

# SUBCOMMITTEE NO. 1

# Agenda

Senator Marty Block, Chair  
Senator Carol Liu  
Senator Mark Wyland



Thursday, May 22, 2014  
1:30 p.m.  
Room 3191, State Capitol

Consultant: Joe Stephenshaw  
Part B

<u>Item</u>	<u>Department</u>
6120	California State Library
6610	California State University (CSU)
6645	Health Benefits for CSU Annuitants
6980	California Student Aid Commission (CSAC)
6910	Awards for Innovation in Higher Education

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

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Public Comment

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## Items Proposed for Vote Only

6120 CALIFORNIA STATE LIBRARY  
6610 CALIFORNIA STATE UNIVERSITY  
6645 HEALTH BENEFITS FOR CSU ANNUITANTS  
6980 CALIFORNIA STUDENT AID COMMISSION  
6910 AWARDS FOR INNOVATION IN HIGHER EDUCATION

### **Issue 1: State Law Library Special Account**

**Governor's Proposal.** The Governor's budget includes trailer bill language that would extend the sunset date of a filing fee that supports the California State Law Library.

**Background.** Current law requires that \$65 of each fee collected in civil cases filed in each state court of appeals be paid into an account to support the law library. The funds are appropriated each year by the Legislature to the law library. The Governor's budget proposes \$454,000 for the law library for 2014-15.

Current law sunsets this fee on January 1, 2015. Trailer bill language would extend the sunset date until January 1, 2020.

**Staff Recommendation.** Approve as proposed.

### **Issue 2: CSAC Technical Adjustment and TBL**

**Proposal.** The California Student Aid Commission (CSAC) has requested \$133,250 General Fund to cover the full-year funding for the costs of positions approved in the current budget.

In addition, the CSU has requested that the subcommittee consider adding placeholder trailer bill language that would modify an existing exemption to Cal Grant performance requirements. The exemption allows institutions with a three year cohort default rate less than 10 percent and a graduation rate above 20 percent to remain eligible for the Cal Grant program through the 2016-17 fiscal year. The Subcommittee has been asked to remove the language regarding the cohort default rate.

**Background.** In the current budget, \$610,050 is included for CSAC to support seven positions needed to handle mailroom responsibilities. The funding amount provided represented nine months of salary for the positions, given the expected hiring schedule. The additional funding is needed to provide for full-year funding in the budget year.

**Staff Recommendation.** Approve \$133,250 General Fund to provide full-year funding for previously authorized CSAC positions. In addition, adopt placeholder trailer bill language regarding Cal Grant performance requirements.

**Issue 3: Performance Measurement Reporting Language**

**Background.** AB 94 (Committee on Budget), Chapter 50, Statutes of 2013, requires the University of California and the California State University to submit an annual report every March 1, to the Legislature, regarding the composition of the student body and performance outcomes. Due to differences in the way the two segments interpreted the reporting requirements, the Assembly Budget Subcommittee on Education directed staff to work with the segments, the Department of Finance (DOF), and the Legislative Analyst's Office (LAO) to clarify and improve the reporting language.

Based on input from DOF, the segments, and the LAO, the following changes to the reporting language are suggested:

- Require the segments to report on the number of California Community College transfer students and low-income students as a percentage of their overall student body, and in relation to the incoming freshman class.
- Require the segments to report the average number of course credits accumulated by students at the time they complete their degrees, including units accrued at other colleges.
- For CSU, add a requirement to report the four-year graduation rate of California Community College transfer students, in addition to the two- and three-year graduation rates.
- Change the annual reporting date from March 1 to March 15 to allow the segments more time to gather and report the data.

**Staff Recommendation:** Approve the trailer bill language.

**Issue 4: Innovation Awards**

**Governor's Budget.** The Governor's budget proposed \$50 million General Fund, on a one-time basis, to create the Awards for Innovation in Higher Education program.

**Background.** 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 increasing bachelor's degrees, improving the time it takes to complete a bachelor's degree or easing the transfer process. Winning applications will be selected by a committee chaired by the Department of Finance. The May Revision makes clarifying changes to the budget bill language but no substantive changes.

While the goals of this new program are laudable, staff notes that all three higher education segments are emerging from significant cutbacks in state funding. All three face major cost pressures, including retirement and infrastructure.

Additionally, the LAO has raised multiple concerns, including that by earmarking a relatively small amount of one-time funding for individual campuses or groups of campuses to address state priorities, the state seems to be implying this is somehow different from how the segments should be using the remainder of their funding. The LAO also states that this proposal is poorly timed, coming too soon after funding discussed in last year's budget to expand the use of technology to remove course bottlenecks and reduce the costs of education. The results of those efforts are not yet clear, and the LAO suggests that expanding in this area, before giving the existing efforts time to show results would be premature.

Staff also notes that this proposal sets up a significant bureaucratic infrastructure to determine "winners," which will require staff time for both the newly-created committee and the campuses and segments writing grant proposals. Finally, it is unclear what the Administration's intent is for the funding: is it to expand programs or projects, create new programs or projects, or reward innovation? What will this relatively small amount of funding actually buy?

**Staff Recommendation.** Reject the Governor's proposal. Provide \$15 million each to the UC and CSU to fund deferred maintenance projects.

#### **Issue 5: CSU Trailer Bill Language**

**Governor's Proposal.** The Governor's budget includes trailer bill language that would make the following changes:

- Allow the State Fire Marshall to designate a campus fire official on each CSU campus to enforce building standards and other fire regulations on each campus. This authority has previously been granted to the University of California, and creates greater efficiency in state government by allowing CSU fire officials, instead of a separate state agency, to oversee building standards and fire regulations on campuses.
- Allows CSU to receive bids for the construction of public works projects on multiple CSU campuses as a single project. CSU already uses a single contract for multiple projects on a single campus; this language would allow CSU to do the same for projects on multiple campuses. CSU argues that this language would allow it to reduce time and costs within the procurement process and could increase the competitive environment because larger projects would attract more bidders.

- Allows CSU to publish notices of upcoming construction bid opportunities on CSU's website instead of newspapers. CSU argues this proposal will reduce procurement costs and reach the same number or more potential bidders, who already receive notices of potential projects via the Internet.

**Staff Recommendation.** Approve as proposed.

#### **Issue 6: CSU Capital Outlay Reappropriation**

**Governor's Proposal.** A Spring Finance Letter requests the reappropriation of \$75 million in lease-revenue bond authority to support a new administration building on the CSU Pomona campus.

**Background.** The 2013 Budget Act authorized \$76.5 million in lease-revenue bond spending to support the planning and construction of a new administration building on the CSU Pomona campus. The project was not approved to proceed to encumber preliminary design funds until October 2013, which will likely mean that working drawings and the awarding of a construction contract will not be complete until the 2014-15 fiscal year.

**Staff Recommendation.** Approve as proposed.

#### **Issue 7: Health Benefits for CSU Annuitants**

**Governor's Proposal.** The Administration has proposed provisional language to ensure that final health rates for CSU employees can be updated after they are adopted at the end of June 2014. The budget currently includes an estimated \$270.1 million General Fund for this cost. Provisional language is proposed as follows:

- The Director of Finance may adjust this item of appropriation to reflect the health benefit premium rates approved by the Board of Administration of the California Public Employees' Retirement System for the 2015 calendar year. Within 30 days of making any adjustment pursuant to this provision, the Director of Finance shall report the adjustment in writing to the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committees in each house of the Legislature that consider appropriations.

**Staff Recommendation.** Adopt the provisional language.

#### **Issue 8: CSU Infrastructure**

**Governor's Proposal.** Similar to a new capital outlay process approved for UC last year, the Governor proposes to shift general obligation and lease-revenue bond debt-

service payments into CSU's main appropriation. Moving forward, the state no longer would adjust CSU's budget for changes in debt-service costs. Instead, the state would provide annual, unallocated base increases and the university would be responsible for funding all maintenance and debt-service from within its main appropriation.

Budget bill and trailer bill language would allow CSU to issue its own university bonds for various types of capital and maintenance projects and could restructure its existing lease-revenue bond debt. To use its new authority, CSU would be required to submit project proposals to DOF for approval, with a 60-day notification period provided to the Joint Legislative Budget Committee. The CSU's capital and maintenance projects no longer would be reviewed as part of the regular budget process. CSU would be limited to using 12 percent or less of its state appropriation for capital infrastructure projects.

The May Revision proposes a decrease of \$340,000 General Fund to reflect an updated estimate of state general obligation bond debt service for CSU projects.

**Background.** For 2014-15, debt service related to CSU projects amounts to \$188 million for general obligation bonds and \$99 million for lease-revenue bonds. This amount is folded into CSU's main appropriation in the Governor's Budget.

The Subcommittee last discussed this issue at its March 27<sup>th</sup> hearing. CSU has a major infrastructure problem. According to its five-year capital improvement plan, CSU has more than \$7 billion in need during the next five years. It faces \$1.8 billion in deferred maintenance costs alone. Concerns regarding the Governor's proposal include:

- The proposal does not solve CSU's serious infrastructure problems and may make them worse. As the LAO has noted, CSU's infrastructure woes are largely due to a lack of funding, not a problem with the capital outlay process. The Governor's proposal would provide CSU with essentially the same amount of funding for debt service, and thus all infrastructure costs, in perpetuity. CSU officials note that this is despite upcoming increased debt service costs: the current amount will be \$40 million less than needed for debt service in 2016-17, for example. Thus, it does appear that the Governor's proposal will allow CSU to address capital needs in the short term.
- The proposal limits the Legislature's oversight of CSU capital projects. The LAO notes the Governor's approach diminishes the Legislature's role in capital and maintenance decisions for the university by removing the traditional public review of CSU projects through the regular budget process. The DOF would approve the university's projects through an abbreviated review process, further reducing transparency and precluding public input.
- The proposal will require CSU to make debt service its first priority in its operations budget. In years when debt service costs are high or state support for CSU operations diminishes, CSU will still be obligated to make debt service

payments. They are not obligated to enroll students or provide classes; thus, debt service becomes the highest priority for CSU's funding in tight budget years.

Given these concerns, and given available funding, the Subcommittee could consider options that would allow CSU to begin addressing deferred maintenance issues in 2014-15. In its fall budget proposal, the CSU Trustees proposed using \$15 million from state funds in each of the next three years to finance \$750 to \$800 million worth of deferred maintenance projects.

**Staff Recommendation:**

- Reject the Governor's budget proposal. This action does not reduce the amount of funding provided to the CSU pursuant to the Governor's budget increase of \$142.2 million.
- Re-create the separate line-item in CSU's budget for lease-revenue bond debt service costs, and return CSU's GO bond debt service costs to the statewide GO debt service appropriation. The proposed May Revision adjustment of \$340,000 should be incorporated into this action.
- Adopt placeholder trailer bill language that allows CSU to finance deferred maintenance and improvement projects by pledging its main General Fund appropriation and requiring an annual report from CSU to the Governor and Legislature on completed deferred maintenance projects, details on financing used to fund these projects, and ongoing deferred maintenance needs and costs.



### Items Proposed for Discussion

#### 6610 CALIFORNIA STATE UNIVERSITY

<b>Issue 1: CSU Budget Package</b>
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**Governor's Budget.** The Governor's budget proposed a base budget increase of five percent, or \$142.2 million General Fund, over the current year funding for CSU. The Governor also proposed new budget language requiring the CSU Board of Trustees to adopt a three-year sustainability plan by November 30, 2014.

**Background.** The Subcommittee discussed the CSU budget at its March 27th hearing. Concerns related to funding for CSU include:

- Thousands of eligible California students are being turned away. The chart below indicates the number of qualified undergraduate applicants admitted and denied for CSU.

	Fall 2008	Fall 2009	Fall 2010	Fall 2011	Fall 2012	Fall 2013
Admitted Students	167,606	193,928	173,562	178,615	194,564	212,152
Denied Eligible Students	6,174	10,435	28,803	21,697	22,123	26,430

*Note: The numbers indicate undergraduate student headcount*

This supply and demand imbalance is more profound at some CSU campuses. Campus or program impaction occurs when a campus or program has exhausted existing capacity in terms of the instructional resources and physical capacity of the campus. When campuses or specific programs receive more eligible applicants than they have resources for, impaction occurs and campuses or programs restrict enrollment. For 2014-15, all programs are impacted at CSU Fullerton, CSU Long Beach, San Diego State University, San Jose State University, and Cal Poly San Luis Obispo.

- There are numerous concerns with so-called student success fees. Twelve CSU campuses have implemented student success fees, which charges students between \$162 and \$630 annually for various campus activities, including expanded library hours, the hiring of more academic counselors, technology upgrades, and athletics. Concerns about these fees include that it is difficult to find information about how these fees are being used, they are an end-run around the tuition freeze, they create have- and have-not campuses and could pressure all campuses to enact these fees, and it is difficult to tell whether students are able to voice concerns before these fees are enacted.



- Legislative priorities have been removed from the budget. Despite historical practice of placing conditions on the CSU budget reflecting statewide priorities determined by the Legislature and Governor, the current Administration has removed these conditions through line-item veto the previous two years. These priorities have covered such programs as nursing and medicine, student outreach, and science and math teaching initiatives.

**Staff Comments.** There are significant indications that the Governor's proposal does not allow CSU to address enrollment and completion concerns. CSU is clearly failing to meet its Master Plan obligation of allowing admission to the top one-third of graduating California high school students. In addition, CSU's first performance report, submitted to the Legislature in March, indicated only 16 percent of its students graduate in four years, while 53 percent graduate in six years. CSU has a proposal to spend \$50 million to address student success issues, but this initiative would be dramatically underfunded under the Governor's Budget. Other concerns regarding the Governor's proposal for the CSU include:

- The Governor's proposal does not address student success fees. Despite the Governor and Legislature's desire to hold tuition levels flat at CSU, student success fees are being implemented or contemplated at more campuses. This seems to undercut the principal of holding down students' costs.
- The Governor's proposal does not include other priority programs. Similarly to UC, the Legislature has traditionally included earmarks in CSU's budgets to ensure funding of statewide priority programs. Aside from the student outreach programs referenced above, these programs include:

Program	CSU Budget	Description
CSU Mathematics and Science Teacher Initiative	\$2,700,000	The initiative seeks to (1) recruit new students into teaching, (2) increase new credential pathways, (3) provide financial support, (4) align programs with community colleges, (5) provide online resources and preparation, (6) develop partnerships with federal labs and industry, and (7) identify successful approaches to replicate on other campuses.
CSU Nursing Programs	\$4,600,000	To help meet the state's future nursing needs, both university systems have expanding nursing programs.

Staff also notes a proposal to institutionalize the California Legislative Staff Educational Institute (CLSEI) through a partnership with the Center for California Studies at CSU

Sacramento. For nearly the past decade, Capitol Impact, LLC, has organized and implemented the CLSEI, delivering an educational program and professional development for Senate, Assembly, Democrat and Republican policy and fiscal staff in the areas of K-12 and higher education, health, and local governance and fiscal policy.

**Staff Recommendation:**

- Augment General Fund support for CSU by \$95 million over the Governor's budget proposal.
- Add provisional budget bill language requiring five percent enrollment growth. Provisional budget language would require the CSU to increase enrollment of California students by five percent over 2013-14 levels, which would allow nearly 20,000 more students into CSU campuses.
- Adopt placeholder trailer bill language declaring an 18-month moratorium on new student success fees, requiring the CSU to examine modifying the student success fee development process and describing essential elements of the process, including the consideration of impacts on low-income students. In addition, the CSU should be required to report to the Legislature by January 15, 2015, regarding proposed revisions to their student success fee policies.
- Add \$500,000 General Fund and budget bill language to establish the California Legislative Staff Educational Institute within the Center for California Studies.
- Add provisional language re-inserting statewide priorities into the budget. Both the CSU Math and Science Teacher Initiative and the Nursing Program should stay at current funding levels.
- Reject the Governor's Sustainability Plan proposal.