AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

THURSDAY, MAY 21, 2015

1:30 OR UPON CALL OF THE CHAIR - STATE CAPITOL ROOM 447

VOTE ONLY ISSUES

ISSUES TO BE HEARD

VOTE-ONLY ITEMS

6120 CALIFORNIA STATE LIBRARY

ISSUE 1: ADULT LITERACY PROGRAMS

The May Revise provides an increase of $2 million General Fund ongoing for the Literacy and English Acquisition Services Program (Program). The program allocates funds to public libraries to support instruction in basic literacy for adults.

The proposal would bring funding for this program up to $4.8 million, an increase of $1 million over current year spending.

Staff Recommendation: Approve the May Revise proposal

ISSUE 2: LIBRARY BROADBAND PROJECT FUNDING

The May Revise provides $1.5 million General Fund on a one-time basis for grants to public libraries that require additional equipment, network upgrades, or modifications to physical sites, or some combination of these items, to support broadband Internet access. These funds would increase the number of public libraries that can participate in the Broadband Project. An additional $225,000 General Fund is provided for administrative costs related to the project.

Overall funding for the project also includes $2.3 million General Fund for access to the CENIC broadband system, which was included in the Governor's January budget.

Staff Recommendation: Approve Governor's Budget and May Revise Funding

ISSUE 3: PRESERVATION FUNDING

The May Revise proposes $521,000 General Fund, including $181,000 ongoing for 2 new positions and $340,000 on a one-time basis for digital scanning equipment.

The request would allow the Library to make critical improvements to better preserve historical materials in its possession.

Staff Recommendation: Approve May Revise proposal

6440 UNIVERSITY OF CALIFORNIA

ISSUE 4: UC CAPITAL OUTLAY TRAILER BILL LANGUAGE

The May Revise includes trailer bill language that would allow UC to use project savings from the UC Merced Classroom and Academic Office Building project, which was authorized in 2012, for the construction phase of the project, and extend the encumbrance period until June 30, 2016.

Staff Recommendation: Approve the Trailer Bill Language

ISSUE 5: UC LABOR CENTERS

The Labor Centers at UC Berkeley, UCLA and UC Irvine conduct research on issues such as the implementation of the Affordable Care Act, green jobs, workforce development, the underground economy and low-wage industries. This program was cut from $6 million to $2 million in 2008. The 2014 Budget Act provided $4 million General Fund, with $2 million of that in one-time funding. The Assembly also used $2 million in funding from its reserves to support the program and bring it to full funding.

The centers provide critical research and data on statewide issues.

Staff Recommendation: Approve $4 million General Fund to fully fund UC Labor Centers

ISSUE 6: CALIFORNIA HEALTH BENEFIT REVIEW PROGRAM

The California Health Benefits Review Program (CHBRP) was established under AB 1996 (Thomson), Chapter 795, Statutes of 2002, which requested UC to assess legislation that propose a mandated benefit or service (referred to as “mandate bills”) and prepare a timely written analysis within 60 days with relevant data on the medical, economic, and public health impacts of proposed health plan and health insurance benefit mandate legislation.

Current law requires health plans, except specialized health plans, and health insurers, for fiscal years 2010-11 to 2014-15, to be assessed an annual fee to fund CHBRP, this amount is to not to exceed $2 million. CHBRP is administered in UCOP and has staff that supports a task force of faculty from six UC campuses (Berkeley, Davis, Irvine, Los Angeles, San Diego, and San Francisco) and three private universities (Loma Linda University, the University of Southern California, and Stanford University) to complete each analysis. CHBRP is set to sunset on December 31, 2015.

The Governor’s proposed budget provides $2 million for CHBRP. The May Revise proposed trailer bill language extending the sunset of this program until July 1, 2017. Legislative staff have proposed some non-controversial changes to the proposed language.

Staff Recommendation: Approve placeholder trailer bill language to extend the CHBRP by 2 years until July 1, 2017, make various changes to the types of reports and analysis it provides to the legislature and refine as necessary to provide the legislature with timely information.

ISSUE 7: FUND ADJUSTMENTS

The May Revise proposes minor changes to research funds for UC. The changes are:

- A decrease of $1.7 million in the Cigarette and Tobacco Products Surtax Fund Research Account to reflect decreasing revenues. The fund derives from taxes on tobacco products and funds UC research on tobacco and its impacts. The Governor's Budget set this fund at $11.8 million for 2015-16; the new amount would be $10.1 million.

- Add a new budget item and one-time funding for earthquake engineering research. There is $431,000 left from the 1996 Earthquake Risk Reduction Fund, the one-time funds will be used for research.

Staff Recommendation: Approve the May Revise proposals

6600 HASTINGS COLLEGE OF LAW

ISSUE 8: CAPITAL OUTLAY ADJUSTMENTS

At its March 18 hearing, the Subcommittee approved a Capital Outlay Budget Change Proposal to issue $36.8 million in lease revenue bonds to build a new, 57,000-square-foot academic building at 333 Golden Gate Avenue in San Francisco. The Subcommittee also added language requiring a legislative approval process before the project entered the construction phase.

A May Revise proposal adds provisional language that would shift the project to a Design-Build project, allow for private donations and institutional funds to be used on the project, establish appropriation authority until June 30, 2018, and include a 30-day legislative review process as approved by the Subcommittee.

Staff Recommendation: Approve May Revise proposals

6610 CALIFORNIA STATE UNIVERSITY

ISSUE 9: CSU CAPITAL OUTLAY REQUESTS

A Spring Finance Letter and a May Revise proposal make changes to CSU capital outlay issues. The changes are:

- Reappropriation authority for two previously approved projects. CSU reports that preliminary plan phase for the CSU Pomona Administration Building Replacement project has been delayed. Preliminary plans are expected to be presented to the State Public Works Board for approval on June 15, 2015, and a reappropriation is requested for an extension of the encumbrance period for the working drawings and construction phases until June 30, 2018.

  CSU also reports that the preliminary plan phase of the CSU Los Angeles Administration Building Seismic Upgrade project has been delayed due to concerns from the CSU seismic review board. A reappropriation is requested for the working drawings and construction phases until June 30, 2018.

- A May Revise proposal seeks to approve CSU capital outlay projects approved by the CSU Board of Trustees and to amend statutory language to better align CSU capital outlay reporting requirements with the CSU Board of Trustees' timeline for approving projects. CSU's list of capital outlay projects includes about $250 million in projects. Additionally, the May Revise seeks trailer bill language that would allow CSU to provide a final report to the Department of Finance on Dec. 1 each year of capital projects. This new reporting deadline does not alter the spring legislative review process.

Staff Recommendation: Approve the CSU Capital Outlay Requests

ISSUE 10: CENTER FOR CALIFORNIA STUDIES

As discussed at the April 22 hearing, the Governor's Budget proposed shifting budget information regarding the Center for California Studies from a separate item in the budget bill into the main General Fund appropriation for California State University.

This would decrease budget transparency, and folds a center with distinct operations into CSU's main budget. The Center's executive director suggested reinstating the separate line item for the Center, but also redoing the scheduled items to better display how the funds are displayed.

Additionally, it should be noted that the Assembly has provided $420,000 from its own funds to support part of the Center's activities. The Subcommittee could consider replacing that funding with General Fund. Finally, the Center has requested funding to provide a 3% cost-of-living adjustment for its Fellows programs.

Staff Recommendation: Adopt placeholder budget bill language reinstating the Center for California Studies as its own line item, with schedules for specific program. Also augment the program by $480,000 General Fund to replace Assembly funding and provide a COLA.

6870 CALIFORNIA COMMUNITY COLLEGES

ISSUE 11: TECHNICAL ADJUSTMENTS

The May Revise proposes several adjustments to community college funding to reflect revised estimates or other non-policy changes. The changes are:

- Decrease the cost-of-living adjustment (COLA) from 1.58% to 1.02% to reflect the revised federal estimate. This would lower Proposition 98 General Fund support for apportionments by $31.3 million when compared to the Governor's Budget. COLA funding would now be $61 million Proposition 98 General Fund.

- Increase apportionment funding by $41.9 million Proposition 98 General Fund to allow colleges the ability to earn back enrollment growth funding. The Administration had left this out of the January Budget but is now proposing to reinstate this funding. The LAO recommends approval.

- Increase apportionment funding by $14.2 million Proposition 98 General Fund to reflect updated miscellaneous base apportionment adjustments.

- Adjusts Proposition 30 support for community colleges by increasing Proposition 30 funding by $58.2 million and decreasing Proposition 98 General Fund by the same amount, to reflect revised Prop 30 revenue estimates for 2015-16. Also amends the Budget Act of 2014 to reflect a $88.3 million increase in Proposition 30 revenues, and the Budget Act of 2013 to reflect increases in Proposition 30 related to excess tax districts.

- Decreases Proposition 98 General Fund support for apportionments by $156.1 million to reflect increased estimates regarding property tax revenues.

- Increases Proposition 98 General Fund support for apportionments by $7.4 million Proposition 98 General Fund to reflect decreased estimates regarding student fee revenues.

- Increases Proposition 98 General Fund support for apportionments by $474,000 to reflect updated estimates regarding the costs of career development and college preparation courses. The 2014 Budget Act included a rate increase for these courses in 2015-16.

- Increases Proposition 98 General Fund support for the Student Financial Aid Administration categorical by $1.3 million to reflect revised estimates of the number of units with fees waived and the dollar amount of the fees waived. Also includes revised budget bill language to address technical concerns raised by the Chancellor's Office.

- Provides a COLA for four categorical programs: $1.2 million Proposition 98 General Fund for the Disabled Student Programs and Services, $352,000 for Student Services for CalWORKS Recipients, $904,000 for Extended Opportunity Programs and Services Program, and $34,000 for Campus Childcare Tax Bailout program.

- Decreases Proposition 98 General Fund support for the Telecommunications and Technology Infrastructure categorical program by $1.4 million to remove one-time equipment replacement funding provided in the 2014 Budget Act.

- Decreases Clean Energy Job Creation Fund (Proposition 39) support for community colleges by $825,000 to reflect revised revenue estimates. Funding in 2015-16 for community college energy efficiency projects will be $38.7 million.

- Shifts funding and support for the College Planning and Preparation website from the community college budget to the Department of Education budget.

- Decreases mandate block grant funding by $691,000 to align funding with revised full-time student estimate.

- Restores technical language in the apportionments item that was inadvertently omitted from the January Budget.

Staff Recommendation: Approve the Community College Technical Adjustments

ISSUE 12: COMMUNITY COLLEGE TRAILER BILL PROPOSALS

The Governor's proposed budget includes the following trailer bill language requests:

- Career Technical Education Pathways Program. This proposal will extend the program until July 1, 2016 and appropriates $48 million Proposition 98 funds for the purposes of funding this program.

- Adjust Budget Formula. This proposal will allow the Chancellor's Office to adjust apportionment funding to reflect the increased base operating expense funding, which is discussed below.

- Foster Care Education Program. This proposal codifies existing budget bill language that specifies funds allocated for the Foster Care Education Program must be used for foster parent and relative/kinship care provider education and training, and colleges that receive these funds must comply with reporting requirements and develop a foster parent and relative/kinship plan.

- Codification of Reporting Requirements. This proposal codifies existing budget bill language that requires the Chancellor's Office to report annually by December 31st on Student Success Basic Skills Program, Student Financial Administration program, technology assistance for Student Success and Support Program, and the Telecommunications and Technology Infrastructure program.

- Redevelopment Agency Funding and Education Protection Account Backfill Trailer Bills. This proposal would provide the Department of Finance the authority to modify and update General Fund appropriations based on updated revenue estimates for redevelopment agencies and Education Protection Account (Proposition 30). Under the proposal, Proposition 98 General Fund would be used to offset any difference between (1) estimated revenues for community colleges from redevelopment agencies and the Education Protection Account (Proposition 30) and (2) the amounts distributed to colleges from these sources by June 30. This change will allow districts to have more certainty when preparing their fiscal plans.

  The Administration also released updated technical amendments to the Redevelopment Agency Revenue trailer bill:

  (c) In making the determinations pursuant to subdivision (a) and (b, the Director of Finance shall consider any other local property tax revenues and student fee revenues collected in excess or in deficit of the estimated amounts reflected in the Budget Act for that fiscal year.

Staff Recommendation: Approve the proposed trailer bill language

ISSUE 13: VETERANS NON-RESIDENT TUITION CLARIFICATION

The May Revise proposes trailer bill language to further clarify community college compliance with the federal Veterans Access, Choice and Accountability Act of 2014. The act disqualifies higher education institutions from receiving federal GI Bill funds if they do not allow all veterans to pay in-state tuition levels.

The Administration is working with the U.S. Department of Veterans Affairs on language that would require all community colleges to charge resident tuition and fees to veterans to comply with the act. The following language is proposed:

Add Education Code Section 68075.5

68075.5(a) Effective for terms beginning after July 1, 2015 and while living in this state, a student who meets the definition of "covered individual" as defined in 38 U.S.C. 3679(c) and is eligible for education benefits under the Montgomery GI Bill-Active Duty and Post-9/11 GI Bill education benefit programs (Chapters 30 and 33, respectively, of Title 38, U.S. Code) shall be exempt from paying nonresident tuition and any other fee exclusively applicable to nonresident students at an institution.

(b) After the expiration of the three year period following discharge or death as described in 38 U.S.C. 3679(c), a student who initially qualifies under subdivision (a) of this section will maintain "covered individual" status as long as he or she remains continuously enrolled (other than during regularly scheduled breaks between courses, semesters or terms) at an institution, even if they enroll in multiple programs and shall continue to be exempt from paying nonresident tuition and other fees as provided in this section.

(c) A student exempt from nonresident tuition and fees pursuant this section may be reported by a community college district as full-time equivalent student for apportionment purposes.

Staff Recommendation: Approve the May Revise trailer bill language

ISSUE 14: CAPITAL OUTLAY ADJUSTMENTS

A Spring Finance Letter requested changes to two projects:

- Reappropriation authority is requested for the working drawings phase of the El Camino Compton College Compton Center Instructional Building Replacement project. The preliminary plans phase of this project was delayed but is now expected to be completed by August 2015. Budget language would allow the expense of $559,000 for the working drawings phase in 2015-16.

- An extension of the liquidation of construction funds is requested for the Los Angeles Mission College Media Arts Center project. The construction phase was delayed due to problems with the original contractor. Budget language would allow $10.3 million to be spent until June 30, 2017.

Staff Recommendation: Approve the Capital Outlay Adjustments

6980 CALIFORNIA STUDENT AID COMMISSION

ISSUE 15: CAL GRANT AND OTHER PROGRAM FUNDING ADJUSTMENTS

The May Revise proposes three funding adjustments related to the Cal Grant program and two adjustments to other programs. All of these changes are technical and reflect revised cost or revenue estimates:

- Decreases General Fund support by $42.2 million to reflect revised estimates of Cal Grant participation in 2015-16.
- Adjusts federal Temporary Assistance for Needy Families funding to reflect increased TANF reimbursements to support Cal Grants. The May Revise decreases General Fund costs by $247.3 million and replaces that funding with TANF funding. Total TANF support for Cal Grants would be $533.6 million.
- Creates a new budget item for the College Access Tax Credit Fund, which provides additional funding for Cal Grant B Access Awards. Funding for the item is $1.9 million, providing an additional $8 for each Cal Grant B Access Award.
- Decreases General Fund support for the Assumption Program of Loans for Education program by $399,000 to reflect revised cost estimates.
- Increases General Fund support by $20,000 to reflect revised cost estimates for the Law Enforcement Personnel Dependents Grants program.

Staff Recommendation: Approve the May Revise proposals

STATE AUTHORIZATION AND STUDENT COMPLAINT PROCESS TRAILER BILL LANGUAGE

ISSUE 16: PRIVATE INSTITUTIONS

The Governor's May Revision proposes trailer bill language to comply with federal regulations that require independent institutions of higher education to receive state authorization to operate in California, including requirements to develop a student complaint process, in order to receive federal student aid.

By July 1, 2015 independent institutions of higher education must demonstrate that they have in place a process for their students to file a complaint with a state official or agency that would review and appropriately act on complaints concerning the institution and ensure it is resolved in some form. If an institution cannot identify a state complaint process that meets the requirements of the regulations, the US Department of Education would not consider the institution to be legally authorized by the state. Additionally, the state must authorize an institution by name to operate educational programs beyond secondary education. If an institution is not legally authorized, it risks losing federal student financial aid, including access to Pell Grants, student loans, work-study, and other Title IV programs.

Independent institutions of higher education that are exempt from oversight by the Bureau of Private Postsecondary Education currently are not clearly subject to a state complaint process. The proposed trailer bill language would authorize the bureau to contract with an institution for the purpose of resolving complaints. It also requires disclosure notices and written materials to inform students of the available complaint process.

Staff are currently working to modify the proposed language, which had listed more than 100 institutions by name. Revised language will likely omit the names of the colleges and instead refer to other processes that identify them, such as approval of their articles of incorporation, qualification of participation in the Cal Grant program, and licensure of particular academic programs.

Staff Recommendation: Adopt placeholder trailer bill language to more clearly define the Bureau of Private Postsecondary Education role for independent institutions and student complaints

ITEMS TO BE HEARD

6400 UNIVERSITY OF CALIFORNIA

ISSUE 1: UC BUDGET PACKAGE

The Subcommittee will take action on a UC budget package that provides increased access for California residents, more clarity and transparency around UC budget issues, and improves administrative efficiency.

BACKGROUND

The Governor's May Revise announced a budget agreement between UC and the Administration. The agreement:

- Continues the January 4% increase in 2015-16 ($119.5 million General Fund) but eliminates the tuition and nonresident enrollment caps. UC reports it will increase the number of nonresident students by 2,000 over current year levels.
- Provides $96 million in Proposition 2 funds for UC pension costs but requires the UC Board of Regents to approve a retirement program that limits pensionable compensation consistent with the limits specified in the Public Employees' Pension Reform Act of 2013. New employees also could choose a defined contribution plan instead, according to UC. The Administration also has agreed to provide about $170 million in each of the subsequent two years to address unfunded pension liability.
- Requires the UC Regents to vote on a plan to rescind a proposed tuition increase for resident students, and raise nonresident supplemental tuition by up to 8%.
- Allows resident tuition increases beginning in 2017-18.
- Allows student services fee to increase by 5% annually.
- Calls for UC to pursue several other academic and structural reforms, including easing the community college transfer process, potentially reducing the number of units it takes for some degrees, encouraging summer school programs, and launching a cost-based activity study on three campuses.

The Subcommittee discussed UC budgeting and enrollment issues at multiple hearings this Spring. Among the issues and concerns discussed were:

Core Fund expenditures grew, but spending increases were consumed by other costs and did not lead to significant resident enrollment growth or improved academic quality. During a period of fluctuating state support for UC, Core Fund expenditures grew at a much higher rate than inflation – 27% between 2007-08 and 2014-15. UC increased revenue through increased tuition, nonresident supplemental tuition, and other sources, such as philanthropy, patent royalty income and indirect cost recovery from federal and state grants and contracts. Resident undergraduate enrollment only grew by 4% during this period, and the increase of tenured and tenure-track faculty was only 3%.

There is an access crisis at UC. Based on the data discussed at the April 21 hearing, six of UC's nine undergraduate campuses – Berkeley, Davis, Irvine, UCLA, San Diego and Santa Cruz - enrolled fewer California freshmen in 2014 than they did in 2007. This is despite growth during this period in the number of high school graduates in California and the number of those graduates who took college preparatory classes.

UC has relied increasingly on non-Core Funds to support educational and other missions. In February, UC released a long-awaited report on the cost of educating a student. This is a critical question as the state seeks to reinvest in higher education. One of the notable issues to arise in this report is how much revenue from other sources UC uses to support educational costs. The chart below provides a breakout of educational expenditures using one of two methodologies provided by UC in the report. Note that about one-third of the funds used to educate an undergraduate student come from non-Core Funds.

Table 1 :2012-13 Expenditures for Instruction (per student) – Narrow Definition

	State General Funds	Tuition and Fees	Nonresident Tuition	Other UC General Funds	Subtotal Core Funds	All Other Funds[6]	Total, All Funds
Blended Rate	$6,906	$7,309	$1,206	$866	$16,286	$7,871	$24,157
General Campus							
Undergraduate	$6,230	$6,600	$1,088	$781	$14,700	$7,100	$21,800
Graduate	$10,615	$11,200	$1,854	$1,331	$25,000	$12,100	$37,100

UC has provided financial aid to nonresident students. UC reported that it provided $32 million in institutional financial aid to nonresidents in 2013-14. This is institutional aid that could go to resident Californians.

UC's public budget information lacks important details. UC does not offer clear information on administrative and management positions, or the funding sources associated with employee compensation. While there are specific breakdowns of subcategories within academic and professional support staff categories, there is not a similar breakdown of the Management and Senior Professional and Senior Management Group categories. And while there is information on employee salaries, there is no breakdown by funding source, making it difficult for the public to understand important issues such as medical center costs vs non-medical center costs, or Core Funds and non-Core Funds.

General Campus bureaucracy grew by 28%, and nearly $500 million in Core Funds support a few thousand highly-paid employees. Of non-medical center staff, managers increased 9% and technical and professional staff increased 63%. Overall, the Managers and Senior Professionals personnel category grew by 28%. Additionally, UC data indicate that Core Funds support 42% of the base pay of the 6,000 or so UC employees who make more than $200,000. UC uses $486.8 million of Core Funds for these employee salaries.

STAFF COMMENTS/QUESTIONS

Based on May Revise revenue estimates, and issues discussed by the Subcommittee, the Subcommittee could consider the following actions:

Increase operational funding for UC above the Governor's proposal, but with conditions. The Subcommittee could consider adding $35 million General Fund support, in addition to the Governor's proposed $119.5 million, to UC's main appropriation. Combined with $68 million in new revenue expected to be generated by UC in 2015-16 by raising nonresident supplemental tuition by 8% and increasing nonresident enrollment by 2,000 students, UC would generate $103 million in new revenue. The $35 million in state funding would not be released to UC until June 1, 2016, based on the following conditions:

- UC must increase enrollment by 8,000 California residents in 2015-16 or 2016-17. UC must provide evidence by June 1, 2016, that it has increased enrollment by this amount or received sufficient Statements of Intent to Register by California students for the 2016-17 school year to indicate this new enrollment level will be reached by 2016-17.
- UC must provide information to the state indicating that it will not increase nonresident enrollment levels above 2015-16 levels for the 2016-17 school year.
- UC must provide information to the state indicating it has increased nonresident supplemental tuition by 8% in 2015-16, and identify that revenue generated from the increase in enrollment and tuition has been used to support residential enrollment growth.
- UC must provide information to the state that it will begin to phase out institutional financial aid for nonresident students by the 2016-17 school year.
- UC must provide information to the state that it has reduced non-academic costs by $10 million in 2015-16, or has a plan to do so in 2016-17. This could be achieved through reductions in the executive or management personnel categories, or other administrative efficiencies.
- UC must provide information to the state that it has posted information on the Office of the President website that details subcategories of personnel within the Managers and Senior Professionals personnel category, and breaks out personnel categories by funding source.
- UC must provide a report to the Legislature and Governor by Dec. 1, 2015 that identifies all university fund sources legally allowable to support educational costs for

undergraduate, graduate academic, and graduate professional education. The report shall also identify the factors UC considers to determine which fund sources to use for educational activities as well as how much funding to use. Additionally, the report shall detail all fund sources included in UC's calculation of educational expenditures, as reported pursuant to Section 92670 of the Education Code.

These proposals would address the resident access crisis, directly tie growth in nonresident enrollment to growth in resident enrollment, and address numerous other budget issues discussed by the Subcommittee during its review of the UC budget this Spring. The additional revenue provided by the state, and the revenue generated by new nonresident students and an 8% increase in nonresidential supplemental tuition, should provide sufficient resources to add at least 8,000 new California residents, while also allowing UC to cover the $125 million in mandatory costs identified by the Governor's May Revise.

Staff Recommendation: Approve the following UC Budget Package:

Approve $96 million in Proposition 2 funds and proposed budget bill language requiring UC to approve a retirement program that limits pensionable compensation consistent with the limits specified in the Public Employees Pension Reform Act of 2013.

Approve $25 million General Fund for UC deferred maintenance projects

Increase the January Budget proposal by an additional $35 million General Fund, for a total of $154.5 million General Fund above current year levels. Approve budget bill language stipulating that $35 million will not be released to UC until June 1, 2016, and only if the following conditions are met:

UC must provide evidence to the Legislature and Administration that it has increased enrollment by 8,000 resident students or received sufficient Statements of Intent to Register by California students for the 2016-17 school year to indicate this new enrollment level will be reached by 2016-17.

UC must provide evidence to the Legislature and Administration that it will not increase residential tuition in 2015-16 and 2016-17.

UC must provide information to the Legislature and Administration that it will not increase nonresident enrollment levels above 2015-16 levels for the 2016-17 school year.

UC must provide information to the Legislature and Administration indicating it has increased nonresident supplemental tuition by 8% in 2015-16, and that revenue generated from the increase in enrollment and tuition ($68 million) has been used to support residential enrollment growth.

UC must provide information to the Legislature and Administration that it is phasing out institutional financial aid for nonresident students, and will not offer institutional aid to nonresidents beginning with the 2016-17 cohort. UC must provide information that it is redirecting this funding to support resident students taking summer school courses.

UC must provide information to the Legislature and Administration that it has reduced non-academic costs by $10 million in 2015-16, or has a plan to do so in 2016-17. This could be achieved through reductions in the executive or management personnel categories, or other administrative efficiencies.

UC must provide information to the Legislature and Administration that it has posted information on the Office of the President website that details subcategories of personnel within the Managers and Senior Professionals personnel category, and breaks out personnel categories by funding source.

UC must provide a report to the Legislature and Governor by Dec. 1, 2015 that identifies all university fund sources legally allowable to support educational costs for undergraduate, graduate academic, and graduate professional education. The report shall also identify the factors UC considers to determine which fund sources to use for educational activities as well as how much funding to use. Additionally, the report shall detail all fund sources included in UC's calculation of educational expenditures, as reported pursuant to Section 92670 of the Education Code.

6610 CALIFORNIA STATE UNIVERSITY

ISSUE 2: CSU BUDGET PACKAGE

The Subcommittee will take action on a CSU support package that provides increased access and improved outcomes.

BACKGROUND

The Governor's May Revise provides $157.5 million General Fund above current year funding. This is a $38 million increase from the January proposal. CSU states it will use this funding to increase resident enrollment by about 1.75% over the current year, including 4,000 new freshman and 1,500 new community college transfer students. CSU also would spend about $23 million on its Graduation Initiative project, which seeks to increase student completion rates.

The May Revise also continues providing $25 million General Fund for deferred maintenance. (A May Revise proposal to provide CSU with $35 million in cap and trade revenues for energy efficiency projects will be heard in Subcommittee No. 3.)

The Subcommittee discussed CSU funding at multiple hearings during the Spring. Among the concerns and issues discussed were:

Thousands of eligible students are being turned away. CSU is not meeting demand. More than 760,000 students applied for admission in Fall 2014, a record high. CSU states that funding restrictions do not allow it to accept all eligible applicants. The table below illustrates the number of students admitted and denied who CSU believes qualify to attend CSU under Master Plan guidelines.

Year	Admitted	Denied
Fall 2009	193,928	10,435
Fall 2010	173,562	28,803
Fall 2011	178,615	21,697
Fall 2012	194,564	22,123
Fall 2013	212,152	26,430
Fall 2014	214,939	30,209

Student outcomes can be improved. Only about 18% of students who entered CSU in Fall 2006 graduated within 4 years. The graduation rate for this cohort rose to 55% in 6 years. CSU has multiple initiatives underway to improve performance, including a Graduation Initiative, which has set improved graduation targets for each campus, and the CSU Enrollment Bottleneck Solutions Initiative, which is designed to improve time to degree. Graduation Initiative improvement targets are shown below.

Metric	Baseline	2025 Target
Six-year Graduation Rate	51%	60%
Four-year Graduation Rate	16%	24%

Achievement Gap by Ethnicity	14 Points	7 Points
Achievement Gap by Pell Grant Eligibility	11 Points	5 Points
Transfer Four-Year Completion Rate	70%	76%
Transfer Two-Year Completion Rate	27%	35%

Major deferred maintenance backlog. CSU reports about $1.8 billion in facility maintenance and infrastructure needs, including outdated utilities and technology networks, and health and safety issues, such as structural problems, roofing issues and declining HVAC systems.

CSU investments showing poor returns. Currently, CSU's authority to invest funds under its control is governed by Education Code Sections 89724(a) and 89725. Most of the CSU funds are invested pursuant to language in EC 89724(a) that reads, in part, that funds received by the CSU "…may be invested, upon approval of the trustees, by the Treasurer or by the chief fiscal officer of a campus of the California State University, in those eligible securities listed in Section 16430 of the Government Code…"

GC 16430 is a list of high quality, low risk fixed income securities that have historically generated lower returns compared to the returns of other potential investment opportunities over the long run. The CSU's existing investment pool, System-wide Investment Fund Trust, or SWIFT, only invests in securities governed by GC 16430. As of June 30 2014, the SWIFT portfolio had investment assets totaling approximately $2.8 billion with returns of 0.87%, 0.64%, and 1.47% for the trailing 12 months, 5 years, and 7 years (since the inception of the SWIFT portfolio), respectively.

Administration seeking to transfer Lanterman property to CSU Pomona. The January Budget announced a proposal to transfer the Lanterman Developmental Center property to California State Polytechnic University, Pomona. Department of Finance proposes transfer of the property to the CSU, contingent on the CSU acknowledging that additional state funds will not be appropriated for the operation, maintenance, or development of this property. Finance is working on a memorandum of understanding with the CSU regarding the transfer of the property to the CSU effective July 1, 2015.

At its April 22 hearing, CSU noted that it would use the property to expand programs. However, there also was discussion that regarding other local interests in potential uses for the Lanterman site.

Administration proposes Innovation Awards for CSU. The Governor's budget proposes $25 million in one-time awards to CSU campuses that are implementing initiatives to improve four-year graduation rates. Campuses must apply for prizes, which would be awarded by a committee chaired by the Department of Finance.

The budget proposal also includes trailer bill language that would establish this program in statute.

STAFF COMMENTS/QUESTIONS

Based on May Revise revenue estimates and issues discussed brought to the Subcommittee, the Subcommittee could consider the following actions:

Provide CSU with its requested funding amount. CSU Trustees and supporters have asked the Assembly for $97 million above the Governor's January proposal. CSU has not sought a tuition increase and appears to be placing California enrollment as its top priority. The Subcommittee could increase the May Revise proposal by $59 million to meet the CSU request. This would allow CSU to enroll 10,400 full-time equivalent students, or 3% enrollment growth over the current year. While CSU reports it is turning away more than 30,000 qualified applicants, many of these applicants would not necessarily attend CSU if they were admitted. Thus, adding about 10,000 slots may provide enough room for most students who truly wish to enroll at a CSU.

CSU states this amount of funding also would allow it to spend $38 million on student success and completion initiatives, which would help it achieve graduation improvement goals.

Allow CSU more investment authority, with conditions. To allow CSU to increase revenue for capital outlay, the Subcommittee could consider amending the statutes restricting CSU investment authority. The LAO has expressed some concerns about this proposal, however. To address those concerns, the Subcommittee could consider adding conditions on this new flexibility, including requiring CSU to consult annually with the State Controller, Department of Finance and Legislative Analyst's Office on its investment strategy, and require an annual report to the Legislature describing its investments, returns and future investment plans. Language also could be added to clarify that the state would not provide subsequent funding to cover any losses related to investments.

Support new engineering school at CSU Channel Islands. A 2012 study indicated a regional shortage of engineers in the Ventura County area, and area companies' interest in expanding engineering programs. A $500,000 investment in CSU Channel Islands would allow the school to establish a Mechatronics major, which has been identified as an engineering degree in high demand in the area and state, and attract support from local companies interested in providing internships and hiring graduates.

Study need for new CSU campus. In an effort to meet access needs in the future, the Subcommittee could require the Legislative Analyst's Office to work with CSU on an initial analysis to assess the need for a new campus of the university. The report would be due on January 1, 2017. Language could also require the same work be done with the University of California, with a report due January 1, 2018.

Require local discussion and reporting regarding the Lanterman property. The Subcommittee could require supplemental reporting language that would require CSU to hold regular meetings with stakeholders as it develop the site and report back to the Legislature on those meetings and its progress on site development.

Reject the Innovation Award. Staff agrees with LAO, which questions whether small amounts of one-time funding will provide sufficient incentive for CSU campuses to refocus efforts on improving graduation. CSU already is undertaking a systemwide initiative to address this goal. This one-time funding could be better addressed toward CSU's $1.8 billion in deferred maintenance needs. The Senate took a similar action.

Staff Recommendation: Approve the following CSU Budget Package:

Increase the May Revise proposal for an additional $38 million General Fund by $59 million, for a total of $97 million General Fund above the January Budget and an overall total of $216.5 million above current year levels. Also adopt budget bill language requiring CSU to increase enrollment by 10,400 full-time equivalent students and spend at least $38 million on student support and completion initiatives.

Adopt placeholder trailer bill language that allows CSU more flexibility in its investments, and requires annual reporting to the Legislature, annual consultation with the State Treasurer, Department of Finance and Legislative Analyst, and includes language indicating the state will not provide funding to cover potential investment losses.

Add budget bill language and provide CSU Channel Islands with $500,000 one-time General Fund to create engineering program.

Adopt trailer bill language requiring the Legislative Analyst's Office to work with CSU on an initial analysis to assess the potential need for new campuses of the university. The report would be due on January 1, 2017. Language could also require the same work be done with the University of California, with a report due January 1, 2018.

Approve the use $25 million General Fund for CSU deferred maintenance projects. Also reject the Innovation Award proposal and provide the $25 million to CSU for additional deferred maintenance projects.

Approve Supplemental Reporting Language requiring CSU to hold regular meetings with stakeholders as it develops the Lanterman property and report back to the Legislature on those meetings and its progress on site development.

6980 CALIFORNIA STUDENT AID COMMISSION

ISSUE 3: ASSEMBLY FINANCIAL AID PACKAGE

The Subcommittee will take action on a financial aid package designed to increase access and affordability for California students seeking higher education.

BACKGROUND

The Subcommittee discussed financial aid, access and affordability issues throughout the Spring. Among the concerns and issues discussed were:

State provides little support for other costs of college. While the Cal Grant program provides significant tuition relief to hundreds of thousands of college students, it does little to cover the other costs of college, including living accommodations, books and supplies, and transportation. These costs are significant: UC estimates that students will spend $20,500 on non-tuition costs in 2015-16, for example. Costs are similar for CSU and community college students. The Cal Grant B stipend, which provides students with $1,648 per year, does provide some cost-of-living support for the lowest-income students, but the stipend has not kept pace with inflation.

The high cost of living in California means that low-income students, even those receiving Cal Grant, Pell Grant, and other aid, still face significant financial pressures when they attend college. In fact, data reported by The Institute for College Access and Success indicates that community college students may face higher net costs associated with colleges than UC or CSU students, due to better institutional aid programs at the four-year schools. This is despite the fact that the lowest-income college students in California typically attend community colleges. Providing stipend money can help students work less, which is beneficial: research shows that students working 15 or more hours a week are more likely to drop out of college than those working fewer hours.

Many low-income students do not receive Cal Grants. The Cal Grant entitlement program allows any California high school student within one year of graduation to qualify for the program if they meet income and asset criteria. Low-income students who graduated from high school more than one year ago must instead apply for the competitive Cal Grant program. Odds are very low of receiving a competitive Cal Grant, which are limited to 22,500 per year in statute. Last year, 309,403 students applied for the grant; thus only about 7% of qualified applicants receive such an award.

This is a significant access issue: according to information from The Institute for College Access and Success, 57% of the applicants who did not receive an award had financial situations so dire that federal student-need calculations indicate they could not afford any of their own financial resources for college. Thus, many of these turned-away students likely did not attend college.

Middle- and low-income students benefitted from first year of Middle Class Scholarship. More than 85,000 students received aid through the Middle Class Scholarship program in its first year of implementation. About 14% of UC students and 24% of CSU students qualified for the award, with UC students receiving an average award of $1,710 and CSU students receiving an average award of $768. According to CSAC data, some Middle Class Scholarship recipients had family income levels below the targeted level of $80,000. CSAC indicates about 24% of UC recipients and 43% of CSU recipients had annual family income levels of less than $80,000.

It appears that per-student payments for Middle Class Scholarship recipients could be increased in 2015-16. About $18 million in MCS money went unspent in the current year. This raises the question of whether the Subcommittee could consider speeding up the implementation process to increase per-student levels. The initial legislation calls for students to receive up to 20% off of tuition in 2015-16, 30% off in 2016-17, and 40% off in 2017-18. It could be possible to stay within the current appropriation level in 2015-16, but move ahead a year in the discounted amount per student. This would provide a bigger benefit to individual students without an increased cost for the state.

The chart below was provided by CSAC and includes estimated costs associated with per-student funding levels based on current participation rates.

Segment	Recipients Likely to be Paid	Implementation Rate			
		14%	20%	30%	40%
UC	16,586	$17.8	$25.4	$38.1	$50.8
CSU	69,154	$42.8	$60.9	$91.5	$121.9
Total	85,740	$60.6	$86.3	$129.6	$172.7

Cal Grant support for students at private colleges set to drop. The Governor's Budget and May Revise reduces the Cal Grant amount for students attending private and accredited for-profit schools from $9,084 in the current year to $8,056 in 2015-16. The 2012 Budget Act put in place scheduled reductions to the Cal Grant award amounts for students at these colleges. The 2014 Budget Act delayed by one year the final reduction, but the administration proposes to make the final reduction in 2015-16. About 28,000 students at private schools currently receive a Cal Grant. About 63% of these students graduate in four years, a higher graduation rate than either UC or CSU. It is likely that this action will limit access to these schools for some low-income California students.

APLE remains in statute but unfunded. The Assumption Program of Loans for Education was created in 1983 and allows students who used federal student loans and work in specified areas, such as teachers in low-performing schools or nurses in state prisons, to access state funds to repay the loans. Most of the program focuses on teachers, and provided up to $11,000 in loan forgiveness for someone who taught for four consecutive years in a qualifying school.

New APLE warrants were suspended through a gubernatorial veto in the 2012-13 budget. No new students have entered the program since then, as the existing statue is subject to an annual appropriation in the budget and the administration has proposed no new funding. Statues regarding the APLE program remain in law, but are subject to annual budget language describing how many new loan assumption agreements will be funded in the coming year. Since the veto in the 2012-13 budget, the annual budget process has not included authorization for any new loan agreements.

This is despite mounting evidence of a teacher shortage. With about a third of the teaching force nearing retirement, the Center for the Future of Teaching and Learning estimates that California will need an additional 100,000 teachers over the next decade. At the same time, the Commission on Teacher Credentialing notes a decline of 74% in enrollment in teacher preparation programs over the last decade.

STAFF COMMENTS/QUESTIONS

Based on May Revise revenue estimates, the Subcommittee could consider the following actions:

Increase the Cal Grant B Access Award. Last year, the Assembly successfully pushed to increase the amount of support for Cal Grant B recipients from $1,473 to $1,648, or a 12% increase. Even with this recent increase, the award has not kept up with inflation and does not provide enough support for low-income students. Increasing the award from $1,648 to $2,000 would allow students to cover all book-and-supply costs, and also some living, travel or other personal expenses. This would increase Cal Grant costs by about $69 million General Fund, according to data from the California Student Aid Commission. This would be in addition to increases for community college students who receive the Cal Grant B, as described in the Proposition 98 package.

Increase the number of competitive Cal Grants. Demand is clearly far higher than supply for this critical program, which provides access to low-income students who have been out of high school for one or more years. Increasing the number of competitive Cal Grants from 22,500 to 50,000 would allow the state to begin improving its support of students seeking to enter higher education and better their lives. The cost of this action would be $68 million General Fund in 2015-16.

Eliminate the decrease in the Cal Grant award for students at private schools. Private schools provide access to higher education for 28,000 Californians. Maintaining the Cal Grant amount for these students at $9,084 will help more students attend these schools at a lower cost. Continuing the current amount will add $9.7 million General Fund in 2015-16.

Improve the Middle Class Scholarship. Data indicates that the state could skip a year in the implementation process and still stay within the $152 million General Fund appropriated in 2015-16. This would allow UC and CSU students to receive up to 30% off of tuition, which would be a maximum award of $3,660 for UC students and $1,644 for CSU students. In addition, the Subcommittee could consider making other changes to improve the program. Adding an asset ceiling of $200,000 would ensure the program is directed at middle class students. This ceiling amount is also used for a financial aid program aimed at the middle class at UC Berkeley. Under this provision, students with family assets over $200,000 (which excludes primary residence) would not qualify for the program. Finally, the program could be limited to four years per student, similar to Cal Grant limitations. Like Cal Grants, students could receive the aid for five years if they are seeking a teaching certificate or are enrolled in a five-year program.

Reauthorize APLE. The Subcommittee could adopt budget bill language reauthorizing the APLE program on a small scale. The language would support 1,000 teachers beginning in the 2015-16 school year. Costs associated for this action would not begin until future years.

Staff Recommendation: Approve the following Financial Aid Package:

Increase the Cal Grant B Access Award from $1,648 to $2,000 per student, at an overall General Fund cost of $69 million in 2015-16.

Adopt trailer bill language that increases the number of competitive Cal Grants from 22,500 to 50,000, at an overall cost of $68 million General Fund in 2015-16.

Adopt budget bill and trailer bill language maintaining the Cal Grant amount for students at private nonprofit or accredited for-profit schools at $9,084, at an overall General Fund cost of $9.7 million.

Adopt placeholder trailer bill language that would alter the Middle Class Scholarship program to allow students to receive up to 30% off of tuition in 2015-16 and implement an asset ceiling and four- or five-year limit on the award

Adopt budget bill language allowing the 1,000 new APLE warrants for teachers in 2015-16 .
