AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

TUESDAY, MARCH 15, 2022
9 AM, STATE CAPITOL - ROOM 447

We encourage the public to provide written testimony before the hearing. Please send your written testimony to: BudgetSub2@asm.ca.gov. Please note that any written testimony submitted to the committee is considered public comment and may be read into the record or reprinted. All are encouraged to watch the hearing from its live stream on the Assembly's website at https://www.assembly.ca.gov/todaysevents.

The hearing room will be open for attendance of this hearing. Any member of the public attending a hearing is strongly encouraged to wear a mask at all times while in the building. The public may also participate in this hearing by telephone.

To provide public comment, please call toll-free:
877-692-8957 / Access Code: 131 54 47

INFORMATIONAL HEARING

UNIVERSITY OF CALIFORNIA AND HASTINGS COLLEGE OF THE LAW

ITEMS TO BE HEARD

6440 UNIVERSITY OF CALIFORNIA

The Governor's Budget proposes about $10.5 billion in core operational support for the University of California (UC) in 2022-23, with about $4.6 billion from the state General Fund and about $5.4 billion in student tuition and fees. The chart below was compiled by the LAO and indicates 22-23 funding based on the Governor's Budget. Note the overall UC budget, including medical centers, is $46.1 billion.

University of California Funding by Source

(Dollars in Millions Except Funding Per Student)

	2020-21 Actual	2021-22 Revised	2022-23 Proposed	Change from 2021-22 Amount	Change from 2021-22 Percent
Core Funds					
General Fund					
Ongoing	$3,465	$4,010	$4,318	$308	7.7%
One time	9	743	295	-448	-60
Subtotals	($3,474)	($4,753)	($4,613)	(-$139)	(-2.9%)
Tuition and fees[a]	$4,935	$5,295	$5,443[b]	$148	2.8%
Lottery	43	51	50	—[c]	—[c]
Other core funds[d]	395	395	395	—	—
Subtotals	**($8,847)**	**($10,493)**	**($10,502)**	**($9)**	**(0.1%)**
Other Funds					
Medical centers	$14,475	$16,008	$17,278	$1,270	7.9%
Sales and services	7,840	8,687	9,172	485	5.6
Federal	4,824	4,541	4,718	177	3.9
Private	2,697	2,615	2,674	59	2.3
State	479	496	592	97	19.5
Other	1,155	1,078	1,121	43	4.0
Subtotals	**($31,470)**	**($33,424)**	**($35,555)**	**($2,131)**	**(6.4%)**
Totals	**$40,317**	**$43,917**	**$46,057**	**$2,140**	**4.9%**
FTE students[e]	289,314	293,728	301,377	7,649	2.6%
Core ongoing funding per student	$30,549	$33,196	$33,868	$672	2.0%

[a] Includes funds that UC uses to provide tuition discounts and waivers to certain students.

[b] Estimate from Legislative Analyst's Office. The Department of Finance's original estimate did not reflect the administration's enrollment growth proposal.

[c] Amount is less than $500,000 or 0.05 percent.

[d] Includes a portion of overhead funding on federal and state grants and a portion of patent royalty income.

[e] 1 FTE is 30 credit units for an undergraduate and 24 credit units for a graduate student. Student counts includes resident and nonresident students.

FTE = full-time equivalent.

ISSUE 1: ENROLLMENT

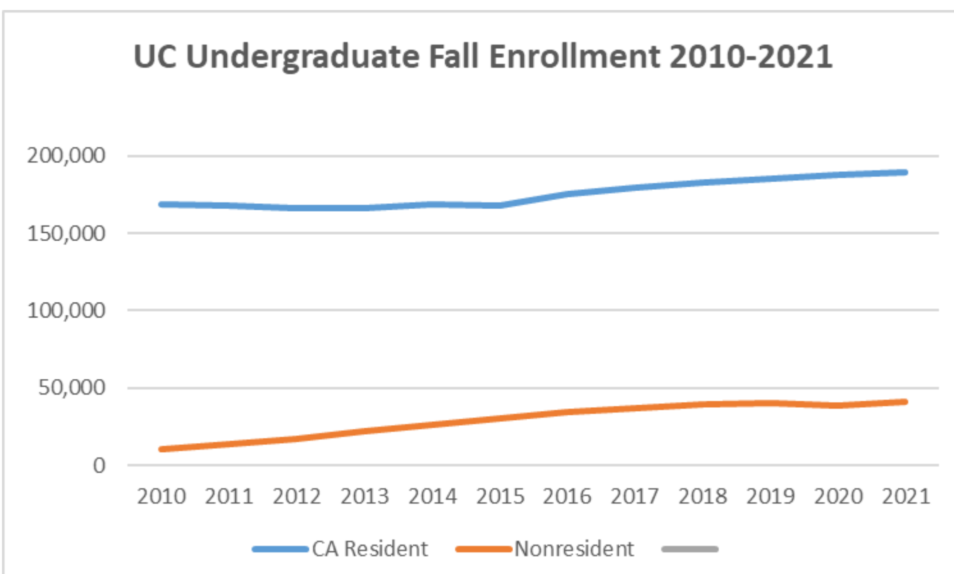
The Subcommittee will discuss UC enrollment issues, including the Governor's Budget proposal to support enrollment growth agreed to in the 2021 Budget Act: $67.8 million ongoing General Fund to support 6,230 more California undergraduates in 2022-23, and $31 million ongoing General Fund to replace 902 nonresident students at the Berkeley, Los Angeles and San Diego campuses with 902 California students.

PANEL

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

BACKGROUND

UC has added more than 50,000 undergraduates since 2010. Enrollment growth at UC has come in two waves: a major increase in out-of-state and international students in the early 2010s while California enrollment was relatively flat; followed by a larger increase of California students in recent years. Note that per language in the 2016 Budget Act, the UC Board of Regents adopted a nonresident undergraduate enrollment cap in 2017. This policy required that five UC campuses keep undergraduate nonresidents at 18% or less of all undergraduate enrollment. At the other four campuses where the proportion of nonresidents exceeded 18 percent — UC Berkeley, UC Irvine, UCLA and UC San Diego — nonresident enrollment was capped at the proportion that each campus enrolled in the 2017–18 academic year.



Source: UC Infocenter, Fall Enrollment at a Glance

State Typically Sets Enrollment Targets and Provides Associated Funding. Over the past two decades, the state's typical enrollment approach for UC has been to set systemwide resident enrollment targets. If the target reflects growth (sometimes the state leaves the target flat), the state typically provides associated General Fund augmentations. Augmentations have been determined using an agreed-upon per-student funding rate derived from the "marginal cost" formula. This formula estimates the cost to enroll each additional student and shares the cost between anticipated tuition revenue and state General Fund. The state does not support nonresident undergraduate enrollment; instead those students pay the same tuition as a California student, as well as nonresident supplemental tuition, which in the current year is $29,754.

State Set Resident Undergraduate Enrollment Target for 2022-23. In the midst of the pandemic, the Legislature opted not to set enrollment growth targets in the 2020-21 Budget Act for 2021-22. Such an approach gave UC flexibility to manage funding reductions and uncertain enrollment demand that year. When state revenues recovered the following year, the state resumed setting targets. Specifically, the state set an expectation in the 2021-22 Budget Act that UC grow resident undergraduate enrollment in 2022-23 by 6,230 students. The budget act passed in June had made this a two-year expectation by setting 2020-21 as the baseline year, but clean-up legislation enacted in the fall amended the baseline year to 2021-22. Language in the 2021-22 Budget Act also stated legislative intent to provide ongoing state funding for this growth beginning in 2022-23.

State Also Adopted Multiyear Plan to Reduce Nonresident Undergraduate Enrollment at UC. The 2021-22 budget initiated a plan to reduce the nonresident share of undergraduate students at the Berkeley, Los Angeles, and San Diego campuses from over 21 percent in 2021-22 to 18 percent by 2026-27. UC is to achieve the reduction targets by gradually enrolling fewer incoming nonresident students, while replacing them with California students. The plan is to start in 2022-23, with the state providing funding for the lost tuition revenue associated with the reduction in nonresident students. At the time of adopting this plan, it was estimated UC would have to reduce nonresident enrollment by 902 students annually.

UC has recently exceeded state enrollment growth targets; is not planning to meet 2022-23 target. The 2018-19 Budget Act provided funding to support 4,860 additional full-time equivalent students. This is the last enrollment funding provided. Since then, however, UC has grown by about 10,000 students, with the most significant – and unexpected - growth occurring during the first year of the COVID-19 pandemic.

	2018-19	2019-20	2020-21	2021-22
UC California Undergraduate Enrollment	189,489	193,792	200,075	199,358

UC has indicated that it will not increase enrollment per the Governor's Budget. Instead, it intends to increase undergraduate enrollment by about 2,000 students this Fall, and proposes to instead use about $48.8 million of the enrollment growth funding to support previously enrolled students. The chart below indicates 2022-23 enrollment levels based on the Governor's Budget and UC's proposal.

	2020-21	2021-22	**2022-23**
UC California Undergraduate Enrollment Per Governor's Budget	200,075	199,358	**207,207**
UC California Undergraduate Enrollment Per UC Proposal	200,075	199,358	**201,481**

Meanwhile, demand for a UC education continues to grow. UC announced last month that its campuses received a record-breaking number of applications for Fall 2022. Systemwide freshman applications jumped by 7,140 over 2021, rising by 3.5 percent to an all-time high of 210,840 for Fall 2022 from 203,700 in Fall 2021. California freshman applications also saw impressive gains with 3.3 percent growth over 2021, and 16.8 percent growth from Fall 2020. Community college transfer applications were down, however. Chicano/Latino students comprised the largest ethnic group of the pool of California freshman applicants (38.1 percent) for the third year in a row, a 4.1 percent increase over the past year. Similarly, Chicano/Latino students comprised the largest ethnic group of the pool of California Community College (CCC) applicants (31.8 percent) for the fifth year in a row. In addition, systemwide freshman applications for Fall 2022 from American Indian students grew by 32.8 percent increase over the past year, applications for African American students grew by 2.8 percent over the past year) and Asian American students increased by 5.8 percent over the past year.

GOVERNOR'S 2022-23 BUDGET PROPOSAL

The Governor's Budget provides UC with $98.8 million ongoing General Fund to support California enrollment growth in 2022-23. Of this amount, $67.8 million is to support enrollment growth of 6,230 undergraduate resident students. Proposed budget bill language specifies 2020-21, rather than 2021-22, as the baseline year. This amount assumes a marginal cost of $10,866 per student, the rate for 2021-22. The remaining $31 million is for reducing nonresident enrollment by 902 students and replacing those students with resident students. The $31 million is intended to replace lost nonresident supplemental tuition revenue, as well as lost base tuition revenue paid by nonresident students that supports financial aid for resident students.

The Governor's Budget also includes a compact with UC that includes a multiyear plan to expand undergraduate and graduate student enrollment. Specifically, the administration proposes that UC grow resident undergraduate enrollment by around 1 percent each year from 2023-24 through 2026-27. According to the administration, this annual growth would represent more than 8,000 additional students across the four-year period. The administration also proposes that UC grow graduate student enrollment by roughly 2,500 students over the same time period. Under the compact, UC would not receive additional funds for enrollment growth over the period, but instead it would need to accommodate the higher costs from within its base increases.

LAO ANALYSIS AND RECOMMENDATION

Analysis

Disconnect Between Governor's Proposal and UC Plan Raises Issues for Legislature to Consider. The administration describes its 2022-23 enrollment growth proposal as intended to implement the state budget agreement adopted last year. UC has indicated, however, that it is not planning to meet the administration's target enrollment level of 207,207 students. The Legislature could respond to this disconnect by reducing UC's associated enrollment growth funding—providing funding only for the additional students UC plans to enroll in 2022-23 over the set baseline year. This approach keeps the tightest connection between new state funding and new students enrolled. Alternatively, the Legislature could consider providing UC the full amount proposed by the Governor—effectively funding some over-target enrollment from 2020-21 and raising UC's per-student funding level. In recent years, the state has not funded over-target enrollment. Such a practice could create incentives for UC to disregard state enrollment growth targets with resulting fiscal impacts that could run counter to legislative intent. UC, however, is in a somewhat unusual situation due to the pandemic. Given the unusual times, the Legislature may want to consider making an exception for UC this year.

Setting Funded Enrollment Level Could Clarify Intent Moving Forward. The purpose of setting enrollment targets is to make clear expectations regarding the number students the universities are to enroll. The state's recent practice of setting growth targets has worked well when the Legislature, administration, and segments shared a common understanding of the baseline level of students. Recent experience, however, suggests that there may be different interpretations as to the existing baseline level of funded enrollment at UC. Without a shared understanding, the Legislature runs the risk of UC and the administration implementing future enrollment expectations in ways that do not align with its intent.

Recommendation

Use UC's Planned Growth as a Starting Point for Resident Undergraduate Enrollment in 2022-23. As UC indicates it will enroll only 1,100 rather than 6,230 additional resident undergraduate students in 2022-23 (excluding the approximately 900 new students from the nonresident reduction plan), we recommend the Legislature consider that planned growth as a starting point for funding (costing $12 million, using the 2022-23 marginal cost of instruction of $11,200 per student). Though the Legislature could consider providing more than the $12 million, such action would differ from recent state practice. The Legislature likely would want to consider providing more funding only if it were concerned about UC having over-target enrollment in 2020-21 and its resulting per-student funding being too low.

Adopt Nonresident Reduction Funds. Consistent with last year's budget agreement, we recommend adopting funds for planned reductions in nonresident enrollment (and associated growth in resident students) in 2022-23. We think the Governor's proposed level of funding ($31 million for the 900 student replacement) likely is justified.

Set Resident Undergraduate Enrollment Target in 2023-24. After making decisions for 2022-23, we recommend the Legislature set a resident undergraduate enrollment target for budget-year-plus-one. Depending on the factors discussed earlier, the Legislature could consider any number of options. For example, the Legislature could set the target in 2023-24 at 207,207 students, thus giving UC more time to meet the administration's proposed enrollment level. Alternatively, the Legislature could adjust its expectations based on more recent trends, funding more or less growth as it deems warranted. Regardless of the Legislature's desired level of enrollment, we recommend setting the target enrollment level, rather than just a growth target, for 2023-24 in the 2022-23 Budget Act. Such an approach would better clarify legislative intent and enhance accountability. Moreover, we recommend scheduling any funds for growth in 2023-24 to be appropriated in the 2023-24 budget. This approach allows the state more easily to align funding with updated enrollment estimates for that year.

Consider Expectations for Graduate Enrollment. If the Legislature has specific workforce priorities that entail graduate student growth, it could set a target for 2023-24. That said, the Legislature could continue its current approach of not setting a graduate enrollment target if it has no specific graduate student-related priorities.

STAFF COMMENT

UC's significant and unexpected enrollment growth in 2020 is good news for California: thousands of more students gained a coveted spot at a UC campus. Generally, the state has sought to support UC enrollment growth by providing marginal cost funding per student added, but as the LAO notes, the state in recent years has not paid UC back when it exceeds an enrollment cap. This situation may warrant special attention, however, due to the enormous size of the over-enrollment, and the fact that the over-enrollment came during the pandemic, when UC clearly had difficulty predicting admission, acceptance and enrollment trends.

On the other hand, UC's decision to enroll a much smaller amount of new students in Fall 2022 is problematic. Both the administration and Legislature expected the largest class of new California students at UC this Fall. Instead, UC is making admissions decisions this month that will lead to much smaller numbers. The LAO appropriately notes the precedent this could set if UC is allowed to ignore enrollment targets agreed to by the Administration and Legislature. Under UC's plan, the Legislature would have to amend budget language to allow UC to use nearly $50 million in state funds intended for this Fall to instead fund enrollment growth from two years ago.

Staff notes that in general, UC, the Legislature and the Administration are all committed to increased access to UC. UC President Michael Drake is currently working with campus chancellors and Regents on a plan to add at least 20,000 more students to the system by 2030, and the Administration is proposing enrollment growth for the next four years. This discussion should resolve this year-over-year issue, while also focusing on a long-term enrollment plan for UC.

Depending on available revenue, the Subcommittee can consider three UC enrollment issues:

- How should the state consider the California students UC has enrolled beyond previous enrollment targets?
- How should the state consider UC's 2022-23 enrollment plan? Can UC increase enrollment in 22-23 to be more in line with legislative expectations?
- How should the state consider supporting a longer-term enrollment growth plan?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 2: BASE BUDGET

The Subcommittee will review the Governor's Budget proposal to provide a 5% base increase ($201 million ongoing General Fund) for UC core operations.

PANEL

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

BACKGROUND

UC Has Several Core Operating Costs. Like most state agencies, UC must support multiple core costs, such as employee compensation and benefits, retirement contributions, debt service and energy costs. According to the LAO, UC spends a majority of its ongoing core funds (about 70 percent in 2020-21) on employee compensation, including salaries, employee health benefits, retiree health benefits, and pensions. Though operational spending grows in most years, UC has pursued certain actions to contain this growth. For example, UC has pursued new procurement practices and energy efficiency projects with the aim of slowing associated cost increases.

The 2022-23 budget plan approved by the UC Regents in November 2021 reports cost increases for core operations of $334.5 million over the current fiscal year, as the chart below illustrates.

PROPOSED CHANGES IN EXPENDITURES

Sustaining Core Operations		
Proposed Investments		
Faculty compensation (policy-covered)	$	86.8
Faculty merit program	$	35.0
Staff compensation (policy-covered)	$	66.7
Contractually committed compensation	$	30.5
Retirement contributions	$	30.8
Employee heath benefits	$	23.0
Retiree health benefits	$	6.3
Non-salary price increases	$	40.4
Debt service for AB 94 capital projects	$	15.0
Subtotal	***$***	***334.5***

UC plans to use multiple strategies and revenue streams, including a tuition increase and state General Fund, to meet costs. For 2022-23, UC plans to reduce its contribution rate to its pension system and improve procurement processes to cut costs. The Regents also recently approved a plan to increase resident and nonresident tuition charges over the next several years. For undergraduates, tuition and fee charges will be cohort based, with fee increases applied only to new students and held flat for continuing students. In contrast, tuition will increase annually for all graduate students. Generally, tuition increases will be pegged to a rolling three-year average of the California consumer price index. Undergraduate charges, however, will increase by more than inflation the first few years of implementation (for example, 2 percentage points over inflation in 2022-23). UC plans to initiate its new tuition policy in 2022-23. The chart below indicates the change in tuition between the current year and the 2022-23 academic year. Note that this tuition increase will add approximately $15 million to state Cal Grant costs.

Undergraduate	Tuition	Student Services Fee	Nonresident Supplemental Tuition
2021-22	$11,442	$1,128	$29,754
2022-23	$11,928	$1,176	$31,026
Change	$486	$48	$1,272
% Change	4.25%	4.26%	4.28%

Figure 4 below was prepared by the LAO and tracks various UC revenue sources over the past several years. In all but one of the years shown, the state provided UC with base General Fund increases. Notably, in only one of these years (2019-20) was the base increase linked to specific UC operating cost increases. In the other years of the period, the base increases appeared to be set arbitrarily, without a direct link to UC's operating costs. In addition to the base General Fund augmentations, UC campuses regularly increased revenue generated from nonresident students by increasing both their supplemental tuition charge and enrollment levels.

Figure 4

UC Has Used Several Means to Cover Operating Cost Increases

Annual Change

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Base General Fund support	5%[a]	5%[a]	4%	4%	4%[b]	3%	3%[c]	-8%[d]	5%
Tuition charges									
Base tuition	—	—	—	—	3	-1[e]	—	—	—
Nonresident supplemental tuition	—	—	8	8	5	3	3	—	—
Student Services Fee	—	—	5	5	5	—	—	—	—
Nonresident undergraduate enrollment	29	22	17	12	6	6	2	-5	7

[a] Small portion of increases were designated for specified purposes, such as online course development and UC labor center operations.
[b] Portion of augmentation was covered with Proposition 56 funds.
[c] Increase connected to specific UC operating cost estimates.
[d] State restored this reduction in 2021-22, on top of the base increase it provided UC that year.
[e] Decrease due to end of special $60 surcharge adopted in 2007-08.

GOVERNOR'S 2022-23 BUDGET PROPOSAL

The Governor's Budget proposes a $201 million (5%) unrestricted General Fund increase for UC in 2022-23. The proposal is the first of a multiyear compact with UC that the Governor announced in January. Per the compact, the Governor proposes to provide 5% base increases annually through 2026-27, with future increases contingent on UC meeting certain expectations, including:

- 1% annual California undergraduate enrollment growth;
- Increasing graduate student enrollment by roughly 2,500 during this time period;
- And numerous other activities to improve student outcomes and equity, make UC more affordable for students, enhance intersegmental collaboration, improve workforce alignment, and expand online education. The Department of Finance indicates that more details on the metrics it will use to measure progress in these areas will be included in the May Revision.

LAO ANALYSIS AND RECOMMENDATION

Analysis

Base Increases Are Poor Approach to Budgeting for Operating Costs. As we have said in many previous publications, base increases are a poor approach for two reasons. First, they lack transparency. The Governor does not identify how UC is to use its base increase. Moreover, UC itself does not adopt a corresponding spending plan until after final budget enactment in June. Second, given the purpose of the funding is unspecified, the amount of proposed augmentations are arbitrary, lacking clear justification based on documented cost increases.

Legislature Could Begin by Considering Nonsalary Cost Increases. Among UC's operating costs, we think the Legislature may wish to first consider how much to provide for employee benefits, debt service, and OE&E. Costs in these areas are driven by UC policy and contractual arrangements that, absent a change in policy, are set to increase. In 2022-23, UC estimates that total core costs in these areas will increase by $78 million.

Legislature Then Could Consider Salary Increases. After covering nonsalary cost increases, the Legislature could consider how much funding to provide for salary increases. Generally speaking, the goal of providing salary increases is to ensure the university is able to attract and retain faculty and staff. Though recent evidence of the competitiveness of UC salaries is limited, there is little evidence that the university experiences difficulty with attracting most of its faculty and staff. For example, UC faculty salaries on average are higher than most public universities engaging in a similar level of research. Moreover, faculty separations have remained about the same over the last ten years. That said, campuses have reported to our office that they have difficulty recruiting and retaining certain types of staff, such as mental health counselors.

Additionally, inflation is anticipated to be higher in 2022-23 than in past decades, likely generating pressure for larger-than-typical salary increases. The Legislature likely will want to weigh these competing factors when deciding how much funding to provide for salary increases in 2022-23. To help with the Legislature's planning, we estimate each 1 percent increase in UC's total salary pool in 2022-23 would be approximately $45 million.

Recommendation

Build Base Increase Around Identified Operating Cost Increases. We recommend the Legislature decide the level of base increase to provide UC by considering the operating cost increases it wants to support in 2022-23. The Legislature could start with UC's nonsalary cost increases ($78 million). From this point, the Legislature could consider providing funds for salary increases (around $45 million for each 1 percent increase). For illustration, at the Governor's proposed funding augmentation ($246 million, consisting of $201 million in new General Fund and $45 million in new tuition and fee revenue), the Legislature could cover UC's nonsalary cost increases as well as a nearly 4 percent increase in UC's salary pool.

STAFF COMMENT/POTENTIAL QUESTIONS

Staff concurs with the LAO's concern that base increases lack transparency and limit legislative oversight. However, base increases have been a regular part of recent budget acts, and act as a general cost-of-living adjustment for campuses. Staff is not aware of any examples of a campus using base funding for activities that are not in line with general legislative priorities, such as supporting wages and benefits for employees.

The base increase model may be more problematic in the out years of the UC compact, when the Administration will propose a 5% base increase that is intended to support undergraduate and graduate student enrollment increases, numerous activities outlined in the compact, and cover cost increases. (As noted earlier, this year's proposal includes specified enrollment funding based on the agreement in the 2021 Budget Act.)

Should unspecified base increases continue, the Subcommittee could consider more detailed reporting requirements that could provide information on how increased funding was spent.

The Subcommittee could consider the following questions for the Department of Finance and UC:

- Aside from procurement reform, are there any other reforms UC can implement to cut costs?

- How will UC use this 5% increase? What types of cost increases will be covered by this 5%?
- How did the Administration land on 5% increases as the appropriate number? Does the Administration have a vision for how UC will use this funding in the future – for example, how much will go toward enrollment growth, versus other cost increases or compact activities?
- How much in new revenue will the 22-23 tuition increase net, and how does UC plan to use this funding?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 3: DEFERRED MAINTENANCE

The Subcommittee will discuss the Governor's Budget proposal to provide $100 million one-time General Fund to support deferred maintenance projects.

PANEL

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

BACKGROUND

Like most state agencies, UC campuses are responsible for funding the maintenance and operations of their buildings from their support budgets. When campuses do not set aside enough funding from their support budgets to maintain their facilities, they begin accumulating backlogs. These backlogs can build up over time, especially during recessions when campuses sometimes defer maintenance projects as a way to help them cope with state funding reductions.

UC reports more than $7 billion in deferred maintenance. In December 2021, UC released its long-term maintenance and renewal report to the Legislature. In the report, UC estimates having a total ten-year capital renewal need of $12.3 billion, on top of an existing $7.3 billion maintenance backlog. (According to UC, its capital renewal need likely is higher than $12.3 billion, as the university has not yet completed its systemwide infrastructure assessments.) As Figure 7 below shows, UC estimates it would need to spend an average of $1.2 billion annually over the next ten years to address its capital renewal needs, as well as an additional $728 million annually to eliminate its existing backlog. The combined amount is $1.7 billion more than the best available estimate of UC's current annual spending on these types of projects ($291 million in 2019-20).

Figure 7

UC Has Considerable Maintenance and Capital Renewal Needs

(In Millions)

Total Costs	
Projected ten-year renewal need[a]	$12,313
Existing maintenance backlog	7,277
Total	**$19,590**
Average Annual Cost[b]	
Capital renewal costs	$1,231
Maintenance backlog	728
Total	**$1,959**
Existing Annual Spending	**$291**
Gap in Annual Spending	**$1,669**

[a] Reflects renewal need for academic facilities only, as UC is still assessing the condition of its infrastructure.
[b] Reflects estimates of amounts UC would need to spend each year for ten years to prevent its backlog from growing while also eliminating the existing backlog.

The state has sought to help UC address its deferred maintenance backlog during the past several years. In addition, UC has begun borrowing to generate revenue for maintenance. The chart below was prepared by the LAO and shows recent funding for deferred maintenance projects.

Figure 8

State Has Provided Funding to Address Deferred Maintenance at UC

One-Time Funds (In Millions)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
General Fund	$25	$35	—	$35	$144[a]	—	$325[b]
UC bonds[c]	—	—	$35[d]	35	35	$35	—
Totals	**$25**	**$35**	**$35**	**$70**	**$179**	**$35**	**$325**

[a] The 2020-21 budget package allowed UC to repurpose unspent 2019-20 deferred maintenance funds for other operational purposes.
[b] Amount was provided for deferred maintenance or energy efficiency projects.
[c] Reflects state-authorized UC bond funds. UC repays the debt on these bonds using its General Fund support.
[d] In 2017-18, the state authorized an additional $15 million in UC bond funds for systemwide facility and infrastructure assessments.

GOVERNOR'S 2022-23 BUDGET PROPOSAL

The Governor's Budget proposes $100 million one-time General Fund to UC to support deferred maintenance and energy efficiency projects. Budget bill language would direct the administration to report to the Legislature on the specific projects selected within 30 days after the funds are released to UC.

LAO ANALYSIS AND RECOMMENDATION

Analysis

Proposal Reflects a Prudent Use of One-Time Funding. Providing funds for deferred maintenance projects would address an existing need that is growing. Addressing this need can help avoid more expensive facilities projects, including emergency repairs, in the long run. Funding energy efficiency projects also could be beneficial, as these projects are intended to reduce campuses' utility costs over time.

One-Time Funding Does Not Address Underlying Cause of Backlog. Deferred maintenance backlogs tend to emerge when campuses do not consistently maintain their facilities and infrastructure on an ongoing basis. Based on its estimates, UC would need to increase its ongoing spending on maintenance and capital renewal by around $1 billion just to keep the backlog from growing. (This reflects the gap between UC's average annual capital renewal costs of $1.2 billion and its existing annual spending of $291 million.) Although one-time funding can help reduce the backlog in the short term, it does not address the underlying ongoing problem of underfunding in this area.

Recommendations

Consider Governor's Proposal as a Starting Point. To address UC's maintenance backlog, we recommend the Legislature provide at least the $100 million proposed by the Governor. As it deliberates on the Governor's other one-time proposals and receives updated revenue information in May, the Legislature could consider providing UC with more one-time funding for this purpose. (Though we focus on UC in this budget brief, other state agencies also have documented deferred maintenance backlogs. The Legislature could consider providing one-time funding to address these backlogs too.)

Consider Developing Strategy to Address Ongoing Maintenance and Capital Renewal Needs. In addition to providing one-time funding for deferred maintenance, we encourage the Legislature to begin developing a long-term strategy around UC maintenance and capital renewal needs. Potential issues to consider include timing, fund sources, ongoing versus one-time funds, and reporting. Given the magnitude of the ongoing maintenance and capital renewal needs at UC, developing such a strategy would likely require significant planning beyond the 2022-23 budget cycle.

STAFF COMMENT/POTENTIAL QUESTIONS

As noted above, campuses and other public agencies typically develop deferred maintenance backlogs during recessions, when funding is limited or cut, and decisions are made to forego maintenance to focus on core activities. Staff notes that aside from the 2020-21 cut in state funding, which was restored last year, UC has received significant increases in state support for the last decade. Enrollment growth has also occurred in most years, which brings in new tuition revenue.

Thus it is frustrating to see continual growth in the deferred maintenance backlog. Staff concurs with the LAO recommendation that a long-term plan to eliminate this backlog and ensure that UC can properly maintain its buildings is needed.

The Subcommittee could consider the following questions:

- Why hasn't UC been able to reduce its backlog during the past several years, when state support has generally been increasing?
- Are there any UC campuses that have decreased deferred maintenance backlogs in recent years? Do any campuses have a plan to eliminate their backlog?
- What kind of agreement could the state and UC develop to resolve this problem?
- Is facilities maintenance included as a component of enrollment growth funding? Are UC campuses using some amount of ongoing state General Fund operational funding for maintenance?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 4: OTHER PROPOSALS

The Subcommittee will review the following Governor's Budget proposals for UC: $6 million ongoing General Fund to support current and former foster youth support programs; $2 million ongoing General Fund to support the University of California Firearm Violence Research Center; and $10 million one-time General Fund to the UC San Francisco Dyslexia Center to support dyslexia research.

PANEL

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

BACKGROUND

Foster Youth. UC reports nearly 1,900 current or former foster youth in their system as undergraduate students, with larger numbers at the Los Angeles, Riverside and Davis campuses. Current and former foster youth differ somewhat demographically from other UC students: they are slightly older, predominantly female, and more likely to be Hispanic/Latino, or Black/African-American. In addition, current and former foster youth are much more likely to report food and housing insecurity, and they have lower graduation rates.

While all UC undergraduate campuses offer support services for these students, there is no systemwide program for current or former foster youth. In addition, state law directs UC campuses to support current and former foster youth in several other ways, including by providing tuition waivers, priority registration for courses, and priority for on-campus housing. Other state programs also aid these students: the California Student Aid Commission (CSAC) administers the Chafee Educational and Training Vouchers Program, a federal program that provides grants of up to $5,000 annually to students who were in foster care between the ages of 16 and 18; and state law provides foster youth with expanded eligibility for Cal Grants, including by setting a higher age limit, a later application deadline, and a longer award duration. The 2021-22 budget also increased the Cal Grant access award (which is intended to cover nontuition expenses such as food and housing) to $6,000 for current and former foster youth, compared to $1,648 for most other low-income students.

Firearm Violence Research Center. The California Firearm Violence Research Center, headquartered at UC Davis, was established in 2016 with a one-time $5 million General Fund appropriation. The 2021 Budget Act included $1 million ongoing General Fund to support center activities. The Center's areas of activity, as defined in the California Firearm Violence Research Act (Penal Code section 14230 et seq), include research; assistance to policymakers; training and education for researchers, practitioners, and the public; develop and run a medical and health provider education and training program, called the BulletPoints Project, that trains providers on how to talk to clients about gun safety issues; and an optional grant program to facilitate research by others.

The center lists the following accomplishments: 1) developed a website of educational content that serves as a unique resource for clinicians in California and nationwide; 2) created an interactive online continuing education course for both medical and mental health professionals that is accredited by the American Psychological Association and the California Medical Association; 3) co-authored 16 peer-reviewed publications in the medical literature as well as several blog posts and opinion pieces; and 4) initiated a monthly webinar series and given more than thirty presentations to healthcare organizations around California and across the US.

UCSF Dyslexia Center. The center's mission is to eliminate the debilitating effects of dyslexia through research and outreach. Located at UC San Francisco, the center employs a core group of neurology and psychiatry researchers, as well as staff implementing various outreach programs. In recent years, researchers at the center have developed a screening tool to help flag certain learning challenges. The first screening tool the center created a few years ago was an iPad application designed to identify literacy challenges among kindergarten and first-grade students. To date, the center has piloted this literacy tool with nearly 2,000 students at 30 schools across the state. More recently, the center has replaced its iPad application with a web-based platform called "Multitudes." Multitudes screens for literacy challenges as well as a broader array of academic and socio-emotional challenges. Like the original iPad application, Multitudes is intended to identify learning challenges, allowing for targeted early interventions. (Early interventions, for example, could include using hand gestures to support memory association or building words with letter tiles.) According to center staff, these early interventions are intended to prevent students from being referred for special education.

To date, the state has provided $18.7 million one-time General Fund to the center, comprised of $3.5 million in 2019-20 and $15.2 million in 2021-22. In addition to this direct state support, the center has received $1 million one-time Proposition 98 General Fund as part of the California Dyslexia Initiative, a K-12 teacher professional development initiative in partnership with the Sacramento County Office of Education. The center also reports receiving an initial $1.5 million in private philanthropy to support basic science research for Multitudes.

GOVERNOR'S 2022-23 BUDGET PROPOSAL

The Governor's Budget proposes the following actions:

- $6 million ongoing General Fund and accompanying trailer bill language to establish a systemwide current and former foster youth support program. Under the proposed trailer bill language, the Office of the President would develop a formula to allocate the funds to campuses offering foster youth programs. Campuses could use their funds for a broad range of foster youth services, including outreach, service coordination, academic advising, career guidance, health and mental health service referrals, and financial assistance. (These are largely the same services that state law directs participating community colleges to provide under the NextUp foster youth program, reflecting the administration's intent to align foster youth support services across segments. The Governor has a similar proposal for CSU.) The trailer bill language indicates that services provided under the proposal are intended to supplement and not supplant existing foster youth services provided by the campus, county, or state. The language also requires UC to submit a report on foster youth services and outcomes every two years beginning March 31, 2024.

- An additional $2 million ongoing General Fund to support activities of the California Firearm Violence Research Center, which would bring annual ongoing funding to $3 million. The augmentation will support an expansion of the Center's work by allowing for additional faculty researchers and staff.

- A $10 million one-time General Fund augmentation to the UCSF Dyslexia Center for further dyslexia research. The center would further validate Multitude's existing literacy tool, develop and validate new tools, and support other related activities (including developing multilingual versions of the platform and supporting basic research).

LAO ASSESSMENT AND RECOMMENDATIONS

Foster Youth Support

Additional Support for Foster Youth Could Be Warranted. Providing additional support targeted for foster youth could help address their academic disparities. It also would align with the Legislature's broader interest in addressing equity gaps at UC.

Proposed Program Structure and Reporting Requirements Have Merit. Because the proposed trailer bill language offers campuses flexibility to determine how the funds are used, campuses could integrate the funds with their existing foster youth programs. Given that these programs currently rely heavily on external funding, ongoing state funding could allow for greater stability in services from year to year, as well as greater capacity to expand services and potentially support more students. In addition, the proposed reporting requirement would enable the Legislature to monitor program outcomes. Specifically, the recurring report would provide information on the foster youth services provided by UC campuses; detail on the use of the proposed state funds and any other funds for foster youth services; and enrollment, retention, and completion rates for foster youth by campus.

Consider Proposal Among Ongoing Spending Priorities. Given the proposal addresses a documented problem, aligns well with existing foster youth programs, and contains provisions for legislative oversight, the Legislature has clear reasons to adopt the Governor's proposed augmentation. The Legislature, however, may wish to weigh this proposal against its other ongoing spending priorities for UC. The Legislature, for example, could consider using the $6 million to cover ongoing operational costs at UC or fund other UC student success efforts.

UCSF Dyslexia Center

In Concept, Proposal Could Have Benefits. In concept, developing online screening tools and early interventions could help students across the state identify and address learning challenges sooner and improve their learning outcomes. To the extent new screening tools and early interventions prevent the need for students to enter into special education, schools also might see a reduction in their special education costs.

Two Concerns With Specific Proposal. Despite these potential benefits, we have two concerns with the proposal. First, the funding is not linked with clear statutory objectives or outcomes. The proposed budget bill language indicates only that the funds are "to support dyslexia research." Though the center's spending plan includes some research, its scope appears to be broadening—covering new screening tools, early interventions, and professional development. Without clear statutory goals, the center might continue broadening its scope, putting pressure on the Legislature to provide additional funding in future years. Second, the administration has not submitted to the Legislature a multiyear plan outlining development, outreach, and ongoing funding for the new tools it proposes. Without a plan, the Legislature has little information as to the initiative's outyear costs and whether the benefits of the initiative are likely to be sustained over time.

Establish Goals and Reporting. Were the Legislature interested in continuing to support this project, we recommend it provide clear statutory direction. At a minimum, we recommend statute define the scope of the project and specify project outcomes (such as having an increasing number of students use the screening tools each year through 2024-25, improving reading test scores in the early grades, and reducing special education referrals). Additionally, we recommend the Legislature require the program to report by November 1 of each year from 2022 through 2025 on the initiative's activities, outcomes, and long-term plans. This report could help inform future budget decisions.

STAFF COMMENT

All three proposals address issues that have previously received legislative support.

Regarding foster youth support, the state provides funding to community colleges for a program called NextUp, which supports current and former foster youth on 45 campuses with services, including: consultation and eligibility verification; service coordination and referral; counseling; book and supply grants; tutoring; independent living and financial literacy skills support; career guidance; transfer counseling; child care and transportation assistance; and referrals to health services, mental health services, housing assistance and other related services. A 2020 report on this program showed that across multiple student success metrics, foster youth participating in the program outperformed foster youth not in the program. Replicating these kinds of services at UC could similarly boost outcomes for these vulnerable students at UC campuses.

Staff notes that further discussion about the trailer bill language regarding this proposal is needed. The Subcommittee has received a letter of support for the overall proposal from John Burton Advocates for Youth, the Cal State Student Association, the UC Student Association, and California Youth Connection, but the groups suggest that the language should be more proscriptive and require campuses to have a designated staff director or coordinator with experience relevant to working with foster youth and former foster youth, dedicated campus office and meeting space, and other specific services; the language currently states these actions should be taken “if feasible.”

Regarding the California Firearm Violence Research Center, the center is the first-of-its-kind in the nation, and provides significant research that is not funded or under-funded at the federal level. Given the continuing prevalence of gun violence in California and across the country, a small increase in ongoing funding appears warranted. Staff also notes that the Subcommittee may consider further one-time funding for the center to support and then evaluate a proposal for a large-scale youth-focused media campaign in California with the message that guns pose significant safety hazards. The program, called Project Unloaded, was formed in 2021 following a multi-year period of research, data collection, and pilot testing and is now launching in a few states across the country.

Regarding the UCSF Dyslexia Center, staff notes that the Legislature and Administration have support increased efforts to support both dyslexia research and ways to connect the research to K-12 programs. Staff concurs with the LAO in that it would be helpful to further understand the administration’s specific goals for this new funding.

Staff Recommendation: Hold open until after the May Revision.

ISSUE 5: CLIMATE CHANGE PROPOSALS

The Subcommittee will discuss the Governor's Budget proposals to provide a total of $185 million one-time General Fund for three University of California (UC) climate-related proposals focused on research, technology incubators, and workforce development hubs.

PANEL

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

BACKGROUND

California began adopting greenhouse gas (GHG) reduction goals in 2006, with the current statutory goal to reduce California GHG emissions to 40 percent below the 1990 level by 2030. (State law also established a goal to reduce to the 1990 level by 2020, which the state met a few years early.) The Legislature has funded many ongoing programs and one-time initiatives to attain the state's emission reduction goals. Most notably, the California Air Resources Board oversees a "cap-and-trade" program, which caps GHG emissions for the state's largest emitters (such as large industrial facilities and transportation fuel suppliers) and allows the affected industries to sell their emission allowances in the market. Funds generated from this program are deposited in the Greenhouse Gas Reduction Fund, which in turn generally supports many other mitigation and adaptation initiatives.

To help guide the state as it prepares for impacts of climate change, the state has undertaken four climate assessments (in 2006, 2009, 2012, and 2018). Each assessment included a series of reports summarizing the current scientific understanding of possible climate change risks and impacts to the state and identifying potential policy solutions. Beyond these assessments, the state recently has provided significant funding for activities to prepare for the impacts of climate change. For example, the 2021-22 budget agreement included a $3.7 billion "climate resilience package," as well as additional packages aimed at addressing environmental risks that are exacerbated by climate change (such as $4.6 billion for drought and water resilience and $988 million for wildfire and forest resilience)

Many Entities Fund and Conduct Research on Climate Change. Each year, research universities (including their various research centers and institutes) and private industries engage in climate-related research and development (R&D). This work spans from basic science research to the development of new technologies that reduce GHG emissions. Similar to other research endeavors, research on climate change issues is supported through a mix of federal research grants, private industry revenues, and other sources. Unfortunately, comprehensive information as to how much is spent nationally or in California on climate change mitigation and adaptation research is not currently available. This likely is due to the interdisciplinary nature of climate change research and the many academic departments and agencies undertaking that research.

California Has Several Research Programs Studying Issues Related to Climate Change. California's major research programs do not focus solely on climate change, but several programs at UC, the California Energy Commission, the California Department of Transportation, and other agencies study areas related to climate change. For example, UC spends hundreds of millions of dollars of its base General Fund support annually on agricultural and natural resource research, including research on certain issues related to climate change adaptation. The California Energy Commission also spends hundreds of millions of dollars annually in special funds on research promoting clean energy technologies. In 2015, California's Climate Action Team—a coordinated team comprised of the state's environmental protection, agricultural, transportation, housing, and utility agencies—released a comprehensive research plan to coordinate and direct state agency climate change research. The state also created a climate change research program at the Strategic Growth Council, providing the program a total of $34 million (Greenhouse Gas Reduction Fund) from 2017-18 through 2019-20.

Incubators Support Industries in Emerging Fields. Incubators assist entrepreneurs and start-ups with developing their businesses. Incubators can provide a variety of services, ranging from management training, facility space, and start-up financing. Many different entities operate incubators, including universities; nonprofit organizations; and private, for-profit entities. Some incubators focus on specific industries. For example, according to the U.S. Department of Energy, there are over 30 climate-related incubators nationwide, with at least three based in California.

California's Public Universities Operate Innovation Centers. All of UC's 10 campuses and 16 California State University (CSU) campuses operate incubators (some campuses operate more than one incubator). Most incubators appear to have been driven by campus interests and resources, but a few incubators were established directly by the state and receive a direct allocation of state funds. Most notably, the state established four California Institutes for Science and Innovation at UC in 2000 supporting various applied science industries. The state provided one-time General Fund to support the construction of the institutes, and today the institutes receive ongoing General Fund support for their operations.

Inclusive Innovation Hub Program (iHub2) Also Supports Start-Up Businesses. The 2021-22 budget provided the Governor's Office of Business and Economic Development $2.5 million one-time General Fund to implement iHub2, which supports partnerships between local governments, universities and research institutions, private industry, and economic development organizations to support innovation efforts. (The program is a relaunch of a previous innovation hub program established in 2013.) These partnerships—also referred to as "innovation hubs"—play a similar role to incubators by providing promising businesses mentorship opportunities, technical assistance, and start-up funding. These partnerships also tend to include incubators.

(The Governor's budget proposes an additional $20 million one-time General Fund in 2022-23 to continue and expand the iHub2 program. Specifically, these funds would support 13 innovation hubs, providing funding to cover four years of operations at each hub and seed funding for up to five start-up businesses at each hub.)

Many Ongoing State Programs Support Workforce Development. California spends billions of dollars annually to support the development of the state's workforce. Some of these programs assist students and other individuals with entering the workforce for the first time, whereas other programs assist unemployed or underemployed individuals with re-entering the workforce and potentially upskilling to a higher paying job. For occupations requiring less than a bachelor's degree, the state's programs are primarily concentrated at high schools, community colleges, and local workforce development boards. These programs identify state and regional workforce needs, support credit and noncredit coursework in career-focused fields, and provide a variety of other training opportunities (including apprenticeships). For occupations requiring a bachelor's degree or higher, the state provides ongoing support to UC and CSU to offer bachelor's, master's, and doctoral degree programs. The state's public universities also operate extended education programs, which generally are self-supported by student fee revenue. The state, however, provided UC Extension $15 million one-time General Fund in 2019-20 to develop additional certificate programs serving adults who had some college credits but no college degree.

State Supported $2.7 Billion in Additional Limited-Term Workforce Initiatives in 2021-22. The state created or augmented funding for 24 workforce development initiatives last year. Around 60 percent of the $2.7 billion was concentrated in three new initiatives: (1) the Community Economic Resilience Fund ($600 million federal relief funds), which provides grants for regional partnerships focused on climate change mitigation and adaptation-related occupations; (2) the Golden State Education and Training Grants ($500 million, a mix of General Fund and federal relief funds), which provides grants to displaced workers seeking education and training; and (3) the Learning-Aligned Employment Program ($500 million General Fund), which supports work experiences for students at the public higher education segments.

GOVERNOR'S 2022-23 BUDGET PROPOSAL

The Governor's Budget proposes the following actions:

- $100 Million one-time General Fund for climate-related research at UC. Proposed budget bill language states that these funds shall support "seed and matching grants" for applied research. The language further directs UC to make the grants available on a competitive basis to researchers without regard to UC affiliation. The budget bill language does not contain any other details about the initiative, and the administration has not proposed associated trailer bill language.

- $50 Million one-time General Fund for UC climate technology incubators. Budget bill language states that the funds would support climate-related incubators, as well as competitive grants to incentivize climate-related innovation. The budget bill language does not contain any other details about the initiative, and the administration has not proposed associated trailer bill language.

- $35 Million one-time General Fund for climate-related workforce development programs. Budget bill language states that the funds shall support regional training hubs focused on reskilling, upskilling, and expanding the state's climate-related workforce. The language further directs UC to co-locate, coordinate, or integrate these workforce hubs with the proposed climate technology incubators described earlier. The budget bill language does not contain any further details about the initiative, and the administration has not proposed associated trailer bill language.

LAO ASSESSMENT AND RECOMMENDATIONS

Research

Climate Change Research Is a Reasonable Use of One-Time Funding. Private entities tend to underspend on R&D without government intervention. This is because the costs and risks of R&D can be high, while the benefits tend to be diffuse. In the climate change area, benefits can be especially diffuse, with regional, statewide, and even global effects. Though the upfront costs can be high, the federal and state governments tend to value R&D given that so many people potentially can benefit from new discoveries and technologies. Moreover, climate change R&D could be viewed as particularly warranted in California because the state has set its own GHG reduction goals. More research could help the state identify new means of meeting these climate change mitigation goals. With the state in a strategic position to coordinate across local governments, supporting more climate change research also might further assist state and local adaptation efforts.

Proposal Appears to Lack Coordination With Key Agencies. Climate change mitigation and adaptation is a multifaceted issue, touching on many areas of state government. Recognizing this complexity, recent state efforts have sought to coordinate activities across the various environmental protection, natural resource, and other related state agencies. The Governor's proposal, however, offers no certainty that UC would coordinate with these state entities. Without including the state's other key agencies in the development and oversight of the program, the additional research could be duplicative, with state funds used inefficiently. Moreover, the additional research might fail to address the state's highest climate change research priorities, with state funds not being used as effectively as possible.

Proposal Has Very Little Statutory Direction. Despite the magnitude of the proposed amount of funding, the Governor has only a few sentences of budget bill language. The proposed language offers no guidance on the program's objectives or intended uses of funds. In the absence of statutory guidance, UC would have considerable authority to decide what types of research to undertake. Without statutory guidance, UC might choose to undertake lower-priority research objectives or potentially pursue research objectives that are not aligned with legislative interests.

Weigh Research Against Other One-Time Priorities. Given the state's climate change mitigation and adaptation goals, we think funding more climate change research is a reasonable use of the one-time funding. That said, the Legislature has many other calls for one-time funding—both within and beyond the climate change area. To that end, we recommend the Legislature weigh funding additional climate change research against its other General Fund priorities.

Enhance Coordination of Supported Research. If the Legislature is interested in supporting additional climate-related research, we recommend it explore ways to ensure this initiative is coordinated with other state climate-related research efforts. For example, the Legislature could redirect the funds to existing initiatives (such as the Strategic Growth Council's climate change research program), thereby bolstering recent efforts in lieu of creating a new initiative. Alternatively, were the Legislature interested in funding a UC-specific program, it could direct UC to coordinate with the state's various environmental and natural resource agencies to ensure alignment with existing climate change efforts and identified research needs.

Set Forth Key Program Components in Trailer Legislation. If the Legislature chooses to provide more funding for climate-related research, we recommend it adopt clear program components in trailer legislation. Specifically, we recommend the Legislature set forth clear goals, the types of grants to be offered, grant amounts, matching requirements, grant duration, performance measures and milestones, and reporting requirements. Adopting statute clarifying these components would better ensure funds align with legislative priorities. Moving forward, it also would help enhance legislative oversight and accountability.

Climate Technology Incubators

Creating Climate-Focused Incubators Could Have Merit, Though Impact Is Uncertain. In concept, creating incubators could help advance the state's climate change objectives and support regional economic development by developing new businesses and technology. That said, determining the need for new incubators and overall impact of creating new incubators is difficult. The state does not have specific goals for the amount of innovation and economic development it seeks to achieve. Moreover, incubators are only one of many strategies that states and businesses can use to try to spur economic development. Additionally, once incubators are developed, it is difficult to prove that the affected entrepreneurs and businesses would not have otherwise emerged through other avenues.

Proposal Lacks Key Detail. The limited detail available on the proposal—consisting of a few lines of budget bill language and a short description from UC—makes fully assessing it difficult. Based on the proposal presented by the administration and UC, it is difficult to determine whether the new incubators would coordinate or duplicate activities with existing incubators or the state's iHub2 initiative. The Legislature also cannot assess the statewide impact of the proposal, as the proposed location, scope, and service areas of the incubators have not been identified. Moreover, the administration and UC have not provided a plan clarifying how the incubators would be sustained in future years. Though many incubators operate without direct state support, some state-developed incubators—such as the California Institutes for Science and Innovation—rely on ongoing state support to cover a portion of their base operations.

Weigh Incubators Against Other One-Time Priorities. Given the need for and potential benefits of creating new incubators is less clear relative to other climate-related activities (such as supporting research), we recommend that Legislature weigh this proposal against its other one-time spending priorities. Ideally, the Legislature would select one-time initiatives it believes will yield the highest climate change impacts and/or economic development payoffs. Alternatively, the Legislature could focus on addressing any of its high one-time priorities across the state budget.

If Proposal Pursued, Request Administration Provide Key Details. Were the Legislature interested in potentially creating new incubators, we recommend it request the administration provide more information about the proposal. At a minimum, the additional detail should include a clear problem statement; a more comprehensive budget plan; a description as to how this incubator proposal coordinates with existing innovation and incubator programs; an explanation as to whether the incubators are intended to be ongoing; and, if so, a long-term plan to sustain the initiative on an ongoing basis (with fund sources identified). If the administration were able to provide this detail in time for spring hearings, the Legislature could revisit the proposal later this year.

Workforce Development

State Already Is Supporting Workforce Development Efforts. We caution the Legislature against supporting new workforce initiatives at this time. The state already has an extensive array of ongoing programs intended to meet the state's workforce needs. These programs are designed to be responsive to state, regional, and local workforce issues and to target occupations with anticipated job growth, including occupations related to climate change mitigation and adaptation. Moreover, the 2021-22 budget added many new one-time initiatives to further assist first-time entry and re-entry into the workforce. Though these initiatives were supported with one-time funding, the state will continue to implement and spend these funds in 2022-23. Most notably, the state will still be implementing the Community Economic Resilience Fund, which appears to share some similar objectives to the UC proposal.

Proposal Lacks Key Details. Even if there was clear benefit to supporting more workforce development initiatives in California, this proposal lacks key details. The administration has not pinpointed what specific workforce development problem it is attempting to address. Moreover, it has not identified the size of that problem or demonstrated that the proposed amount of funding is sized such that it can have a meaningful impact. The administration also has neither explained how the workforce hubs would address the identified workforce gap nor provided evidence showing that the hubs would be a cost-effective solution. Furthermore, the administration's proposal includes no provisions holding UC accountable for meeting the state's workforce objectives. Without clarifying these fundamental issues, the Legislature can have little confidence that the proposed hubs would provide greater benefits than other one-time spending options.

Reject Proposal. Given the plethora of existing workforce development programs already in place for 2022-23 and the many key details missing from this proposal, we recommend the Legislature reject the proposed funding and redirect it toward other high one-time priorities.

STAFF COMMENT

Staff notes that these proposals are one part of a larger Administration proposal on climate change. Most of the proposal will be discussed in Subcommittee No. 3 on the Climate Crisis, Resources, Energy and Transportation, and this Subcommittee should coordinate with Sub 3 in determining the most appropriate spending on combatting and responding to climate change.

Staff concurs with the LAO's concerns regarding the first two proposals, which would commit $150 million with very little legislative direction, or accountability. Additionally, staff also agrees with the LAO's assessment that there are already numerous workforce development programs, many created last year, and another new program with vague objectives may not be warranted.

Staff Recommendation: Hold open until after the May Revision.

ISSUE 6: OFFICE OF THE PRESIDENT BUDGET

The Subcommittee will discuss the UC Office of the President budget. After 4 years as a stand-alone budget item, the 2021 Budget Act returned the office to the main UC budget item.

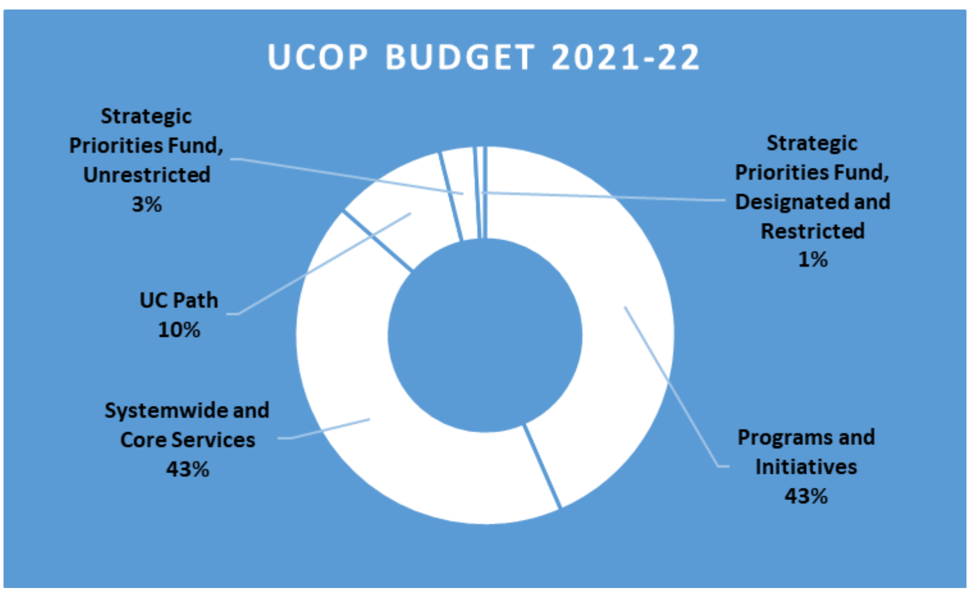
PANEL

- Seija Virtanen, University of California

BACKGROUND

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

The chart below indicates UCOP's budget for 2021-22, which is $1.07 billion. UCOP is funded by numerous sources of revenue, including state General Fund and federal funds. It is important to note that state funding comprises only about 20% or so of the UCOP budget.



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

- UCOP accumulated more than $175 million in undisclosed restricted and discretionary reserves, and advocated for more funding even while accumulating these reserves;

- UCOP did not track systemwide initiatives, their costs, or provide an assessment of their continued benefit to the university;

- UCOP lacked consistent definitions of and methods for tracking the university's administrative expenses.

In response to the audit, UCOP implemented numerous changes to its budget practices, including new budget processes that include more formalized campus input, an end to the practice of using undisclosed budget surpluses to support various activities, more systemized tracking of systemwide initiatives and programs, and some reorganization.

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

The new structure allowed the state to cut support for UCOP in 2018-19 and redirect General Fund to support campus enrollment growth. The UCOP budget was again cut in 2020-21, when the state reduced funding for UC systemwide due to the COVID-19 pandemic. (The reduced funding was restored in the 2021-22 budget.)

2021 Budget Act eliminated UCOP line item. As proposed in the May Revise, UCOP's budget was returned to the main UC budget item last year, and UCOP was allowed to return to the campus assessment funding model. State General Fund is no longer directly supporting UCOP; instead campuses can use General Fund or other revenue sources to pay for UCOP services. The General Fund that was supporting UCOP was folded into the main UC appropriation. The ANR division remains its own item, with specific General Fund support, however. The chart below indicates state support for UCOP, UC Path and ANR between 2017-18 and 2021-22.

General Fund Support (*in millions*)	17-18	18-19	19-20	20-21	21-22
UCOP	296.4	215.2	215.2	187.9	
ANR		72.6	72.6	63.4	109.9
UC Path	52.4	52.4	52.4	45.7	
Total	**348.8**	**340.2**	**340.2**	**297**	**109.9**

Notes: ANR was funded within UCOP in 2017-18, but has been separated out as its own line item since 2018-19. UCOP and UC Path were folded into the main UC budget item in 2021-22 and did not receive direct General Fund support.

STAFF COMMENT/POTENTIAL QUESTIONS

Staff notes that the 2017 audit has led to significant transparency improvements at UCOP. Routine reporting to the UC Board of Regents now includes more information on previous budgets and much better tracking of programs, allowing for a better understanding of trends in UCOP spending.

Similarly, the separate line item in the state budget has allowed the Legislature significantly more understanding of how state dollars are used by UCOP. During the four years of the separate line item, the Legislature was able to divert some UCOP funding to support its top priority, enrollment growth, and ensure that state spending remained flat or was reduced, while increasing funding for campuses. It may be more difficult to monitor state funding levels for UCOP under the campus assessment model.

UC has argued the campus assessment model allows campuses to use a mixture of revenue sources – including General Fund, tuition, and medical center revenue – and could actually cut state spending on UCOP. The Subcommittee could consider the following oversight questions:

- Is UCOP able to determine how much state General Fund is being used to support UCOP in the current year?
- What practices are in place to ensure that UCOP's budget remains transparent and does not grow significantly without Regental or legislative input?
- How does UC determine how much each campus is assessed?
- Is UCOP considering increasing the campus assessment in 2022-23?
- Has UC completed all of the State Auditor's recommendations?
- How is UC monitoring UCOP programs to ensure programs are fulfilling goals and should continue receiving funding?

6610 HASTINGS COLLEGE OF THE LAW

The Governor's Budget proposes about $72 million in support for the Hastings College of the Law in 2022-23, with $19 million from the state General Fund and about $51 million from student tuition and fees. The chart below was compiled by the LAO and indicates funding based on the Governor's Budget.

Hastings Budget

	2020-21 Actual	2021-22 Revised	2022-23 Proposed	Change From 2021-22	
				Amount	Percent
Base Core Funding					
Student tuition and fees	$44	$48	$51	$3	5.5%
Base General Fund support[a]	15	17	19	2	11.9
Other	2	2	2	—[a]	-11.9
Totals	**$61**	**$67**	**$72**	**$5**	**6.7%**
Full-time equivalent students	944	1,101	1,149	48	4.4%
Funding per student	$64,156	$60,929	$62,270	$1,341	2.2

[a] Less than $500,000.

[b] Excludes ongoing support for lease revenue bond debt service and one-time funds.

ISSUE 7: BASE BUDGET AND OTHER UPDATES

The Subcommittee will review the Governor's Budget proposal to provide a $2 million (12%) ongoing General Fund base increase, and discuss other issues with Hastings, including an upcoming name change and ongoing capital outlay projects.

PANEL

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- David Faigman, Hastings College of the Law
- David Seward, Hastings College of the Law

BACKGROUND

Hastings Is a UC-Affiliated Public Law School. Hastings is affiliated with UC but has its own governing board (known as the Board of Directors). Of the school's approximately 1,100 students in 2021-22, 97 percent are enrolled in Hastings' core Juris Doctor (JD) program (the most common degree students pursue to enter the legal field). The school also offers two law-related master's programs and, in 2022-23, is launching a third master's program—a joint Health Policy and Law program with UC San Francisco.

Hastings receives its core funding primarily from student tuition revenue (about three-quarters of ongoing core funding) and state General Fund (about one-quarter of ongoing core funding). Hastings spends core funds on its core operations, including faculty and staff compensation and operating expenses and equipment (OE&E), as well as merit-based student financial aid. Hastings currently spends around 30 percent of the tuition revenue it generates from each JD cohort on financial aid. Beyond its core operations, Hastings operates self-supporting housing and parking programs. Hastings also receives some noncore funding from private donations as well as external grant and contracts. Of Hastings' total spending in 2021-22, 76 percent was for core operations and student financial aid and 24 percent was for noncore programs.

State in Recent Years Has Provided General Fund Augmentations to Help Cover Core Cost Increases. Each year, Hastings faces pressure to cover cost increases associated with employee compensation, operating expenses, student financial aid, and enrollment growth, among other factors. In recent years, the primary way Hastings and the state have covered these increases is through General Fund base augmentations. (Hastings also receives adjustments to its lease-revenue bond debt service and, in certain years, one-time funds for specific initiatives.)

As Figure 1 shows, the size of Hastings' base adjustments has varied over the past several years.

Figure 1

State Has Provided Hastings With Base Augmentations Most Years

(Dollars in Millions)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
General Fund base adjustment	$0.4	$1.3	$1.0	$1.0	$1.1	$1.1	$1.4	-$0.5	$2.1
Percent change in General Fund support	5.0%	15.2%	10.6%	9.5%	9.2%	8.5%	10.3%	-3.6%	14.3%
Percent change in ongoing core funding	0.7%	2.3%	1.9%	1.9%	1.9%	1.9%	2.5%	-0.9%	3.5%

Student Enrollment and Tuition Revenue Recently Have Grown. In theory, Hastings also could cover cost increases by raising additional student tuition revenue. It could raise additional tuition revenue by increasing its student tuition charges and/or enrolling more students. Most years over the past decade, Hastings' tuition revenue, however, has either declined or grown only slightly. This is because Hastings did not increase JD student tuition charges over this period, and its enrollment level remained roughly flat through 2019-20 (hovering between 900 and 1,000 students each year). In the last two years (2020-21 and 2021-22), Hastings' tuition revenue has grown due to enrollment growth. In 2021-22, Hastings anticipated enrolling around 1,100 students. According to Hastings, the increases in enrollment are attributable to growing enrollment demand in its JD program.

Hastings Is Planning to Increase Student Tuition Charges. In addition to the proposed base General Fund augmentation, the Hastings Board of Directors has approved a 3 percent increase in resident JD tuition charges and a 7 percent increase in nonresident JD supplemental tuition charges for 2022-23. These increases would reflect the first JD tuition increases at Hastings since 2012-13.

Hastings Anticipates Enrolling More Students in 2022-23. Hastings anticipates its enrollment will continue to grow in 2022-23 (by 4.4 percent). Growth in its JD program would be driven entirely by increases in continuing student enrollment. Hastings currently plans to enroll a slightly smaller first-year cohort in fall 2022 (around 390 students) compared to its fall 2021 cohort (around 400 students). Hastings' growth in its master's programs primarily is due to the school implementing the first year of its new Health Policy and Law program.

Hastings' Enrollment Is Expected to Continue Rising in 2022-23

Full-Time Equivalent Students

	2020-21 Actual	2021-22 Estimated	2022-23 Proposed	Change Over 2021-22	
				Amount	Percent
Juris Doctor (JD) Program					
Resident	813	969	1,004	35	3.6%
Nonresident	108	100	99	—	—
Subtotals	(921)	(1,069)[a]	(1,103)	(34)	(3.2%)
Master's Programs[b]					
Master of Laws (LLM)	21	23	24	1	5.2%
Master of Studies in Law (MSL)	3	9	10	—[c]	4.3
Master of Science in Health Policy and Law (HPL)	—	—	13	13	—
Subtotals	(23)	(32)	(46)	(14)	(43.7%)
Totals	**944**	**1,101**	**1,149**	**48**	**4.4%**

[a] Notable enrollment growth is driven by Hastings enrolling relatively larger first-year cohorts in fall 2020 and fall 2021. According to Hastings, this growth reflects rising law school enrollment demand nationally.
[b] Programs do not have residency classifications.
[c] Reflects increase of less than half a full-time equivalent student.

Hastings to change its name. In January 2022, Hastings' Board of Directors approved an initiative to change the school's name. The name change is in response to evidence indicating that the school's current namesake, Serranus Clinton Hastings, was involved in the killing and dispossession of the Yuki people. As the school's current name is codified in state law, an official name change would require legislation. AB 1936 (Ramos, Ting and Weiner) is expected to be the vehicle to enact this change.

Capital projects completed or underway. Hastings is in the middle of a significant capital outlay effort. The Cotchett Law Center at 333 Golden Gate Avenue, completed in March 2020, is Hastings' first new academic building in 40 years. The six-story structure houses smart classrooms, conference spaces, faculty offices, and a rooftop deck. In September 2020, Hastings broke ground on a second new building, at 198 McAllister Street, which is slated for completion in June 2023. This 15-story mixed-use structure will include 656 apartments that will rent at below-market rates to UC Hastings students plus more than 200 graduate students and trainees from UC San Francisco and other partner institutions.

GOVERNOR'S 2022-23 BUDGET PROPOSAL

The Governor's Budget proposes a $2 million (12 percent) General Fund base increase. As in past years, the increase is unrestricted—available to support any increases in operations, programs, or enrollment.

Hastings's largest planned expense would be for student financial aid to accommodate enrollment growth in 2022-23. Hastings also plans to replace retiring faculty and hire additional positions, adding on net one full-time equivalent tenure-track faculty member and one full-time equivalent non-tenure track faculty member. Beyond these two items, Hastings intends to cover a 3 percent increase to its employee salary pool and employee benefit cost increases, as well as OE&E cost increases. Hastings also expects to incur new costs from launching its Health Policy and Law program.

STAFF COMMENT

Staff notes the LAO has no concerns with the proposed increase for Hastings, or its intended use of new state funds. While the percentage increase proposed for Hastings is larger than other higher education segments, staff notes that Hastings' budget is significantly smaller than those large systems, and Hastings does not enjoy the same economies of scale, given its position as a stand-alone law school.

Staff Recommendation: Hold open until after the May Revision.