

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Kevin McCarty, Chair

**WEDNESDAY, MAY 4, 2016
4 PM, STATE CAPITOL ROOM 126**

CALIFORNIA STATE LIBRARY AND HASTINGS COLLEGE OF LAW

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ITEMS TO BE HEARD

6120 CALIFORNIA STATE LIBRARY

ISSUE 1: GOVERNOR'S 2016-17 BUDGET PROPOSAL

The Subcommittee will discuss the Budget Proposal to increase support for the California Library Services Act by \$1.8 million ongoing General Fund, and \$3 million one-time General Fund.

PANEL

- Jack Zwald, Department of Finance
- Natasha Collins, Legislative Analyst's Office
- Greg Lucas, California State Library

BACKGROUND

The California State Library has many responsibilities, including collecting, preserving, and ensuring access to California state government publications, federal government information, and patent and trademark resources; ensuring access to books and information for Californians who are visually impaired or have a disability and are unable to read standard print; providing specialized research to the Governor's Office and the Cabinet, the Legislature, and constitutional officers; and supporting local libraries.

The chart below depicts recent funding for the State Library, including the Governor's proposed amount for 2016-17.

Fund Source	2014-15	2015-16	2016-17 Proposed
General Fund	\$27.8 Million	\$31.4 Million	\$30.9 Million
Federal Trust Fund	\$14.8 Million	\$18.1 Million	\$18.1 Million
Other Funds	\$2.3 Million	\$2.4 Million	\$2.6 Million
Total	\$44.9 Million	\$51.9 Million	\$51.6 Million

According to the LAO, about half of State Library funding supports local library programs. In 2015-16, for example, the State Library will pass through \$26 million in grant funds to local libraries. This includes \$14.2 million from the state and \$11.3 million from the federal government. In 2015-16, state funding provided \$6.5 million for technology assistance, \$5.8 million for literacy programs and adult education, and \$1.9 million for library resource sharing. Federal funding is for grants to local libraries to support various activities, including resource sharing and technology assistance.

The California Library Services Act (CLSA). The California Library Services Act declares the state's intent for all California residents to have access to library resources regardless of their location. To meet this goal, the state traditionally has provided funding to regional library cooperatives. Currently, nine regional cooperatives provide their member libraries resource-sharing services, such as purchasing access to online database subscriptions and transferring library materials across jurisdictions.

According to the LAO, in 2015-16, the federal Library Services and Technology Act provided \$11.3 million to local libraries to fund various activities, including resource sharing through regional cooperatives. The state provided \$1.9 million specifically for regional cooperatives. State funding for regional cooperatives was reduced from \$12.9 million in 2010-11 to \$1.9 million in 2012-13 and thereafter. The state provided a \$2 million one-time General Fund augmentation in 2014-15, which the State Library indicates local libraries used primarily for equipment purchases to connect libraries to faster Internet services. Local libraries collected \$2.2 million in fees to promote resource sharing through their cooperatives in 2014-15.

The thirteen-member California Library Services Board annually reviews and approves the cooperatives' budget plans and awards state CLSA funding based on the number of people residing within each of the library cooperative's boundaries. Nine board members are appointed by the Governor and four are appointed by the Legislature. The Chief Executive Officer of the board is the State Librarian, whom the Governor appoints and the Senate confirms.

The Governor's 2016-17 Budget

The Governor's Budget proposes a \$4.8 million General Fund increase for the California Library Services Act, with \$1.8 million in ongoing funding and \$3 million in one-time funding. According to the Administration, the board would determine how to distribute the one-time funding, and it would distribute the ongoing funding based on the number of people residing within each of the cooperative's boundaries. The Administration indicates it intends for the regional cooperatives to use the funding to engage in "new business practices" and adopt new technologies to share resources.

The Governor also proposes trailer bill language to modify the CLSA by removing references to the transaction-based reimbursement, which previously covered a small portion of the costs for local libraries extending lending services beyond their jurisdiction. Since 2011, the state has not provided funding for the transaction-based reimbursement. Trailer bill language also clarifies that cooperatives may use CLSA funding for exchanging print and digital materials.

LAO Recommendation

The LAO notes that standard practice is for the administration to submit a "budget change proposal" to the Legislature for each of its proposals for state agencies. In these proposals, the Administration provides justification for the funding level requested, analyzes alternatives, and outlines expected results. The Administration did not submit this documentation for this proposal.

The Governor's proposal to allow the board to distribute grant monies to the regional cooperatives and oversee their expenditures conforms to current state law and historical

state practice. Without additional information from the Administration about the proposal; however, the Legislature lacks the ability to evaluate whether the funding provided is an appropriate amount, what alternatives to the proposal exist, and what results it can expect. The Legislature may wish to ask the Administration to provide this information.

Upon receiving additional information, if the Legislature were to decide to approve the Governor's proposal, LAO recommends it also require the State Library to report back on the program. Specifically, LAO recommends the State Library submit a report to the Legislature by January 1, 2017, describing (1) what criteria the board used to award grant funding, (2) the amount of funding each cooperative received, (3) a summary of each cooperative's plans and budgets for both one-time and ongoing funding (including existing funding), and (4) a summary of expected outcomes. This report could help the Legislature evaluate future budget requests.

STAFF COMMENT/QUESTIONS

The Library Services Board met on April 8 to discuss this budget proposal. Based on that discussion, the State Library wrote a letter to the Subcommittee on April 25, indicating the priorities the board would place in distributing the one-time funding. The board states that the overarching principle for this funding is to ensure the sharing of materials across libraries, encourage a broader use of new technologies to facilitate movement of information throughout the state and to reduce costs, and that attention should be given to those libraries with large, underserved populations.

Specifically, the board states that its spending priorities are:

- Development of regional or statewide E-resources, such as a shareable portfolio of materials and platforms that provide convenient access to materials ranging from periodicals to databases.
- Easing access to library print and E-resources to all Californians, particularly public school students, through regional and statewide digital library cards.
- Expansion of digital content created by local libraries, such as photographs or newspapers that can be used in local school curriculum and the sharing of that digital content among jurisdictions.
- Fostering partnerships between libraries and other public and private entities to expand access to information and services offered both by libraries and other entities.

Increased funding for libraries has been a Subcommittee interest in recent years. This proposal could provide local libraries with badly-needed, one-time funding that could help increase access to library materials for many communities. However, there are also other library funding priorities the Subcommittee could consider, including:

- **Broadband Equipment Grants.** The 2015 Budget Act provided a \$4 million one-time General Fund increase for grants to public libraries that require additional equipment, network upgrades, or modifications to physical sites to support improved Internet access. The 2014 Budget Act also provided \$2 million one-time General Fund increase for similar activities. The State Library reports that this funding aided 42 library jurisdictions upgrade their connectivity in the first year, and another 51 jurisdictions will receive funding this year. The California Library Association has requested another round of funding in 2016-17, stating there is continuing demand for this program. There are 183 library jurisdictions in the state, and about 1,100 libraries.
- **Literacy Program.** The 2015 Budget Act provided an increase of \$2 million General Fund ongoing for the Literacy and English Acquisition Services Program and \$1 million one-time General Fund to pilot the Career Online High School program, which provides literacy coaches and resources to adults looking to earn an accredited high school diploma and prepare for workforce entry. The literacy program allocates funds to public libraries to support instruction in basic literacy for adults. According to the State Library, this increase in funding provided literacy services at five additional library jurisdictions, and as a result 800 of 1,100 library branches are offering these services. The California Library Association has requested an additional \$1 to \$2 million to continue expanding these programs to other libraries.
- **California Civil Liberties Public Education Program.** The California Civil Liberties Public Education Program was created through legislation in 1998 to inform and educate the California community about the exclusion, forced removal, and internment of Japanese Americans and permanent resident aliens of Japanese ancestry during World War II so that the causes and circumstance of this and similar events may be illuminated and understood. From 1998 through 2010, the program awarded 366 grants to individuals, organizations and education institutions. Grants were also awarded to projects that link the Japanese American experience with the experiences of other populations who face similar violations of civil rights or acts of injustice. Funding was eliminated during the Great Recession.

The Subcommittee has received a request to begin funding this program again. The request is for \$1 million General Fund, with the following parameters: reinstate the grant program, with emphasis and priority placed on projects that link the Japanese American experience with the experiences of other populations who face similar violations of civil rights or acts of injustice, require the State Library to administer the program, and continue to authorize the State Librarian to work with an Advisory Committee to make awards each fiscal year.

The Subcommittee may wish to hold this item open until the May Revise, when it can consider General Fund revenues and its priorities for library funding.

Staff Recommendation: Hold Open until the May Revise

6600 HASTINGS COLLEGE OF LAW**ISSUE 2: GOVERNOR'S 2016-17 BUDGET PROPOSAL**

The Subcommittee will discuss the Governor's 2016-17 Budget Proposal for Hastings College of Law, which provides an increase of \$1 million ongoing General Fund as part of a multi-year funding plan for the school. The Budget also includes \$2 million one-time General Fund to support deferred maintenance projects.

PANEL

- Brianna Bruns, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- David Seward, Hastings College of Law

BACKGROUND

Hastings College of the Law (Hastings) was founded in 1878 by Serranus Clinton Hastings, the first Chief Justice of the State of California. On March 26, 1878, the Legislature provided for affiliation with the University of California. Hastings is the oldest law school, and one of the largest public law schools, in the western United States. Policy for the college is established by the board of directors and is carried out by the chancellor and dean and other officers of the college. The board has 11 directors: one is an heir or representative of S.C. Hastings and the other 10 are appointed by the Governor and approved by a majority of the Senate. Hastings is a charter member of the Association of American Law Schools and is fully accredited by the American Bar Association. The Juris Doctor degree is granted by the regents of the University of California and is signed by the president of the University of California and the chancellor and dean of Hastings College of the Law.

The chart below, prepared by the LAO, depicts recent funding for Hastings, including the Governor's proposed amount for 2016-17, and enrollment.

Fund Source	2014-15	2015-16	2016-17 Proposed
General Fund	\$11 Million	\$12 Million	\$15 Million
Tuition	\$32 Million	\$27 Million	\$22 Million
Other	\$51 Million	\$22 Million	\$24 Million
Total	\$94 Million	\$61 Million	\$61 Million
Total FTE California JD Enrollment	841	778	749

Note: General Fund amounts include bond debt service payments and proposed deferred maintenance funding for 16-17. Tuition reflects net revenue, after institutional financial aid.

In 2009-10, enrollment at Hastings reached a high point at 1,179 full-time equivalent (FTE) resident JD students. Since then, enrollment has declined to 778 FTE resident JD students in 2015-16 and an estimated 749 FTE resident JD students in 2016-17. Hastings argues that it has reduced enrollment because of its concerns about the job market for its graduates, and its efforts to boost the qualifications of its student body by being more selective in its admissions.

Hastings is not budgeted on a per-student basis, and as a result the law school's state budget appropriation has not been adjusted to reflect the decrease in enrollment. As a part of the 2015-16 budget, the Legislature adopted supplemental reporting language to require Hastings to report on a proposed marginal cost funding formula that could be used to fund enrollment growth and adjust for enrollment declines. The Hastings report raised concerns with using an enrollment funding formula, including:

- Fixed costs: Hastings relative small size means relatively high fixed costs that do not fluctuate with enrollment. As stand-alone institution, it does not enjoy the economic benefits of integration with a larger institution with extensive economies of scale or substantial endowment. Hastings does not receive funding from the UC. Hastings is obligated to fund costs that are funded at that the campus level at other law schools such as security, payroll and human resources, bursar and records, compliance and finance and financial reporting.
- Incentives: An enrollment formula might encourage the school to enroll more students, even if students face poor job prospects.
- Timing: Academic planning would be more difficult due to uncertainty regarding the amount of funding it would receive under the formula.
- Forecasting: Achieving a specific enrollment target would be difficult due to challenges in predicting how many students would accept offers of admissions.

Tuition at Hastings is \$44,201 in 2015-16. Hastings expects to keep tuition flat in 2016-17, except it indicates its board will consider an increase in its health services fee. This is the fifth consecutive year that tuition has remained the same. Student fees are the primary source of funding for Hastings, accounting for nearly 75 percent of the revenues supporting the core operations (including revenue used for financial aid).

The Governor's 2016-17 Budget

The 2016-17 Budget proposes a \$1 million General Fund ongoing unallocated increase to Hastings budget. Excluding general obligation bond debt service and deferred maintenance funds, this represents a 10% increase to Hastings' budget. The Governor proposes to allow Hastings to set its own enrollment, tuition levels and financial aid packages, and spending priorities.

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. Hastings also plans to increase its tuition discounts by \$3.3 million (25 percent) from \$13.1 million in 2015–16 to \$16.3 million in 2016–17. Hastings' tuition discounts typically are awarded based on merit, not need. As such, Hastings indicates the increase is intended to help it attract more highly-qualified students.

Additionally, the Governor proposes \$2 million one-time General Fund to support deferred maintenance projects on Hastings' campus. This proposal for Hastings is part of a larger package of deferred maintenance spending for various state agencies. The overall proposal does not require agencies initially to identify specific maintenance projects, though agencies would be required to submit project lists to the Department of Finance after enactment of the budget. The Joint Legislative Budget Committee would have 30 days to review these lists prior to the department approving them. Hastings reports these funds will be prioritized for projects that address life-safety issues, code compliance and energy efficiency and water conservation improvements.

LAO Recommendation

As has been discussed in past years, the LAO has concerns with the Governor's approach of providing unallocated increases to Hastings because it diminishes legislative oversight. The LAO suggests the Legislature consider adopting a policy specifying its overarching enrollment objective for the law school and link some portion of Hastings' budget to student enrollment. A state enrollment policy for Hastings could be based on various factors, such as workforce demand for lawyers or student demand for law school.

Regarding the deferred maintenance proposal, the LAO notes that the Governor's proposal would address nearly one-quarter of Hastings' deferred maintenance backlog, which is a much higher share than the Governor proposes for other higher education agencies, including UC and CSU. (For instance, the Governor proposes \$35 million for UC, though the university asserts it has a backlog of over \$1.2 billion.) Though differing funding levels may make sense to the extent they reflect differing priorities, the LAO notes that the Governor's proposal did not include a justification for the variation.

If the Legislature decides to provide \$2 million for Hastings, LAO recommends it prioritize Hastings' \$2.5 million list by not funding the projects related to lighting replacements and water conservation, as alternative revenues, such as by cap-and-trade auction revenues or various state revolving fund programs (where project costs are recouped over time through the project's energy savings), might be available to support these projects. LAO further recommends the Legislature prioritize projects at Kane Hall, given the state has approved replacing the main portion of Snodgrass Hall and Hastings plans to propose renovating the annex portion. LAO calculates the remaining projects left after setting these priorities would total \$2 million.

STAFF COMMENT

As a stand-alone graduate school, Hastings does not enjoy the economic benefits of integration with a larger campus. And while affiliated with UC, Hastings does not receive any funding from the UC system. Hastings is obligated to cover costs that UC law schools or most other law schools fund at a campus-wide level, such as security, payroll and human resources, and recordkeeping. For example, Hastings notes that its costs relating to healthcare are about \$3.5 million, a significant share of General Fund support. Hastings is seeking improved partnerships with the nearby UC San Francisco medical campus on issues such as security and student housing, to cut costs for both campuses and their students.

Based on a 2011 Strategic Plan that recognized a glut of attorneys and diminishing job prospects for law students, Hastings has reduced enrollment by about 25% during the past three years. While this has benefitted student-faculty ratio and increased the academic quality of admitted students, it also has decreased revenue.

The Governor's proposal to increase support for Hastings by \$1 million seems reasonable, given Hastings' costs, but the Subcommittee may wish to hold this open until the May Revise to better determine how to divvy up General Fund based on revenue and priorities.

Regarding deferred maintenance, Hastings recently reported an estimated \$8.4 million maintenance backlog to the Department of Finance. Of the \$8.4 million, \$6.8 million is associated with Snodgrass Hall and \$1.6 million is associated with Kane Hall. Though not yet required to do so, Hastings has submitted a project-level deferred maintenance list totaling \$2.5 million.

The package of deferred maintenance funding will likely be voted on in Subcommittee No. 4.

Staff Recommendation: Hold Open until the May Revise

ISSUE 3: APRIL FINANCE LETTER

The Subcommittee will discuss an April Finance Letter requesting an additional \$18.8 million in lease revenue bond authority for the Academic Building Replacement project that was first approved in the 2015 Budget Act.

PANEL

- Sally Luckenbill, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- David Seward, Hastings College of Law

BACKGROUND

The 2015 Budget Act provided Hastings with \$36.8 million in lease revenue bond financing to develop a new academic building of 57,000 gross square feet on a vacant site owned by Hastings in San Francisco. The new facility will replace an outdated building.

The 2015 Budget Act approved all three phases of this project - preliminary planning, working drawings, construction and equipment phases – at once, but required notice to the Joint Legislative Budget Committee before beginning the construction phase.

April Finance Letter

An April Finance Letter requests additional lease revenue bond authority to support the project. Total project costs are now estimated to be \$55.6 million, a 51% increase over the previous estimate. According to the letter, a December 2015 analysis and market research indicated significant budget deficiencies in the approved plan. Among the issues raised were:

- The original cost analysis was based on an above-grade structure that did not consider the need for a portion of the building to be built below grade. This structure will connect with other structures, requiring varying grading. In addition, some mechanical systems will be placed below ground to maximize above-ground space for classrooms and other needs.
- Other cost increases are related to communications, technology, and energy efficiency needs.
- Market conditions in San Francisco have changed since the initial cost estimate was created in 2014.

The letter notes that this change would increase estimated debt service costs from \$2.7 million annually beginning in 2018-19 to \$3.7 million annually.

STAFF COMMENT

A 51% cost increase from just one year ago is alarming, and additional annual debt service costs will put pressure on the General Fund.

But the need for this project is clear. The building to be replaced was built in 1953, and has many deficiencies. In making this proposal last year, Hastings noted that it considered four options, including renovating the existing building, before determining that developing a new facility was the most cost effective. Cost estimates for the other options remain higher than the current plan, even with the added expenses requested in the April letter.

Hastings notes that San Francisco construction costs have escalated rapidly, by 12% to 15% in 2014, another 9% to 10% in 2015, and more increases are projected in 2016. They also note that final, detailed plans indicate a need for subterranean levels in the building, and differing classroom sizes and other infrastructure that have added costs.

The Department of Finance is seeking to minimize this cost increase by using excess bond proceeds from prior bond issuances, which could reduce debt payments and the amount of new bonds sold.

The Subcommittee may wish to hold this issue open to determine its priorities once the May Revise is released.

Staff Recommendation: Hold Open until the May Revise
