be eligible for funding:

- Designate an employee to help ensure that students have the information that they need to enroll in the CalFresh program;
- Operate an on-campus food pantry or regular food distributions on campus;
- For UC and CSU, create a meal sharing program that allows students to voluntarily donate unused meal plan credits to be distributed for use by students in need to access dining halls or to support an on-campus food pantry.

The 2018 Budget Act provided \$1.5 million one-time General Fund each to UC and CSU and \$10 million one-time Proposition 98 General Fund to community colleges to support campus-based activities related to student hunger and basic needs. The Budget Act also included language requiring each segment to provide a report to the Legislature on activities to address student basic needs.

In its report, UC stated the following:

- Hunger-Free Campus funding enabled campuses to invest in over 40,000 dining meal voucher/swipes, increasing the sourcing of fresh, healthy, and diverse food offerings for pantry and distribution services that served over 9,000 unique students systemwide during the funding period (January 2018 to June 2018.)

- From January 2018 to June 2018, UC campuses enrolled and renewed 10,376 students in CalFresh, which drew in over \$12.5 million (10,376 students multiplied by 8 months at \$152 per month) in federal funds administered through the state to UC students.
- All UC campuses have an established fresh and healthy choice-based pantry that includes supplemental event and site-based food distribution. Campuses used the Hunger-Free Campus funding allocation to improve space, storage, and equipment for their pantries.
- All campuses awarded work study or stipends to undergraduate and graduate students to fill critical staffing positions such as CalFresh outreach and enrollment interns, graduate student CalFresh ambassadors, program coordinators, food recovery advocates, student staff researchers to conduct data assessments, and full-time, short-term managers to provide leadership and coordination of all food/basic needs resources. Some campuses also hired additional interns for their food pantries, pop-up sites, and community gardens.

UC notes that it intends to use the 2018-19 funding in a similar manner.

Governor's 2019-20 Budget Proposal

The Governor's Budget provides \$15 million ongoing General Fund to address student hunger and homelessness. UC previously indicated its plan for this funding would be to provide additional financial aid to needy students, but this proposal may be modified.

STAFF COMMENT

Prompted in part by the state funding, all three segments have spent considerable time and effort during the past few years addressing student food and housing insecurity. All three have conducted recent student surveys indicating significant need among students. A 2018 survey conducted by UC found the following:

- 47% of UC students reported food insecurity. Across campuses, the percent experiencing food insecurity was highest at Merced (61%), followed by Riverside (54%), and lowest at UCLA (37%). Higher levels of food insecurity were reported by African-American (61%) and Hispanic (60%) students compared to other student ethnicities, and higher levels of food insecurity were reported by first generation college students (58%) and low-income students (58%) when compared to their peers.

- 4% of UC students reported homelessness. Across campuses, Santa Cruz (6%) reported the highest percentage of homelessness, while multiple campuses – Davis, Irvine, UCLA and Riverside – reported the lowest percentage (3%.) By race/ethnicity, the percent experiencing homelessness was higher among African American, American Indian and international students. By socioeconomic status, the percent experiencing homelessness was higher among first generation students compared to not first generation students, and higher among low-income than non-low-income students.

Given the clear need reported both by surveys and anecdotally by students, staff and faculty, the Administration's proposal to provide ongoing funding to address this issue is positive. The Subcommittee may wish, however, to work with the Administration and UC to better define this proposal.

UC had originally envisioned this funding as a way to provide an extra \$150 of financial aid to 100,000 needy students. Based on input from the UC Student Association, UC has indicated to staff that they may revise their plan. The Student Association is concerned that a discontinuation of state funding for campus basic needs infrastructure, such as food pantries and Cal Fresh liaisons, may cause disruption in these programs, which appear to be filling a real need. Staff agrees with this concern; spreading a relatively small amount of new financial aid to a large number of students may not be the most effective way to use this funding.

Staff also notes that there are numerous policy proposals this year seeking to address these issues. In addition to financial aid reform discussed in a previous hearing, which could lead to more financial support for the housing and food needs of low- and middle-income students, the Subcommittee has received advocacy for a proposal sponsored by John Burton Advocates for Youth to create rapid rehousing programs at the three segments, which would help housing-insecure students with rental assistance and intensive case management to ensure better housing stability.

Finally, staff is working with stakeholders to ensure that the state Cal Grant program is designed in a way to ensure as much student eligibility in the federal CalFresh program as possible. Participation in the CalFresh program appears to be relatively low, and there may be ways the state can alter statute to help more students easily qualify for CalFresh benefits.

ISSUE 6: CAPITAL OUTLAY AND DEFERRED MAINTENANCE

The Subcommittee will discuss capital outlay projects proposed by UC and the Governor's Budget proposal to provide \$138 million one-time General Fund to support deferred maintenance projects.

PANEL

- Randall Katz, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Seija Virtanen, University of California Office of the President

BACKGROUND

Capital outlay process allows UC to finance projects. Beginning in 2013-14, the state authorized UC to begin issuing its own university bonds for capital outlay. In a related action, the 2013-14 budget package transferred ongoing base funds into UC's main General Fund appropriation in an amount equal to what the state was then paying on UC debt service. Moving forward, UC is expected to pay off all debt—for both previous state bonds and new university bonds—from its main General Fund appropriation.

Under the process now in use, UC must notify the Legislature and receive approval from the Administration on the projects it intends to pursue with its General Fund support. UC submits its project proposals in September, and the Department of Finance submits a letter to the Joint Legislative Budget Committee in February indicating which projects have received preliminary approval. The Legislature can provide feedback before Finance provides final approval in April.

UC reports \$4.4 billion in deferred maintenance. Over the years, UC, as well as many other state agencies, have deferred undertaking maintenance projects to address other operating costs and budget priorities. Currently, the university maintains a running list of state-supportable maintenance projects for each campus. As of September 2018, the list of projects totaled \$4.4 billion. Although this list currently is the best estimate of the university's maintenance backlog, the Office of the President reports that campuses used different definitions and methodologies to identify their projects and estimate associated costs. As a result, UC believes the list does not completely and accurately reflect its maintenance needs. To provide a more detailed and standardized estimate of the condition of its facilities, UC is funding a team of experts to visit each campus and provide an assessment of each facility. The study, which UC anticipates completing by the end of 2020, is funded by \$15 million in university bonds, which the state authorized in 2017-18.

Capital Outlay and Governor's 2019-20 Budget Proposal

UC has proposed seven capital outlay projects for 2019-20. Finance has given preliminary approval to all seven. The projects are listed in the chart below, which was prepared by the LAO.

Figure 28
UC Proposes Seven Capital Outlay Projects for 2019-20
(In Thousands)

Campus	Project ^a	State Cost in 2019-20 ^b	Total Cost Across All Years
Systemwide	Deferred maintenance	\$35,000	\$35,000
Santa Barbara	New classroom building	79,787	97,133
Irvine	New Student Wellness and Success Building	13,000	69,606
Santa Cruz	New Kresge College academic building	47,200	53,000
Riverside	Pierce Hall renovation	13,000	22,747
ANR	Renovation of research and extension centers	19,237	19,237
Berkeley	University Hall seismic renovation	6,050	17,475
Totals		\$213,274	\$314,198

^a At the Santa Cruz project, state funds supported the working drawings phase in 2018-19. All other previous phases for all projects were supported by nonstate funds.
^b Funded by university bonds. The annual debt service on the bonds is estimated to be \$16 million.
 ANR = Agriculture and Natural Resources.

The Governor's Budget also provides \$138 million one-time General Fund to support deferred maintenance projects.

LAO Recommendation

The LAO notes concerns with the proposed new classroom building at Santa Barbara, the new Kresge College academic building at Santa Cruz, and UC's preliminary plan to use university bonds to fund an infrastructure conditions assessment. The LAO suggests online courses could be used instead of building large, new academic buildings, and notes that one of the Santa Cruz project's main goals, to consolidate academic programs into one space, may not be a high state priority.

The LAO also raises concern with UC's proposal to use bond funds to assess facilities and deferred maintenance.

Regarding the Governor's deferred maintenance proposal, the LAO recommends the Legislature require UC to report at spring hearings on the specific projects it plans to undertake, and requiring the Department of Finance to report no later than January 1, 2023 on the status of the various projects that are undertaken. In addition, the LAO recommends the Legislature require UC to submit a long-term plan for eliminating its backlog once it completes its facility condition assessment (anticipated by December 31, 2020). UC's plan should identify funding sources and propose a multiyear schedule of payments to eliminate its backlog. To prevent the backlog from growing or

reemerging in future years, the LAO recommends the Legislature require UC to identify ways to improve existing maintenance practices.

STAFF COMMENT

Staff notes that UC students have voiced concerns in recent years regarding overcrowded classrooms on most campuses; thus the proposals for new academic buildings appear to address a current student need. While online courses are on the rise, it does not appear that they will become so pervasive in the next few years to warrant holding off on badly-needed construction.

Staff concurs with the LAO recommendations on deferred maintenance. The Legislature should receive more detail on how UC will use funding; simply providing a list of \$4 billion in projects does not provide relevant information as to how this money will be spent. In addition, additional reporting on how to address this backlog appears warranted. The state has provided UC with \$145 million in support for deferred maintenance during the past few years. This funding appears to have done little to reduce the backlog. It seems reasonable to require UC – and other state agencies – to develop a plan to better maintain their facilities.

ISSUE 7: OFFICE OF THE PRESIDENT

The Subcommittee will discuss the budget for the Office of the President.

PANEL

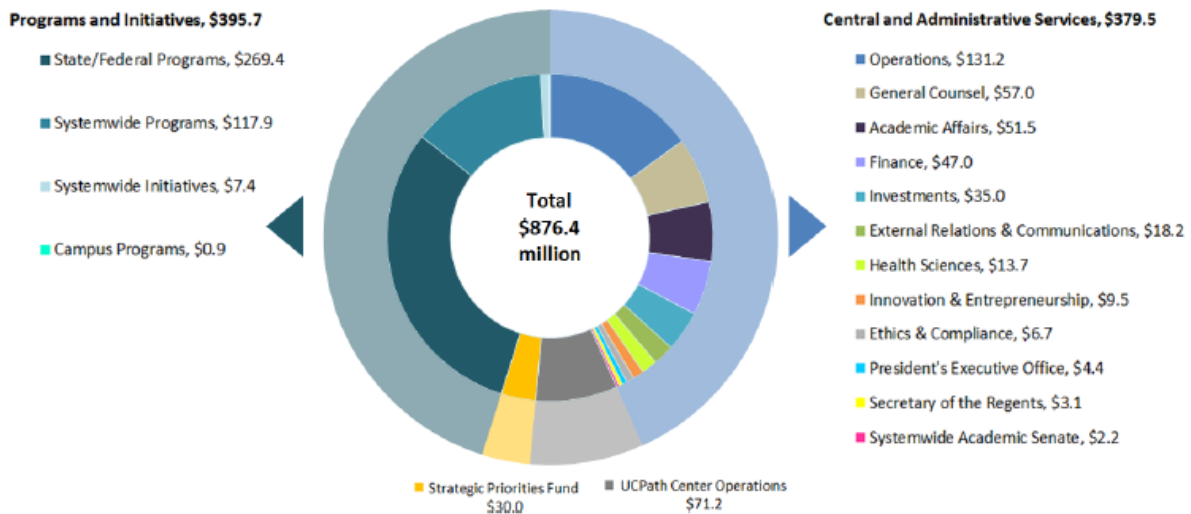
- Seija Virtanen, University of California Office of the President
- Katie Cardenas, California State Auditor’s Office

BACKGROUND

As the systemwide headquarters of the university, UC Office of the President (UCOP) serves two distinct functions: it provides certain central administrative services, and it manages systemwide initiatives that benefit a campus or multiple campuses. Examples of central administrative services include reporting at regents meetings, managing the university’s retirement programs, and developing the university’s budget.

The UCOP budget is \$876.4 million for the current year, as shown below. This is a decrease of 2% from 2017-18.

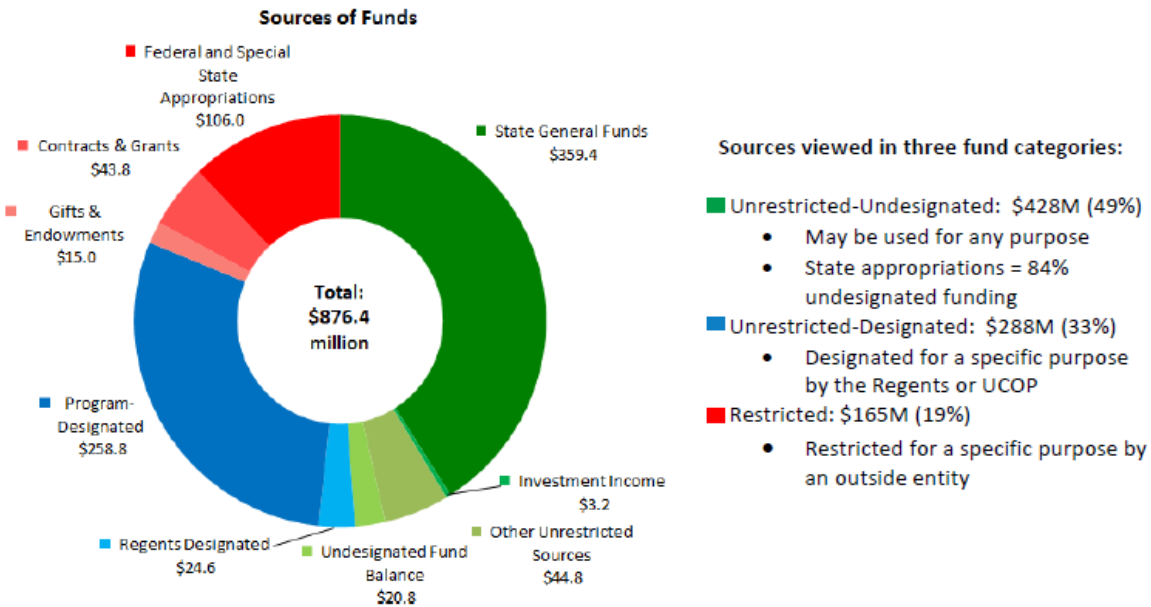
UCOP Budget, 2018-19



Source: UC Regents Item B-1, May 24, 2018

UCOP has numerous fund sources, as the next display shows. The largest source is state General Fund.

UCOP Funds, 2018-19



¹ In FY18-19 approximately \$25M of investment income is reported in "other unrestricted sources" due to the fund classifications work. This classification will be reviewed again in FY18-19.

² Use of Undesignated Fund Balance: UCOP has created the new Strategic Priorities Fund (SPF) to address strategic and emerging issues. UCOP budget proposes using \$20.3M from unrestricted fund balances as one-time bridge funding to help fund the SPF.

Source: UC Regents Item B-1, May 24, 2018

2017 Audit critical of UCOP budgeting practices. A 2017 report by the State Auditor found numerous concerns with UCOP's budget, including:

- UCOP accumulated more than \$175 million in undisclosed restricted and discretionary reserves, and advocated for more funding even while accumulating these reserves;
- UCOP did not track systemwide initiatives, their costs, or provide an assessment of their continued benefit to the university;
- UCOP lacked consistent definitions of and methods for tracking the university's administrative expenses.

Budget Act created new line item, specific state funding for UCOP. Based on a recommendation from the State Auditor, the 2017 Budget Act created a new mechanism for funding UCOP. Previously UCOP assessed campuses a fee for various services. Beginning in the 2017-18 fiscal year, this campus assessment was largely abolished, and a new line item in the state budget was created for UCOP. The state now provides General Fund to support UCOP operations. The 2018 Budget Act provided UCOP with \$340.2 million, with \$215.2 million for UCOP, \$52.4 million for the UC Path payroll system, and \$72.6 million for the Agriculture and Natural Resources division, which is housed within UCOP. Budget language stated that the funding would only be provided if the UC President certified that there would be no campus assessment, although language did allow an assessment to increase the UC Path budget by up to \$15.3 million.

UCOP in the midst of multiple reforms. Since the audit, UCOP has launched several efforts to change UCOP budgeting practices, and to review UCOP's structure and services to determine if broader change is warranted. A UCOP budget proposal for 2018-19 is expected to be presented to the UC Board of Regents at their May meeting. Among the activities:

- UCOP developed a new budget process for 2018-19, which includes zero-based budgeting for travel, meetings and other services, better forecasting to predict projected expenditures, and the reformation of the Executive Budget Committee, which allows for campus input into UCOP's budget.
- As recommended by the Auditor, UCOP has agreed to end the practice of using undisclosed budget surpluses to support various activities. Instead, UCOP is creating the Strategic Priorities Fund to address temporary priorities and initiatives. This fund would include the President's Initiative Fund. UCOP notes that the combined funds it is folding into this new fund totaled between \$50 and \$60 million during the past two years; while the new fund is budgeted at \$30 million.
- UCOP has changed the definitions it uses to describe funds as restricted or unrestricted. Restricted funds are now described as those funds that are subject to externally imposed restrictions, such as contracts, gifts and other special funds. Unrestricted funds are not subject to external requirements, but may be subject to designated programs if approved by the Regents. As noted in the chart above, UCOP's 2018-19 budget includes 49% of its funds are unrestricted-undesignated, 33% are unrestricted-designated, and 19% are restricted.

- UCOP is reviewing salary data, market data, and state human resources practices to respond to Audit concerns. Among the goals are to develop a workforce plan, develop a comprehensive policy on executive compensation, and narrow salary ranges for UCOP employees.
- UCOP has cataloged all programs and initiatives, and developed five categories: state/federal programs, campus programs, systemwide programs, systemwide initiatives, and presidential initiatives. This work should allow UCOP to better track these programs going forward.
- President Napolitano hired a consultant to review UCOP's size and structure to determine if major reforms were needed. A report released in January 2017 provided two options for significant change; both would move programs from UCOP to campuses or create new entities. For example, one option would break off the UC medical programs into a separate system; another proposal would move some programs, such as the Agriculture and Natural Resources Division to campuses. Many of the recommendations have been reviewed and some changes have been made: consolidation of four divisions into one External Relations and Communications division, and moving the Education Abroad office from UCOP into the Santa Barbara campus budget, for example.
- At the request of the Assembly, the Regents hired a consultant to study redundancy between UCOP and campus administration. This had been a key request of the State Auditor, but due to UCOP interference with campus surveys the Auditor was unable to conclude this work. Sjoberg Evashenk Consulting conducted 74 interviews with campus leaders, including all 10 chancellors, and released a report in May 2018. Among the findings were:
 - Broad-based campus support for the President's role to represent the UC system as its advocate and its voice, and for some UCOP functions, such as labor relations, payroll and retirement system services, that make sense as a centralized service to campuses.
 - Support for the President to champion initiatives, although there were concerns about the process and manner of launching initiatives and the long-term resource commitment that accompanied some initiatives.
 - Concern that UCOP's departments and divisions are similar to, or mirror, areas administered at a campus level. Specifically, campuses identified Innovation and Entrepreneurship, marketing, and philanthropy as areas where UCOP provides little value or often competes with campuses.

After this report was released, UC formed a working group with the Chair of the Regents, the President, and three chancellors who have reviewed every issue

and suggestion. UCOP reports that some changes have been made regarding delegation of authority and streamlining processes.

Governor's 2019-20 Budget Proposal

The Governor's Budget continues the separate line item for UCOP, and maintains state General Fund at the same level as the 2018 Budget Act. The budget would provide \$215.2 million General Fund to UCOP, \$52.4 million General Fund for UC Path, and \$72.6 million for the Agriculture and Natural Resources division. Budget language ties this funding to a requirement that the UC President certify that there is no campus assessment, with the exception of UC Path.

STAFF COMMENT

Staff notes that UCOP appears to be spending significant attention and resources toward addressing the audit recommendations. The Subcommittee could consider the following issues as it discusses UCOP's budget and missions.

Auditor and UC disagree on implementation of two key 2018 recommendations.

The Auditor suggested 10 recommendations for improving UCOP's budgeting and transparency to be completed by April 2018. While the Auditor has concluded that UC has completed 8 of those recommendations, she does not believe UC has completed two key recommendations: the development of a reserve policy and the implementation of a new, easier-to-understand UCOP budget presentation. While UCOP has created a new, overall reserve policy and is providing more transparency around unspent funds from year-to-year, the Auditor notes that it has not developed reserve policies for some specific programs and reserves seem high. The Auditor also notes that while UCOP has improved its budget presentation, it did not include summary lines in its financial schedules that displayed the total restricted and discretionary reserves and fund balances.

Staff notes that UCOP made a presentation to the Regents in March regarding the management of reserves, and included a one-page UCOP budget summary as recommended by the Auditor.

UC faces April 2019 deadline to implement more recommendations. Among the recommendations are narrowing salary ranges, setting targets for appropriate employee benefits, establishing spending targets for systemwide initiatives, and creating a plan for reallocating funds that it saves to campuses as it reduces staffing costs. UC submitted its actions to the State Auditor last week.

UCOP reforms have pushed some funding to campuses. A key Assembly goal in pushing for this audit was to ensure that as much UC funding as possible go to campuses to support enrollment growth and other student needs. There is good news

regarding this goal. Based on its review of reserves and other funds, the UC Regents last year re-directed \$30 million one-time from UCOP to campuses to address student housing and \$10 million one-time from UCOP to the School of Medicine at Riverside. In addition, through a process created in the 2017 Budget Act, \$8.5 million in ongoing funding was re-directed from UCOP operations and programs to campuses to support enrollment growth in 2018-19.

UCOP has improved budget presentation, but it remains very complex, and the timing of UCOP budget decisions remains problematic. A key Assembly concern has been the complexity of the UCOP budget, which made it difficult for regental or legislative oversight. UCOP should be applauded for creating a one-page summary of its budget, which lists reserve amounts. Staff notes that a presentation regarding the UCOP budget at last week's Regents meeting appears to show UCOP with a \$30 million "unrestricted" balance for the current year.

Nonetheless, the UCOP budget remains confusing: the May 2018 UCOP budget presentation to the Regents is 41 pages long. While this report includes significant new detail comparing the current fiscal year to the proposed budget, discussions of reserves and other information, it remains difficult to interpret.

Additionally, UCOP continues to present the overall UC budget to the Regents in November, and then the UCOP budget in May. This bifurcated process does not allow the Regents to review the UCOP budget before it makes other key UC budget decisions, including tuition levels and enrollment growth. Furthermore, waiting until May to present the UCOP budget hinders the Administration and Legislature's ability to review this budget before determining an appropriate amount of state funding for UC and UCOP.

UC has reviewed post-audit reports. As noted previously, UC commissioned two significant reports after the audit to review UCOP's missions, redundancy with campuses, and other potential reforms. One report, conducted by the Huron consulting firm, provided options for major changes to UCOP, including moving major programs like the Agriculture and Natural Resources division to a campus, separating UC's medical centers from the current UC structure, and consolidating or eliminating some UCOP divisions and employees. The other report focused on campus and UCOP redundancies. UCOP reports that 8 of its divisions are making changes based on these reviews, it has moved two UCOP programs – Education Abroad and UC Mexico – to campuses, streamlined some communication and committee processes between UCOP and campuses, and launched a review of the capital outlay process. The Subcommittee may wish to ask UCOP for a more thorough description of the outcomes of these reviews.

ISSUE 8: UC PATH

The Subcommittee will discuss UC Path, a project to integrate numerous payroll and human resource functions into one system.

PANEL

- Mark Cianca, University of California Office of the President

BACKGROUND

The Payroll, Academic Personnel, Timekeeping, and Human Resources Project, or UCPath, was conceived in 2009, and it became a part of its Working Smarter initiative, an effort led by the Office of the President to achieve administrative efficiencies systemwide by reducing costs or increasing revenues. The Office of the President anticipated that when fully operational, UC Path would replace its existing Payroll/Personnel System (legacy payroll system), which has evolved into 11 variations in use across the campuses. In its 2011 business case supporting the implementation of UC Path, which was created two years before the current university leadership took office, the Office of the President noted that the legacy payroll system was more than 30 years old and was at significant risk of breakdown because of its aging technology. The legacy payroll system also has serious limitations, including high maintenance costs, limited reporting functions, reliance on manual processing, and inadequate capability for the university's current payroll environment.

A 2017 review of the project by the State Auditor included several critical findings:

- The project is hundreds of millions of dollars costlier than the first estimate, which was \$170 million.
- The Office of the President originally estimated that it would complete UC Path by August 2014, but it has delayed the implementation date by nearly five years, to the end of 2019 at the earliest.
- The \$753 million in cost savings, primarily from staff reductions, that the Office of the President anticipated would result from UC Path's implementation, will not materialize.
- Despite the significant departures from the original estimated cost, schedule, and savings for UC Path, the Office of the President has not consistently informed the UC Board of Regents of UC Path's challenges.

- Weaknesses in the Office of the President's project management contributed to UC Path's escalating cost and schedule delays. Specifically, it set aggressive schedules that are susceptible to delays caused by project scope changes or staffing constraints, and it did not establish rigorous change management processes that would have allowed it to assess how changes to the project's scope would impact its cost and schedule.

The audit made several recommendations to the Regents and the Office of the President to improve the project process, including more frequent and detailed reports to the Regents at public hearings, and developing better planning and oversight of the project.

As discussed earlier, the 2017 Budget Act created a new, separate line item for the Office of the President, which includes funding for UC Path. This action changed the funding for the project from a campus assessment model to state General Fund support. The Budget Act provided \$52.4 million General Fund for UC Path in 2017. The 2018 Budget Act included the same amount of General Fund but allowed the Office of the President to increase the UC Path budget by up to \$15.3 million via campus assessment.

UC will provide an update on UC Path implementation at this hearing. Previous Regents' reports and staff briefings indicate the following:

- About one-third of UC employees – about 77,000 – are now receiving paychecks through the UC Path system. This includes the Riverside, Merced, Los Angeles and Santa Barbara campuses, as well as the Office of the President and the Associated Students of UCLA. Berkeley is expected to join the system this month, and Irvine, San Francisco, San Diego, Santa Cruz are scheduled to launch by the end of the year, as is Hastings College of the Law and Lawrence Berkeley National Laboratory. The Davis campus was supposed to join within the next few months but has been delayed; an exact launch date is unknown.
- UC forecasts that the project will cost \$547.2 million, with additional campus costs of \$214.3 million.
- Operating costs for UC Path are \$71.2 million in the current year.
- Hundreds of students and some other UC employees have reported issues regarding paychecks as the system has launched. UCOP has noted that system defects, data-entry errors, and late time cards have contributed to the errors, which left graduate students and some workers with inaccurate or

missing paychecks. UAW, which represents graduate students, and the Teamsters, who represent some clerical and trades workers at UC, have both complained that their members have faced missing or incorrect paychecks. UC Path has implemented efforts to provide students with correct payment within 24 hours of notification of a problem, and UC and UAW recently reached agreement over a remedy for affected students: each affected academic student employee will receive \$150 (net after taxes); and employees with paycheck issues of more than one month will receive additional compensation, as appropriate, up to a maximum of \$450.

Governor's 2019-20 Budget Proposal

The Governor's Budget continues the separate line item for UCOP and UC Path, and maintains state General Fund support for UC Path at \$52.4 million General Fund while allowing a supplemental campus assessment of \$15.3 million.

In addition, an April 10 letter from the Department of Finance to the Joint Legislative Budget Committee stated that Finance is allowing a request from UCOP to increase the campus assessment by \$8.2 million, for a total of \$23.5 million. The letter notes that UCOP "is expected to collaborate with campuses to maximize their use of non-core funds to support the additional assessment."

STAFF COMMENT

The UC Path project is clearly needed, as UC campuses currently operate multiple old and failing payroll systems. But the project has clearly been troubled by poor planning and lax regental oversight. Recent paycheck problems for some students and employees are troubling; many students rely on their UC pay to cover rent or other living costs that they face whether their paycheck is accurate, on-time, or not.

While UC Path officials have sought to address these paycheck issues, this transition has caused hardship. The Subcommittee may wish to ask UC Path what lessons have been learned from these recent issues, and how they can be avoided as new campuses are brought into the system.

This agenda and other publications are available on the Assembly Budget Committee's website at: <https://abgt.assembly.ca.gov/sub2hearingagendas>. You may contact the Committee at (916) 319-2099. This agenda was prepared by Mark Martin.