

California State Assembly



Agenda

Assembly Budget Subcommittee No. 3 on Education Finance

Assemblymember David Alvarez, Chair

Tuesday, April 9, 2024
9:00 A.M. – State Capitol, Rm 447

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Public Comment will be taken in person before or after the completion of all panels and any discussion from the Members of the committees, at the discretion of the chair.

Items To Be Heard

Issue 1: UC Core Operations Review and Deferral Proposal

The Subcommittee will discuss UC’s core budget, and the Governor’s Budget proposal to defer a 5% base increase to the core budget.

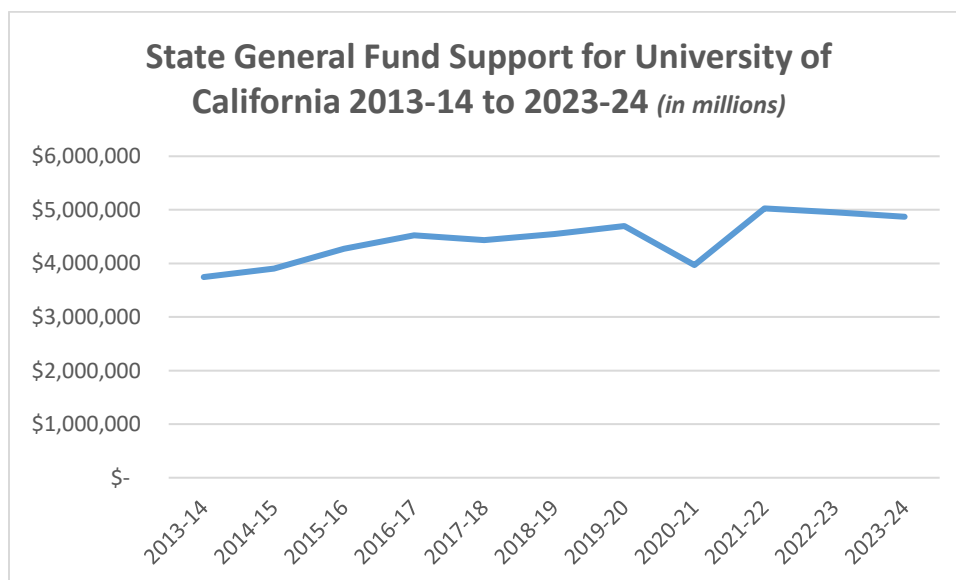
Panel

- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office
- Seija Virtanen, University of California Office of the President

Background

The following is comprised of LAO and staff research and includes information on several aspects of UC’s budget, including revenues, expenditures, cost drivers and reserves.

State support for UC has steadily grown. General Fund support grew relatively steadily for UC in the post-Recession era, with one minor dip during the COVID pandemic that was quickly reversed. State support grew by about 30% when adjusted for inflation, as the chart below indicates, with UC receiving about \$4.9 billion in 2023-24. The chart includes both ongoing and one-time funding. In addition to this support, UC students will receive about \$1.2 billion in state-funded financial aid, through the Cal Grant and Middle Class Scholarship programs in 2023-24. Most of that funding goes to cover UC tuition.



While UC’s overall budget is more than \$50 billion, the core operations budget is about \$10.4 billion. Of the three public higher education segments, UC has the largest budget, with total funding greater than the California State University (CSU) and California Community Colleges (CCC) combined. UC receives funding from a diverse array of sources. The state generally focuses its budget decisions around UC’s “core funds,” or the portion of UC’s budget supporting undergraduate and graduate education and certain state-supported research and outreach programs. Core funds at UC primarily consist of state General Fund and student tuition revenue. A small portion comes from lottery funds, a share of patent royalty income, and overhead funds associated with federal and state research grants. The chart below only includes ongoing funding.

University of California Funding by Source

(Dollars in Millions Except Funding Per Student)

	2022-23 Actual	2023-24 Revised	2024-25 Proposed	Change from 2023-24	
				Amount	Percent
Ongoing Core Funds					
General Fund	\$4,377	\$4,712	\$4,729	\$17	0.4%
Tuition and fees ^a	5,174	5,390	5,603	213	4.0
Lottery	72	58	58	— ^c	-0.1
Other core funds ^b	243	242	242	— ^c	— ^c
Subtotals	(\$9,866)	(\$10,402)	(\$10,632)	(\$230)	(2.2%)
Other Funds					
Medical centers	\$17,136	\$18,850	\$20,735	\$1,885	10.0%
Sales and services	10,511	11,163	11,861	698	6.3
Federal	5,028	5,482	5,795	314	5.7
Private	3,324	3,459	3,600	142	4.1
State	706	803	784	-19	-2.4
Other	1,065	1,063	1,063	— ^c	— ^c
Subtotals	(\$37,770)	(\$40,819)	(\$43,839)	(\$3,019)	(7.4%)
Totals	\$47,636	\$51,222	\$54,471	\$3,249	6.3%
FTE Students ^d	289,695	292,457	296,937	4,480	1.5%
Ongoing Core Funding Per Student	\$34,056	\$35,569	\$35,807	\$238	0.7%

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

^b Includes a portion of overhead funding on federal and state grants and a portion of patent royalty income.

^c Less than \$500,000 or 0.5 percent.

^d FTE is 30 credit units for an undergraduate and 24 credit units for a graduate student. Student counts includes residents and nonresident students.

FTE = full-time equivalent.

UC’s largest core fund source is student tuition and fee revenue. In 2023-24, 52 percent of its ongoing core funds came from this source. UC also relies notably on state General Fund support for its core operations, with 45 percent of its ongoing core fund coming from this source in 2023-24.

Tuition is increasing. Per a 2021 policy approved by the UC Board of Regents, UC is in the middle of a five-year plan to increase student tuition. The policy, which first took effect in 2022-23, increases tuition for each incoming class, such that each new class pays a higher amount than the class before it, but that tuition amount is locked in - tuition does not increase on returning students. In 2024-25, tuition and systemwide fee rates are set at \$14,436 for new undergraduate resident students, reflecting an increase of \$684 (5 percent). In 2024-25, UC estimates generating an additional \$191 million in revenue from tuition increases. It plans to use \$75 million of this additional revenue for institutional student financial aid.

The chart below shows tuition, systemside fees and nonresident supplemental tuition for each entering class during this five-year plan. Note the 2025-26 and 2026-27 amounts are estimates and may change. The amounts displayed for those years are the highest possible tuition.

UC Tuition Plan	2022-23 Actual	2023-24 Actual	2024-25 Approved	2025-26 Projected	2026-27 Projected
Tuition	\$11,928	\$12,522	\$13,146	\$13,800	\$14,490
Student Services Fee	\$1,176	\$1,230	\$1,290	\$1,350	\$1,416
CA Students Total	\$13,104	\$13,752	\$14,436	\$15,150	\$15,906
Nonresident Supplemental Tuition	\$31,026	\$32,574	\$34,200	\$35,910	\$37,704
Nonresident Students Total	\$44,130	\$46,326	\$48,636	\$51,060	\$53,610

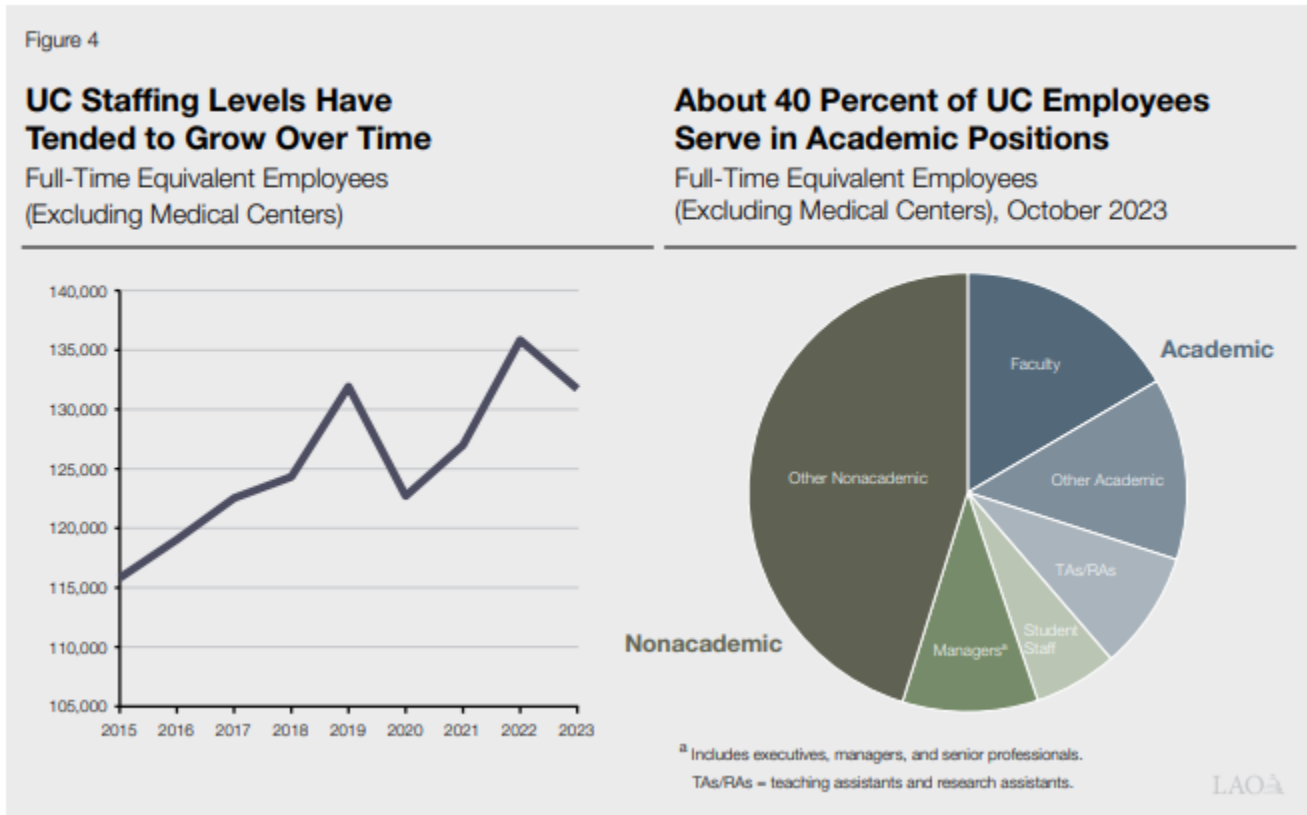
*Notes: All fees shown are for new students, continuing student's fees remain the same
 Regents have approved a 2025-26 systemwide fee increase of inflation plus 0.5 percent, with a cap of 5%
 Regents have approved a 2026-27 systemwide fee increase of inflation, with a cap of 5%*

UC Also Relies on Various Alternative Fund Sources. In recent years, UC has begun using certain investment earnings from its asset management program to support its operations. In 2024-25, UC has identified \$90 million in investment earnings that it intends to use to support its operating cost increases. In recent years, UC also has been achieving savings through operational efficiencies and procurement savings that it redirects back into its core operations. In 2024-25, UC is anticipating \$11 million from these savings. Lastly, some campuses continue to grow their nonresident enrollment. In 2024-25, UC estimates those campuses will collect a combined \$4.1 million in additional associated nonresident supplemental tuition revenue. UC also uses this revenue to support its operations.

UC’s largest cost is employee compensation. In October 2023, UC employed 131,727 FTE campus employees (excluding its medical centers). As the first part of Figure 4 shows, the number of FTE employees at UC generally has been trending upward over time (though UC’s staffing level dipped in 2020 when campuses were most affected by the shift to remote

instruction). As the second part of Figure 4 shows, almost 40 percent of UC campus employees currently serve in academic positions, with the remainder serving in various nonacademic roles. Nonacademic positions include staff providing administrative, professional, technical, and operational support, as well as student employees. In 2023, UC had 1 FTE employee for every 2.3 FE students. This employee-student ratio has hovered around 2.3 for the past several years. (California State University, in comparison, has about 1 FTE employee per 8.4 FTE students.)

Like many other state agencies, the largest component of UC’s budget is employee salaries and benefits (comprising 69 percent of its core expenditures in 2022-23). UC has more control than most state agencies, however, over its compensation costs, partly because most of its employees (approximately 80 percent) are not represented by a labor union. The Board of Regents directly sets salaries and benefits for these employees. UC collectively bargains salaries and benefits for its represented employee groups, negotiating with eight labor unions. As with CSU, the Legislature does not ratify UC’s collective bargaining agreements.



All UC Employee Groups Have Been Receiving Salary Increases. Salaries for UC employee groups—both non-represented and represented—have been increasing. In 2023-24, UC provided faculty with a 4.6 percent general salary increase (GSI), along with 1.78 percent merit increases for qualifying faculty. UC also provided non-represented staff employees with a 4.6 percent GSI. UC’s budget plan for 2024-25 contains funding to cover another 4.2 percent GSI for non-represented employees, along with additional funding for the faculty merit program. In 2023-24, salary increases for represented employee groups varied—ranging from a 3 percent

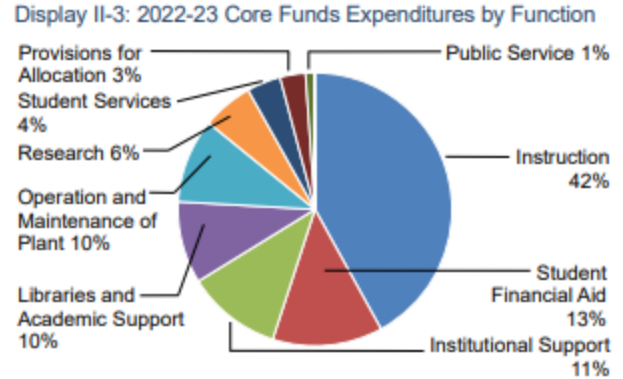
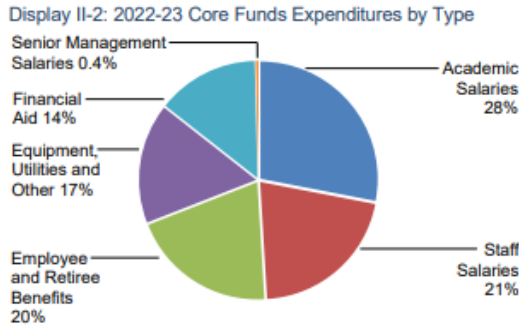
GSI and salary step increases for some groups to more than 15 percent salary increases for academic student employees. UC already has negotiated 2024-25 salary increases with most of its represented groups. These increases also range from a 3 percent GSI for some groups to more than 15 percent salary increases for academic student employees.

The next chart was provided by UC and indicates its bargaining units, and when current contracts with UC expire. The units representing the most employees are SX, HX, RX, BX and BR.

Systemwide Bargaining Unit	Expiration Date
LX – Professional Librarians (UC-AFT)	03/31/2024
DX – Student Health Physicians & Dentists (UAPD)	06/30/2024
EX – Patient Care Technical (AFSCME)	07/31/2024
SX – Service (AFSCME)	10/31/2024
HX – Residual Health Care Professionals (UPTE)	09/30/2024
RX – Research Support Professionals (UPTE)*	10/31/2024
TX – Technical (UPTE)*	10/31/2024
BX – Academic Student Employees (UAW Local 2865)	05/31/2025
BR – Graduate Student Researchers (UAW Local 2865)	05/31/2025
NX – Registered Nurses (CNA)	10/31/2025
CX – Clerical & Allied Services (Teamsters Local 2010)	03/31/2026
IX – Non Senate Instructional (UC-AFT)	06/30/2026
PA – Police Officers (FUPOA)	06/30/2026
PX – Post Doctorial Scholars (UAW Local 5810)	09/30/2027
RA - Academic Researcher (UAW Local 5810)	09/30/2027

Other core costs include pension and health benefits, facilities, and student financial aid.

The pie charts below are from the UC Budget for Current Operations 2024-25 document and depict UC spending in 2022-23. The LAO notes that UC’s pension contribution and health care benefits costs have been rising, with costs for the UC Retirement Plan growing from \$400 million in 2014-15 to nearly \$650 million in 2022-23 and UC reporting that its active employee and retiree health care benefit costs are increasing by nearly \$30 million in 2023-24.



UC Is Responsible for Its Facility Upkeep and Growth. Prior to 2013-14, the state financed UC academic facilities directly through state general obligation bonds and state lease revenue bonds. Chapter 50 of 2013 (AB 94, Committee on Budget) established the current system whereby UC is authorized to sell its own bonds and use a portion of its annual state appropriation to cover associated debt service. As part of this transition, the state shifted \$200 million General Fund associated with general obligation debt service into UC’s main state appropriation. As part of UC’s budget, this amount now indirectly grows whenever the state provides UC with a base increase. In such years, this budget approach effectively provides UC some additional capacity to undertake new capital projects. The state also allowed UC to refinance its state lease revenue bonds. The state has authorized \$3.3 billion of new academic facility projects under the current system through 2023-24. UC’s total debt service associated with general obligation bonds, refinanced bonds, and new bonds is \$471 million in 2023-24, up from \$386 million in 2022-23. The large increase is due to the state approving several new projects for UC debt financing last year. Looking forward, UC estimates its debt service costs in 2024-25 will increase another \$10 million, reaching \$481 million.

UC Has Large Capital Renewal and Seismic Safety Backlogs. Of the new state-supported academic facility projects UC has undertaken since 2013-14, more than \$1 billion has been for capital renewal or seismic safety projects. Despite these additional facility projects, UC continues to report large and growing project backlogs. As of January 2024, UC identified \$7.5 billion in state-eligible capital renewal projects, up approximately \$900 million from one year ago. In addition to these costs, UC has identified \$13.8 billion of state-supportable seismic safety projects.

Student Financial Aid and Other Cost Pressures Also Exist. Beyond employee compensation and ongoing facility costs, UC faces various other annual cost pressures. The largest remaining cost involves student financial aid programs. UC designates a portion of new student tuition revenue for student financial aid programs, such that any time tuition rates increase or enrollment increases, UC has more funding it directs into its institutional aid programs. In 2024-25, UC is planning for large increases in funding for institutional aid, with an additional \$75 million generated from tuition increases and another \$17 million generated from planned enrollment growth. Though much smaller in magnitude, UC also can experience cost

increases relating to operating expenses and equipment (OE&E). OE&E costs tend to grow with inflation over time, though UC tries to contain these costs through operational efficiencies.

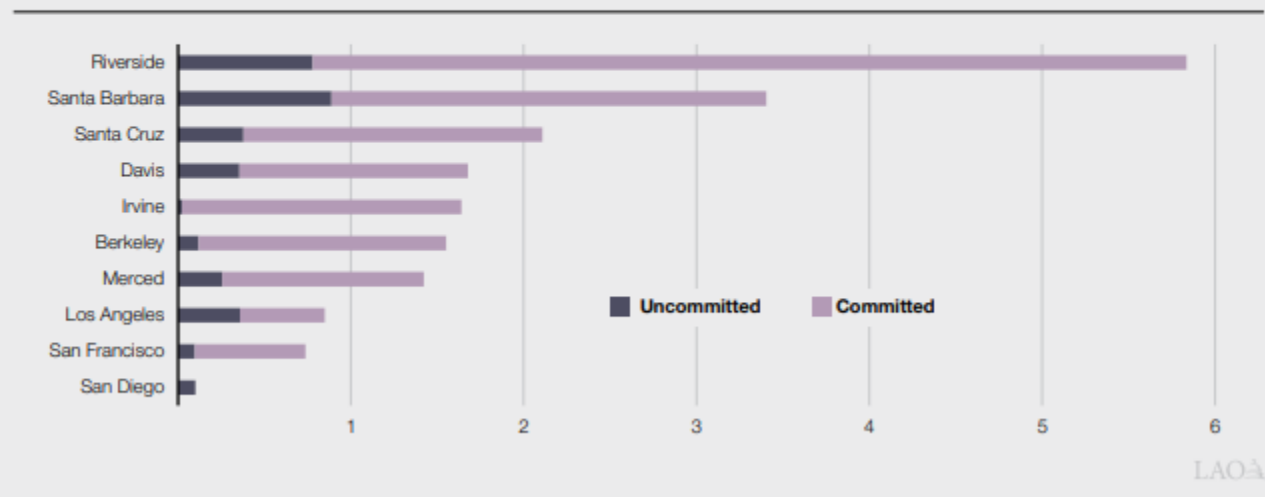
UC Has Core Reserves. Like many other universities (as well as public and private entities more generally), UC maintains reserves. UC commits part of its reserves for planned activities, such as faculty recruitment and retention, certain capital outlay costs, and other strategic program investments. It leaves some reserves uncommitted, such that they are available to address economic uncertainties, including state budget reductions. Some, but not all, of UC’s reserve commitments could be revisited in the face of a fiscal downturn. Whereas CSU has a systemwide policy that aims to have core uncommitted reserves equivalent to three to six months of operating expenses, UC does not have a systemwide reserve policy. As of June 2023, UC reported \$1.4 billion in total core reserves, of which \$238 million was uncommitted. UC’s uncommitted reserves equate to nine days (2.5 percent) of its total annual core operating expenditures.

Campus Reserve Levels Vary. In the absence of a systemwide reserves policy, UC allows its ten campuses to determine their own reserve levels. Campus policies vary but typically aim for uncommitted core reserves worth one to three months of core expenditures. Figure 6 shows core reserves at each UC campus as of June 30, 2023. Total core reserves (committed and uncommitted combined) ranged from less than one month of expenditures at the San Diego campus to almost six months of expenditures at the Riverside campus. Uncommitted reserves for economic uncertainties, however, equated to less than one month of expenditures at all campuses. In dollar terms, uncommitted core reserves ranged from as little as \$2.1 million at UC Irvine to \$51 million at UC Santa Barbara.

Figure 6

Uncommitted Core Reserves Are Low Across All UC Campuses

Total Core Reserves by Campus as of June 30, 2023, in Months of Expenditures



Governor's 2024-25 Budget

Governor Proposes to Defer General Fund Base Increase. Two years ago, the Governor made a compact with UC to provide annual 5 percent unrestricted base increases from 2022-23 through 2026-27. (The compact is not codified, and the Legislature decides through the annual budget process which, if any, of the components it will enact.) The Governor's Budget does not fund the third year of the base increases. Instead, the Governor proposes to delay the associated \$228 million in ongoing funding until 2025-26. The Governor intends to double up funding in 2025-26, such that UC would receive a base increase to support the higher level of prior-year ongoing spending (\$228 million), along with a new 5 percent base increase (\$241 million)—for a total increase of \$469 million in ongoing General Fund support that year. In addition, the Governor intends to provide UC with a one-time back payment of \$228 million in 2025-26 to compensate for the foregone funds in 2024-25. The administration describes this proposal as a deferral of the third-year compact payment. The Governor expects UC to spend at the higher assumed level in 2024-25 by using interim financing, such as drawing down its reserves or borrowing. The Governor gives UC discretion to choose its corresponding spending priorities.

As discussed in the March 9th Subcommittee hearing, the Governor's Budget also proposes to defer \$31 million ongoing General Fund to support the nonresident student replacement plan at the Berkeley, UCLA and San Diego campuses.

LAO Comments

Assessment

Proposed Funding Delay Worsens State's Projected Out-Year Budget Deficits. As we discuss in *The 2024-25 Budget: Overview of the Governor's Budget*, the state faces significant operating deficits in the coming years. The Governor's proposed funding delay for UC worsens those deficits, as we discuss in *The 2024-25 Budget: Higher Education Overview*. Under the proposed approach, the state would need to increase General Fund spending for UC by \$790 million in 2025-26—consisting of a \$531 million ongoing augmentation and an additional \$259 million one-time back payment. Rather than increasing university costs, the state historically has contained these costs when facing multiyear budget deficits.

Proposed Approach Increases Out-Year Risks for the State. Both our office and the administration project the state faces an operating deficit of more than \$30 billion in 2025-26. Given this projected deficit, increasing spending on UC in that year would require a like amount of other budget solutions. The Legislature likely will have fewer options for budget solutions next year, with lower reserves and less one-time spending available to pull back. At that time, the Legislature might face the difficult choice of either cutting other ongoing state programs to make room for the additional UC spending or, alternatively, forgoing the increase it had committed to providing UC.

Proposed Approach Also Increases Out-Year Risks for UC. Although the Governor’s proposal benefits UC in 2024-25 by allowing it to increase spending, it comes with heightened risks for UC the following year. Under the proposed approach, UC would be entering 2025-26 with higher ongoing spending and potentially depleted core uncommitted reserves. If the state were then unable to support that higher spending level in 2025-26, UC could need to consider significant reductions at that time. Depending upon the severity of the budget situation, UC might consider actions such as instituting hiring freezes or furloughs, both of which it has done over the years in response to previous state budget cuts. These types of actions would negatively impact both employees and students, as they likely would lead to fewer classes and a reduction in support services. Moreover, such actions would likely be more disruptive than containing spending increases in the first place.

Without a Base Increase, UC Still Could Cover Some Cost Increases in 2024-25. If the state were to forgo rather than delay the base increase planned for 2024-25, UC would have less ability to increase spending on various purposes, including employee compensation. It would, however, still have some options for covering a portion of its cost increases. Most notably, UC estimates it will generate \$117 million in additional tuition revenue (net of financial aid) and have \$105 million from alternative fund sources available for addressing operating cost increases. It also could draw down some of its uncommitted core reserves to cover certain cost increases that it cannot avoid in the near term, such as health care premium increases, absent a General Fund increase for 2024-25.

Recommendation

Hold State Funding and Spending Expectations Flat for UC, Revisit Next Year. We recommend the Legislature reject the Governor’s proposals to defer, then double up, funding for UC. Such an approach substantially worsens the state’s projected deficit in 2025-26, and it is risky for the state, UC, and other state programs that might be cut more deeply in 2025-26 to make room for the additional UC spending. Rejecting the Governor’s proposals provides \$790 million in budget savings, more than \$500 million of which is ongoing, beginning in 2025-26. By taking this action this year, the Legislature can mitigate the need for other, potentially more disruptive, budget

Staff Comments

Staff notes that the Governor’s Budget proposal to defer the 5% base increase is being considered in early action this week.

UC identified more than \$600 million in increased spending for 2024-25. The UC Board of Regents approved a 2024-25 spending plan in November 2023, before the Governor’s Budget proposal was released in January. The Regents’ plan assumed the 5% operating increase from the state and more revenue due to enrollment growth and tuition increases. Even with these assumptions, the plan’s expenditures were about \$70 million more than revenue. The LAO chart below indicates how UC planned to spend its increased revenue in 2024-25.

Figure 8

UC Has Identified Several Spending Priorities

Planned Spending Increases, 2024-25 (In Millions)

Spending Priorities	
Retirement contributions	\$105
Student financial aid increases	92
Represented employee salary increases	90
Faculty general salary increases	89
Non-represented staff salary increases	75
Enrollment growth	58
Health benefits for active employees	46
Operating expenses and equipment	45
Faculty merit program	39
Health benefits for retirees	11
Other	4
Total	\$653

UC notes that it would likely revisit this spending plan once the state’s budget plan is clearer.

More discussion needed to help UC weather the state budget deficit. The state’s budget deficit, which appears likely to be a multi-year problem, requires deeper conversation with UC about its costs, state support, and how to manage this downturn. UCOP reports that it has responded to the state’s situation by advising campuses to implement hiring “chills,” and it has disseminated a letter from the Department of Finance issued to state agencies in December directing agencies to freeze new contracts and halt spending wherever possible on items such as travel and equipment. (UC is not subject to this letter, and UCOP has not required campuses to take specific actions described in the letter.) In addition, campus chief financial officers are meeting on a bi-weekly basis to discuss options.

UCOP has suggested that it could handle the proposed deferral by borrowing from internal sources, such as its Short Term Investment Pool (STIP), which is used to invest cash that is earmarked for some purpose but unspent. This borrowing would come at a cost, however, as it would forego the interest the cash would otherwise earn.

Staff notes several areas of interest the Subcommittee could discuss with UC. UCOP and the Regents leave campuses with significant discretion on reserves, which has led to significant differences in reserve levels that could be problematic for the system. Staff also notes that UC appears to be generating increased revenue through investments, and is cutting costs through operational efficiencies. The Subcommittee may wish to explore ways that UC could further increase revenue without impacting California students – perhaps through increased nonresident supplemental tuition – or expand operational efficiencies to cut costs. Are there more areas that could benefit from systemwide procurement, for example, or could UC and CSU

work together on procurement that could benefit both systems? Many of UC's costs are mandatory and/or necessary – recent labor agreements have provided much-needed support for employees, for example – so discussion could focus on discretionary spending that is the least impactful to students or UC's other core missions of research and public service.

Suggested Questions:

- What is UC's current thinking around handling increased costs if the Governor's Budget proposal to defer funding is enacted?
- How would UC's proposed spending plan change if increased state funds were deferred or cut?
- How are UC campuses reacting right now to the state's budget situation?
- How is UC thinking about its reserve levels? Should UC have a systemwide reserve policy? Should the state consider a UC-specific or higher education-specific reserve program?
- UC reports increased revenue from investments, and savings from operational efficiencies. Can either of these strategies be expanded?
- IS UC considering an increase in nonresident supplemental tuition to generate more revenue?

Issue 2: UC Merced Medical School

The Subcommittee will discuss the Governor’s Budget proposal to provide \$14.5 million ongoing General Fund to support debt service costs for a new medical education building at UC Merced.

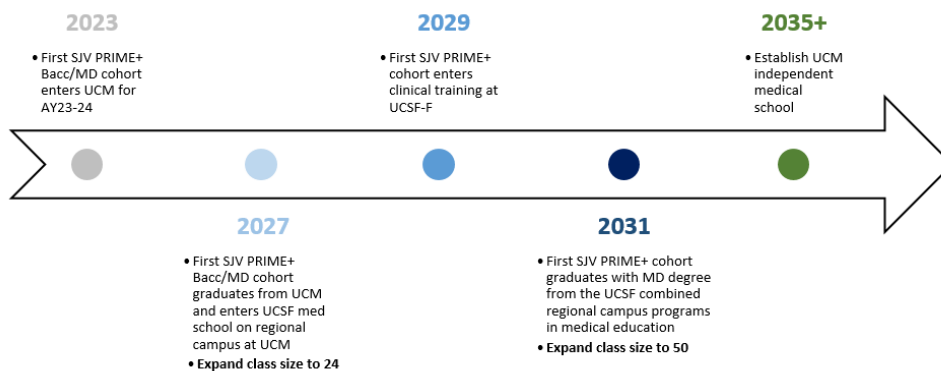
Panel

- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office
- Seija Virtanen, University of California Office of the President

Background

The San Joaquin Valley has an established need for more physicians. There are no medical schools in the San Joaquin Valley and the supply of medical residents in the region is 30% below the statewide average, according to UC. Additionally, UC notes that 30% of the region’s healthcare workforce is nearing the age of retirement. To address this issue, UC Merced’s long-term goal is to develop an independent medical school.

The campus’ current plan is to host an accredited medical school no earlier than 2035. In the meantime, the campus has partnered with the UC San Francisco (UCSF) School of Medicine, which already operates in Fresno. Using \$15 million ongoing General Fund through the UC Programs in Medical Education (PRIME) program, UC launched SJV PRIME+ (an 8-year Baccalaureate-MD program) in Fall 2023. SJV PRIME+ students will receive a baccalaureate degree from UC Merced and a Doctor of Medicine from UCSF. Students will complete the first 1.5 years of their medical education at UC Merced (new) and the remaining 2.5 years at UCSF Fresno. Class size is 12-15 students per year. This chart depicts UC Merced’s timetable.



The Budget Act of 2019 gave UC the authority to construct a medical education facility on or near the Merced campus. The accompanying provisional language indicated that the state would cover the associated debt service. In November 2023 the UC Board of Regents gave final

approval to the new, 203,000-square-foot building, which will be on campus. The project is expected to cost at least \$300 million to complete, with an estimated opening date of Fall 2026. Of this amount, \$243 million would be covered by state General Fund, \$45 million by gift funds, and \$12 million by campus funds. The building will support the medical education program, allied healthcare-related programs developed in partnership with community colleges, house the Health Sciences Research Institute, and include a range of medical education and general assignment learning environments, and specialty learning spaces for medical education, general assignment classrooms, and class laboratories to support several new and existing academic programs.

Governor's 2024-25 Budget

The Governor's Budget provides \$14.5 million ongoing General Fund to support the Merced medical education building.

LAO Comments

The LAO notes that while having entered into a construction contract for the project, UC indicates that it has neither drawn commercial paper nor issued a revenue bond for the project. Under the existing project schedule, construction is to begin in summer 2024 and be completed by fall 2026, with the building opening to students in fall 2027. The LAO recommends pausing this project and removing the \$14.5 million ongoing General Fund for debt service from UC's budget.

Staff Comments

The Legislature has been supportive of efforts at both the Merced and Riverside campuses to establish medical schools. The state currently provides \$27 million ongoing General Fund to support operating costs at the UC Riverside School of Medicine, and \$6.5 million ongoing General Fund to support debt service costs for a new medical education building that opened on the Riverside campus in Fall 2023. The UC Riverside School of Medicine received accreditation in 2017 and currently enrolls 361 MD students, 40 Ph.D students, 31 students receiving a master's degree in Biomedical Sciences, and 127 medical residents.

Staff notes that the Merced project was essentially approved in the 2019 Budget Act, when the Legislature agreed to support debt service costs. However, the LAO notes that now that the details for the project are known, it has the highest state-supported cost of any single capital project ever approved for UC. As one point of comparison, the Riverside medical school building had a state-supported cost of \$94 million, compared to the \$243 million in state support UC is seeking for the Merced building.

Suggested Questions:

- What are the factors behind the \$300 million price for this building? What is UC doing to contain costs on this project?
- When would UC issue bonds for this project, and when would the need for debt service support first begin?
- Should the Legislature require reporting on this project, and UC Merced's efforts to develop a medical school?

Staff Recommendation: Hold Open

Issue 3: Past Appropriations Review

The Subcommittee will discuss previous UC appropriations, including the Governor's Budget proposal to forego \$300 million one-time General Fund for the UCLA Institute for Immunology project. The item is intended to provoke conversation about state support for UC during the state budget downturn.

Panel

- Ian Klein, Legislative Analyst's Office
- Gabriela Chavez, Department of Finance
- Seija Virtanen, University of California Office of the President

Background

Recent state budgets have allowed the Administration and Legislature to support numerous initiatives at UC campuses, including large investments in student housing, climate research, and campus expansions, and much smaller investments in specific research or public service projects. Some of these projects were supported with one-time General Fund, while others are being financed through UC-issued bonds, with the state covering annual debt service costs. The LAO has compiled lists of these recent investments, shown on the following pages, including some updates on the amount of money encumbered as of January.

These state investments range from major projects to accommodate the enrollment of more students to research into the impacts of the COVID pandemic on small business. Typically, projects are described in the budget bill, and then funding goes from the state to UCOP. In some cases, UCOP runs the program and spends the money, or distributes the funding to campuses through a grant program or a funding formula. In other cases, funding is distributed from UCOP directly to a campus or department for a specific program.

Among these investments, the 2022 and 2023 Budget Acts included support for the new California Institute for Immunology and Immunotherapy at UCLA. The state has provided \$200 million one-time General Fund for the program and was scheduled to provide \$300 million one-time General Fund in 2024-25. UC reports that the project has changed since it was initially conceived. While the original proposal called for a new building on the UCLA campus, UC instead used the state's \$200 million to help purchase the Westside Pavilion in Los Angeles in December 2023, and the location will be renamed the UCLA Research Park, and will house the California Institute for Immunology and Immunotherapy, the UCLA Center for Quantum Science and Engineering, as well as programs across multiple disciplines. The purchase cost of the Westside Pavilion was officially \$700 million, of which \$357 million was covered by seller credits, \$200 million with the state appropriation, and \$143 million through UCLA borrowing.

University of California				
Status of Recent One-Time Appropriations				
<i>Estimates of Available General Fund as of January 1, 2024 (In Millions)</i>				
	Year Funded	Budgeted Appropriation	Amount Spent or Encumbered	Amount Unspent or Unencumbered
One-Time Initiatives				
Campus-Specific Climate Change Initiatives	2022-23	85.00	1.70	83.30
UC San Diego Scripps Reserve Vessel	2021-22	35.00	0.20	34.80
UC Berkeley Local Public Affairs Grant Initiative	2022-23	25.00	1.90	23.10
California Institutes for Science and Innovation	2021-22	20.00	1.40	18.60
UC Davis Institute for Regenerative Cures	2021-22	21.00	4.90	16.10
UC Los Angeles Latino Policy and Politics Institute	2022-23	15.00	1.30	13.70
UC Riverside School of Medicine operations	2021-22	25.00	11.40	13.60
K-14 Student Academic Preparation and Educational Partnerships	2021-22	22.50	9.90	12.60
UC San Francisco Dyslexia Center ^a	2022-23	10.00	0.00	10.00
UC-CSU Collaborative on Neurodiversity and Learning	2022-23	10.50	1.70	8.80
UC Los Angeles Asian American and Pacific Islander Multimedia Textbook Project	2022-23	10.00	2.10	7.90
Animal Shelter Assistance Act	2021-22	45.00	37.90	7.10
Cancer Research Relating to Firefighters	2023-24	7.00	0.00	7.00
UC Berkeley School of Journalism Police Records Access Project	2023-24	6.87	0.20	6.67
UC Institute of Transportation Studies	2021-22	10.00	4.10	5.90
UC Riverside Survey of Asian and Pacific Islander Americans	2021-22	10.00	4.60	5.40
Equal Opportunity Practices and Professional Development for UC Faculty	2021-22	5.00	0.00	5.00
UC Los Angeles Ralph J. Bunche Center ^b	2022-23	5.00	0.00	5.00
UC Los Angeles Ralph J. Bunche Center ^b	2023-24	5.00	0.00	5.00
UC Davis Equine Performance and Rehabilitation Center	2023-24	5.00	0.00	5.00
UC San Diego Student Mental Health App	2022-23	5.00	0.40	4.60
Plant-based and Cultivated Meat Research	2022-23	5.00	0.40	4.60
UC Los Angeles Ralph J. Bunche Center ^b	2021-22	5.00	0.80	4.20
Grants for Climate Change Research and Entrepreneurship	2022-23	100.00	96.00	4.00
UC Los Angeles Institute on Reproductive Health, Law, and Policy	2021-22	5.00	1.80	3.20
UC San Diego Scripps Institute Fire Camera Mapping System	2021-22	17.90	14.70	3.20
UC San Francisco Dyslexia Center ^a	2021-22	15.20	12.00	3.20
K-12 Subject Matter Projects in Learning Loss Mitigation	2021-22	5.00	2.50	2.50
UC Merced Center on Food Resilience	2021-22	10.00	8.70	1.30
Emergency financial aid for UC students	2021-22	15.00	15.00	0.00
UC Riverside School of Medicine Acute Care Teaching Hospital	2021-22	10.00	10.00	0.00
UC Los Angeles Climate Wildfire Institute	2021-22	7.00	7.00	0.00
UC Berkeley Asian American and Asian Diaspora Studies Department	2022-23	15.00	15.00	0.00
Associated Students of UC Los Angeles Building Improvements	2022-23	5.97	5.97	0.00
Totals		\$598.9	\$273.6	\$325.4
^a Provided a one-time appropriation for this purpose in 2021-22 and 2022-23.				
^b Provided a one-time appropriation for this purpose in 2021-22, 2022-23, and 2023-24.				

Figure 12

Many Debt-Financed Capital Projects at UC Remain in Early Phases

(In Millions)

Project	Project Cost ^a	Annual Debt Service	Bond Issued ^b	Current Phase ^c
Student Housing Projects				
Riverside/Riverside City College	\$126.0	\$8.9	Yes	C
Santa Cruz/Cabrillo College	111.8	8.1	No	P
Merced/Merced College	100.0	7.1	No	P
Berkeley	100.0	6.8	Yes ^d	C
San Diego—Pepper Canyon West	100.0	6.8	Yes	C
Santa Cruz—Kresge College	89.0	6.1	Yes	C
Irvine	65.0	4.4	Yes	C
Los Angeles	35.0	2.4	Yes	W,C
Subtotals	(\$726.8)	(\$50.7)		
Other Projects				
Berkeley Clean Energy Project	\$249.0	\$16.7	Yes	P,C
Riverside campus expansion project	154.5	10.3	Yes ^d	P
Merced campus expansion project	94.5	6.3	No	P
Subtotals	(\$498.0)	(\$33.3)		
Totals	\$1,224.8	\$84.0		

^a Reflects state cost of project (excluding nonstate costs).
^b UC issued bonds in September 2023 and February 2024.
^c Reflects project status as of January 1, 2024.
^d UC indicates that it has drawn commercial paper for these projects.
 P = preliminary plans; W = working drawings; and C = construction.

Governor’s 2024-25 Budget

The Governor’s Budget proposes to forego \$300 million one-time General Fund that was to be provided to support the UCLA Institute for Immunology in 2024-25. The Administration notes that the additional funding is no longer necessary due to the change in the project.

LAO Comments

The LAO notes that more than \$300 million in one-time General Fund committed to UC programs and projects may be unspent, and recommends pulling back the unspent funding as a way to address the state’s budget deficit. The LAO also notes that UC has not issued all bonds associated with approved capital projects, and recommends removing support for the three projects (UC Santa Cruz/Cabrillo College student housing project, UC Merced/Merced College student housing project, and UC Merced campus expansion project) in which bonds have not been issued. The projects are expected to cost \$306 million, with annual debt service costs of about \$22 million.

Staff Comments

The state's budget deficit requires difficult conversations about state support for UC, and how to prioritize spending to support students and UC's core missions. Reviewing past appropriations is a necessary part of the budget process this year. Staff notes that all of the spending displayed in these charts was a priority for legislators, the Administration, or other stakeholders, and pulling back unspent funding could disrupt key programs impacting the state in some way.

Staff notes that unspent funds may not indicate an unsuccessful program or activity; many of these projects intend to spend the money over several years. Construction-related projects, for example, require extensive planning before significant dollars are spent. In addition, some programs or campuses report extensive delays between when the state appropriates funding to the system and when money is actually received at the campus or department level. The Subcommittee can discuss with UC ways to identify programs' progress to understand whether they are achieving intended results, or facing difficulties in implementation.

Suggested Questions:

- What is UCOP's process for distributing funding for specific programs to campuses? How long does that funding distribution typically take? What are reasons some programs may have significant unspent funds?
- What would the impacts be of removing state support for some of UC's debt-financed projects for which bonds have not been issued?
- How much will the new UCLA Research Park cost the campus, in terms of borrowing for the purchase of the facility? Does UCLA have a full plan for operating the new UCLA Research Park project? Are there future state costs that the Legislature should be aware of?

Staff Recommendation: Hold Open.

Issue 4: Office of the President Budget Review

The Subcommittee will review the budget of the UC Office of President.

Panel

- Seija Virtanen, University of California Office of the President

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. Systemwide initiatives range from the Student Academic Preparation and Educational Partnerships (SAPEP) program to the UC Observatories, and numerous research programs.

The chart on the following page is from an annual report to the Legislature and indicates UCOP's budget for 2023-24, compared to the approved 2022-23 budget and updated 2022-23 expenditures. The chart was included in an October 2023 report to the Legislature. UCOP's budget for 2023-24 is expected to be \$1.2 billion, a \$192.3 million increase when compared to 2022-23. Key drivers for the increased spending include state-supported climate research funding and a state-supported increase in Agriculture and Natural Resources (ANR) Division, as well as increases in the UCPath human resources and payroll system.

The main expenditure categories include Systemwide and Core Services, which provides services to campus in areas such as finance, legal, human resources and communications; Programs and Initiatives, which include activities such as research and the Agriculture and Natural Resources division; and UC Path, which is the systemwide human resources and payroll system.

UCOP budget has been scrutinized. UCOP was the subject of a 2017 review by the State Auditor, which listed numerous concerns, including that UCOP had undisclosed surpluses and did not properly track systemwide initiatives. Based on a recommendation by the Auditor, the UCOP budget was pulled from the main UC budget item in the 2017 Budget Act, which created a separate line item for UCOP and allowed the Legislature to limit the amount of General Fund going to support UCOP. 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, and more systemized tracking of systemwide initiatives and programs. The 2021 Budget Act folded UCOP back into the main UC budget, allowing UC more control over the UCOP budget.

Figure 2: FY22-23 to FY23-24 Budget Summary

Overall UCOP

\$ in millions

	FY22-23 Budget	FY22-23 Prelim Actuals	FY23-24 Budget	Variance: Increase/(Decrease)		
				Prelim Actuals vs FY22-23 Bud	FY23-24 Bud vs Prelim Actuals	FY23-24 Bud vs FY22-23 Bud
UCOP USES						
Programs and Initiatives	\$ 411.5	\$ 429.9	\$ 532.4	\$ 18.4	\$ 102.5	\$ 120.9
Systemwide and Core Services	479.2	450.6	530.8	(28.6)	80.2	51.6
Strategic Priorities Fund: Unrestricted	30.0	21.4	30.0	(8.6)	8.6	0.0
Strategic Priorities Fund: Desig. & Restricted	3.6	1.2	1.0	(2.4)	(0.2)	(2.6)
SUBTOTAL USES	\$ 924.3	\$ 903.1	\$ 1,094.2	(\$21.2)	\$ 191.1	\$ 169.9
UCPath	111.5	104.3	133.9	(7.2)	29.6	22.4
TOTAL USES	\$ 1,035.8	\$ 1,007.4	\$ 1,228.1	(\$28.5)	\$ 220.7	\$ 192.3
	% Spent: 97.3%			% Change: 18.6%		
				% Change Unrestricted: 4.6%		
INCLUDED IN USES ABOVE						
Fee-For-Service	\$ 355.0	\$ 354.7	\$ 325.8	(\$0.3)	(\$28.9)	(\$29.2)
Pass-Throughs	374.9	420.8	372.1	46.0	(48.7)	(2.7)
Total Fee-For-Service and Pass-Throughs	\$ 729.9	\$ 775.6	\$ 698.0	\$ 45.7	(\$77.6)	(\$31.9)
CENTRAL OPERATING RESERVE¹	\$ 15.0					
NON-OPERATING AND PROGRAM RESERVES²	\$ 136.5					
		6/30/23 Balance	Commitments	Remaining Balance		
FORECASTED FUND BALANCES NET OF RESERVES²						
Unrestricted	\$ 24.9	\$ 10.6	\$ 14.3			
Designated	96.0	26.4	69.6			
Restricted	6.7	-	6.7			
Total Forecasted Fund Balances Net of Reserves	\$ 127.6	\$ 37.0	\$ 90.6			

¹ Held in President's Endowment Fund.

² Reserves and Fund Balances provided are projections at June 30, 2023.

UCOP has numerous revenue sources. UCOP's budget is comprised of numerous funds, from federal, state and campus sources. Funds are typically designated as restricted, designated, or unrestricted, with unrestricted funds comprising about 24% of the UCOP budget and allowing UCOP discretion as to how to spend the funds. A key source of UCOP funding is the campus assessment, which requires campuses to support UCOP through an annual fee. Campuses may use various types of funding to pay the campus assessment. The chart on the next page indicates the campus assessments for 2023-24. The campus assessment - \$223.6 million in 2023-24 – was raised by \$8.7 million, or about 4%, between 2022-23 and 2023-24.

UCOP Systemwide Assessment Sources of Campus Funds

	Core Funds	Medical Center Funds	Sales & Services (incl. Auxiliary Enterprises)	Other Unrestricted Funds	Total
Berkeley	\$ 10,376			\$ 6,917	\$ 17,293
Davis	\$ 12,105	\$ 17,512		\$ 4,477	\$ 34,094
Irvine	\$ 2,495	\$ 3,255		\$ 18,911	\$ 24,662
Los Angeles	\$ 10,222	\$ 14,392		\$ 23,512	\$ 48,127
Merced	\$ 524			\$ 4,153	\$ 4,677
Riverside	\$ 9,044		\$ 2,270	\$ 115	\$ 11,430
San Diego	\$ 13,047	\$ 8,521	\$ 6,178	\$ 6,592	\$ 34,338
San Francisco	\$ 7,658	\$ 15,382	\$ 162	\$ 6,097	\$ 29,299
Santa Barbara	\$ 9,037		\$ 1,984		\$ 11,021
Santa Cruz	\$ 4,784			\$ 3,920	\$ 8,704
Total	\$ 79,294	\$ 59,062	\$ 10,593	\$ 74,696	\$ 223,644

Core Funds includes State General Funds, systemwide Tuition and Fees, Nonresident Supplemental Tuition, and other UC General Funds (e.g., a portion of federal contract and grant overhead). Other Unrestricted Funds includes other indirect cost recovery funds, local administrative fees or assessments used by some campuses to fund campus operations, patent royalty income, short-term investment returns, and other miscellaneous sources, depending on the campus.

UCOP has reserves and fund balances. UCOP reports about \$151.5 million in reserves, with \$15 million of that serving as the Central Operating Reserve, which can be used to address emergencies or other unexpected needs. UC states that most of the reserves accrue from multi-billion dollar systemwide national laboratory contracts and the housing program. In addition to reserves, UC also reports fund balances, which reflect the difference at a point in time between sources and uses, less any known encumbrances and commitments. UCOP reported more than \$90 million in fund balances as of June 30, 2023. Of that fund balance, \$14.3 million was designated as unrestricted, while the rest are either designated (\$69.7 million considered committed by the UC Board of Regents or UCOP) or restricted (\$6.7 million committed to specific contracts or grants.)

Staff Comments

UCOP plays a critical role in the UC system, by running systemwide programs and managing many core functions, such as payroll and investments. UCOP has completed many changes since the 2017 audit, and its budget is now much more transparent.

However, as the piece of UC’s budget that is often the farthest away from providing direct services to students, it requires continuing oversight to ensure that state dollars are being used in the most effective way possible to enhance UC’s missions. The Subcommittee may wish to focus on UCOP reserves, and whether there are ways to use reserves to support campuses as they struggle to address cost pressures, and the campus assessment, which requires campuses to send funding to UCOP that could otherwise be used on campus.

Suggested Questions:

- What is UCOP doing to cut or constrain costs, given the state's budget situation?
- How would the Governor's Budget proposal to defer the 5% operational increase impact the UCOP budget?
- Can UCOP use its reserves or fund balances to help address the deferral, or other campus shortfalls?
- How is the amount of the campus assessment determined each year? Why did the campus assessment increase in 2023-24, compared to 2022-23?

Staff Recommendation: This is an oversight item.

Issue 5: CSU Core Operations Review and Deferral Proposal

The Subcommittee will discuss CSU’s core budget, and the Governor’s Budget proposal to defer a 5% base increase to the core budget.

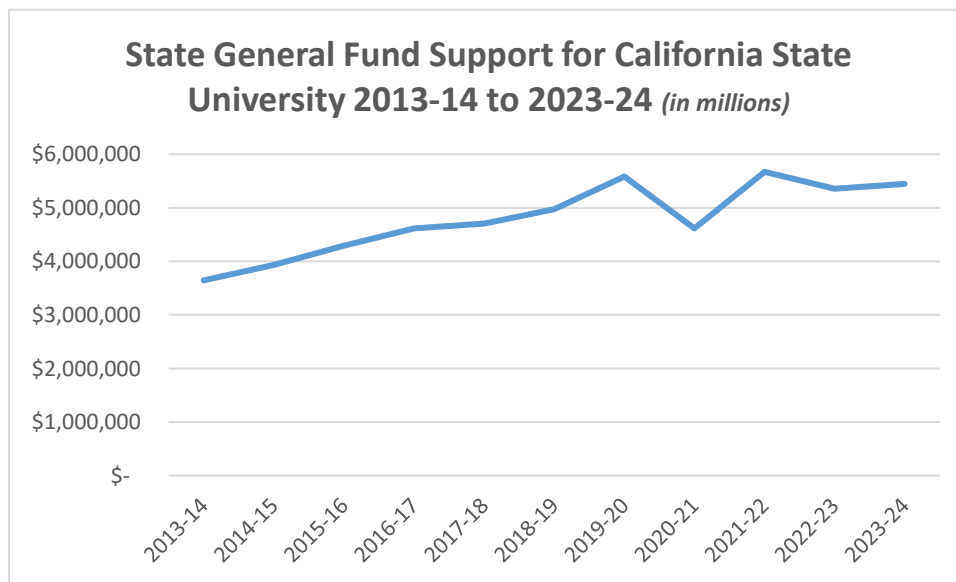
Panel

- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Ryan Storm, California State University Chancellor’s Office

Background

The following is comprised of LAO and staff research and includes information on several aspects of CSU’s budget, including revenues, expenditures, cost drivers and reserves.

State support for CSU has steadily grown. General Fund support grew relatively steadily for CSU in the post-Recession era, with one minor dip during the COVID pandemic that was quickly reversed. State support grew by more than 49% when adjusted for inflation, as the chart below indicates, with CSU receiving about \$5.4 billion in 2023-24. The chart includes both ongoing and one-time funding. In addition to this support, CSU students will receive about \$1.4 billion in state-funded financial aid, through the Cal Grant and Middle Class Scholarship programs in 2023-24.



CSU's overall budget is more than \$12 billion, but core funding is about \$8.8 billion. Like UC, CSU has an overall budget and a core operational budget, although the difference between the two is much smaller, as CSU does not run medical centers or national laboratories or other major revenue-generating operations. The state generally focuses its budget decisions around CSU's "core funds," or the portion of its budget supporting its academic mission. Core funds at CSU primarily consist of state General Fund and student tuition revenue, with a very small share coming from state lottery revenue. About 62% of core funds are state General Fund in 2023-24, while 37% are from tuition and fees. Core funds comprise about 70% of CSU's budget.

California State University Funding by Source

(Dollars in Millions Except Funding Per Student)

	2022-23 Actual	2023-24 Revised	2024-25 Proposed	Change from 2023-24	
				Amount	Percent
Ongoing Core Funds					
General Fund ^a	\$5,041	\$5,409	\$5,344	-\$65	-1.2%
Tuition and fees ^b	3,208	3,193	3,366	173	5.4
Lottery	83	76	76	— ^c	— ^c
Subtotals	(\$8,332)	(\$8,678)	(\$8,785)	(\$107)	1.2%
Other Funds					
Federal funds	\$1,523	\$1,586	\$1,586	—	—
Other CSU funds ^d	2,922	2,270	2,270	— ^c	— ^c
Other state funds ^e	2	3	2	-\$1	(20)
Subtotals	(\$4,447)	(\$3,858)	(\$3,857)	(—^c)	(—^c)
Totals	\$12,779	\$12,536	\$12,643	\$107	0.9%
FTE Students ^f	383,160	388,854	397,805	8,951	2.3%
Ongoing Core Funding Per Student	\$21,745	\$22,317	\$22,085	-\$232	-1.0%
^a Includes funding for pensions and retiree health benefits. ^b Includes funds used for student financial aid. ^c Less than \$500,000 or 0.5 percent. ^d Includes housing fees, parking fees, extended education charges, and fees for other noncore programs. ^e Consists of State Transportation Fund monies designated for transportation research and workforce development. The amount shown in 2023-24 includes \$500,000 in reappropriations. ^f Reflects total combined resident and nonresident enrollment. The 2024-25 number incorporates CSU's planned resident enrollment growth. FTE = full-time equivalent.					

Tuition is increasing. In September 2023, the CSU Board of Trustees approved a plan to increase tuition by 6% annually for the next five years. The increase impacts both undergraduate and graduate students, as the next chart shows. Full-time undergraduate tuition will grow from \$5,742 in 2023-24 to \$6,084 in 2024-25, the first year of the increase. CSU expects to generate about \$148 million more in tuition revenue in 2024-25 due to this increase.

	Academic Year					
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Undergraduate (6.1+ units)	\$ 5,742	\$ 6,084	\$ 6,450	\$ 6,838	\$ 7,248	\$ 7,682
Undergraduate (0-6 units)	\$ 3,330	\$ 3,528	\$ 3,738	\$ 3,962	\$ 4,200	\$ 4,452
Credential (6.1+ units)	\$ 6,660	\$ 7,062	\$ 7,488	\$ 7,938	\$ 8,414	\$ 8,918
Credential (0-6 units)	\$ 3,864	\$ 4,098	\$ 4,344	\$ 4,604	\$ 4,880	\$ 5,172
Graduate (6.1+ units)	\$ 7,176	\$ 7,608	\$ 8,064	\$ 8,548	\$ 9,060	\$ 9,604
Graduate (0-6 units)	\$ 4,164	\$ 4,416	\$ 4,680	\$ 4,960	\$ 5,258	\$ 5,574

CSU’s Largest Operating Cost Is Employee Compensation. Like other state agencies, CSU spends the majority of its core funds (73 percent in 2022-23) on employee salaries and benefits. Accordingly, compensation almost always represents CSU’s largest cost pressure each year.

CSU Has About 47,000 FTE Employees. Of these employees, about 45 percent are faculty, about 45 percent are staff, and the remaining 10 percent are managers and executives. CSU’s workforce has grown over the past decade, except for a small decrease during the pandemic (fall 2020 and fall 2021). As Figure 4 shows, staffing levels have since recovered and are now 4.9 percent higher than five years ago. Because student enrollment declined over the same period, the number of FTE students per FTE employee has decreased from 9.4 in fall 2018 to 8.4 in fall 2023. (In comparison, UC has about 1 FTE employee per 2.3 FTE students.)

Most CSU Employees Are Represented by a Labor Union. The largest union is the California Faculty Association (CFA), which accounts for half of CSU’s overall salary base. CFA represents professors, lecturers, counselors, librarians, and coaches. The second largest union, accounting for nearly 25 percent of CSU’s overall salary base, is the California State University Employees Union (CSUEU). CSUEU represents support staff in various roles, including administrative support, technology, operations, and health services. The remaining six unions (representing student services staff, skilled trades workers, and graduate students, among others) together

comprise 10 percent of CSU’s overall salary base. Managers and executive staff, who comprise about 15 percent of CSU’s salary base, are not represented by a union.

The LAO charts on below indicate CSU staffing levels and current collective bargaining contracts.

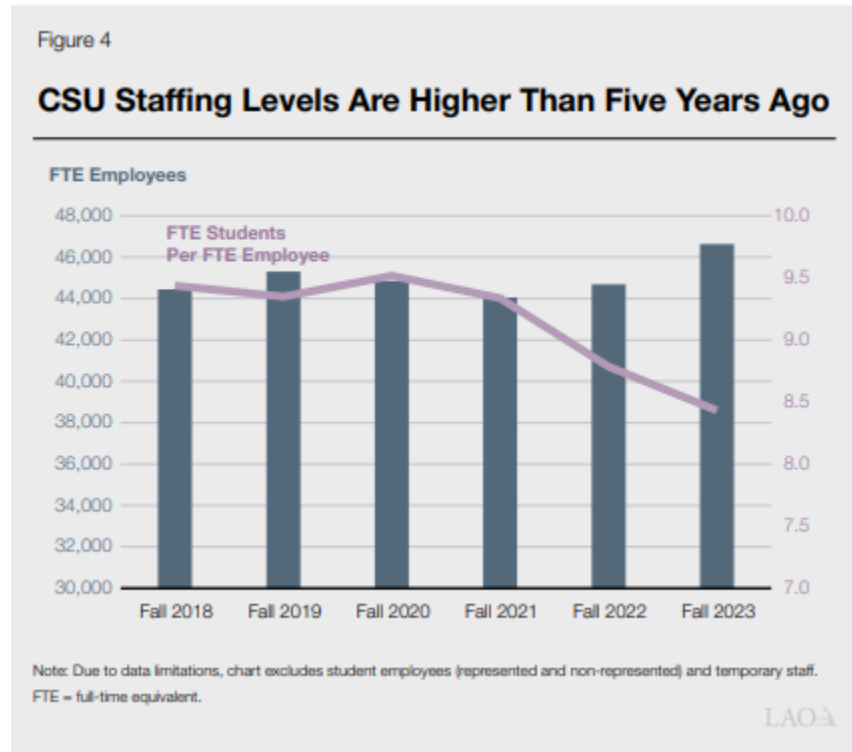


Figure 5

CSU Has Negotiated 5 Percent Salary Increases Across Groups

General Salary Increases by Employee Group

	General Salary Increases		
	2023-24	2024-25 ^a	2025-26 ^a
California Faculty Association ^b	5%	5%	Open
California State University Employees Union	5	5	— ^c
Academic Professionals of California	5	Open	Open
Teamsters 2010	5	— ^c	— ^c
United Auto Workers	5	5	Open
Statewide University Police Association	5	5	5%
Union of American Physicians and Dentists	5	Open	Open
International Union of Operating Engineers	5	Open	Open

^a Increases are contingent upon the state providing a specified amount of support to CSU.

^b Agreement also includes 2.65 percent service salary increases for faculty below certain salary levels, along with increases in the minimum salary for certain faculty positions, in 2023-24 and 2024-25.

^c In lieu of General Salary Increases, CSU and these unions have agreed to implement a salary step structure under which employees receive regular salary increases based on their length of service.

Other costs include pension contributions, health care benefits, facilities, and student financial aid. The California Public Employees’ Retirement System (CalPERS) administers pension benefits for CSU and most other state employees. The CalPERS Board sets employer contribution rates for pensions as a percentage of payroll. The state and CSU each pay a portion of the total employer contribution. CalPERS also administers CSU’s health benefits. Each year, CalPERS negotiates with health plan providers to establish premiums for the plans offered to CSU’s employees. Pursuant to state law, CSU’s contribution to employee health benefits is based on the average premium of the most popular health plans. When premiums increase, CSU covers the associated cost for its active employees. The state covers the cost for retirees’ health benefits. Beyond employee compensation, CSU has ongoing costs related to various other operating expenses, including facilities, technology, equipment, and supplies. CSU’s 2024-25 Operating Budget Plan notes that it is spending \$1.2 billion in 2023-24 on facilities maintenance, and about \$769.8 million on its institutional financial aid program, called the State University Grant (SUG.)

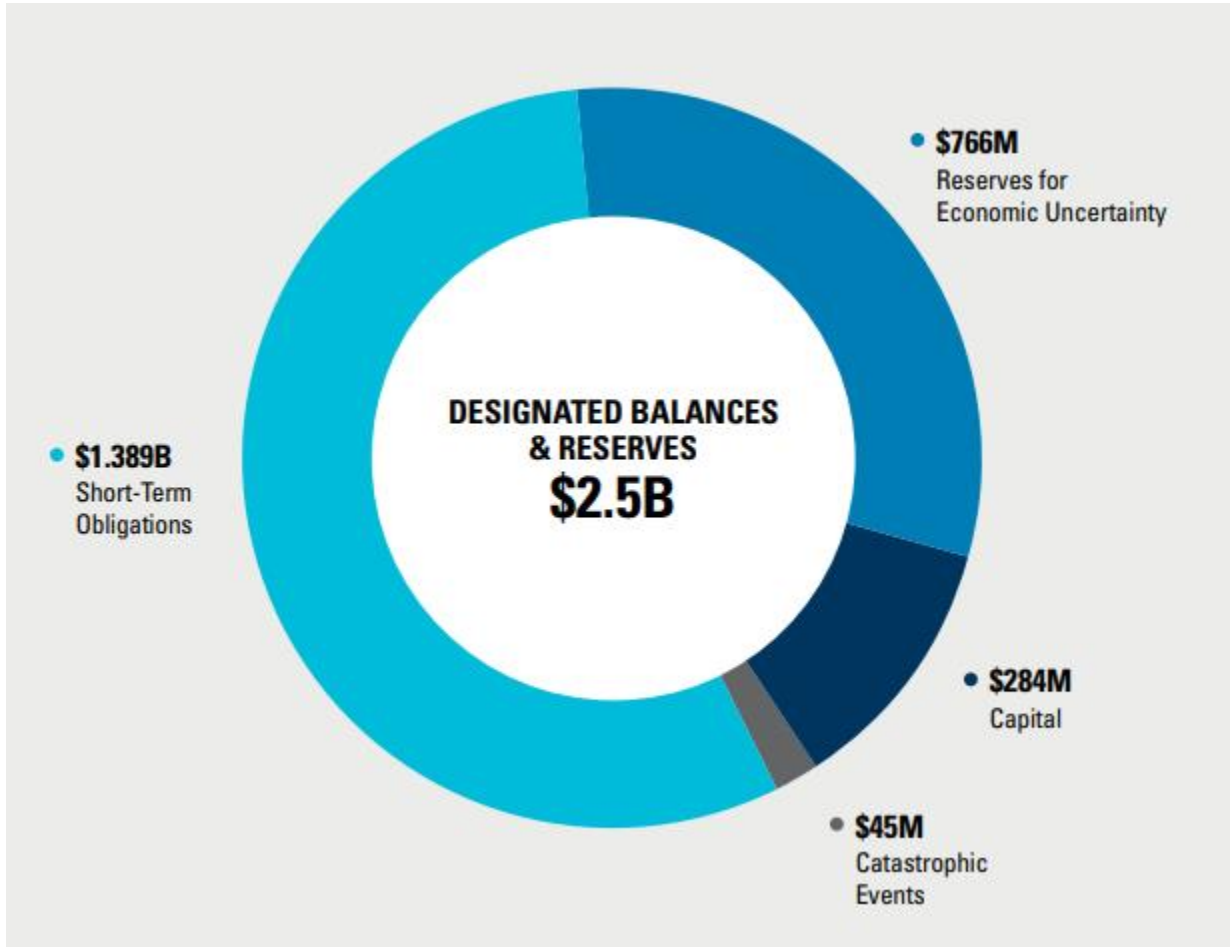
The chart below is from the CSU 2024-25 Operating Budget Plan and indicates spending by program area in 2022-23, 2023-24, and CSU’s proposed spending in 2024-25

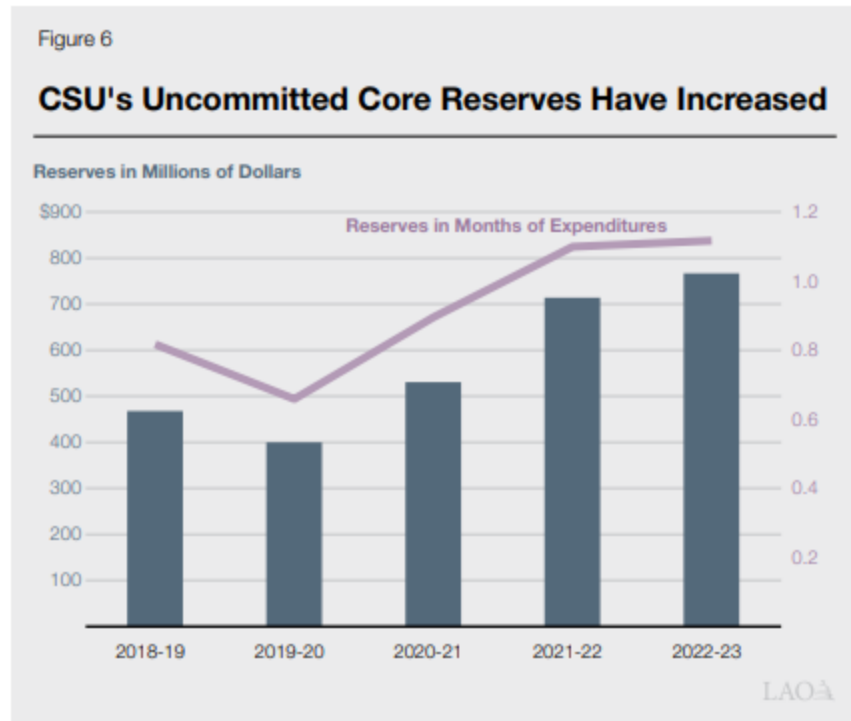
TABLE 2: EXPENDITURES BY PROGRAM AREA

	2022-23 Past Year	2023-24 Current Year	2024-25 Budget Year
Instruction	\$3,172,303,000	\$3,266,070,000	\$3,266,070,000
Research	49,992,000	28,249,000	28,249,000
Public Service	39,489,000	18,381,000	18,381,000
Academic Support	818,412,000	806,051,000	806,051,000
Student Services	973,488,000	882,297,000	882,297,000
Institutional Support	969,114,000	1,137,019,000	1,137,019,000
Operation & Maintenance of Plant	1,306,774,000	1,201,038,000	1,201,038,000
Student Grants & Scholarships	813,373,000	769,826,000	769,826,000
New Expenditures	0	0	557,397,000
TOTAL EXPENDITURES	\$8,142,945,000	\$8,108,931,000	\$8,666,328,000

CSU has significant reserves, but uncommitted reserves are below the system target. CSU data indicates it ended the 2022-23 fiscal year with \$8.6 billion in unspent cash. However, CSU notes that about \$3.6 billion of that was cash from bond proceeds or designated for state-approved capital projects, and another \$2.4 billion is designated for specific state-approved programs or projects. CSU reports about \$2.5 billion in total core reserves, of which \$766 million was uncommitted. CSU’s systemwide reserves policy sets a target to maintain uncommitted reserves worth between three and six months of expenditures. CSU’s uncommitted core

reserves have generally increased over the past five years, reaching 1.1 months of expenditures in 2022-23. Nonetheless, the reserve level remains below the system’s target. The first chart on the next page is from the CSU budget document and indicates how the system considers its reserves. The second chart is from the LAO and shows CSU’s uncommitted reserves.





Governor’s 2024-25 Budget

Two years ago, the Governor made a compact with CSU to provide annual 5 percent base increases from 2022-23 through 2026-27. (The compact is not codified, and the Legislature decides through the annual budget process which, if any, of the components it will enact.) The Governor’s Budget does not fund the third year of the base increases. Instead, the Governor proposes to delay the associated \$240 million in ongoing funding until 2025-26. The Governor intends to “double up” funding in 2025-26, such that CSU would receive an ongoing 10 percent base increase of \$494 million that year. (This consists of \$240 million to support the higher level of prior-year ongoing spending, along with \$254 million for a new 5 percent base increase.) In addition, the Governor intends to provide CSU with a one-time back payment of \$240 million in 2025-26 to compensate for the forgone funds in 2024-25. The Governor describes this proposal as a deferral of the third-year compact payment. Though CSU could choose how to respond the funding delay, the Governor expects CSU to spend at the higher assumed level in 2024-25 by using other means, such as drawing down its reserves or borrowing internally from noncore funds. The Governor gives CSU the discretion to choose its corresponding spending priorities.

LAO Comments

Assessment

Proposed Funding Delay Worsens State’s Projected Out-Year Budget Deficits. As we discuss in The 2024-25 Budget: Overview of the Governor’s Budget, the state faces significant operating deficits in the coming years. The Governor’s proposed funding delay for CSU worsens those deficits, as we discuss in The 2024-25 Budget: Higher Education Overview. Under the proposed approach, the state would need to increase General Fund spending for CSU by \$734 million in 2025-26—consisting of a \$494 million ongoing augmentation and an additional \$240 million one-time back payment. Rather than increasing university costs, the state historically has contained these costs when facing multiyear budget deficits.

Proposed Approach Increases Out-Year Risks for the State. Both our office and the administration project the state faces an operating deficit of more than \$30 billion in 2025-26. Given this projected deficit, increasing spending on CSU in that year would require a like amount of other budget solutions. The Legislature likely will have fewer options for budget solutions next year, with lower reserves and less one-time spending available to pull back. At that time, the Legislature might face the difficult choice of either cutting other ongoing state programs to make room for the additional CSU spending or, alternatively, forgoing the increase it had committed to providing CSU.

Proposed Approach Also Increases Out-Year Risks for CSU. Although the Governor’s proposal benefits CSU in 2024-25 by allowing it to increase spending, it comes with heightened risks for CSU the following year. Under the proposed approach, CSU would be entering 2025-26 with higher ongoing spending and lower reserves than if the state had forgone the base increase. If the state were then unable to support that higher spending level in 2025-26, CSU would need to consider significant reductions at that time. Depending upon the severity of the budget situation, CSU might consider actions such as hiring freezes, layoffs, or furloughs— all actions it has taken over the years in response to previous state budget cuts. Such actions would negatively impact both employees and students, as they likely would lead to fewer classes and a reduction in support services. Moreover, they would likely be more disruptive than containing spending increases in the first place.

Without a Base Increase, CSU Still Could Cover Some Cost Increases in 2024-25. If the state were to forgo rather than delay the base increase planned for 2024-25, CSU would have less ability to increase spending on various purposes, including employee compensation. It would, however, still have some options for covering a portion of its cost increases. Most notably, CSU’s tuition increases are estimated to generate \$99 million in new ongoing revenue in 2024-25, net of the amount committed for institutional financial aid. CSU also has \$766 million in uncommitted reserves that could help cover costs temporarily, though they could not sustain costs on an ongoing basis. These sources could help CSU cover certain cost increases that it

cannot avoid in the near term, such as health care premium increases and insurance premium increases, absent a General Fund increase for 2024-25.

Recommendation

Hold State Funding and Spending Expectations Flat for CSU, Revisit Next Year.

We recommend the Legislature reject the Governor's proposal to delay, then double up, funding for CSU. Such an approach substantially worsens the state's projected deficit in 2025-26, and it is risky for the state, CSU, and other state programs that might be cut more deeply in 2025-26 to make room for the additional CSU spending. Rejecting the Governor's proposal provides \$743 million in budget savings, nearly \$500 million of which is ongoing, beginning in 2025-26. By taking this action this year, the Legislature can mitigate the need for other, potentially more disruptive budget solutions next year. As long as the state is projected to have large, multiyear budget deficits, we caution against raising CSU's General Fund spending levels or expectations. We recommend the Legislature take a more prudent approach to crafting its budget that aims to contain CSU spending. If the state budget situation were to improve in 2025-26, the state would then be in the more advantageous position of being able to set a CSU base increase that it can afford at that time.

Staff Comments

Staff notes that the Governor's Budget proposal to defer the 5% base increase is being considered in early action this week.

CSU identified more than \$557 million in additional spending for 2024-25. The CSU Board of Trustees approved a 2024-25 spending plan in November 2023, before the Governor's Budget was released in January. The Trustees' plan assumed the 5% operating increase from the state and more revenue due to the tuition increase and enrollment growth. In addition, the Trustees' budget included a request for \$144.5 million more ongoing General Fund, above the 5%. The chart on the next page is from the CSU 2024-25 Operating Budget Plan and shows how CSU would spend new dollars in 2024-25 with the 5% increase, and with the extra funding requested.

CSU notes that even in the current year, in which the system received a 5% increase, campuses face costs that exceed revenue by approximately \$138 million ongoing.

More discussion needed to help CSU weather the state budget deficit. The state's budget deficit, which appears likely to be a multi-year problem, requires deeper conversation with CSU about its costs, state support, and how to manage this downturn. The Chancellor's Office reports that it has not directed campuses to reduce spending in specific ways, but notes that campuses are exploring numerous options, ranging from reducing part-time faculty or lecturers, limiting travel or non-essential purchases, or deferring maintenance or capital projects. CSU has suggested that it could handle the proposed deferral by tapping into reserves. CSU reports

significant reserves, and the Subcommittee may wish to further understand how CSU designates reserve categories and how it handles cash surpluses at the end of fiscal years. CSU mentioned in a March hearing that it is seeking to cut costs by pooling procurement among nearby campuses, and the Subcommittee may wish to discuss ways these practices could be expanded systemwide, or even in conjunction with UC campuses. Many of CSU’s costs are mandatory and necessary – recent labor agreements have provided much-needed support for employees, for example – so discussion could focus on discretionary spending that is the least impactful to students.

USES OF FUNDS (Incremental New Expenditures)	TUITION & WITHIN COMPACT	ABOVE COMPACT	BUDGET PLAN
Student Access & Success			
Financial Aid			
State University Grant — Tuition Rate Increase	\$49,443,000		\$49,443,000
State University Grant — Enrollment Increase	8,093,000		8,093,000
Student Access and Enrollment	54,957,000		54,957,000
Graduation Initiative		30,000,000	30,000,000
Student Basic Needs and Mental Health	3,000,000	4,000,000	7,000,000
Institutional Support			
Title IX and DHR Programs	7,900,000	8,000,000	15,900,000
State and Federal NAGPRA Compliance	2,250,000	2,000,000	4,250,000
Maintenance of New Facilities	12,548,000		12,548,000
Liability and Property Insurance Premium Increases	22,635,000		22,635,000
Inflation on Non-Personnel Costs		28,506,000	28,506,000
Debt Service on Academic Facilities & Infrastructure	10,000,000	15,000,000	25,000,000
CSU Workforce Investments			
Faculty and Staff Compensation Pool	163,664,000	57,040,000	220,704,000
Health Premium Increases	78,361,000		78,361,000
TOTAL NEW USES	\$412,851,000	\$144,546,000	\$557,397,000

Suggested Questions:

- What is CSU's current thinking around handling increased costs if the Governor's Budget proposal to defer funding is enacted?
- How would CSU's proposed spending plan change if increased state funds were deferred or cut?
- How are CSU's campuses reacting right now to the state's budget situation?
- CSU reports more than \$1.7 billion in reserves that are designated for specific functions. How flexible is this funding, and could it be used to support campuses if the state's budget situations worsens?
- How does CSU consider overall campus and system staffing levels? Is there an "appropriate" number of employees?

Staff Recommendation: Hold Open.

Issue 6: CSU Legal Services Program

The Subcommittee will discuss the Governor's Budget proposal to reduce support for the California State University Legal Services Project.

Panel

- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Ryan Storm, California State University Chancellor's Office
- Barbara Pinto, Immigrant Legal Defense

Background

The 2018 Budget Act first provided CSU funding to launch the California State University Immigration Legal Services Project. This project provides free immigration legal services to all current students, staff (state and auxiliary), faculty, immediate family members of current students, staff, and faculty, recent graduates (who graduated within two years), and newly admitted students who have accepted their admission across all 23 CSU campuses in the state. The project funds were initially provided through a one-time allocation of \$7 million in the 2018 Budget Act. Subsequent budget acts converted the one-time funding to ongoing. (The state also provides funding to UC – \$1.8 million ongoing General Fund – and the community colleges - \$10 million ongoing Proposition 98 General Fund - for similar services.)

Since 2018-19, over \$27 million has been given to six-nonprofit organizations for legal services, legal training, and technical assistance. The following information has been provided by the California Department of Social Services (CDSS).

Services officially began in Summer 2019. The services categories initially included legal consultations, application or renewal assistance or Deferred Action for Childhood Arrivals (DACA), application assistance for naturalization, application assistance and/or legal representation to obtain affirmative immigration remedies, and assistance with other immigration processes or applications. Initially, this project only served students, staff, and faculty. However, it has since expanded to include immediate family members, alums within two years of graduation, and students who intend to enroll. The service categories have also expanded to include Removal Defense services.

The following table includes participation rates since the program's inception.

Service Period	Legal Consultations	DACA	Naturalization	Affirmative Immigration Remedies	Other Immigration assistance	Education & Outreach	Removal Defense
3/01/19 – 2/28/20	2,149	799	43	104	0	1,570	0
3/1/20 – 2/28/21	2,643	989	70	175	206	6,245	78
3/1/21 – 12/31/21	1,391	667	31	183	249	3,036	48
1/1/22 – 12/31/22	3,078	1,102	58	232	570	5,921	28
1/1/23 – 8/31/23	2,364	840	45	234	658	3,390	33
TOTAL	11,625	4,397	247	928	1,683	20,162	187

The project prioritizes serving undocumented students but also serves eligible persons in mixed-status families and those with temporary statuses. As of August 31, 2023, this project has provided direct legal services to nearly 20,000 individuals and education and outreach services to over 20,000. Most of the individuals who received services under this project were students (68%), followed by faculty/staff (15%), family members (13%), and alums (4%). The individuals served under this project came from many countries, including Mexico, Peru, the Philippines, South Korea, Honduras, Guatemala, El Salvador, Colombia, Brazil, and Cambodia.

Governor’s 2024-25 Budget

The Governor’s Budget proposes to revert \$5.2 million General Fund in 2023-24 for the project and makes a reduction of \$5.2 million General Fund in 2024-25 and ongoing. The Governor’s proposal would maintain \$1.8 million ongoing General Fund. This funding is in the Department of Social Services budget and was discussed in Assembly Subcommittee #2 on March 20.

Staff Comments

This program, along with similar programs at UC and the community colleges, was created to continue California’s efforts to ensure all of its residents have access to higher education, and support to complete their education. Advocates for this program note that CSU students from immigrant backgrounds are often faced with the pressure of completing their higher education to help themselves and their families’ financial future without the proper resources to navigate their legal challenges or obtain the legal relief they may be eligible for. It is estimated there are nearly 10,000 undocumented students at CSUs and a large number who belong to mixed status families.

The program appears to be providing a significant number of students, employees and their families with services. The LAO states that the program has about \$8.8 million in unspent funds, but that the Department may use these funds to cover services through June 2025. The cut would help address the state’s budget deficit, but it could impact some current and future recipients of services. With the proposed reduction in funding, CDSS states that it will assess the current program design and determine the most effective service delivery model in

partnership with the legal services providers and the CSU Chancellor's office. A reduction in funding will reduce the number of individuals served. The services, populations, and campus prioritization will be determined with our CSU partners.

CDSS states that factors external to it, such as backlogs at U.S. Citizenship and Immigration Services (USCIS) and immigration courts and federal law and policy changes, impact how quickly cases can be resolved. CDSS states that it will work with the legal services providers to determine which active cases would remain part of the program when transitioning to a different funding model and which might be able to move to other state-funded services such as the Immigration Services Funding services.

Suggested Questions:

- Why is the Administration proposing this cut?
- What would be the impacts on CSU students and employees if this cut were adopted? How readily available are other legal services for these cases?
- What is the rationale for singling out the CSU program for a cut?

Staff Recommendation: Hold Open. This item is in the Department of Social Services budget.

Issue 7: Past Appropriations

The Subcommittee will discuss previous CSU appropriations. The item is intended to provoke conversation about state support for CSU during the state budget downturn.

Panel

- Lisa Qing, Legislative Analyst's Office
- Devin Mitchell, Department of Finance
- Ryan Storm, California State University Chancellor's Office

Background

Recent state budgets have allowed the Administration and Legislature to support numerous initiatives at CSU campuses, including large investments in student housing, facilities upgrades, and campus improvements, and much smaller investments in specific research or public service projects. Some of these projects were supported with one-time General Fund, while others are being financed through CSU-issued bonds, with the state covering annual debt service costs. The programs range from a major expansion and rebranding of the Humboldt campus to minor one-time funding to allow Project Rebound, which supports formerly incarcerated CSU students, to purchase housing around campuses for students to live in.

The LAO has compiled lists of these recent investments, shown on the following pages, and amounts of this funding that was unspent as of January. The Governor's Budget does not pull back any of this funding. Typically, projects are described in the budget bill, and then funding goes from the state to the Chancellor's Office. In some cases, the Chancellor's Office runs the program and spends the money, or distributes the funding to campuses through a grant program or a funding formula. In other cases, funding is distributed from the Chancellor's Office directly to a campus or department for a specific program.

California State University				
Status of Recent One-Time Appropriations				
<i>Estimates of Available General Fund as of January 1, 2024 (In Millions)</i>				
Purpose	Year Funded	Budgeted Appropriation	Amount Spent or Encumbered ^a	Amount Unspent or Unencumbered
One-Time Initiatives				
CCST Science and Technology Policy Fellows program	2023-24	10.000	10.000	0.000
CCST Science and Technology Policy Fellows program	2022-23	10.000	10.000	0.000
CSU San Bernardino physician assistant program	2022-23	10.000	10.000	0.000
Asian Bilingual Teacher Education Program Consortium	2022-23	5.000	1.050	3.950
CSU Dominguez Hills California Black Women's Think Tank	2022-23	5.000	2.500	2.500
Council on Ocean Affairs, Science and Technology	2022-23	5.000	2.300	2.700
Emergency student financial aid	2021-22	30.000	30.000	0.000
Faculty professional development and equal opportunity practices	2021-22	10.000	10.000	0.000
CSU Monterey Bay Computing Talent Initiative	2021-22	10.000	2.700	7.300
CSU San Francisco Asian American Studies	2021-22	10.000	7.500	2.500
CSU Bakersfield nursing and health professional programs	2021-22	6.000	2.100	3.900
CCST Science and Technology Policy Fellows program	2021-22	5.000	5.000	0.000
Project Rebound student housing and other services	2021-22	5.000	1.650	3.350
Capital Projects^b				
CSU Dominguez Hills Dymally Institute facility	2023-24	15.000	0.110	14.890
University farms facilities and equipment				
Chico	2022-23	18.750	9.300	9.450
Fresno	2022-23	18.750	1.096	17.654
Pomona	2022-23	18.750	0.200	18.550
CSU Humboldt polytechnic transition				
Applied research facilities	2021-22	45.000	2.200	42.800
Science building renovations	2021-22	36.300	1.408	34.892
CSU Dominguez Hills capital outlay projects				
Wellness, health, and recreation center	2021-22	20.000	13.717	6.283
Affordable student housing and dining commons	2021-22	18.500	18.500	0.000
Deferred Maintenance				
Deferred maintenance, seismic mitigation, and energy efficiency projects	2022-23	125.000	34.431	90.569
Deferred maintenance and energy efficiency projects	2021-22	325.000	163.135	161.865
Total		762.050	338.897	423.15
^a Funds are considered encumbered when the campus is obligated to pay them due to a contract or similar legal agreement.				
^b Includes capital projects in design phases only. We exclude any projects that have already entered construction.				

Figure 16

Many Debt-Financed Capital Projects at CSU Remain in Early Phases

(In Millions)

Project	Project Cost ^a	Bond Issued ^b	Current Phase ^c
Student Housing Projects^d			
San Francisco	\$116.3	Yes	C
San Marcos	91.0	Yes	C
San Jose	89.1	No	P
Fullerton	88.9	Yes	P
Long Beach	53.3	Yes	W
Dominguez Hills	48.8	Yes	W
Sacramento	41.3	No	P
Northridge	37.5	Yes	C
Fresno	31.1	Yes	P
Humboldt	27.1	Yes	C
Stanislaus	18.9	No	P
San Diego/Imperial Valley College	4.6	Yes	P
Subtotal	<u>(\$647.8)</u>		
Other Projects			
Humboldt Housing, Health Care, and Dining Facility	\$101.0	Yes	P
Humboldt Engineering and Technology Commons	100.0	Yes	W
Bakersfield Energy Innovation Center	83.0	Yes	P
San Diego Brawley Center	80.0	Yes	W
San Bernardino Palm Desert Center	79.0	Yes	W
Fullerton Engineering and Computer Science Hub	67.5	Yes	P
San Luis Obispo Swanton Pacific Ranch	20.3	Yes	P
Chico Human Identification Lab	55.0	Yes	P
San Bernardino physician assistant program facilities	4.3	Yes	C
Subtotal	<u>(\$590.1)</u>		
Total	\$1,237.9		

^a Reflects state cost of project (excluding nonstate costs).

^b Reflects whether CSU issued bonds for any of the project costs in summer 2023.

^c Reflects project status as of January 1, 2024.

^d The state also approved \$7.5 million to cover cost overruns across CSU's student housing projects.

P = preliminary plans; W = working drawings; and C = construction.

LAO Comments

CSU Has Some Unspent One-Time Funding From Prior Budgets. Based on a data request to CSU, our preliminary estimate is that \$423 million of the \$1.1 billion in one-time funding for CSU has not yet been spent or encumbered by campuses (as of January 1, 2024). As Figure 15 shows, \$252 million of this amount is for deferred maintenance and related projects; \$145 million is for various cash-funded capital projects that remain in planning and design phases; and

\$26 million is for various academic programs, student support programs, and research initiatives.

Recommend Pulling Back Some of the Available One-Time Funding. Of the identified unspent one-time funds, we recommend the Legislature pull back the \$145 million for capital projects and \$26 million for various programs. Pulling back these funds would achieve near-term savings. In a few cases, it would also generate out-year savings, as the funds are for new facilities

CSU Issued Bonds While Many of These Projects Were Still in Early Phases. In summer 2023, CSU issued a total of \$662 million in bonds for the projects approved for debt financing in 2023-24. These bonds are to cover some or all of the costs associated with 18 of the 21 projects. (CSU intends to issue additional bonds in summer 2024 to cover any remaining costs for these projects as well as the costs of the other three projects.) Whereas CSU typically issues bonds as projects are beginning the construction phase, it chose to instead issue bonds for these projects while many of them were still in earlier stages. CSU indicates it took this approach because some campuses had already begun to spend the cash they had initially received for these projects on planning and design costs, and they were awaiting bond proceeds to cover those costs after the state reverted the cash. As Figure 16 shows, many of these projects remain in planning and design phases as of January 1, 2024.

Recommend Strengthening Oversight of CSU Projects. Were the Legislature to approve later rounds of funding for CSU student housing projects or approve direct state support for other CSU projects, we recommend it apply its regular standard of review and approval to these projects. Specifically, we recommend it (1) identify each project's scope, cost, and schedule in the budget act; (2) require the timely notification of significant changes to project scope, cost, and schedule, consistent with regular state requirements; and (3) authorize funding to advance projects by phase rather than all at once.

Recommend Aligning Funding With Estimated Debt Service Costs. Whereas the state provided \$100 million ongoing General Fund intended to support the debt service associated with the 21 projects, actual debt service costs (even with the higher rates for taxable bonds) are expected to be lower than originally budgeted. The savings will be most substantial in the first two years because not all of the bonds will have been sold. Beginning in the third year, costs might still be slightly lower than the original appropriation depending on interest rates. Based on CSU's most recent estimates, the debt service costs associated with these projects total \$25 million in 2023-24, \$68 million in 2024-25, and \$87 million in 2025-26 and ongoing. Especially in light of the state's budget deficit, we recommend the Legislature reduce the \$100 million appropriation to align with actual debt service costs. Based on current estimates, this would yield \$75 million in savings in 2023-24, \$32 million in 2024-25, and \$13 million annually thereafter.

Legislature Could Consider Pausing Projects for Which Bonds Have Not Been Issued.

To date, CSU has not yet issued bonds for three of the projects approved for debt financing last year. These three projects are student housing projects at the San Jose, Sacramento, and Stanislaus campuses. Whereas the Sacramento and Stanislaus projects remain in preliminary plans, the San Jose campus has already entered into an agreement with the intent to purchase an existing property using bond proceeds. Given the state's projected multiyear budget deficits, the Legislature could consider pausing some or all of these projects and sweeping the associated funding for debt service. We estimate pausing all of the projects would yield \$12 million in ongoing General Fund savings (on top of the amounts cited in the previous paragraph).

Staff Comments

The state's budget deficit requires difficult conversations about state support for CSU, and how to prioritize spending to support students and CSU's core missions. Staff notes that all of the spending displayed in these charts was a priority for legislators, the Administration, or other stakeholders, and pulling back unspent funding could disrupt key programs impacting the state in some way. Staff notes that unspent funds may not indicate an unsuccessful program or activity; many of these projects intend to spend the money over several years. Construction-related projects, for example, require extensive planning before significant dollars are spent. In addition, some programs or campuses report extensive delays between when the state appropriates funding to the system and when money is received at the campus or department level. However, it may be fair to examine programs that have spent a very small percentage of funding after multiple years.

Staff notes that the LAO has identified more than \$100 million in one-time savings that could be achieved by resizing debt service support for CSU to reflect actual costs.

Suggested Questions:

- What is the Chancellor's Office process for distributing funding for specific programs to campuses? How long does that funding distribution typically take?
- What would the impacts be of removing state support for some of CSU's debt-financed projects for which bonds have not yet been issued?
- What is CSU's reaction to the LAO suggestion that debt service support could be lowered?

Staff Recommendation: This is an informational item

Issue 8: Graduation Initiative 2025 Update

The Subcommittee will discuss CSU’s Graduation Initiative 2025.

Panel







- Jennifer Baszile, California State University Chancellor’s Office
- Ryan Storm, California State University Chancellor’s Office

Background

Launched in 2015, Graduation Initiative 2025 has sought to improve completion rates among all CSU students, and end differences in graduation rates for some underrepresented students and low-income students, when compared to students overall. CSU reports spending \$380 million on Graduation Initiative 2025 activities in 2023-24, which includes \$305 million in state General Fund and \$75 million in tuition revenue.

While the initiative includes systemwide improvement goals, it also set goals by campus. Campuses have used funding for a myriad of activities, including enhanced outreach to students, more tutoring and counseling, better tracking of student progress, including early intervention strategies for struggling students, enhanced basic needs services and emergency aid, and various new support programs for students. The chart below indicates the six areas of improvement the system and campuses have been working on.

The CSU has identified six operational priorities to effectively implement Graduation Initiative 2025 efforts across its 23 universities.

 <p>ACADEMIC PREPARATION</p> <p>Providing additional academic and nonacademic support for first-time students who need it.</p>	 <p>ENROLLMENT MANAGEMENT</p> <p>Communicating proactively to remind students of the critical value of earning a college degree.</p>	 <p>STUDENT ENGAGEMENT AND WELL-BEING</p> <p>Developing strategies to reinforce a sense of belonging and to build meaningful social connections across the university.</p>
 <p>FINANCIAL SUPPORT</p> <p>Identifying additional opportunities to provide students with financial support beyond traditional aid.</p>	 <p>DATA-INFORMED DECISION MAKING</p> <p>Strategizing methods for collecting, analyzing and disseminating data that provides insight into equity and student progress toward degree completion.</p>	 <p>ELIMINATING ADMINISTRATIVE BARRIERS</p> <p>Prioritizing cross-divisional efforts to identify and remove institutional barriers to student success.</p>

CSU has improved graduation rates, but equity gaps have grown and some improvements recently slipped. CSU reports that the most recent four-year graduation rates for first-time freshmen improved, while six-year graduation rates slipped slightly. About 35% of first-time freshmen who began in Fall 2019 graduated in four years, while 62% of first-time freshmen who began in Fall 2017 graduated within six years. About 40% of community college transfer students graduated within two years, while 80% graduated within four years.

A key goal of the Graduation Initiative is to close differences in graduation rates between some students and their peers. CSU reports these equity gaps have worsened in recent years. Underrepresented students of color – which CSU describes as students who have been historically underrepresented in higher education, including African American, Native American, and Latinx students – graduated at rates 12% lower than their peers according to the most recent data, and low-income students – those who receive a federal Pell Grant – graduated at rates 11% lower than their peers.

The chart below is from the CSU 2024-25 Operating Budget Plan and shows year-by-year changes in graduation rates, and the goal the system has for 2025.

TABLE 4: CSU SYSTEMWIDE GRADUATION INITIATIVE PROGRESS

			2016	2017	2018	2019	2020	2021	2022	2025 Goal
GRADUATION RATES	First-Time Students	4-Year	21%	23%	25%	27%	31%	33%	35%	40%
		6-Year	59%	59%	61%	62%	62%	63%	62%	70%
	Transfer Students	2-Year	33%	35%	38%	40%	44%	44%	40%	45%
		4-Year	74%	75%	77%	77%	79%	80%	80%	85%
EQUITY GAPS (in percentage points)	Underserved Students of Color		12.0	12.2	10.5	11.1	10.5	12.4	12.0	0.0
	Pell Grant Recipients		10.0	10.6	9.5	10.2	9.2	10.2	11.0	0.0

CSU is focusing on the equity gap issue in a number of ways: The CSU adopted and began implementing an equity action plan that is re-engaging underserved students who have disenrolled, expanding the use of digital degree planners, reviewing and restructuring courses with inequitable low-pass rates, bolstering student opportunities to earn credits during summer and winter sessions and eliminating administrative barriers.

CSU also reports that it has begun planning efforts beyond 2025. According to a report to the CSU Trustees in November, the system will host strategic consultations, roundtables and convenings with industry, community, philanthropic, educational, governmental and intersegmental partners. Additionally, CSU consultations will provide all segments of each university community the opportunity to share their experiences and perspectives. The central outcome of this work is to ensure key stakeholders are heard, engaged and thoroughly consulted through an intentional process of appreciative listening. The goals of this year of engagement are threefold:

- To reflect on the infrastructure built during GI 2025, understand the momentum it created on campuses and within the system, and address how gaps have impeded progress.
- To engage in action-oriented discussion, grounded by the reflections above, to finalize a needed systemwide vision and definition of student success (with aligned metrics) that will underpin the next phase of the GI initiative and inform the next set of milestones and goals.
- Educate industry and philanthropic partners about the value of the CSU's focus on student success and articulate a vision of shared interest for closer collaboration in the forthcoming initiative.

Staff Comments

Graduation Initiative 2025 has led to significant changes at CSU that have ingrained numerous student-centered practices at campuses that help students finish college more efficiently. Technology to better track students' progress is now in place, cultural centers that support specific types of students are prominent on most campuses, and an overall focus on completion is more embedded within the system.

Staff notes that the state has provided only a small portion of the initiative's funding directly: \$35 million ongoing General Fund is called out in the budget bill, and previous Budget Acts have provided about \$42 million in one-time funds. CSU has chosen to use much more state funding without specific state direction. CSU is requesting an additional \$30 million in ongoing state funding this year.

Suggested Questions:

- What are specific actions CSU is taking to increase graduation rates for African American, Native American, Latinx, and low-income students?
- Are there specific campuses that have closed equity gaps? If so, what are the best practices from those campuses that could be used systemwide?

- How would CSU further Graduation Initiative 2025 activities should the state be unable to provide additional funding for this program in 2024-25?

Staff Recommendation: Hold Open. This is an oversight item.

This agenda and other publications are available on the Assembly Budget Committee's website at: [Sub 3 Hearing Agendas | California State Assembly](#). You may contact the Committee at (916) 319-2099. This agenda was prepared by Mark Martin.