

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE****Assemblymember Kevin McCarty, Chair****TUESDAY, MAY 23, 2017
9 AM, STATE CAPITOL, ROOM 447****PART 2: FINAL SUBCOMMITTEE ACTIONS - HIGHER EDUCATION
GENERAL FUND**

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VOTE-ONLY ITEMS

6120 CALIFORNIA STATE LIBRARY

VOTE-ONLY ISSUE 1: ASSET MANAGEMENT SYSTEM REPLACEMENT

It is requested that Item 6120-011-0001 be increased by \$404,000 for replacement of the asset management system used by the California State Library. Of this amount, \$189,000 is ongoing to support costs of subscriptions and \$215,000 is one-time to support costs of implementation of the new system. A new system would allow the Library to improve organization of its collections, allow for better linkages with other libraries, and create efficiencies for other state agencies that choose to maintain their materials using the system.

Staff Recommendation: Approve the May Revise proposal

VOTE-ONLY ISSUE 2: ASSISTANT BUREAU CHIEF

It is requested that Item 6120 011 0001 be increased by \$137,000 ongoing for an Assistant Bureau Chief in the State Library Services Bureau. No position authority is requested. The State Library Services Bureau is the state's central reference and research library. An Assistant Bureau Chief would be responsible for general management of functions related to the library's collections and for coordination of the State Library's initiative to digitize state records. These responsibilities are currently being performed by the Bureau Chief.

Staff Recommendation: Approve the May Revise proposal

6440 UNIVERSITY OF CALIFORNIA

VOTE-ONLY ISSUE 3: PROPOSITION 2 FUNDING

The Governor's Budget proposes \$169 million one-time Proposition 2 funding to help address the unfunded liability in the UC Retirement Plan. This is the final installment of a total of \$436 million in one-time funds provided over a three-year period.

Staff Recommendation: Approve the Governor's Budget proposal

VOTE-ONLY ISSUE 4: TOBACCO-RELATED DISEASE RESEARCH FUND ADJUSTMENTS

It is requested that the following adjustments be made related to tobacco-related disease research programs:

- Item 6440-001-0234 be increased by \$3,000. Proposition 99 created the Research Account in the Cigarette and Tobacco Products Surtax Fund. Funds in the account are only available for appropriation for tobacco-related disease research. The Governor's Budget includes \$10,146,000 for the program. Based on revenue estimates for the May Revision, the appropriation should be \$10,149,000. This action adjusts that appropriation to effectuate the related provisions.
- Item 6440-001-3310 be increased by \$1,208,000. Proposition 56 required that 5 percent of funds in the Medical Research Program Account, California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund, following other deductions and transfers, be allocated for medical research of tobacco-related diseases to supplement the Cigarette and Tobacco Products Surtax Medical Research Program. The Governor's Budget includes \$80,748,000 for those purposes. Based on revenue estimates for the May Revision, the appropriation should be \$81,956,000. This action adjusts that appropriation to effectuate the related provisions.

Staff Recommendation: Approve the May Revise proposals

VOTE-ONLY ISSUE 5: BREAST CANCER RESEARCH FUND ADJUSTMENT

It is requested that Item 6440-001-0007 be increased by \$2,073,000 for the Breast Cancer Research Program. The May Revision estimates that \$7,954,000 in revenues will be transmitted into the Breast Cancer Research Account, Breast Cancer Fund, in 2017-18. Existing law requires that, upon appropriation, 90 percent of the moneys in the Breast Cancer Research Account, Breast Cancer Fund be allocated to the Breast Cancer Research Program. The Governor's Budget includes \$5,086,000 for the Program. The share that should be appropriated is \$7,159,000. This action adjusts that appropriation to effectuate the related provisions.

Staff Recommendation: Approve the May Revise proposal

VOTE-ONLY ISSUE 6: TRANSPORTATION RESEARCH FUND ADDITION

It is requested that Item 6440-001-3290 be added in the amount of \$5 million from the Road Maintenance and Rehabilitation Account, State Transportation Fund to the University of California for transportation research. Chapter 5, Statutes of 2017 (SB 1) allocates the funds for this purpose.

Staff Recommendation: Approve the May Revise proposal

VOTE-ONLY ISSUE 7: ELIMINATE SUSTAINABILITY PLAN REPORT

The Governor's Budget proposes to eliminate the annual Sustainability Plan, which was submitted to the Administration and Legislature each fall by the UC Regents. The plan is duplicative of other UC reports and documents.

Staff Recommendation: Approve the Governor's Budget proposal

VOTE-ONLY ISSUE 8: EXTENSION OF CALIFORNIA HEALTH BENEFITS REVIEW

The Governor's Budget proposes to eliminate the sunset date for the California Health Benefits Review Program (CHBRP). This program, administered by the University of California (UC), provides the Legislature with analyses of certain bills involving health insurance plans. UC staff provides analysis of bills that propose new health insurance benefit mandates. These types of bills typically require health insurers and health care service plans to provide certain benefits, such as specific treatments or services, to certain individuals. In response to this legislation, UC established CHBRP as a unit of the UC Office of the President employing five program staff. Subsequent legislation has since expanded CHBRP's purview to include (1) bills that repeal a health benefit mandate and (2) bills that broadly cover health insurance topics.

Since 2004, the program has analyzed 85 Assembly bills and 44 Senate bills, averaging about 10 analyses per year. The CHBRP program is funded by the Health Care Benefits Fund, which provides CHBRP with up to \$2 million annually from fees assessed on health insurance providers. CHBPR staff reports that it spends the maximum amount (\$2 million) every year regardless of the number of analyses the Legislature asks it to produce. This is because CHBRP staff each year "buys out" in advance a fixed amount of faculty and staff time to ensure that adequate personnel is available during legislative sessions to conduct quick-turnaround analyses.

The program is currently scheduled to sunset on June 30, 2017. As part of his 2017-18 budget package, the Governor proposes trailer legislation that would eliminate the sunset date, thereby indefinitely authorizing the program and the Health Care Benefits Fund.

In discussions with health plans, staff has learned that the plans are wary of committing to this fee forever, during a period in which the health care market faces numerous

future uncertainties. The plans have requested that the Legislature modify the Governor's proposal and instead extend the sunset period.

Staff Recommendation: Extend the sunset date of the California Health Benefits Review until June 30, 2020.

VOTE-ONLY ISSUE 9: EXTENSION OF UC UMBILICAL CORD BLOOD COLLECTION PROGRAM

Blood from an umbilical cord can be used as an alternative to bone marrow in a life-saving transplant to treat certain diseases (such as leukemia and lymphoma). Umbilical cord blood units are collected from consenting mothers at participating hospitals, stored in various banks throughout the country, and listed on a national registry. As needed, medical providers request cord blood units and banks make them available for a fee.

Chapter 516 of 2007 (AB 34, Portantino) established the Umbilical Cord Blood Collection Program. Chapter 529 of 2010 (AB 52, Portantino) shifted the program to UC. Chapter 529 also imposed a mandatory \$2 fee on California birth certificates, which, in turn, generates about \$2.5 million each year for UC to administer the cord collection program. Under the current program, staff from UC coordinate the collection and transportation of cord blood donations from hospitals in California to several banks across the country. UC enters into agreements with hospitals and banks to collect and store donated units. Under some agreements, UC uses its own hospital staff to collect donations and contracts with a third party for transportation services, whereas, under other agreements, it reimburses hospitals and banks for their associated costs.

Chapter 529 set a sunset date for the UC program of January 1, 2018. Through budget trailer legislation, the Governor proposes to eliminate the sunset date.

According to the LAO, the UC program collects cord blood units from 11 hospitals in California (including one at UC Davis) and contracts with 4 banks (2 in California, 1 in Colorado, and 1 in Ohio) to store the units. Between 2012 and 2017, the program added 1,561 units to the national registry, of which 28 (1.8 percent) were used in a transplant. Six of those units were used by Californians.

Although to date the program has resulted in relatively few transplants, it has only implemented collection activities for about four years. The LAO notes that only a few other states (such as Arizona) subsidize cord blood banking, and in most cases banks directly fund the collection and storage of cord blood donations. In addition to receiving payment for each cord blood unit used in a transplant, many banks support their activities through other revenue sources, such as cross-subsidies from other banking activities (such as other blood donation or private cord blood banking programs) and some federal support. Moving forward, the Legislature may wish to assess whether continued state support is warranted. As a related issue, the Legislature may wish to consider whether the state should pay for a service that appears to largely benefit residents of other states.

Research suggests that increases in the national registry in recent years have increased the probability of finding an acceptable marrow donor or cord blood unit. As the national registry continues to grow, the Legislature may wish to reassess whether a sufficient number of units exists to match most patients in need of a transplant. In addition, the medical field is constantly evolving. Recent advances have developed other transplant options (such as using marrow from a half-matched family member), which could potentially reduce the demand for cord blood units. The long-term effects of some of these options are being researched. Alternatively, future research could expand the medical and research applications of cord blood, which could increase demand for more units.

Given these issues, the LAO recommends the Legislature revisit this program by extending, rather than eliminating, the sunset date. The LAO suggests a five-year sunset date—extending the program through January 1, 2023—would provide a reasonable period of time for review.

To aid legislative review, the LAO recommends the Legislature require UC to report on the program one year before the sunset date. The LAO recommends this report include the following information: (1) key data on cord blood units (including the number of units collected, registered, and transplanted—disaggregated by race/ethnicity—compared with nationwide data); (2) data on collection and storage costs as well as associated fee revenue and state, federal, and private funding; and (3) evidence as to why the program should or should not be extended beyond the new sunset date.

Staff Recommendation: Extend the sunset date of the Umbilical Cord Blood Collection Program until January 1, 2023. Require UC to provide a report to the Legislature one year before the sunset date that provides information on (1) key data on cord blood units (including the number of units collected, registered, and transplanted—disaggregated by race/ethnicity—compared with nationwide data); (2) data on collection and storage costs as well as associated fee revenue and state, federal, and private funding; and (3) evidence as to why the program should or should not be extended beyond the new sunset date

VOTE-ONLY ISSUE 10: FINANCING DEFERRED MAINTENANCE

The 2013 Budget Act provided UC with authority to use its main General Fund appropriation to service debt on bonds for academic facilities. UC provides project proposals to the Department of Finance, and the Legislature has the authority to review these projects each spring. Under current law, UC is not allowed to finance deferred maintenance projects with this authority.

The Governor's Budget proposed trailer bill language would amend the statute allowing UC to use General Fund to support capital outlay debt to also allow UC to support deferred maintenance projects in this manner. This proposal would match language already allowed for California State University.

Staff Recommendation: Approve trailer bill language allowing UC to finance deferred maintenance projects with its capital outlay authority

6600 HASTINGS COLLEGE OF LAW

VOTE-ONLY ISSUE 11: BASE OPERATIONS INCREASE

The Governor's Budget proposes a \$1.1 million General Fund ongoing unallocated increase to Hastings budget. This is a 9% increase in ongoing General Fund over current year.

Hastings reports that it will use the additional funding to cover increased retirement costs, employee and annuitant healthcare costs and compensation increases for represented employees.

Staff Recommendation: Approve the Governor's Budget proposal

6610 CALIFORNIA STATE UNIVERSITY

VOTE-ONLY ISSUE 12: ELIMINATE SUSTAINABILITY PLAN REPORT

The Governor's Budget proposes to eliminate the annual Sustainability Plan, which was submitted to the Administration and Legislature each fall by the CSU Trustees. The plan is duplicative of other CSU reports and documents.

Staff Recommendation: Approve the Governor's Budget proposal

VOTE-ONLY ISSUE 13: VESTING TRAILER BILL LANGUAGE

The Governor's Budget proposes trailer bill language that would require nonrepresented employees and faculty to work for CSU for at least 10 years before receiving health and dental benefits upon retirement. This would only apply to employees hired after July 1, 2017 and if this language is adopted by the Board of Trustees.

This issue was included in a contract agreement between faculty and the CSU in 2016.

Staff Recommendation: Approve the trailer bill language requiring nonrepresented employees and faculty to work for CSU for at least 10 years before receiving health and dental benefits upon retirement.

VOTE-ONLY ISSUE 14: TRANSPORTATION RESEARCH FUND ADDITION

It is requested that Item 6610-001-3290 be added to appropriate \$2 million from the Road Maintenance and Rehabilitation Account, State Transportation Fund, to the CSU for transportation research and transportation-related workforce education and training. Chapter 5, Statutes of 2017 (SB 1), allocates the funds for this purpose.

Staff Recommendation: Approve the May Revise proposal

6980 CALIFORNIA STUDENT AID COMMISSION

VOTE-ONLY ISSUE 15: CAL GRANT CASELOAD AND TANF ADJUSTMENTS

The May Revision proposes a decrease of \$101,582,000 to reflect revised cost estimates for the Cal Grant program, primarily due to updated participation information. Additionally, the May Revision assumes a \$51 million decrease to reflect revised estimates of grant recipients and average award amounts in 2015-16.

Additionally, the May Revision proposes a decrease of \$282,965,000 to reflect an increase in the amount of TANF reimbursements budgeted to support costs of the Cal Grant program. These reimbursements directly offset General Fund costs.

Staff Recommendation: Approve the May Revision Proposals

VOTE-ONLY ISSUE 16: GRANT DELIVERY SYSTEM

The May Revision proposes that Item 6980 001 0001 be increased by \$546,000 General Fund on a one-time basis for a final year of planning for the Grant Delivery System Modernization Project. The funds are for the costs of a project manager and for California Department of Technology project planning and support. The Commission uses the grant delivery system to accept financial aid applications, make financial aid offers to students, and process payments to institutions. The project, which would replace the Commission's legacy system, is currently in Stage 2 of the project approval lifecycle.

Staff Recommendation: Approve the May Revision Proposal

VOTE-ONLY ISSUE 17: PROGRAM ADJUSTMENTS

The May Revision proposes the following adjustments:

Assumption Program of Loans for Education — It is requested that Item 6980 101 0001 be increased by \$612,000 to reflect revised cost estimates for APLE. The May Revision also scores reduced costs for APLE of \$142,000 in 2015-16 and \$72,000 in 2016-17.

State Nursing Assumption Program of Loans for Education — It is requested that Item 6980 101 0001 be decreased by \$208,000 to reflect revised cost estimates for SNAPLE. The May Revision also scores reduced costs for SNAPLE of \$84,000 in 2015-16 and \$141,000 in 2016 17.

Child Development Teacher and Supervisor Grant Program — It is requested that Item 6980-101-0001 be amended by decreasing reimbursements by \$51,000 to reflect a change in the agreement between the Student Aid Commission and the State Department of Education for grants through the Child Development Teacher and Supervisor Grant Program. The May Revision also scores reduced costs and reimbursements for the program of \$34,000 in 2016-17.

John R. Justice Loan Assumption Program — It is requested that Item 6980 101 0001 be amended by increasing reimbursements by \$32,000 to reflect a change in the agreement between the Student Aid Commission and the Office of Emergency Services that increases the award amount by \$170 per recipient. The May Revision also assumes corresponding adjustments in 2016 17.

Law Enforcement Personnel Dependent Grant Program —It is requested that Item 6980-101-0001 be increased by \$49,000 to reflect revised cost estimates for the Law Enforcement Personnel Dependent Grant Program. The May Revision also scores reduced costs for the program of \$3,000 in 2015-16 and \$5,000 in 2016-17.

Supplemental Awards Funded by College Access Tax Credit Program —It is requested that Item 6980-101-3263 be decreased by \$5,614,000 to align with revised estimates of resources in the College Access Tax Credit Fund. Appropriations from this fund are used to make supplemental awards to students who receive Cal Grant B access awards. With this adjustment, the supplement would be \$24 in 2017-18.an increase of \$2,000 to reflect revised cost estimates for the Graduate Assumption Program of Loans for Education.

Staff Recommendation: Approve the May Revision Adjustments

VOTE-ONLY ISSUE 18: COMPETITIVE CAL GRANTS LANGUAGE

The May Revision proposes that Item 6980-402 be added to authorize the Student Aid Commission to make 35,000 initial award offers for the Competitive Cal Grant A and B award program for the 2017-18 award year. The Commission would be authorized to select the minimum scores used to determine which applicants receive offers based on the total offers specified in the item. Existing law authorizes the Commission to make 25,750 new competitive Cal Grant awards each year. The Commission currently limits initial award offers based on the number of statutorily authorized awards. However, many students who receive offers do not claim those awards. Therefore, to make the number of authorized awards, the Commission typically makes subsequent offers late in the award year. This proposal authorizes 35,000 award offers early in the year, based on recent data on the percentage of awards claimed, to better align Cal Grant notifications with student enrollment decisions.

Staff Recommendation: Approve the May Revision Proposal

VOTE-ONLY ISSUE 19: FUNDING FORMULA PROPOSAL

The Subcommittee discussed a funding formula proposal for higher education at its March 14 hearing. The Subcommittee could consider asking the LAO to study this concept:

On or before November 1, 2017, the Legislative Analyst's Office (LAO) shall review California's higher education funding system and report to the relevant budget subcommittees and policy committees of the Legislature on options to implement a new funding formula that provides a stable year-to-year funding mechanism for public higher education institutions while providing additional monies to aid those categories of Local Control Funding Formula (LCFF) students currently targeted at the K-12 level—low-income, foster youth, and English language learners (ELL). Along with, student support programs and services, accountability metrics, and the achievement gap across all three segments. In developing options the LAO shall consider but not be limited to the following questions:

1. What are some of the funding sources that could be used for this proposal?
2. What are the categorical programs currently in place at the different segments and what are their respective funding sources?
3. What categorical programs would be included in the proposal?
4. What should the low-income threshold be for the low-income students included in the proposal?
5. What are some options to determining ELL eligibility for those students included in the proposal?
6. Due to the difficulty in determining ELL eligibility at the higher education level, should first-generation students be considered instead of ELL students?

The intent of this report is to determine how additional/supplemental state funding can be targeted to increase the retention and completion rates of underrepresented students

(within the LCFF categories) and direct those funds among and within California's higher education segments. The LAO may convene or work with the existing advisory group of stakeholders to provide input in the development of the recommendations.

Staff Recommendation: Approve Supplemental Reporting Language

VOTE-ONLY ISSUE 20: MASTER PLAN REVIEW

The Subcommittee received a request to create a Blue Ribbon Commission on Public Postsecondary Education to improve access and completion at public higher education institutions. An eligibility study to be released this summer may help indicate whether the public segments are admitting students per Master Plan guidelines. However, many higher education stakeholders suggest the Master Plan guidelines may be outdated, given state workforce needs. To further study this issue, the Subcommittee could ask the Governor's Office of Planning and Research to review the Master Plan and strategies to increase college access and completion to meet state workforce needs.

The proposed language is:

Require the Governor's Office of Planning and Research to conduct a study reviewing the Master Plan and the state's future workforce needs to determine new cross-segmental strategies to increase college enrollment and completion, improve re-skilling opportunities for adults, and better align higher education and regional economies.

Staff Recommendation: Approve Supplemental Reporting Language

VOTE-ONLY ISSUE 21: UC MEDICAL LABS

The Subcommittee discussed an issue involving outside medical lab work at its May 16th hearing. To further understand this issue, the Subcommittee could ask UC to report on the following questions:

- How many outside medical labs does UC contract with?
- What are the value of contracts with outside medical labs?
- Did UC issue a request-for-proposal in its attempt to consolidate contracts with outside labs? If so, please summarize the responses
- Did UC's contractor Vizient prepare a report on potential options for consolidating contracts with outside labs? If so, please summarize this report

Staff Recommendation: Approve Supplemental Reporting Language

ITEMS TO BE HEARD

6120 CALIFORNIA STATE LIBRARY

ISSUE 1: STATE LIBRARY BUDGET PACKAGE

The Subcommittee will vote on a State Library budget package.

PANEL

- Department of Finance
- Legislative Analyst's Office
- California State Library

BACKGROUND

The Governor's Budget included no new proposals for the State Library. The May Revision included two proposals that are included in the vote-only portion of this agenda. Subcommittee discussion regarding the State Library included discussion of three proposals:

California Civil Liberties Public Education program. The 2016 Budget Act provided \$1 million one-time General Fund to the California State Library to support the California Civil Liberties Public Education program. The program's goal is to sponsor public educational activities and development of educational materials to ensure that the events surrounding the exclusion, forced removal, and internment of citizens and permanent residents of Japanese ancestry will be remembered, and so that the causes and circumstances of this and similar events may be illuminated and understood. According to the State Library, more than \$922,000 was awarded this Spring to 29 organizations, ranging from community groups to the California State University system. The State Library reports that it received 56 applications for this program, including funding requests totaling \$3.2 million.

High-Speed Internet for Local Libraries. The 2014 Budget Act allowed libraries to join a statewide, high-speed Internet "backbone" operated by the Corporation for Education Network Initiatives in California (CENIC). The 2015 Budget Act also provided \$4 million for connection grants for library jurisdictions and some branches.
Assemblywoman

Career Online High School. The 2015 Budget Act provided \$1 million General Fund for the Career Online High School. This program, a partnership with public libraries and a private company, began in California in December, 2015, and 44 library jurisdictions have facilitated 178 graduates receiving high school diplomas, with an 89% student retention rate.

Staff Recommendation: Approve the following State Library Budget Package:

Provide \$3 million one-time General Fund to the California Civil Liberties Public Education program. Approve budget bill language allowing the State Librarian to use 5% of this funding for administrative purposes and an encumbrance and expenditure period that would allow the Librarian to distribute one-third of the available funding each year for the next three fiscal years.

Provide \$4 million one-time General Fund to support Internet upgrades at local libraries to allow libraries to access a statewide, high-speed Internet Network.

Provide \$3 million one-time General Fund to support the Career Online High School program.

6440 UNIVERSITY OF CALIFORNIA**ISSUE 2: UC BUDGET PACKAGE**

The Subcommittee will vote on a UC Budget Package.

PANEL

- Department of Finance
- Legislative Analyst's Office
- University of California

BACKGROUND

Subcommittee discussion regarding UC included the following issues:

The Governor's Budget and May Revise proposes the following for UC:

Enrollment Growth. With state funding, UC has begun a significant period of enrollment growth for California students. As the chart shows, UC added more than 7,000 new California students in Fall 2016, and is on target to add at least 2,500 more in Fall 2017. UC is seeking \$25 million General Fund to add 2,500 more undergraduates in the 2018-19 academic year and \$9 million for 900 new graduate students.

Campus	2014-15 Actual	2015-16 Actual	2016-17 Estimated	2017-18 Projected	2017 Increase Over 2016
Berkeley	22,445	22,475	23,814	24,549	735
Davis	24,877	24,358	24,862	24,968	106
Irvine	23,176	22,232	23,511	23,865	354
Los Angeles	24,583	24,121	25,177	25,353	176
Merced	5,807	6,398	6,959	7,459	500
Riverside	17,889	17,938	18,953	19,381	428
San Diego	21,368	22,085	22,880	22,974	94
Santa Barbara	18,838	18,650	19,156	19,199	43
Santa Cruz	15,698	15,385	15,794	15,985	191
Totals	174,681	173,642	181,106	183,733	2,627

UCOP Audit. An audit of the Office of the President released in April included several findings, including that the office has amassed a significant reserve, did not provide adequate budget information to the UC Board of Regents to allow the Regents to properly oversee the office, and the office did not properly track various campus- and office-based programs and expenditures.

Proposition 56. In November 2016, voters approved Proposition 56, which increases excise taxes on tobacco products by \$2. The measure also prescribes how to distribute the revenues from the increased tax. While the measure dedicates the bulk of the new revenue to Medi-Cal expansion, it also calls for \$40 million annually to go to UC for physician training to increase the number of primary care and emergency physicians in California. Funding is intended to support graduate medical education, or residency training, at both UC and other health care systems. UC would administer the funding and could distribute some of the money to other systems. The Governor's Budget proposes allocating \$50 million to the University of California (UC) from Proposition 56 for graduate medical education. The administration also reduces General Fund support for UC by \$50 million. The administration estimates that at least \$50 million in General Fund support for UC is used for graduate medical education, although there is no specific earmark for this purpose. The administration is providing \$50 million from Proposition 56 to reflect that revenues will begin to be generated in the final quarter of the current fiscal year. Advocates have complained that the Governor's proposal does not meet the initiative's goal of increasing medical education, it instead preserves the status quo level of support.

Mental Health Services. Students, faculty, health practitioners, and college administrators are reporting increased rates of mental health needs by students attending public colleges in California. Studies indicate one in four students has a diagnosable mental illness and 40 percent of students do not seek mental health services when they need it. In addition, one in 10 college students has considered suicide and suicide is the second leading cause of death among college students, claiming more than 1,100 lives every year nationally. UC reported to the Subcommittee that it was seeking to increase mental health services at campuses.

Deferred Maintenance Needs. The 2015 Budget Act provided UC with \$25 million one-time General Fund to support deferred maintenance projects. The 2016 Budget Act provided \$35 million in one-time General Fund to UC. The Governor's Budget and May Revision does not include funding for this purpose. Last October, UC provided the Department of Finance a list of deferred maintenance projects on state-supported buildings with estimated costs totaling just under \$3.17 billion for inclusion in the Governor's Five Year Infrastructure Plan. The submission included over 4,600 individual projects. UC is seeking \$35 million one-time General Fund to continue addressing this issue.

Improving Faculty Diversity. The 2016 Budget Act provided UC and the other two public segments with one-time funding to support efforts to support equal employment opportunity in faculty employment. A growing body of research indicates the educational benefits of a diverse campus faculty, in terms of closing achievement gaps, improving campus climate and expanding areas of instruction, research and public service. Despite this evidence, UC faculty remain 75% white and 68% male. UC reports

that it spent most of its funding on three departments' efforts to improve recruitment and hiring.

Student Hunger. Student advocates have testified that hunger is a significant issue for many low-income students. UC launched the Global Food Initiative in 2014 to build upon existing efforts and create new collaborations among the campuses and community partners, and UC has funded a UC Nutrition Policy Institute in order to conduct the Food Access and Security study.

UC Employees. The Subcommittee discussed a request to amend existing statute to amend Education Code Section 92495 to require any new service job associated with a privately-operated building built on a UC campus be performed by a UC employee.

May Revision. The May Revision proposed redirecting \$4 million General Fund from the UC budget to support increased costs related to the Cal Grant program for private colleges and universities. The Administration also proposes to withhold \$50 million General Fund from UC's appropriation until May 1, 2018. This funding would be released if UC performs the following activities:

- (1) Complete pilot programs of activity-based costing at the Riverside campus in the College of Humanities, Arts, and Social Sciences, and at two other campuses in three departments each.
- (2) Take any actions necessary to attain a ratio at each of its campuses, except for the Merced and San Francisco campuses, of at least one entering transfer student for every two entering freshman students beginning in the 2018-19 academic year.
- (3) Take the actions the Regents of the University of California and the University of California Office of the President are directed by the California State Auditor in its audit report "Report 2016-130," dated April 25, 2017, regarding the University of California Office of the President, to take by April 1, 2018.

To address these issues, the Subcommittee could consider the following UC budget package.

Staff Recommendation: Approve the following UC Budget Package:

Approve Governor's Budget proposal to increase UC funding by \$131.2 million General Fund.

Create a separate budget line item for the UC Office of the President and UC Path. Specify that the Office of the President will receive \$296.4 million General Fund in 2017-18, and UC Path will receive \$52.4 million. Include the following budget language:

"It is the intent of the Legislature that providing direct state funding to the Office of the President will provide more legislative oversight of the office and provide campuses with more revenue to support students. The funds appropriated in this schedule for support of the Office of the President and UC Path may be encumbered only if the President of the University of California certifies, in writing, to the Director of Finance that there will be no campus assessment for support of that office for the 2017-18 fiscal year and that overall campus revenues will be greater in 2017-18 than the previous year."

Set an enrollment target for UC to enroll 5,000 more California undergraduates in the 2018-19 and 2019-20 academic years, and 900 more graduate students. Adopt budget bill language stating that \$59 million General Fund to support this enrollment growth will be achieved by redirecting state support from systemwide programs or other Office of the President programs or expenditures. The Legislature will work with UC and the Department of Finance on identifying the programs or expenditures to be redirected and report to the Joint Legislative Budget Committee by Dec. 1, 2017. Adopt budget bill language stating legislative intent that the UC prioritize California students when increasing graduate student enrollment with this funding.

Reject the Governor's Budget proposal to reduce UC General Fund support by \$50 million to replace it with Proposition 56 funding. Increase UC General Fund support by \$50 million and maintain the Governor's Budget item to provide \$50 million in Proposition 56 funding to increase graduate medical education.

Reject the May Revision proposal to redirect \$4 million General Fund from UC to support Cal Grant awards for students at private colleges and universities.

Approve the May Revision proposal to withhold \$50 million General Fund from UC until UC provides evidence to the Department of Finance by May 1, 2018 that it has completed pilot programs of activity-based costing at the Riverside campus and at two other campuses in three departments each; taken any actions necessary to attain a ratio at each of its campuses, except for the Merced and San Francisco campuses, of at least one entering transfer student for every two entering freshman students beginning in the 2018-19 academic year; and taken actions directed by the California State Auditor in its audit report "Report 2016-130," dated April 25, 2017, regarding the University of California Office of the President. Add budget bill language stating legislative intent that the withheld funding should not harm campus operations and that the UC report shall also be submitted to the Joint Legislative Budget Committee.

Provide \$25 million one-time General Fund to support deferred maintenance projects.

Provide \$4 million one-time General Fund to support best practices in equal employment opportunity. Adopt budget bill language stating the funding should be distributed to selected departments on campuses seeking to create or expand equal employment opportunity programs and require a report to the Legislature by Dec. 1, 2017 that describes the proposed uses of these funds and includes the number of ladder-rank faculty, disaggregated by race, ethnicity, and gender.

Provide \$2.5 million one-time General Fund to create incentive funding for UC campuses to designate as a "hunger-free campus." Adopt trailer bill language requiring campuses to receive funding if they develop free-food pantries, assign a campus employee to help students enroll in the CalFresh program, and develop methods to allow students to donate unused meal plan credits to needy students.

Provide \$5 million ongoing Mental Health Services Act Administration funding to UC to increase mental health services for students. Adopt placeholder trailer bill language to create this program and require UC to provide one-to-one matching funds to receive this money.

Adopt trailer bill language that would amend Education Code Section 92495 to require all future buildings built using state funds through the existing capital outlay process to be operated by UC employees.

6610 CALIFORNIA STATE UNIVERSITY**ISSUE 3: CSU BUDGET PACKAGE**

The Subcommittee will vote on a CSU Budget Package.

PANEL

- Department of Finance
- Legislative Analyst's Office
- California State University

BACKGROUND

Subcommittee discussion regarding CSU included the following issues:

Enrollment and Impaction. California undergraduate enrollment has grown at CSU during the past five years, as the chart indicates. Recent Budget Acts have provided CSU with increased funding and enrollment expectations: the 2015 Budget Act called for 3% enrollment growth, while the 2016 Budget Act called for an increase of about 1.3%.

Despite these increases, thousands of qualified CSU students are being denied admittance to the CSU, as the chart indicates.

	Fall 2012	Fall 2013	Fall 2014	Fall 2015	Fall 2016
Admitted	194,564	212,152	212,538	216,755	222,192
Qualified But Not Admitted	22,123	26,430	30,665	31,825	31,402

A significant issue facing potential CSU applicants is impaction, both at the campus-wide level and the program level. The following chart indicates impaction issues at the 23 campuses. The Subcommittee discussed the issue of program impaction. While local students do receive significant preference in the admissions process to the CSU campus closest to their homes, they may receive no preference or only a slight preference in admission to specific programs that are impacted. For local students seeking admission to campuses with all programs impacted, this may unfairly limit their ability to stay close to home and obtain a bachelor's degree at CSU.

No Campus Impaction	Campus Impaction	Impaction in All Programs
Bakersfield	Chico	Fresno
Channel Islands	Humboldt (for first-time freshmen but not transfers)	Fullerton
Dominguez Hills	Los Angeles	Long Beach
East Bay	Monterey Bay	San Diego
Maritime Academy	Northridge	San Jose
Stanislaus	Pomona	San Luis Obispo
	Sacramento	
	San Bernardino	
	San Francisco	
	San Marcos	
	Sonoma	

Graduation Initiative. CSU has launched Graduation Initiative 2025, which seeks to significantly improve 4- and 6-year graduation rates at all campuses and for all students. The chart below indicates systemwide improvement targets. The 2016 Budget Act provided CSU with \$35 million one-time General Fund for these activities. This year, CSU is raising tuition and using the revenue generated to support further activities. CSU is also seeking state funding for these practices.

The subcommittee hearing included discussion of remedial placement policies. CSU has begun work to ensure that campuses are following evidence-based practices for placing students in remedial education, which often delays their path to graduation. Data suggests that other indicators, notably high school transcripts, are much better predictors than standardized tests at determining whether a student should be placed in remedial or credit-bearing courses.

Completion Metric	Current Rates	Revised 2025 Target
First-Time Freshmen Four-Year Graduation Rate	19%	40%
First-Time Freshmen: Six-Year Graduation Rate	57%	70%
Transfer Students: Two-Year Graduation Rate	31%	45%
Transfer Students: Four-Year Graduation Rate	73%	85%
Achievement Gap by Ethnicity	11 points	0 points
Achievement Gap by Pell Eligibility	8 points	0 points
Achievement Gap by First Generation Status	13 points	0 points

Deferred Maintenance. CSU reports a deferred maintenance backlog of \$2 billion and is seeking funding to support work on these projects.

Mental Health Services. Students, faculty, health practitioners, and college administrators are reporting increased rates of mental health needs by students attending public colleges in California. Studies indicate one in four students has a diagnosable mental illness and 40 percent of students do not seek mental health services when they need it. In addition, one in 10 college students has considered suicide and suicide is the second leading cause of death among college students, claiming more than 1,100 lives every year nationally. CSU reported to the Subcommittee that it was seeking to increase mental health services at campuses.

Student Hunger. Student advocates have testified that hunger is a significant issue facing many low-income students. A survey of CSU students found that 21 percent of CSU students consider themselves to be food insecure; however, CSU believes the number to be higher. As of 2016, 11 campuses had programs for food insecure students, from small pantries to large food programs and services. Five campuses incorporate students' needs as part of student success directives.

May Revision. The May Revision proposed redirecting \$4 million General Fund from the UC budget to support increased costs related to the Cal Grant program for private colleges and universities.

To address these issues, the Subcommittee could consider the following CSU budget package.

Staff Recommendation: Approve the following CSU Budget Package:

Approve the Governor's Budget proposal to increase base CSU funding by \$162.3 million General Fund.

Reject the May Revision proposal to redirect \$4 million General Fund from CSU to support Cal Grant awards for students at private colleges and universities.

Increase funding for CSU by \$38.5 million to support 1% enrollment growth, or 3,616 full-time equivalent students. Include budget bill language requiring CSU to ensure that enrollment funding is available to support campuses that admit redirected transfer students.

Adopt budget bill language directing the CSU Board of Trustees to develop a policy to automatically redirect student applications to nearby non-impacted CSU campuses if the student meets the minimum systemwide qualifications but is denied admission to an impacted program or campus.

Adopt budget bill language directing the CSU Board of Trustees to require campuses to provide admissions preference to students applying to impacted programs if the student lives in the local service area for that campus.

Provide \$25 million one-time General Fund to support the Graduation Initiative. Adopt budget language stating the funding will only be provided if the CSU Board of Trustees reform its practices regarding the placement of students into remedial coursework, including implementing additional measures for the assessment and course placement of admitted students. The multiple measures approach shall include, but not be limited to, placing significant weight on high school transcript data in the assessment of recent California high school graduates, on community college transcript data in the assessment of community college transfer students, and on those transcripts in the subsequent assignment of these students to English and mathematics coursework.

Provide \$25 million one-time General Fund to support deferred maintenance projects.

Provide \$5 million ongoing Mental Health Services Act Administration funding to CSU to increase mental health services for students. Adopt placeholder trailer bill language to create this program and require UC to provide one-to-one matching funds to receive this money.

Provide \$2.5 million one-time General Fund to create incentive funding for CSU campuses to designate as a "hunger-free campus." Adopt trailer bill language requiring campuses to receive funding if they develop free-food pantries, assign a campus employee to help students enroll in the CalFresh program, and develop methods to allow students to donate unused meal plan credits to needy students.

6980 CALIFORNIA STUDENT AID COMMISSION
0954 SCHOLARSHARE INVESTMENT BOARD

ISSUE 4: FINANCIAL AID PACKAGE

The Subcommittee will discuss a financial aid budget package.

PANEL

- Department of Finance
- Legislative Analyst's Office
- California State University Chancellor's Office

BACKGROUND

The following summarizes subcommittee discussions regarding financial aid and ideas for the financial aid package:

Costs of College a Major Concern. According to a survey of Californians conducted in Fall 2016 by the Public Policy Institute of California, 57% of respondents identified the lack of college affordability as a significant problem. An overwhelming majority – 78% – agreed with the statement that students have to borrow too much money to pay for college. Data compiled by The Institute for College Access and Success (TICAS) indicates that 54% of California students graduate with college loan debt, and the average amount owed is \$22,191.

College costs include the tuition and fees that pay for a student's education. In addition, students incur costs for books and supplies to complete their coursework. While they attend college, students also incur living expenses, such as for housing, food, and transportation. The chart below provides examples of current costs to attend the University of California (UC), California State University (CSU), and the California community colleges. Note that at all three segments, room and board costs students more than tuition.

	Tuition and Fees	Books and Supplies	Room and Board	Other Expenses	Total
UC Student	\$13,500	\$1,500	\$14,500	\$4,700	\$34,200
CSU Student	\$6,356	\$1,898	\$13,240	\$2,964	\$24,622
Community College Student	\$1,104	\$1,791	\$12,492	\$4,158	\$19,545

Notes: UC information based on systemwide average 2016-17 costs, according to UCOP website. CSU information based on CSU Los Angeles 2016-17 costs, according to CSU Chancellor's Office website. Community college costs based on California Student Aid Commission's 2016-17 Student Expense Budgets. UC and CSU room and board costs assume students live on campus; community college room and board cost assume students live on own off campus. Other Expenses include items such as health insurance, transportation, and personal expenses.

The Subcommittee took action on March 14 to create the Degrees Not Debt program, which seeks to provide a pathway for low-income and middle-income students to complete college without amassing debt.

Cal Grants for Students at Private Colleges. As a savings measure, the 2012 Budget Act put in place reductions to the Cal Grant award amounts for independent nonprofit and accredited for-profit institutions from \$9,084 to \$8,056 starting in 2014-15. However, subsequent actions have postponed the reduction.

The Governor's Budget proposed to allow the scheduled reduction to go into effect in 2017-18. The May Revision, however, includes \$7.9 million General Fund to maintain the maximum Cal Grant tuition award for students attending private institutions accredited by Western Association of Schools and Colleges at \$9,084. The May Revision includes budget bill language and trailer bill language stating that this funding will only be provided if these institutions increase the number of low-income students enrolled, ease transfer for students who have earned associate degrees for transfer, and expand online education. As noted earlier, this funding is redirected from the UC and CSU budgets.

Staff notes that current projections show the state will spend about \$16 million General Fund for Cal Grants for private, for-profit institutions. Given the historically poor outcomes and high costs associated with this sector, the Subcommittee could consider eliminating for-profits from the Cal Grant program. This action would allow for an increased award amount for the nonprofit sector and to support increased funding for Cal Grant C students attending community colleges, as described below.

Cal Grant C. The Cal Grant C program was created in 1973 as the Occupational Education and Training Grant. The program was revised in 2000 by setting the total number of awards at 7,761 in a given year. The maximum award amount and the total amount of funding are determined in the annual Budget Act. However, the award has not been increased since 2000-01, remaining at \$2,462 toward tuition and fees and an allowance of \$547 for books, technology and supplies.

The program assists students who are seeking an occupational or vocational program with tuition and fees at the California Community College (CCC), private college or career technical schools. The award may be used for institutional fees, charges, tuition, as well as training-related costs such as special clothing, local transportation, required tools, equipment, supplies, technology and books. Cal Grant C recipients may renew until the completion of the training, for a minimum of four months or a maximum of two academic years.

In a given year, about 65% of Cal Grant C award recipients attend community colleges for their technical and vocational program. Cal Grant C recipients at community colleges are eligible to only receive the \$547 component for training-related costs, because they also qualify for the Board of Governors' fee waiver.

According to information provided by the Student Aid Commission, currently about \$2.6 million from this program goes to students at for-profit colleges. About \$2.1 million is spent on community college students. By eliminating private for-profits from this

program, the annual stipend for community college students could be doubled to \$1,094 without significantly increasing existing program costs.

Tuition increases. Both the UC Board of Regents and the CSU Board of Trustees have voted to increase tuition for the 2017-18 academic year. UC will increase tuition by \$282, bringing overall tuition to \$11,502 (with other systemwide fees the total is \$12,630.) CSU will increase tuition by \$270, bringing total tuition to \$5,742. While this increase will be covered by the state for students who receive a Cal Grant A or B award, other students could face increased costs.

College Savings Plans. On March 14 and May 9, the Subcommittee discussed ideas for creating incentives for families who open tax-advantaged 529 college savings accounts. Staff has become aware of an existing program within the State Treasurer's office that provides matching funds twice a year, and plans to expand this program. For California families with a child 14 or younger and with an adjusted gross income of \$75,000 or less, the state could provide a dollar-for-dollar match of up to \$200 for opening a college savings account. The treasurer's office believes that for a \$3 million investment, the state could support 15,000 to 25,000 new accounts.

The Subcommittee can consider the following financial aid package. Staff notes that the Subcommittee already voted on March 14 to reject the Governor's Budget proposal to phase out the Middle Class Scholarship. The Subcommittee Budget Plan will include that action and retain the program at the statutorily appropriated funding level.

Staff Recommendation: Approve a financial aid package, including:

Set the maximum Cal Grant award level for students attending private colleges and universities at \$9,294. Support this increase through budget bill and placeholder trailer bill language eliminating all private for-profit college participation in the Cal Grant program. Modify May Revision proposal to require increased enrollment of low-income California students and community college transfer students.

Include the previous Subcommittee action to reject the Governor's proposal to phase out the Middle Class Scholarship. In addition, add \$282 to every Middle Class Scholarship for UC students and \$270 to every Middle Class Scholarship for CSU students. This action is intended to ensure that any California student with family income of \$158,000 or less does not face increased tuition. This action can be covered by the \$117 million that is statutorily provided in the program for the 2017-18 fiscal year.

Amend the previous action on the Degrees Not Debt proposal. Approve the following supplemental reporting language for the Student Aid Commission:

On or before February 1, 2018, the California Student Aid Commission shall build off of the Degrees Not Debt proposal and review California financial aid programs and report to the relevant budget subcommittees and policy committees of the Legislature on options to consolidate existing programs that serve similar student populations in order to lower students' total cost of college attendance, including: tuition and fees, books and supplies, transportation, and room and board. The program would begin in the 2018-19 academic year. The intent is to identify: (1) similarities between the state's nine grant and scholarship programs and the four loan assumption programs, including similarities in student and family eligibility requirements; (2) options for how programs could be

streamlined or consolidated; and (3) any technology or systems barriers, or other challenges to streamlining or consolidating programs. CSAC may convene a group of stakeholders, including high school and college students, to provide input in the development of the recommendations.

Adopt budget bill language and placeholder trailer bill language eliminating for-profit colleges from participation in the Cal Grant C program. Double the access award for community college Cal Grant C recipients from \$547 to \$1,094.

Provide \$3 million General Fund to the Scholarshare Investment Board and approve placeholder trailer bill language to support the Scholarshare Matching Grant Program to open college-savings accounts for low- to moderate-income families and provide up to \$200 in dollar-for-dollar matching funds for each new account.
