

# SUBCOMMITTEE NO. 1

# Agenda

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Senator Marty Block, Chair  
Senator Carol Liu  
Senator Mark Wyland



Thursday, March 27, 2014  
9:30 a.m.  
Room 3191, State Capitol

Consultant: Joe Stephenshaw

<u>Item</u>	<u>Department</u>
6440	University of California
6600	Hastings College of the Law
6610	California State University
6870	California Community Colleges

### ***Vote Only Item***

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### ***Discussion Items***

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Public Comment

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**Vote Only****Issue 1 CSU Capital Outlay Equipment Proposals**

**Governor's Budget.** The Governor's budget includes \$5.8 million, from the balance of the 2004 Higher Educational Capital Bond, to fund the equipment phases for the following projects:

- **Monterey Bay (Academic Building II)** - \$1.97 million
- **CSU, Chico (Taylor II Replacement Building)** - \$2.74 million
- **CSU, East Bay (Warren Hall Replacement Building)** - \$1.06 million.

**Background.** This proposal would provide funding for the equipment phases of projects that have previously been approved by the Legislature. Specifically, this proposal will provide equipment for: 1) instructional program support space for the School of Information Technology and Communications Design and the School of Business in the new facility at Monterey Bay (funding for the project was initially included in the 2009 budget); 2) The College of Humanities and Fine Arts in the new facility at Chico (funding for the project was initially included in the 2010 budget); and, 3) 113 administrative and faculty offices in the new office building at East Bay (funding for this project was originally included in the 2011 budget).

**Staff Comment.** This is the final phase of these three projects that have previously been approved by the Legislature. Staff does not raise any concerns.

**Recommendation.** Approve as budgeted.

## Items to be Heard

<b>Background</b>	<b>UC, CSU, and Hastings</b>
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**University of California.** The 1960 Master Plan for Higher Education designates the University of California (UC) as the primary state-supported academic agency for research. In addition, the UC serves students at all levels of higher education and is the public segment primarily responsible for awarding the doctorate and several professional degrees, including in medicine and law. Joint doctoral degrees may also be awarded with the California State University (CSU).

There are ten campuses: Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz. Nine of these are general campuses and offer undergraduate, graduate, and professional education. The San Francisco campus is devoted exclusively to the health sciences. The UC operates five teaching hospitals in Los Angeles, San Francisco, Sacramento, San Diego, and Orange counties. The UC has more than 800 research centers, institutes, laboratories, and programs in all parts of the state. The UC also provides oversight of one United States Department of Energy laboratory and is in partnerships with private industry to manage two additional Department of Energy laboratories.

The UC is governed by the Regents, which under Article IX, Section 9 of the California Constitution has "full powers of organization and governance," subject only to very specific areas of legislative control. The article states that "the university shall be entirely independent of all political and sectarian influence and kept free therefrom in the appointment of its Regents and in the administration of its affairs." The Board consists of 26 members, as defined in Article IX, Section 9, all of whom have a vote (in addition, two faculty members — the chair and vice chair of the Academic Council — sit on the board as non-voting members):

- 18 regents are appointed by the governor for 12-year terms.
- One is a student appointed by the Regents to a one-year term.
- Seven are ex officio members — the Governor, Lieutenant Governor, Speaker of the Assembly, Superintendent of Public Instruction, president and vice president of the Alumni Associations of UC and the UC president.

The Governor is officially the president of the Board of Regents; however, in practice the presiding officer of the Regents is the Chairman of the Board, elected from among its body for a one-year term, beginning July 1. The Regents also appoint Officers of The Regents: the General Counsel; the Chief Investment Officer; the Secretary and Chief of Staff; and the Chief Compliance and Audit Officer.

The following table displays the budgeted expenditures and positions for the UC, as proposed in the Governor's budget. Of the amounts displayed in the table, \$2.4 billion in 2012-13, \$2.8 billion in 2013-14, and \$3.0 billion in 2014-15 are supported by the General Fund. The remainder of funding comes from tuition and fee revenue and various special and federal fund sources.

Dollars in Millions

<b>Governor's Budget - UC Budgeted Expenditures and Positions</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Personal Services	\$9,769	\$9,969	\$10,116
Operating Expenses and Equipment	\$8,847	\$9,804	\$10,125
<b>Total Expenditures</b>	<b>\$18,616</b>	<b>\$19,773</b>	<b>\$20,241</b>
<b>Positions</b>	<b>89,528.9</b>	<b>89,790.2</b>	<b>89,790.2</b>

Budgeted expenditures for the UC do not include funding for extramural programs, which are \$6.2 million in 2012-13, \$6.1 million in 2013-14, and \$6.0 million in 2014-15.

**California State University.** The CSU system is comprised of 23 campuses, including 22 university campuses and the California Maritime Academy. The California State Colleges were brought together as a system by the Donahoe Higher Education Act of 1960. In 1972, the system became the California State University and Colleges; the name of the system was changed to the California State University in January 1982. The oldest campus, San Jose State University, was founded in 1857 and became the first institution of public higher education in California. The program goals of the CSU are:

- To provide instruction in the liberal arts and sciences, the professions, applied fields that require more than two years of college education, and teacher education to undergraduate students and graduate students through the master's degree.
- To provide public services to the people of the state of California.
- To provide services to students enrolled in the University.
- To support the primary functions of instruction, research, public services, and student services in the University and to ensure legal obligations related to executive and business affairs are met.
- To prepare administrative leaders for California public elementary and secondary schools and community colleges with the knowledge and skills needed to be effective leaders by awarding the doctorate degree in education.
- To prepare physical therapists to provide health care services by awarding the doctorate degree in physical therapy.
- To prepare faculty to teach in postsecondary nursing programs and, in so doing, help address California's nursing shortage by awarding the doctorate degree in nursing practice.

The Board of Trustees is responsible for the oversight of the CSU. The Board adopts rules, regulations, and policies governing the CSU. The Board has authority over curricular development, use of property, development of facilities, and fiscal and human resources management. The 25-member Board of Trustees meets six times per year. Board meetings allow for communication among the trustees, chancellor, campus presidents, executive committee members of the statewide Academic Senate, representatives of the California State Student Association, and officers of the statewide Alumni Council. The Trustees appoint the chancellor,

who is the chief executive officer of the system, and the presidents, who are the chief executive officers of the respective campuses.

The following table displays the budgeted expenditures and positions for the CSU as proposed in the Governor's budget. Of the amounts displayed in the table, \$2.1 billion in 2012-13, \$2.3 billion in 2013-14, and \$2.7 billion in 2014-15 are supported by the General Fund. The remainder of funding comes from tuition and fee revenue and various special and federal fund sources.

Dollars in Millions

<b>Governor's Budget - CSU Budgeted Expenditures and Positions</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Personal Services	\$3,774	\$3,776	\$3,776
Operating Expenses and Equipment	\$3,999	\$4,111	\$4,512
<b>Total Expenditures</b>	<b>\$7,773</b>	<b>\$7,887</b>	<b>\$8,288</b>
<b>Positions</b>	<b>43,762.6</b>	<b>43,031.1</b>	<b>43,031.1</b>

**Hastings College of the Law.** Hastings College of the Law (Hastings) was founded in 1878 by Serranus Clinton Hastings, the first Chief Justice of the State of California. On March 26, 1878, the Legislature provided for affiliation with the University of California. Hastings is the oldest law school and one of the largest public law schools in the western United States. Policy for the college is established by the Board of Directors and is carried out by the chancellor and dean and other officers of the college. The Board has 11 directors: one is an heir or representative of S.C. Hastings and the other 10 are appointed by the Governor and approved by a majority of the Senate. Directors serve for 12-year terms. Hastings is a charter member of the Association of American Law Schools and is fully accredited by the American Bar Association. The Juris Doctor degree is granted by The Regents of the University of California and is signed by the President of the University of California and the Chancellor and Dean of Hastings College of the Law.

The mission of Hastings is to provide an academic program of the highest quality, based upon scholarship, teaching, and research, to a diverse student body and to ensure that its graduates have a comprehensive understanding and appreciation of the law and are well-trained for the multiplicity of roles they will play in a society and profession that are subject to continually changing demands and needs.

The following table displays the budgeted expenditures and positions for Hastings as proposed in the Governor's budget. Of the amounts displayed in the table, \$7.8 million in 2012-13, \$8.4 million in 2013-14, and \$9.6 million in 2014-15 are supported by the General Fund.

Dollars in Millions

<b>Governor's Budget – Hastings' Budgeted Expenditures and Positions</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Personal Services	\$32	\$33	\$34
Operating Expenses and Equipment	\$9	\$11	\$10
Special Items of Expense (Financial Aid)	\$14	\$13	\$12
<b>Total Expenditures</b>	<b>\$55</b>	<b>\$57</b>	<b>\$56</b>
<b>Positions</b>	<b>242.8</b>	<b>246.8</b>	<b>246.8</b>

**Issue 1 UC, CSU, and Hastings Multi-Year Funding and Sustainability Plans****Governor's Budget Proposals.**

**Multi-Year Funding Plan.** The Governor's budget includes \$142.2 million General Fund, each, for the UC and CSU, and \$1.3 million for Hastings to support the Administration's four-year investment plan in higher education that started in 2013-14, which assumes additional General Fund support for the UC, the CSU, CCCs, and Hastings.

The multi-year plan assumes a five percent increase for UC and CSU in 2014-15 and a four percent increase in each of the subsequent two years. The continuation of the multi-year plan is predicated on the UC Regents and the CSU Board of Trustees adopting three-year sustainability plans, described below, and the expectation that the universities maintain current tuition and fee levels through 2016-17.

**Sustainability Plans.** The Governor's budget includes budget bill language that requires the UC Regents and the CSU Board of Trustees to adopt three-year sustainability plans, by November 30, 2014, for fiscal years 2015-16, 2016-17, and 2017-18. Specifically, the Governor proposes that the sustainability plans include:

- Projections of available resources (General Fund and tuition and fees) in each fiscal year, using assumptions for General Fund and tuition and fee revenue provided by the Department of Finance (DOF).
- Projections of expenditures in each fiscal year and descriptions of any changes necessary to ensure that expenditures in each of the fiscal years are not greater than the available resources.
- Projections of enrollment (resident and non-resident) for each academic year within the three-year period.
- The University's goals for each of the performance measures, as specified in Education Code (detailed below), for each academic year within the three-year period.

**Background.** Given that significant budget authority has been delegated to UC and CSU, the Legislature has historically relied on two primary budgetary control levers or "tools," earmarks and enrollment targets, to ensure that state funds are spent in a manner consistent with the Legislature's intent and that access is maintained. The use of these tools has also ensured a clear public record and transparency of key budget priorities.

With regard to earmarks, typically the annual budget act included a number of conditions on UC's and CSU's General Fund appropriations. These earmarks have varied over the years in keeping with the Legislature's and Governor's particular concerns at the time. Due to the Governor's vetoes, earmarks for the UC and CSU were essentially eliminated from the Budget Acts of 2012 and 2013.

With regard to enrollment targets, historically UC's and CSU's budgets have been tied to a specified enrollment target. To the extent that the segments failed to meet those targets, the state funding associated with the missing enrollment reverted to the General Fund. The Legislature

adopted budget bill language setting enrollment targets for the UC and CSU for the current budget year that would maintain 2012-13 enrollment levels. The Governor vetoed the budget bill language, thus eliminating enrollment targets for the current year, noting that the Administration would rather give the UC and CSU greater flexibility to manage its resources to meet obligations, operate its instructional programs more effectively, and avoid tuition and fee increases.

AB 94 (Committee on Budget), Chapter 50, Statutes of 2013, put into place a framework for measuring performance at the UC and CSU. Specifically, Education Code Sections 89295, subdivision (b), and 92675, subdivision (b), require the UC and CSU to report the following information annually, with 2012-13 data starting in March 2014, as follows:

- Number/Proportion of Transfers.
- Number/Proportion of Low-Income Students.
- 4-year Graduation Rates for both UC and CSU and 6-year Graduation Rates for CSU (disaggregated by freshman entrants, transfers, graduate students, and low-income status)
- Degree Completions (disaggregated by freshman entrants, transfers, graduate students, and low-income status).
- First-Years On Track to Degree (i.e., what percent of first years earned a specified number of units).
- Spending Per Degree (Core Funds).
- Units Per Degree.
- Number of Science, Technology, Engineering and Mathematics (STEM) Degrees.

AB 94 also requires the UC and CSU to report biennially to the Legislature and DOF, beginning October 1, 2014, on the total costs of education, on both a system-wide and a campus-by-campus basis, segregated by undergraduate instruction, graduate instruction, and research activities. Further, the costs must be reported by fund source, including: 1) state General Fund; 2) system-wide tuition and fees; 3) nonresident tuition and fees and other student fees; and 4) all other sources of income.

In addition to reporting requirements, SB 195 (Liu), Chapter 367, Statutes of 2013, set three broad state goals for higher education: 1) improving student access and success; 2) better aligning degrees and credentials with the state's economic, workforce, and civic needs; and, 3) ensuring the effective and efficient use of resources.

**Legislative Analyst's Office (LAO).** Similar to last year, the LAO has raised serious concerns about the Governor's overall budgetary approach for the universities and recommends the Legislature reject it. The LAO finds most troubling that the Governor's budget does not link university funding to state priorities. Although the Governor enumerates several higher education priorities in his budget summary (for example, reducing the cost of education and improving affordability, timely completion rates, and program quality), his funding plan includes large unallocated increases tied only to maintaining flat tuition levels. The budget requires the universities to set performance goals, but does not establish state performance expectations or link the universities' funding to meeting these expectations.



The LAO recommends that the Legislature build the universities' budgets based on enrollment growth, inflation, targeted set-asides, and capital outlay, while assuming that cost increases are shared by students and the state. The LAO also recommends the Legislature incorporate performance measures into its future budget decisions. Following is a table from the LAO that compares their recommendations the Governor's budget proposals for the UC and CSU.

<b>Comparison of Governor's Budget and LAO Alternative for UC and CSU</b>		
<i>2014-15</i>		
	<b>UC</b>	<b>CSU</b>
<b>Governor's Budget</b>		
Unallocated base increases	\$142	\$142
Retiree health	—	24
Pensions	—	16
Debt service	—	9
<b>Totals</b>	<b>\$142</b>	<b>\$191</b>
Student share	—	—
State share	\$142	\$191
<b>LAO Alternative Budget</b>		
Enrollment growth	—	\$76
Inflation <sup>a</sup>	\$118	85
Retiree health	4	24
Pensions	64	16
Debt service	—	9
<b>Totals</b>	<b>\$186</b>	<b>\$209</b>
Student share <sup>b</sup>	\$78 <sup>c</sup>	\$84 <sup>c</sup>
State share <sup>b</sup>	108	125
<b>Difference in General Fund From Governor's Budget</b>	<b>-\$35</b>	<b>-\$66</b>

<sup>a</sup> Inflation adjustment applied to debt-service funding for UC only.  
<sup>b</sup> Assumes state and student shares same as in 2013-14.  
<sup>c</sup> Equates to tuition increases of 2.5 percent at UC and 3.3 percent at CSU—in line with inflation. (If the universities wanted to redirect tuition revenues to institutional financial aid programs consistent with past practice, the tuition increases would be 3.8 percent at UC and 5 percent at CSU.)

**Segment's Budgets.** Although generally supportive of the Governor's proposal for additional funding, both the UC Board of Regents and the CSU board of trustees have adopted budgets for the 2014-15 fiscal year that assume a higher level of General Fund support.

The CSU's planned budget for 2014-15 would require \$237.6 million in General Fund support, which is \$95.4 million more than the Governor's budget. The CSU's budget plan also assumes \$96.6 million from tuition and fee revenue increases, primarily driven by enrollment growth of five percent and changes in enrollment patterns (resident vs. nonresident). The CSU's budget funds the following components:

- **Mandatory Cost Increases** - \$13.7 million – Health benefits and operations and maintenance of new space.
- **Three percent Compensation Increase** - \$91.6 million – Funds a three percent employee compensation pool, subject to bargaining with employee groups.
- **Student Success and Completion** - \$50 million – Used for: tenure-track faculty hiring, enhanced advising, augment bottleneck solutions initiative, high-impact practices for student retention, data-driven decision making.
- **Five percent Enrollment Growth** - \$163.8 million – based on 16,828 FTES

- **Maintenance and Infrastructure** - \$15 million – Initial year of three-year investment to build a \$45 million base to fund annual debt service allowing the CSU to finance \$750 million to \$800 million in deferred maintenance and replace basic infrastructure.
- **Center for California Studies** - \$200,000 – Operational cost increases.

The UC's budget plan proposes \$120.9 million in additional state funding, above the Governor's five percent base budget adjustment, as follows:

- **State Share of Employer Contributions to the University's Retirement Program** - \$64.1 million in state funding beyond the five percent base budget adjustment to cover the state's share of the incremental increase in pension costs consistent with what the state already provides for employees in the California Community Colleges and the California State University.
- **Enrollment Growth** - The budget plan seeks \$21.8 million in additional state support for a one percent increase in funded enrollments. This will permit continued growth at the Merced campus and provide support for growth in California resident enrollment to allow the University to continue to meet its obligation under the Master Plan, as well as to address unfunded enrollments that currently exist on the general campuses and in health sciences programs.
- **Reinvestment in Academic Quality** - The plan indicates a need to invest an initial increment of \$35 million in what will necessarily be a multi-year reinvestment in the quality of UC's core academic programs.

**Staff Comment.** Although the sustainability plans are a step in the right direction, the only concrete outcome resulting from the additional funding proposed to be provided to the UC and CSU in the first two years of the Administration's four-year investment plan (the 2013 budget provided \$125.1 million for each segment) is the maintenance of current tuition and fee levels. The proposed sustainability plans will not be adopted until nearly half-way into the budget year and it is unclear how these plans may interact or conflict with annual fiscal plans that are currently adopted by the UC Regents and CSU Board of Trustees.

Coming out of the recession, California's universities face numerous critical issues that impact our state's ability to meet educational and workforce demands. The Governor's budget overview recognizes some of these issues by pointing out the high-cost structure of the UC and the low completion rates of the CSU. However, while the Governor notes that the Administration's long-term plan moves away from funding higher education based on the traditional model of enrollment targets, as previously mentioned, his budget does not explicitly tie funding to performance or specific outcome measures other than the maintenance of current tuition and fee levels.

As the state continues to reinvest in our universities, the Legislature may wish to consider how these investments address current and long-term education needs. This is particularly critical in light of a report from the Public Policy Institute of California (PPIC) regarding California's workforce demands that found that by 2025 California will face a shortfall of one million college graduates required to meet our state's skilled workforce needs. In addition, while there may be merit in moving from a funding model based on enrollment targets, the Legislature may wish to

consider an eligibility study to assess how many otherwise eligible students are being denied admission to California's universities based on a lack of space. The CSU reported that, in the fall of 2013, they had to deny admission to over 26,000 eligible students due to lack of funding. A severe lack of available space in our universities for eligible students could result in costs to the system from students taking unnecessary community college courses, financial aid, taking longer to graduate, or students discontinuing their education altogether.

In recent years, many states have been implementing funding models that incorporate performance outcome measures. Similar to examples provided to the subcommittee, during last month's hearing on higher education accountability that was held jointly with the Senate Education Committee, the PPIC points out that other states have moved to incentivizing outcome measures, shifting from funding access to funding success, due to concerns surrounding the cost of higher education. According to the PPIC, types of measures that other states are incorporating include:

- Completion (graduation rates, transfer rates, certificate rates).
- Progression (course completion, successful remediation, reaching credit milestones).
- Efficiency/Productivity (time to progression/completion, expenditures per completion, tuition, and debt).
- Graduation Outcomes (jobs, wages, grad school).

While California does not predicate funding on performance outcomes, the PPIC does point out that our segments do currently incorporate measures of performance, such as: student success scorecards and the salary surfer utilized by CCCs and accountability reports utilized by the UC and CSU. In addition, as previously mentioned, AB 94 established reporting requirements focused on completion, low income students, and costs. The LAO suggests that California could connect university funding with state priorities in a variety of ways, including the use of the performance results the universities are required to report, pursuant to AB 94.

**Recommendation.** Hold open.

**Issue 2 UC, CSU, and CCC Innovation Awards**

**Governor's Proposal.** The Governor's budget proposes \$50 million General Fund, on a one-time basis, to create the Awards for Innovation in Higher Education program. The Governor proposes that applications for awards can be submitted by a UC, CSU, community college, or a group of any of these entities. These incentive awards are proposed to encourage and recognize models of innovation in higher education that focus on the following priorities:

1. Significantly increase the number of individuals in the state who earn bachelor's degrees;
2. Allow students to earn bachelor's degrees that can be completed within four years of enrollment in higher education; and,
3. Ease transfer through the state's education system, including by recognizing learning that has occurred across the state's education segments or elsewhere.

The Governor proposes that awards will be selected based on the extent to which an application proposes an innovative model that: 1) advances the state's priorities at a lower cost than existing instructional delivery models and without requiring that students pay increased tuition or fees; 2) includes broad participation by the segments and local educational entities in a manner that can have a statewide impact if expanded; and, 3) is likely to be implemented effectively and sustainably. The Administration anticipates that the awards process would be completed in the spring of 2015 and will be managed by a committee composed of:

1. The Director of Finance or his designee, either of whom shall serve as the chairperson of the committee.
2. A member of the State Board of Education selected by the Governor.
3. A member of the Board of Governors of the CCCs selected by the Governor.
4. A CSU trustee selected by the Governor.
5. A UC regent selected by the Governor.
6. An appointment of the Senate Committee on Rules.
7. An appointment of the Speaker of the Assembly.

Upon notification by the Director of Finance that it has been selected for an award, it is proposed that an entity or group shall submit a report to the Director of Finance indicating how the awarded funds will be used and commit to reporting, on January 1, 2018 and again on January 1, 2020, an evaluation of the effectiveness of the model of higher education innovation in achieving the identified priorities and the number of bachelor degrees awarded through the model.

The Administration has expressed that this incentive awards program builds on their 2013-14 request to expand the use of technology to remove course bottlenecks and reduce the costs of education. The Administration expects that the segments will continue to implement plans to expand investments in technology that lower costs at each segment and allow students to complete their degrees sooner.

**Background.** In the 2013-14 Governor's budget, the Governor proposed budget bill language that designated \$10 million, from each of the \$125.1 million increases provided to the UC and

CSU, for each segment to use for purposes of expanding the availability of high-demand courses through the use of technology. Ultimately, the Governor vetoed this budget bill language, consistent with the Administration's policy of not earmarking UC and CSU funds. However, the UC and CSU have nonetheless undertaken efforts to enhance online educational capabilities in the current budget year, as follows:

- **UC Online Efforts.** Through the Innovative Learning Technology Initiative, an effort that uses online education to expand access to high-demand classes and help undergraduate students complete their degrees in a timely manner, the UC recently launched a pilot that allows for cross-campus online course enrollment that is open to undergraduates at seven UC campuses (UC San Diego and UC Santa Barbara are resolving logistical issues and will be added to the program once those are resolved). The goal of the pilot is to give students more enrollment options for high-demand courses that fill quickly and can be subject to long waitlists. Available courses include introductory classes in subjects such as statistics and pre-calculus, along with a few more specialized offerings, including American cyber cultures and global climate change.
- **CSU Online Efforts.** CSU has reported that in the current year it is focusing on addressing bottlenecks (anything that limits a CSU student's ability to make progress toward a degree and graduate in a timely manner). The CSU is addressing bottlenecks through enhancements and use of online advising (eAdvising), course redesign utilizing technology, and increased availability of online courses. The four types of bottlenecks being addressed are:
  1. **Student Readiness and Curricular Bottlenecks.** A student's lack of readiness combined with current course curriculum often lead to high rates of failure or incompletes, resulting in students retaking courses to graduate. The bottlenecks are created by the enrollment demands of both new students and students repeating courses.
  2. **Place-bound Bottlenecks.** Students are often place-bound and have to wait for their campuses to schedule particular courses. These bottlenecks can be especially significant for students at smaller CSU campuses where diversity of course requirements compete for significantly limited resources.
  3. **Facilities Bottlenecks.** Campus facilities can create bottlenecks for a number of courses. In particular, introductory STEM (Science, Technology, Engineering and Mathematics) courses have laboratory requirements that have restricted the number of students who can take lab sections in safe and properly equipped facilities.
  4. **Advising and Scheduling Bottlenecks.** Frequently, students are not aware of the wider range of course and program options they have to complete their general education and major requirements. The bottlenecks are created when students do not receive the most-timely and informative advice about their academic pathways and course schedules.

**CCC Online Efforts.** The CCC Technology Center facilitates governance, planning, and provides project leadership and administration for system-wide technology. System-wide technology efforts include:

- **CCCApply** - Common application for admission.
- **eTranscript** - California eTranscript exchange.
- **California Virtual Campus** - Distance education catalog.

The 2013 Budget Act includes \$16.9 million Proposition 98 General Fund for the CCCs to expand online education and expand the availability of high-demand courses through the use of technology. Budget bill language associated with this funding requires that for online-only courses, the chancellor should, to the extent possible, ensure that courses selected can be articulated across all community college districts, ensure that courses are granted transfer credit, and be made available for enrollment for all students system-wide. The chancellor is required to provide a report to the Joint Legislative Budget Committee by March 1, 2014, regarding use of these funds. One initiative that the CCCs are pursuing with these funds involves a partnership between Foothill/De Anza and Butte colleges to develop a common course management system, an online course exchange, expand the catalog of online courses, and ease cross school enrollment.

**Legislative Analyst's Office (LAO).** The LAO has expressed three main concerns with the Governor's innovation awards proposal and, therefore, recommends that the Legislature reject the proposal. The LAO's concerns are:

- **Sends Wrong Message.** The LAO's most significant concern is that the new program sends a poor message. By earmarking a relatively small amount of one-time funding for individual campuses or groups of campuses to address state priorities (including those relating to student success and institutional cost-effectiveness), the state seems to be implying this is somehow different from how the segments should be using the remainder of their funding. Presumably, the state intends for the segments' entire core budgets to be dedicated to meeting core public priorities through appropriate, cost-effective means (including new means discovered through ongoing exploration and innovation in teaching strategies and technologies).
- **Fragments Improvement Efforts.** Whereas the state adopted three broad higher education goals last year, the Governor's award proposal independently establishes program priorities without regard to those goals. Most notably, SB 195 set forth goals relating to student access and success, institutional effectiveness and efficiency, and alignment of degrees to workforce and civic needs. SB 195 called for the state to adopt at least six but no more than 12 metrics to measure progress in meeting these goals. It also called for the state to consider the corresponding performance results as part of the annual state budget process. The Governor's proposal sidesteps this approach and fragments improvement efforts by empowering a small group to make award decisions based on the Administration's expressed priorities.
- **Poor Timing.** The Governor indicates the new program is intended to build on last year's efforts to expand the use of technology to remove course bottlenecks and reduce the costs of education. The results of those efforts, however, are not yet clear. Expanding in this area before giving the existing efforts time to show results would be premature.

**Staff Comment.** The Administration expects the segments to use the proposed innovation awards to expand technology to remove course bottlenecks, reduce the cost of education at each

segment, and allow students to complete their degrees sooner. Although the UC, CSU, and CCCs are using funds in the current budget to expand use of technology, as discussed earlier, use of technology, including online education, by California's higher education segments has been going on for many years. Further, ongoing and recent efforts to expand the use of online classes raise questions of whether effective online courses are less expensive than traditional models of teaching or whether certain bottleneck courses are appropriate for an online teaching model.

The Governor's proposal to convene a committee of stakeholders, most of whom are proposed to be appointed by the Governor, raises a number of questions in regards to assurance that state and legislative priorities are appropriately considered in the decisions of the committee, as well as whether it would not be more appropriate for the state to have a higher education coordinating entity to oversee and provide advice on statewide higher education policy. Such an entity may also be more appropriate to make decisions on funding of statewide initiatives, such as the Governor's innovation award proposal.

In 2011, the Governor eliminated the California Postsecondary Education Commission (CPEC), through a line-item veto that zeroed out its budget. CPEC was charged with working with the higher education segments, the Governor, and the Legislature in providing analysis of, and recommendations on, statewide higher education policy and fiscal priorities. CPEC was intended to be objective, independent, and nonpartisan; however, over time there was a growing perception that it was not maintaining its objectivity, which led to an erosion of trust and confidence. However, questions remain regarding whether eliminating CPEC altogether, rather than addressing the issues the organization faced, was the most appropriate course.

A recent report by California Competes, *Charting a Course for California's Colleges*, points out that today California stands out as one of only two states nationwide (the other is Michigan) without comprehensive oversight or coordination of higher education. CCCs are governed by 72 locally-elected boards of trustees, with coordination by a relatively small central office. The 23-campus CSU and the ten-campus UC have their gubernatorially-appointed trustees and regents, respectively. And there is no state mechanism for bringing private colleges into planning or strategizing to address state and student needs. The report surmises that, by not articulating the state's needs as they relate to higher education, California is missing an opportunity to better serve its residents, institutions, and economy well.

**Recommendation.** Hold open.

**Issue 3 CSU Capital Outlay Process**

**Governor's Budget.** The Governor proposes to shift General Obligation (GO) and Lease-Revenue (LR) bond-debt service payments into CSU's main appropriation. Moving forward, CSU would be responsible for funding debt service from within this main appropriation. Under the proposal, the University would issue its own revenue bonds for various types of capital projects and could restructure its existing LR bond debt. To use its new authority, the University would be required to submit project proposals to the Joint Legislative Budget Committee (JLBC) and Department of Finance (DOF) for approval. The CSU's capital projects no longer would be reviewed as part of the regular budget process.

The Governor's proposal includes trailer bill language necessary to implement this proposal as well as trailer bill language making, primarily, technical changes to similar authority granted to the UC in the current fiscal year.

**Background.** For the 2013-14 budget, the Administration proposed similar proposals for the UC, CSU, and Hastings. These proposals were rejected by the subcommittee. However, the proposal for the UC was ultimately included in the final budget adopted by the Legislature.

The UC now has statutory authority to use up to 15 percent of its General Fund support appropriation, less the amount required to fund general obligation bond payments and State Public Works Board rental payments to support capital outlay projects. This proposal would provide similar authority for the CSU; however, they would be limited to up to 12 percent of their General Fund support appropriation. The CSU would also be authorized to use this authority to finance deferred maintenance projects, which was not included in the UC's authority.

Under current law, the Administration is required to identify statewide infrastructure needs and develop proposals for their funding. Historically, the state has provided infrastructure funding for the segments' core academic missions. For CSU, this core funding is limited primarily to instructional and administrative space. The Legislative Analyst's Office (LAO) has reported that, over a recent ten year period, the state spent an estimated \$10.1 billion on higher education infrastructure for UC, CSU, and the California Community Colleges. Eighty percent of that support came from GO bonds and an additional 19 percent from LR bonds. Associated higher education debt-service costs more than doubled during this same time period, from about \$516 million in 2000-01 to an estimated \$1.1 billion in 2010-11. Most of the GO bond spending was from bonds approved by the voters in 1998, 2002, 2004, and 2006. In general, the state provides less funding for higher education projects when the balance of GO bonds is exhausted. In the case of UC and CSU, the state has typically offset some of this reduction by funding some projects with LR bonds. The Legislature has direct control over state-funded projects, whether from GO or LR bonds, because each project is funded through an appropriation in the annual budget act.

**Legislative Analyst's Office.** In its assessment of this proposal last year, the LAO noted that the Administration indicated the motivation for combining the universities' support and capital budgets is to provide the universities with increased flexibility, given limited state funding.



However, the Administration did not identify specific problems associated with the current process used to budget the segments' capital projects, nor identified any specific benefits the state might obtain from the proposal.

The LAO found that, given the lack of a compelling policy rationale for the proposal, along with serious concerns regarding the loss of the Legislature's ability to plan and oversee infrastructure projects, the Legislature should reject the Governor's proposal, which was done in respect to the current proposal.

**Staff Comment.** Last year, staff pointed out that the Governor's approach is a dramatic departure from how UC and CSU (as well as Hastings) capital outlay has been historically addressed. This change was being proposed without any analysis of ongoing needs, not only for capital outlay, but also for deferred maintenance for building stock constructed primarily in the 1940s, 1950s, and 1960s at existing campuses, and for campuses that might be needed in the future. Similarly, the current proposal simply presumes the amount of debt service funding related to one fiscal year (2014-15) is an appropriate amount upon which to base CSU's ongoing needs.

To this point, a "point-in-time" approach does not address potential inequities in current debt service funding levels between UC and CSU. Under the Administration's current proposal, CSU would have \$297 million (\$188 GO bond and \$99 million LR bond debt service) shifted into its GF appropriation, while UC received \$400 million for the same purposes in the current budget. Although, CSU has twice as many campuses and students as compared to UC, under the Administration's proposal, both UC and CSU are treated the same going forward.

Staff would also note that there appears to be some confusion regarding whether or not the intent is that, under the current proposal and the already enacted UC proposal, the segments will not be included in future state GO bonds sales.

Adjustments to the CSU General Fund base budget are expected to be made in the future to accommodate changes in the State Publics Works Board (SPWB) debt service. This would result in the annual SPWB debt service amount increasing from \$99 million in 2014-2015 to about \$117 million by 2017-2018 (an \$18 million increase).

**Staff Recommendation.** Reject the proposal to shift general obligation and lease-revenue bond-debt service payments into CSU's main appropriation and the associated trailer bill language. However, do not reduce the CSU's budget by \$10 million, which the Administration has assumed is associated with this proposal. Approve the trailer bill language proposing technical changes to the UC's capital outlay project authority.