SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Benjamin Allen
Senator John M. W. Moorlach

Thursday, April 28, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 3191

Consultant: Anita Lee

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

VOTE ONLY ITEM

6980 CALIFORNIA STUDENT AID COMMISSION

Issue 1: Spring Finance Letter

The Governor submitted a spring finance letter requesting a technical adjustment of a decrease of $511,000 to reflect a removal of one-time funds appropriated in the 2015 Budget Act for informational technology consulting.

Staff Recommendation: Approve spring finance letter to remove one-time funds appropriated in the 2015 Budget Act for informational technology consulting.

6980 California Student Aid Commission

Since its creation by the Legislature in 1955, the California Student Aid Commission (CSAC) has continued to operate as the principal state agency responsible for administering financial aid programs for students attending public and private universities, colleges, and vocational schools in California. The mission of CSAC is to make education beyond high school financially accessible to all Californians by administering state-authorized financial aid programs.

CSAC is composed of 15 members: 11 members are appointed by the Governor and confirmed by the Senate, two members are appointed by the Senate Rules Committee and two members are appointed by the Speaker of the Assembly. Members serve four-year terms except the two student members, who are appointed by the Governor, and serve two-year terms.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2014-15	2015-16	2016-17	2014-15*	2015-16*	2016-17*
5755	Financial Aid Grants Program	74.1	64.5	64.5	$1,951,715	$2,101,637	$2,270,574
9900100	Administration	28.5	32.5	32.5	3,464	3,849	3,856
9900200	Administration - Distributed	-	-	-	-3,464	-3,849	-3,856
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**102.6**	**97.0**	**97.0**	**$1,951,715**	**$2,101,637**	**$2,270,574**

FUNDING		**2014-15***	**2015-16***	**2016-17***
0001	General Fund	$1,538,996	$1,563,871	$1,428,162
0890	Federal Trust Fund	14,747	-	-
0954	Student Loan Authority Fund	5,781	-	-
0995	Reimbursements	392,191	535,848	840,494
3263	College Access Tax Credit Fund	-	1,918	1,918
TOTALS, EXPENDITURES, ALL FUNDS		**$1,951,715**	**$2,101,637**	**$2,270,574**

Issue 1: Student Financial Aid Programs

Panel I:
- Senator Fran Pavley, 27th Senate District

Panel:
- Lupita Alcalá, Executive Director, California Student Aid Commission
- Paul Golazewski, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Jack Zwald, Budget Analyst, Department of Finance

The Cal Grant program is the primary financial aid program run directly by the state. Modified in 2000 to become an entitlement award, Cal Grants are guaranteed to students who graduated from high school in 2000-01 or beyond, and meet financial, academic, and general program eligibility requirements. Administered by CSAC, the LAO figure on the following page displays the various Cal Grant programs.

Award Amounts
Cal Grant A
Tuition awards for up to four years.
Full systemwide tuition and fees ($12,240) at UC.
Full systemwide tuition and fees ($5,472) at CSU.
Fixed amount ($9,084) at nonprofit or WASC–accredited for–profit colleges.
Fixed amount ($4,000) at other for–profit colleges.
Cal Grant B
Up to $1,656 toward books and living expenses for up to four years.
Tuition coverage comparable to A award for second through fourth years.
Cal Grant C
Up to $2,462 for tuition and fees for up to two years.
Up to $547 for other costs for up to two years.

Eligibility Criteria[a]

High School Entitlement (A and B)

- High school senior or graduated from high school within the last year.
- Minimum high school GPA of 3.0 (for A award) or 2.0 (for B award).

Transfer Entitlement (A and B)

- CCC student under age 28 transferring to a four–year school.
- Minimum college GPA of 2.4.

Competitive (A and B)

- Cannot be eligible for entitlement.
- Minimum high school GPA of 3.0 (for A award) and 2.0 (for B award).
- State law authorizes 25,750 new awards per year.

Competitive (C)

- Must be enrolled in career technical education program at least four months long.
- No GPA minimum.
- State law authorizes 7,761 new awards per year.

[a]To be eligible for any award, family assets (excluding primary residences and retirement plans) are capped at $67,500. A and C awards have an income ceiling of $87,200 and the B award has an income ceiling of $45,800. (Income ceiling varies by family size and dependency status. Amounts listed are for dependent students from a family of four entering program in 2015–16.)

WASC = Western Association of Schools and Colleges and GPA = grade point average.

Recent state budgets have increased funding for the Cal Grant program. The Budget Act of 2014 increased the stipend received by Cal Grant B students from $1,473 to $1,648, annually. Subsequent legislation increased the amount to $1,656 per year. The stipend helps students cover book expenses and other living costs. The Budget Act of 2015 increased the number of competitive Cal Grants from 22,500 to 25,750, annually. Competitive Cal Grants are awarded to students who apply for a Cal Grant but are not eligible for the entitlement award, typically because they graduated from high school more than one year after applying for the award.

The 2012 Budget Act put in place reductions to the Cal Grant award amounts for independent non-profit and accredited for-profit institutions. The 2015-16 budget delayed, by two years, the reduction of 11 percent in the maximum Cal Grant award level for students attending private non-profit colleges and universities and accredited for-profit institutions. Each award will remain at $9,084 for the 2015-16 and 2016-17 academic years, and will decrease to $8,056 beginning in the 2017-18 academic year. About 28,000 Cal Grant recipients attend these schools. The chart below indicates the reduced amount of the Cal Grant for these schools.

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Cal Grant Amount Per Student	$9,708	$9,223	$9,084	$9,084	$9,084	$9,084

A 2011 budget trailer put into place state requirements for an institution's participation in the Cal Grant program. Currently, all participating institutions where more than 40 percent of students borrow federal loans must have a cohort default rate of no more than 15.5 percent and a graduation rate of at least 20 percent. The LAO chart below displays Cal Grant awards by segments, programs, and types.

				Change From 2015–16	
	2014–15 Actual	2015–16 Estimated	2016–17 Projected	Amount	Percent
Total Spending	**$1,809**	**$1,966**	**$2,103**	**$137**	**7%**
By Segment:					
University of California	$824	$887	$943	$56	6%
California State University	594	669	734	65	10
Private nonprofit institutions	241	253	261	9	3
California Community Colleges	122	137	146	9	7
Private for–profit institutions	27	21	19	–2	–11
By Program:					
High School Entitlement	$1,457	$1,595	$1,711	$116	7%
CCC Transfer Entitlement	221	209	204	–5	–2
Competitive	123	157	184	27	17
Cal Grant C	8	5	4	–1	–18
By Award Type:					
Cal Grant A	$1,037	$1,115	$1,178	$63	6%
Cal Grant B	764	846	921	75	9
Cal Grant C	8	5	4	–1	–18
By Renewal or New:					
Renewal	$1,247	$1,365	$1,480	$115	8%
New	562	601	624	22	4
By Funding Source:					
General Fund	$1,425	$1,443	$1,276	–$167	–12%
Federal TANF	377	521	826	305	58
Student Loan Authority Fund	6	—	—	—	—
College Access Tax Credit Fund	—	2	2	—	—

TANF = Temporary Assistance for Needy Families.

Other Awards and Programs. In addition to Cal Grants, CSAC administers various other financial aid programs, including:

- **The Assumption Program of Loans for Education (APLE).** Allows the state to issue agreements for loan assumptions annually to students and district interns who are pursuing careers in teaching and credentialed teachers at schools ranked in the lowest 20 percentile of the Academic Performance Index (API). Through APLE, a participant who teaches a total of four years can receive up to $11,000 toward outstanding student loans. Beginning in 2012-13, no new APLE warrants have been issued; only renewals will continue to be funded. There are similar programs for graduate and nursing studies, which also only currently fund renewal awards. Currently, SB 62 (Pavley) is pending the Legislature, which makes various programmatic changes to the APLE.

- **The Child Development Teacher and Supervisor Grant Program.** Provides grants to recipients who intend to teach or supervise in the field of child care and development in a licensed children's center. Recipients attending a California community college may receive up to $1,000 annually and recipients attending a four-year college may receive up to $2,000 annually, for a total of $6,000. This program is funded from federal funds through an agreement with the State Department of Education.

- **The California Chafee Grant Program**. Provides grants of up to $5,000 to eligible foster youth who are enrolled in college or vocational school at least half-time. New and renewal awards are assigned based on available funding. This program is funded from federal funds and the General Fund through an agreement with the State Department of Social Services.

- **The California National Guard Education Assistance Award Program.** Provides funding for active members of the California National Guard, the State Military Reserve, or the Naval Militia who seek a certificate, degree, or diploma. Recipients attending the UC or CSU may receive up to the amount of a Cal Grant A award. Recipients attending a community college may receive up to the amount of a Cal Grant B award. Recipients attending a private institution may receive up to the amount of a Cal Grant A award for a student attending the University of California. An award used for graduate studies may not exceed the maximum amount of a Cal Grant A award plus $500 for books and supplies. This program is funded from the General Fund through an agreement with the California Military Department.

- **The Law Enforcement Personnel Dependents Scholarship Program.** Provides college grants equivalent to Cal Grant amounts to dependents of: California law enforcement officers, officers and employees of the Department of Corrections and Rehabilitation, and firefighters killed or permanently disabled in the line of duty. This program is funded from the General Fund.

- **The John R. Justice Program.** Provides loan repayments to eligible recipients currently employed as California prosecutors or public defenders who commit to continued employment in that capacity for at least three years. Recipients may receive up to $5,000 of loan repayment; disbursed annually to their lending institutions. This program is federally funded through an agreement with the Office of Emergency Services.

- **The Middle Class Scholarship Program.** Provides a scholarship to UC and CSU students with family incomes of up to $150,000. The scholarship amount is limited to no more than 40 percent of the UC or CSU mandatory system-wide tuition and fees. The individual award amount is determined after any other publicly-funded financial aid is received. The program will be phased in over four years, with full implementation in 2017-18. The program is funded from the General Fund. Through statute, the state has budgeted $82 million General Fund for the program in the current year, $116 million General Fund for the budget year and $159 million General Fund for 2017-18 and each year after that.

  The 2015-16 budget approved trailer bill language that excludes students with family assets over $150,000; sets a four- or five-year participation time-limit for the program similar to limits imposed in the Cal Grant program; and allows income and asset limits to increase with the Consumer Price Index. The language reduces statutory appropriations for the program in the 2015-16, 2016-17, and 2018-19 fiscal years, and states legislative intent that those savings will be redirected to other higher education programs. The budget includes savings of $70 million associated with these reforms.

  CSAC provided the following information regard Middle Class Scholarship participation at its April commission hearing.

Middle Class Scholarship Offered Awardees and Paid Recipients
2015-16 Academic Year (current)
Data as of February 23, 2016

Segment	Offered Awardees	Offered Awardees Amount	Paid Recipients	Paid Recipient Amount	Paid % of Awardee Amount
UC	9,046	$12,091,896	6,569	$6,216,959	51.41%
CSU	44,425	$36,769,672	37,401	$22,815,283	62.05%
TOTAL	**53,471**	**$48,861,568**	**43,970**	**$29,032,242**	**59.42%**

  Overall, the maximum Middle Class Scholarship award in 2015-16 is $2,448 for UC and $768 for CSU. Based on current projections for 2015-16, it appears that some of the allocated amount for the program may go unspent. The Institute for College Access and Success (TICAS) estimates that for 2016-17, $41 million will go unused. Combined with the 2016-17 budget savings from last year's eligibility changes, TICAS estimates $153 million will be unspent in 2016-17.

- **California Dream Act.** The Dream Act was implemented in 2013-14, and allows undocumented and nonresident documented students who meet AB 540 (Firebaugh), Chapter 814, Statutes of 2001 requirements to apply for and receive private scholarships funded through public universities, state-administered financial aid, university grants, community college fee waivers, and Cal Grants. The Dream Act application is similar to the process of filing a Free Application for Federal Student Aid (FAFSA) and grade point average (GPA) verification. Applicants who meet the Cal Grant eligibility requirements (as mentioned above) are offered a Cal Grant award. As of March 4, 2016, approximately 33,000 California Dream Act applications were received and over 6,100 Cal Grant award offers were processed. CSAC expects the number of applicants and awards to exceed last year's numbers.

Dream Act Offered Awards and Paid Recipients by Segment
Data as of March 4, 2016

	2014-15			2015-16*			2016-17*
	Offered Awardees	Paid Recipients	Paid Rate	Offered Awardees	Paid Recipients	Paid Rate	Offered Awardees
Community College	3,905	2,121	54%	4,086	1,745	43%	2,581
UC	1,142	1,042	91%	1,146	880	77%	774
CSU	2,638	1,970	75%	2,757	1,675	61%	2,481
Priv. 2-Yr Non-Profit	1	-	0%	1	-	0%	-
Priv. 4-Yr/Priv. Grad	201	126	63%	219	109	50%	283
Vocational/Hospital Ed.	40	13	33%	34	12	35%	34
Total	**7,927**	**5,272**	**67%**	**8,243**	**4,418**	**54%**	**6,153**

As application numbers continue to increase each year, the overall paid rate continues to remain low for these students. This low paid rate amongst awardees, particularly at the community colleges is a concern. Students are given 15 months to take action on their Cal Grant awards before being withdrawn. To understand the reasons why the awards were not utilized, CSAC sent out a questionnaire to unpaid Dream Act students. The survey revealed that the primary reason students did not utilize their awards were because they were not aware they had been awarded a Cal Grant. CSAC notes it will continue to increase communication with students who have been offered an award in the 2015-16 cycle. Additionally, CSAC notes it will work with the California Community College Chancellors Office (CCCCO) to address the low paid rates for Dream Act applicants at community college campuses.

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

Issue 1: Outside Professional Activities (Informational Only)

Panel

- Dennis Larsen, Executive Director, Compensation Programs, University of California
- Carrie Hemphill Rieth, University Counsel, Office of the Chancellor, California State University

Background

Outside professional activities by university leaders can be beneficial to the individual and the university. Activities such as serving as the editor of an academic journal, reviewing other educational programs, or delivering keynote addresses at academic conferences are generally considered to benefit the individual's professional standing and the university's reputation. However, recent events regarding outside professional activities have raised questions of conflicts of interest and conflicts of commitment among University of California and California State University leaders.

UC Policies and Practices

According to the UC, outside professional activities for senior management, such as president, chancellors, vice chancellors, or chief financial officers, and others positions that report to the regents, are activities within the persons area of professional expertise for which they are employed by the UC. These activities include service on state or national commissions, government agencies and boards, committees or advisory groups to other universities, organizations established to further interests of higher education, not-for-profit organizations, and service on corporate boards of directors.

Media reports in November 2005 revealed the UC Office of the President (UCOP) had paid executives in its central office and at the campus level far more than publicly reported. As a result, the UC Regents created a task force on UC compensation, accountability and transparency. This task force was comprised of representatives from government, education, business, and the media who conducted an independent review of UC's policies and practices on executive compensation.

The task force released a report on April 13, 2006, and recommended the UC adopt specific limits on externally-compensated activities to preclude conflicts of commitment on the part of senior executives, and to limit UC senior executives to serving on no more than three externally-compensated boards. The task force also recommended revising policies governing outside professional activities and board service for senior managers who also hold faculty appointments so that they are subject to the senior management group policy, and not the academic personnel manual. The UC Regents adopted the two task force recommendations.

The current Regents Policy 7707 on Outside Professional Activities covers employees who are UC senior management group (SMG) members and includes the following elements:

- Approval Process: Employees must complete a pre-approval request providing the name of any organization for which service is proposed and for which approval is requested, whether the service is compensated or not, at the beginning of each calendar year. Their request must include description of the service, anticipated number of hours, the amount of cash compensation and deferred or other non-cash compensation (including equity shares) and the grant details for approximating the value of such shares. Employees certify that the information contained in the pre-approval request is complete and accurate; and they must seek approval from the person to whom they report. For instance, for chancellors, the approving authority is the president; and for the president, the approving authority is the chair of the Board of Regents. Employees are not permitted to accept or move forward with their proposed outside service until approval is received.

- Review Criteria: Approving authorities are supposed to consider whether the proposed activity will create, or appear to create a conflict of interest or commitment and compromise the ability to perform university duties, or create a conflict of interest, which, consistent with the California Political Reform Act, Regents Policy 7707 defines as participating in the making of, or influencing a governmental decision in which he or she has a financial interest. Any conflict of interest/commitment, or appearance of such conflict, would be an appropriate basis for denying approval of a request. Regents Policy 7707 requires approving authorities to "seek written guidance from the appropriate university office (e.g., Human Resources; Office of Ethics, Compliance and Audit Services; or legal counsel)" if there is even an appearance of a conflict.

- Limits: Employees "may serve simultaneously on up to three for-profit boards that are not entities of the University of California for which s/he receives compensation and for which s/he has governance responsibilities. Service as a member of the Board of Directors would constitute governance responsibility. Service on an advisory committee likely would not constitute governance responsibility." There is no limit on the total compensation that may be earned from outside activities. There is no limit on uncompensated service as long as there is no conflict.

- Reporting: Employees must file a year-end report that records actual, as opposed to anticipated compensation received in connection with outside activities. Reports are filed and sent to the president, who forwards the report to the regents and posts the report online: http://compensation.universityofcalifornia.edu/reports.html. Attached is the latest report.

According to regents Policy, the vice president—human resources will review the policy annually for update purposes and will conduct a full review at least every three years.

Recent media reports of UC executive activities once again have brought into question whether UC is providing proper oversight and safeguarding the public interest, even after the policy changes from a decade ago. For instance, UC Davis Chancellor Linda Katehi served on the board of college textbook publisher John Wiley & Sons and reported to UC receiving $335,000 in compensation for this board service between 2012 and 2014. Chancellor Katehi earns $424,360 a year as chancellor of UC Davis. Chancellor Katehi violated Regents Policy 7707 when she accepted a paid position on the board of DeVry Education Group in February 2016 without prior approval. Chancellor Katehi has since stepped down from the DeVry board and issued an apology. No known sanctions have been issued by the university.

CSU Policies and Practices

In 2013, the CSU Board of Trustees voted to adopt its current conflict of commitment policy (Section 42740 of Title 5, California Code of Regulations), which requires the disclosure of outside employment for all full-time management and executive employees in order to identify and avoid conflicts of commitment. This action was taken in response to a recommendation in a 2007 California Bureau of State Audits report on CSU compensation practices. The Board of Trustees deferred action for five years until requirements were first put in place for faculty through the collective bargaining process.

The regulation states simply: “Management Personnel Plan and executive employees shall be required to report outside employment for the identification of and to preclude any conflict of commitment. The Chancellor is responsible for implementing this section.” Management Personnel Plan (MPP) covers employees designated as “management” or “supervisory” – a much broader/larger group than UC’s SMG.

The administrative policy covers Management Personnel Plan and executive employees and any employment not compensated through the CSU payroll, including CSU foundation and CSU auxiliary employment. It includes the following provisions:

- Approval Process: The policy does not specify that approval is required prior to commencement of outside employment.

- Limits: The policy does not specify limits on the number of outside activities or on the anticipated time commitment, although the written disclosure statement form does ask for the approximate distribution of time to be devoted to the outside employment. The policy does state that “Outside employment of a Management Personnel Plan (MPP) or Executive employee shall not conflict with normal work assignments or satisfactory performance.” However, it does not specify any standards by which the approving authority should evaluate whether such a conflict exists.

- Reporting: Employees must report any and all outside work for which the employees are receiving compensation. Employees are required to disclose their outside employment upon hire annually, within 30 days of commencement and within 10 days of a request by supervisor. Campuses are required to designate an employee responsible for document review and filing, and are also required to maintain these records in accordance with CSU’s Records Retention Policy. Currently, CSU does not compile these records into a report nor does it publicly post this information.

In addition, according to information provided by the CSU Chancellor's Office, all appointment letters issued by Chancellor White to CSU presidents and vice chancellors contain the following statement: “You may serve on up to two corporate boards provided that you discuss such appointments with me in advance, and that they do not create a conflict of commitment or interest.” According to the information provided by the CSU Chancellor's Office, only two campus presidents currently receive compensation for serving on corporate boards. CSU East Bay President Leroy Morishita earned $16,000 as a board member of the JA Health Benefits Trust, and donated it all to his campus. CSU San Bernardino Tomás Morales earned $12,000 as a board member of the United Health Group of New

York. CSU does not produce a report for MPP or executive employees. Attached is information CSU provided regarding CSU presidents and outside employment activity.

Conflict of Interest Codes. The Political Reform Act requires all public officials, including public university officials, to refrain from participating in decisions in which they have a financial interest and requires designated public officials to file financial disclosure statements. As required by the Political Reform Act, the UC and CSU have each adopted their own conflict of interest (COI) Code that designates which employees must disclose their private financial interests by filing a Statement of Economic Interests (Form 700), and which interests must be disclosed. These codes are updated regularly and submitted to the Fair Political Practices Commission for approval. An approved COI code has the force of law, and any violation of the code by a designated employee is deemed a violation of the Political Reform Act.

6440 UNIVERSITY OF CALIFORNIA

Issue 1: Governor's Budget Overview

Panel

- Maritza Urquiza, Budget Analyst, Department of Finance
- Jason Constantouros, Fiscal and Policy Analyst, Legislative Analyst Office
- Kieran Flaherty, Executive Director for Budget, University of California

Background

The 2015 Budget Act provided $119.5 million General Fund in new ongoing funding over the 2014-15 year and budget bill language to provide an additional $25 million General Fund if UC increases California resident enrollment by 5,000 undergraduate students during academic years 2015-16 and 2016-17. Other proposals adopted and incorporated in the budget include:

- Legislative intent that, pursuant to the framework for long-term funding agreed upon by the Regents of the University of California and the Governor, tuition will not increase in the 2015–16 and 2016–17 academic years and the university will implement reforms to reduce the cost structure of the university and improve access, quality, and outcomes.

- Legislative intent that the revenues from increases in nonresident enrollment and tuition levels be used to support increased enrollment of California students. Additionally, the budget states that financial aid previously awarded to nonresident students is available to support increased enrollment of California students.

- $96 million in Proposition 2 funds if UC reforms its pension system to limit pensionable compensation consistent with the limits in the Public Employees' Pension Reform Act of 2013. The budget also required the UC to report on whether its use of this funding is consistent with Proposition 2, and declares that this funding is not an ongoing state obligation to pay for UC's pension fund.

- $25 million one-time General Fund for deferred maintenance projects.

- $6 million to support UC Labor Centers. The UC Berkeley and UCLA Labor Centers, and the Institutes for Research and Labor Employment in which they are housed, are the only statewide programs within the UC that specifically address the labor and employment issues affecting the state's diverse and changing workforce.

- Up to $1 million General Fund to continue planning for a medical school at UC Merced.

- Language stating that UC's appropriation includes funding to support the California Dream Loan Program.

Governor's Proposal

The Governor's proposed budget includes a $125.4 million General Fund increase for the UC to support the Administration's fourth installment of their four-year investment plan in higher education that started in 2013-14. This funding comes with budget bill language requiring the UC to file a three-year sustainability plan by November 30, 2016, but there is no other budget language directing UC on how to spend this additional funding.

The budget assumes no systemwide tuition and fee increases for resident undergraduate students, except for a $54 (five percent) increase in the Student Services Fee. The budget assumes UC will enroll 5,000 more resident undergraduates in 2016-17 and receive an associated $25 million ongoing augmentation in 2015-16, pursuant to the 2015 Budget Act. Additionally, in May 2015, the Governor announced his intention to propose a four percent General Fund increase for UC in 2017-18 and 2018-19. The Governor also proposed for UC to begin increasing tuition around the rate of inflation in 2017-18.

The budget proposes $35 million one-time General Fund for deferred maintenance. UC recently compiled a list of deferred maintenance from its campuses, totaling $1.2 billion. UC asserts this list is not exhaustive and understates its total backlog. This item will be discussed as a part of the overall Senate package on deferred maintenance in Control Section 6.10. The budget also proposes $25 million one-time cap-and-trade funds for energy projects for UC. This will be discussed as a part of the overall Senate package on cap-and-trade.

The budget provides $171 million one-time Proposition 2 funds to pay down the unfunded liability of the UC Retirement Plan. This is the second of three proposed payments from Proposition 2 to UC for this purpose. The 2015-16 budget provided UC with $96 million for its pension liabilities. As a condition of receiving this funding, the UC Regents were expected to establish a retirement program that limits pensionable compensation consistent with the Public Employees' Pension Reform Act of 2014, no later than June 30, 2016.

At the March 2016 UC Regents board meeting, the UC Regents adopted changes to its retirement plan for new employees hired on or after July 1, 2016. New hires would have two options for a retirement plan. For the first option, an employee can elect to have the existing defined benefit plan but with the California Public Employees' Pension Reform Act (PEPRA) pensionable salary limit. All employees would contribute 7 percent of eligible pay up to the IRS limit plus a supplemental defined contribution plan. In this plan, UC would make an employer contribution of 8 percent up to the PEPRA limit and also make contributions related to the supplemental defined contribution plan. For eligible faculty, UC would contribute five percent to the supplemental defined contribution plan on all pay up to the IRS limit in order to address faculty compensation. For staff and other academic appointees, UC would contribute three percent to the supplemental defined contribution plan on pay above the PEPRA cap up to the IRS limit. The second option allows an employee to only participate in the defined contribution plan. For this defined contribution only option, UC will contribute eight percent of faculty or staff salary up to the IRS limit, and for faculty and staff to contribute seven percent.

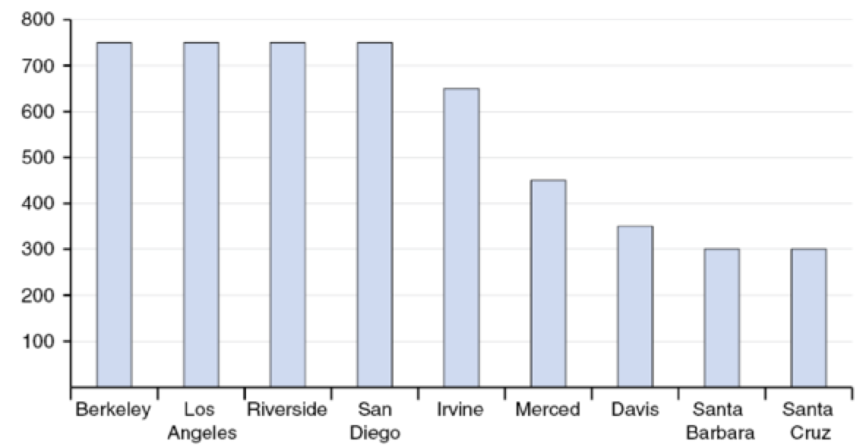
Enrollment Growth. UC anticipates enrolling 1,300 fewer resident full-time equivalent (FTE) students in 2015-16 compared to 2014-15. UC reports that, throughout spring 2015, it instructed campuses to keep resident enrollment flat in 2015-16 due to uncertainty over the amount of state funding it would receive. UC indicates that campuses responded by enrolling fewer new students in fall 2015. UC reports that it intends to meet the 2015-16 budget's enrollment growth expectations for

2016-17 by enrolling 5,050 more new freshman and transfer students in fall 2016, as compared to fall 2014. Currently, there are various legislative proposals that seek to address enrollment issues at UC. For example, SB 1050 (De León) seeks to establish a stronger pipeline from K-12 high schools, particularly those that enroll 75% or more low-income, English learner, and foster youth, to the University of California and other postsecondary educational institutions. The LAO chart below displays UC's expected enrollment growth of new undergraduate students.

Figure 12

Expected Growth in New UC Undergraduate Students

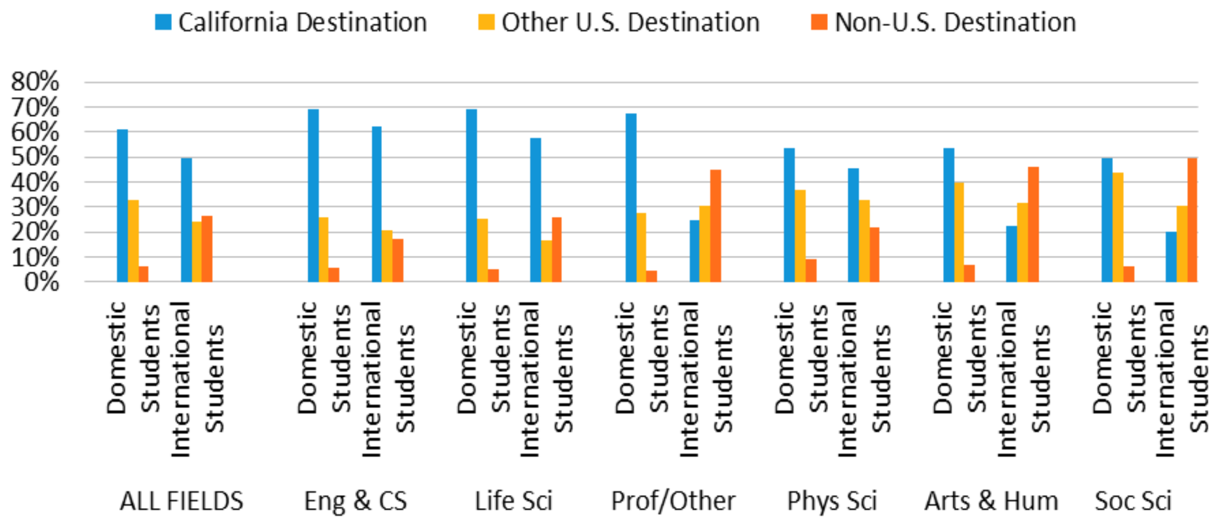
UC's Growth Plan, 2016-17 Compared to 2014-15



As of its November 2015 meeting, the UC Board of Regents approved a budget proposal for the 2016-17 year. The board is seeking the following increased expenditures above the current year levels.

- **Graduate Student Enrollment -** $6 million General Fund to enroll 600 more graduate students. As UC increases enrollment for undergraduates, it states that additional graduate students are needed to support faculty in the research mission of the university and to help with the teaching load associated with additional undergraduates.

  According to information provided by the UC in the most recent UC Doctoral Placement Survey data (2012-2013 degree recipients), 46 percent of systemwide Ph.D. graduates are working in California. Sixty-one percent of domestic doctorate recipients intend to stay in California, of which 41 percent received their bachelor's degrees in California and 38 percent attended high school in California. Even among international alumni, about 49 percent plan to stay in California. This proportion is higher in science, technology, engineering and math (STEM) fields (64 percent of domestic students and 55 percent of international students), indicating that UC graduates are contributing to California's robust economy in these areas. Additionally, over 50 percent of domestic humanities, arts and social science students remain in the state. The figure on the following page displays post-graduation enrollment plans for the 2008-12 exit cohorts..



- **Cap-and-Trade -** $69.1 million in one-time cap-and-trade funds in 2016-17, which UC would match with $81 million of university funds, to reduce greenhouse gas emissions and reduce energy use in existing buildings to help support the UC's commitment to become carbon neutral by 2025. UC proposes using this funding for energy efficiency improvements, solar installations, and biogas development, which seeks to convert agricultural waste into energy.

- **Transportation Research -** $9 million over three years from the Public Transportation Account to augment the state contribution to the Institute for Transportation Studies. The Institute conducts research in five areas that the state has identified as critical, including climate change and infrastructure development. The institute currently receives less than $1 million from the state's Public Transportation Account.

Legislative Analyst's Office Recommendations

The LAO expresses concerns with the Governor's approach to UC funding, noting it allows UC to set its own spending priorities without broader state involvement. In general, the LAO states this proposal makes it difficult to assess whether the augmentations are needed and whether any monies provided would be spent on the highest state priorities. According to the LAO, the Administration's discretionary funding approach diminishes the Legislature's role in key policy decisions and allows the universities to pursue their own interests rather than the broader public interest. The continued unallocated base increases at the UC dilute the role and authority of the Legislature in the budget process and, as a result, the Legislature will have difficulty assessing whether augmentations are needed and ultimately whether any monies provided would be spent on the highest state priorities.

The LAO recommends the Legislature set an enrollment target for 2017-18 as a part of the 2016-17 budget. LAO states that this will ensure that funds are appropriated for the year which the associated enrollment growth occurs. To ensure UC complies with the enrollment expectation, LAO recommends the Legislature specify in trailer legislation that the funding would revert to the state if UC falls below the target by a certain margin.

Regarding deferred maintenance, the LAO states that the Legislature could consider working with UC to develop a reasonable estimate of the amount required to be spent annually to keep UC's maintenance backlog from growing. This estimate would represent the ongoing amount required to adequately maintain facilities. The LAO believes this would create greater transparency to the budgeting of major maintenance, helping the state to track and monitor maintenance funding over time. In tandem with determining an annual earmark, the state could work with UC to develop a plan for eliminating the existing backlog. Once a reasonable plan has been developed, the Legislature could consider codifying it in trailer legislation.

Staff Recommendation: Hold Open

Issue 2: Non-Resident Enrollment

Panel

- John Baier, Audit Principal, California State Auditor
- Kathleen Fullerton, Audit Supervisor, California State Auditor
- Stephen Handel, Associate Vice President, Undergraduate Admissions, University of California

Background

During the recent recession, state funding to UC declined and, as a result, UC sought other revenue sources, including philanthropy. Tuition, however, has been the biggest source of increased revenue. Tuition grew by 84 percent between 2007-08 and 2011-12. Many campuses, most notably UCLA, UC Berkeley and UC San Diego, also dramatically increased the number of nonresident students it enrolled. According to the LAO, out-of-state students pay approximately $27,000 more in non-resident supplemental tuition, more than double the amount California students pay. Currently, nonresidents make up 17 percent of all students at UC. According to the LAO, the share of nonresident undergraduates has grown from 2007 to 2015 at every UC campus. Concerns were raised regarding these trends, and as a result, the Joint Legislative Audit Committee requested the State Auditor to conduct an audit on the impact nonresident enrollment has at UC.

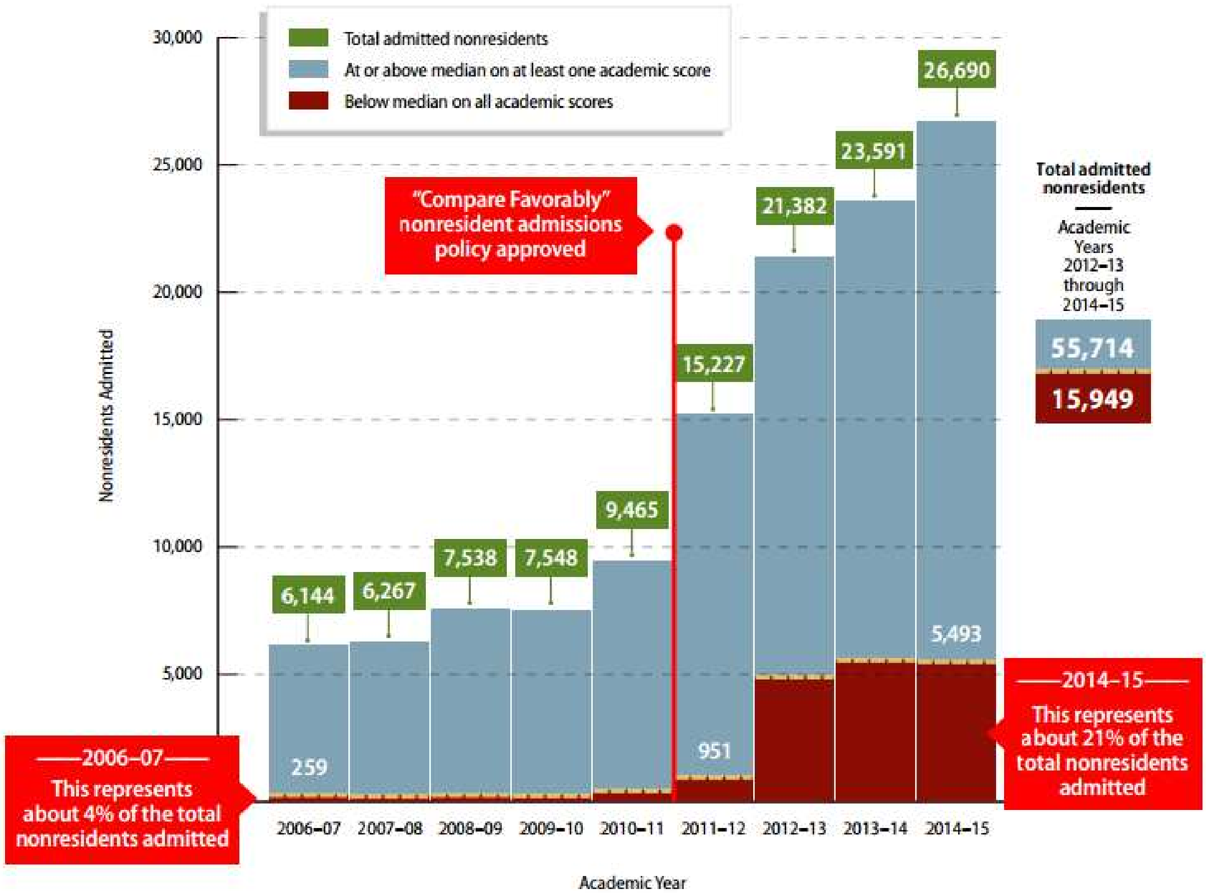
California State Auditor

The California State Auditor's report, *The University of California: Its Admissions and Financial Decisions Have Disadvantaged California Resident* Students, found that over the past 10 years, the UC has admitted thousands of nonresidents who were less qualified than the upper half of residents it admitted, and significantly increased nonresidents admissions. The descriptions below highlight various findings of the report.

Nonresident Admissions Policy. The State Auditor reports that while UC only admitted 2,600 more resident students in 2014–15 than it did in academic year 2010–11, a four percent increase, UC increased the number of nonresidents it admitted by more than 17,200 students, or 182 percent. The State Auditor asserts that this trend is in part caused by policy changes UC made regarding its admission standard for nonresidents, which had the effect of making it easier for nonresidents to gain admission.

In 2009, the Board of Admissions and Relations with Schools (BOARS)—an entity within the university's academic senate charged with developing admission criteria— developed the university's policy related to nonresident undergraduate admission. The policy reflected the Master Plan's recommendation that nonresidents should demonstrate stronger admission credentials than residents by generally requiring that nonresidents possess academic qualifications in the upper half of residents who were eligible for admission. However, BOARS made changes in 2011 that lowered the standard necessary for nonresident admission so that admitted nonresidents should "compare favorably to California residents admitted."

The State Auditor notes that as a result of the BOARS' policy change, the university admitted nearly 16,000 nonresidents from academic years 2012–13 through 2014–15 who were less academically qualified on every academic indicator they evaluated—grade point averages (GPA), SAT, and ACT scores—than the upper half of residents whom it admitted at the same campus. The report states that if the university followed the Master Plan, it would not have admitted these nonresidents and could have instead admitted additional residents, and as a result UC's admission decisions have favored nonresidents. The figure below displays UC admissions trends for nonresident students.



Sources: California State Auditor's analysis of data obtained from the University of California (university) Office of the President's Undergraduate Admissions System and other operational data.

Financial Incentives Led Campuses to Admit More Nonresidents. The reports states that many of the university's admission decisions in recent years appear to have been significantly influenced by its desire to increase nonresident revenue. In fiscal year 2014–15, the total revenue the university generated from nonresident supplemental tuition amounted to $728 million. To maximize this revenue source, UC allowed campuses to retain the nonresident revenue they generated, beginning with fiscal year 2007–08. In 2008, UCOP began to set systemwide enrollment targets for residents and nonresidents that each campus should strive to enroll, and allowed each campus to establish its own separate enrollment targets. The State Auditor notes that as a result, nonresident revenue began an unprecedented increase that continued into fiscal year 2014–15.

Impacts of Nonresident Students. The State Auditor notes that UC admitted fewer residents to the campuses of their choice. Specifically, the percentage of residents to whom the university denied admission to their campuses of choice increased from 23 percent in academic year 2005–06 to 38 percent in academic year 2014–15. If residents are eligible for admission to the university and the campuses of their choice do not offer them admission, the university offers them a spot at an alternative campus through what it calls a “referral process.” Under this process, eligible residents not admitted to any of the campuses to which they applied are placed into a referral pool and can then accept admittance to an alternate campus, which is currently limited to the Merced campus. From academic years 2005–06 through 2014–15, the number of residents offered admission through referral to alternate campuses increased by 79 percent—from about 6,000 to 10,700 applicants. The report notes that average number of residents enrolling at the UC Merced campus through the referral pool is about two percent, or an average of 155 enrollees per year.

In addition to denying admission to the campuses of their choice to increasing numbers of residents, the State Auditor notes that the university has also allowed increasing numbers of nonresidents to enroll in the most popular majors. From academic year 2010–11 through 2014–15, the five most popular majors that the university offers saw significant increases in nonresident growth at Berkeley, Irvine, Los Angeles, and San Diego—between about 1,100 to 2,100 students coupled with generally declining resident enrollment— about 800 to 1,200 students in three of the four campuses.

The State Auditor asserts that the UC’s emphasis on enrolling increasing numbers of nonresidents has hampered its efforts to enroll more underrepresented minorities because only 11 percent of enrolled nonresident domestic undergraduate students were from underrepresented minorities. As of academic year 2014–15, roughly 86 percent of undergraduate domestic nonresident students identified their ethnicity as Asian or white. The UC has more than tripled its population of undergraduate nonresidents since academic year 2005–06, resulting in underrepresented minorities comprising less than 30 percent of the university’s total undergraduate population. Although nonresidents bring geographic diversity to the university’s overall student population, the State Auditor argues that increasing the number of nonresidents has slowed its progress in aligning the university’s percentages of underrepresented minorities with those of the state’s percentages.

Nonresident Tuition Revenue Did Not Increase in Resident Enrollment. In 2015–16, UC asserted that increased revenue from nonresident tuition provides funds to improve the education for all students and enabled campuses to maintain and increase its enrollment of California residents. Contrary to the university’s public statements, the State Auditor argues the revenues from the increased enrollment of nonresidents from academic years 2010–11 through 2014–15 did not result in increased resident enrollment.

Specifically, the report notes that from fiscal years 2010–11 through 2014–15 nonresident enrollment increased by 82 percent, more than 18,000 students, and resulting revenue increase of $403 million—or 124 percent. However, the number of residents enrolled at the university actually decreased by more than 2,200—or one percent over the same period. In particular, the report notes that resident enrollment at the Berkeley, Los Angeles, and San Diego campuses decreased by between two and nine percent from academic years 2010–11 through 2014–15, even though these three campuses received the greatest amount of nonresident revenue in fiscal year 2014–15. Therefore, even though these three campuses received significantly more revenue from nonresident tuition than the other campuses, they did not enroll more residents; rather they each enrolled fewer.

University of California's Response

The UC recently released a report, *Straight Talk on Hot-Button Issues: UC Admissions, Finances, and Transparency*, to highlight its commitment to California students. The UC notes that enrollment of California students depends on two factors: UC's commitment to the Master Plan for Higher Education and the availability of state dollars to fund resident enrollment growth. UC notes that its state funding has not rebounded since the recent recession and it is unlikely that the state will be positioned to replace nonresident tuition revenue. Absent additional state funding, the UC asserts that reduced revenues would lead to decreases in the quality of academic programs and services for all UC students or increases in tuition.

Enrollment Funding. Until recently, the state had not allocated funds for enrollment growth since 2010-11. During the recent economic recession, the state was not able to provide sufficient funding for UC or other state agencies for many years and as a result even before taking inflation into the account, the state provides UC with less funding today than it did in 2007-08, even though UC enrolled nearly 9,000 more California undergraduates in fall 2015 compared to fall 2007.

The Budget Act of 2015 provided $25 million to UC to enroll 5,000 more resident students in the 2016-17 academic year than it did in 2014-15. UC notes that 43 percent of these new California resident students will attend the three campuses that currently educate the most nonresidents: Berkeley, UCLA, and San Diego. UC asserts this demonstrates that when state funding for enrollment growth is available, the number of resident students will increase independently of the number of nonresident students. UC states that nonresident students do not displace California students, and that it continues to admit all applicants from the top one-eighth of students who graduate from California high schools. Additionally, UC has plans to increase California enrollment by another 5,000 California undergraduate students by 2018-19, subject to the availability of additional enrollment funding from the state.

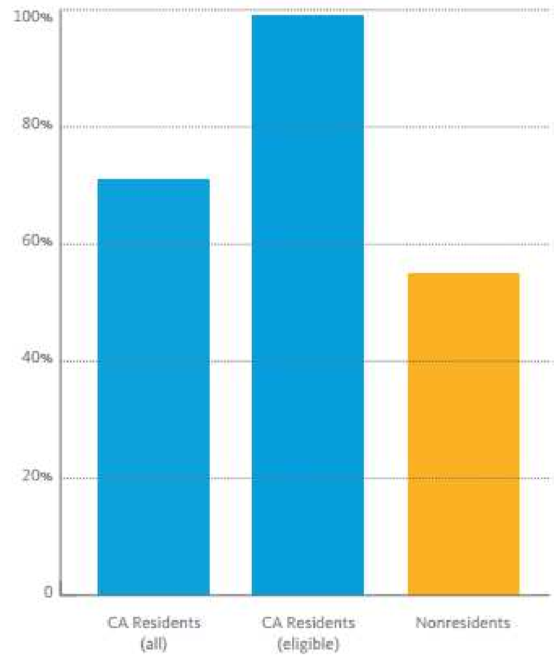
Growing Demand Exceeds State Funding for Enrollment Growth. The Master Plan addresses overall admissions to the system, not admissions at the campus level. UC notes that declining admission rates for California residents do not indicate that it has reduced its commitment to the Master Plan. Instead, its obligation under the Master Plan is to admit all eligible applicants. UC notes that in recent years, admissions rates have been affected by two trends: a continuing increase in the number of California high school graduates seeking a UC education, combined with reduced state funding to enroll them. During many years when the state funding for enrollment was cut, UC held state resident enrollment flat. Because applications continued to increase and state enrollment did not, admissions rate went down, and it became difficult for an individual California student to be admitted at specific UC campuses.

Qualified California Residents are Guaranteed Admissions. UC policy guarantees admission to residents through two paths—a statewide path and a local path—that recognize and reward the academic accomplishment of the state's top high school graduates. The statewide path includes students with grade point averages and test scores in the top nine percent of all California high school graduates. The local path, known as "eligibility in the local context," includes students who have earned at least a 3.0 grade point average and are in the top nine percent of their participating California high school, regardless of their test scores.

Every resident applicant who is guaranteed admission to UC, but who is not admitted to any of the campuses to which the student had originally applied, is given the opportunity to enroll at a different

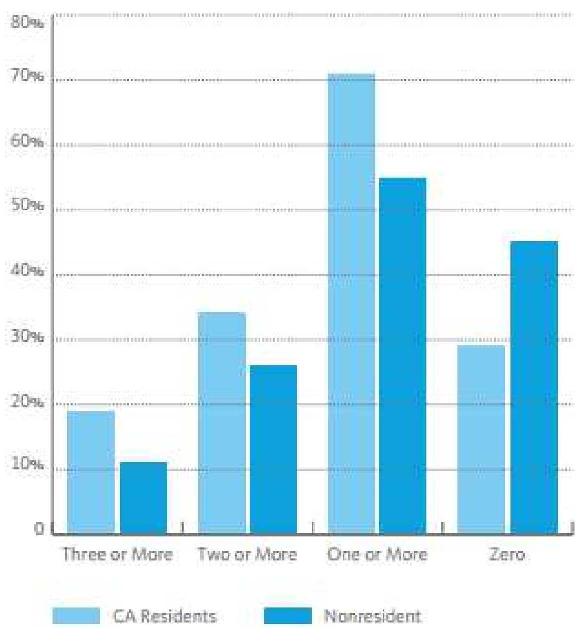
UC campus through a process called "referral". In contrast, nonresident applicants who are not competitive for admission at the campuses they apply to are denied admission. They are not guaranteed enrollment at another UC campus.

UC also argues that policies and programs favor residents in significant ways, as more than two-thirds of applicants (and all those who meet the UC eligibility requirements) are admitted. Admission rates of nonresidents are lower.



The total for eligible California Residents is less than 100 percent as a small number of applications are withdrawn or cancelled prior to UC making an admission decision.

Additionally, as shown below, California residents are more likely to be admitted to multiple UC campuses compared to nonresidents.



UC Nonresident Admission Policy. The original 1960 Master Plan stated that to be eligible for admission, nonresident students should "meet higher entrance requirements than are required of residents of California [such that] they stand in the upper half of those ordinarily eligible". UC implements this requirement—which applies at the systemwide level only—by requiring admitted nonresidents to have a minimum GPA of 3.4, compared to a minimum GPA of 3.0 for Californians.

The 1987 revision of the Master Plan dropped the "upper half of those ordinarily eligible" language and instead stated that "graduates of ... out-of-state secondary schools [should be] held to at least equivalent levels" of preparation to those of Californians. UC claims this 1987 change has been widely acknowledged in higher education policy. Consistent with the 1987 update of the Master Plan, UC policy holds that nonresidents should "compare favorably" to resident students admitted to the campus where they have applied. The State Auditor suggested that the qualitative, non-numeric language of the "compare favorably" policy reflects a "watering down" of UC standards. UC argues that this is not the case, and rather the policy reflects the evolution of UC admissions away from reliance solely on grades and test scores toward comprehensive and holistic review.

Access to High Demand Majors Not Affected by Residency. The UC notes that major choice has little or no bearing on freshman admission selection except for a handful of university programs. In fact, one in four freshmen enters the university with no declared major. Moreover, UC notes that an applicants' initial selection of a major has little bearing on the degree they ultimately earn, since nearly half change their major before they graduate. As the population of nonresidents has increased at UC, the number of nonresidents pursuing specific majors has increased, while California students have maintained the same share of enrollments in various majors as they did before the nonresident increases of the past five years.

6610 CALIFORNIA STATE UNIVERSITY

Issue 1: Governor's Budget Overview and Enrollment

Panel
- Martiza Urquiza, Budget Analyst, Department of Finance
- Jason Constantouros, Fiscal and Policy Analyst, Legislative Analyst Office
- Ryan Storm, Assistant Vice Chancellor for Budget, Office of the Chancellor
- Nathan Evans, Chief of Staff for Academic and Student Affairs, Office of the Chancellor

Background. The Budget Act of 2015 provided CSU with its full budget request, or about $217.4 million ongoing General Fund above the previous year's support. CSU reports this additional funding, combined with other funds, supported the following changes:

- $103.2 million to allow for a three percent enrollment growth, or about 10,400 full-time equivalent students.
- $38 million for support student success and completion initiatives at each campus.
- $14 million for technology infrastructure upgrades and renewal.
- $23.1 million for mandatory costs, such as health benefit, retirement benefits, and maintenance on new facilities.
- $25 million for infrastructure needs.
- $65.5 million for a two percent salary increase for many CSU employees.
- $200,000 to increase awareness of federal financial aid programs for teachers.
- $500,000 was included to increase staff and fellowship stipends for the Center for California Studies.
- $250,000 to support the Mervyn M. Dymally African America Political and Economic Institute.

Budget bill language also directed CSU funding in the following ways:

- At least $11 million of the General Fund appropriation be spent to increase tenure track faculty.
- Up to $500,000 was to plan for an engineering program at the Channel Islands campus.
- $ 25 million for deferred maintenance.

The Governor's 2016-17 Budget

The Governor's proposed budget includes a $148.3 million General Fund increase for CSU to support the Administration's fourth installment of their four-year investment plan in higher education.

The budget proposes: (1) a $125.4 million unallocated augmentation identical to UC's base increase, (2) an additional unallocated $15 million associated with savings from changes to the Middle Class Scholarship program made in 2015-16, and (3) $7.9 million for lease-revenue bond debt service. The Governor does not propose enrollment targets or enrollment growth funding and assumes no increase in tuition. Budget bill language requires the CSU to submit a three-year sustainability plan by November 30, 2016 to the Department of Finance and the Legislature. The first sustainability plan was required as a part of the 2014-15 budget. The sustainability plan requires CSU to project available resources, expenditures and enrollment, and set performance goals over three academic years.

In addition, the budget proposes $35 million one-time General Fund for deferred maintenance and $35 million one-time cap-and-trade funds for energy projects for CSU. Last year, the budget provided $25 million for this purpose, which CSU distributed to campuses for projects ranging from roof repair to fire alarm replacements. CSU has reported that it has roughly $2.6 billion in deferred maintenance needs, half of which is concentrated in seven campuses, with nearly $2 billion for facilities and the remainder for campus infrastructure.

At its November 2015 meeting, the CSU Board of Trustees approved a budget proposal for the 2016-17 year. The board is seeking $101.3 million General Fund above the Governor's proposal. The chart below reflects the board's adopted budget, which reflects the board's proposal for increased expenditures above the current level.

Expenditure Increase	Cost
Three percent enrollment growth	$110 million
Student Success and Completion Initiatives	$50 million
Two percent Compensation Pool	$69.6 million
Academic Facilities and Infrastructure Needs	$25 million
Mandatory Cost (health, retirement, maintenance of new facilities)	$43 million
Total Increase over 2015-16	$297.6 million

Enrollment. As noted previously, the 2015 Budget Act stated a legislative goal for CSU to enroll at least 10,400 more full-time equivalent students by fall 2016, when compared to the 2014-15 school year. Based on preliminary fall 2015 enrollment numbers, CSU will hit that mark during the 2015-16 school year. The chart below indicates fall 2015 enrollment by campus, and the 2015-16 enrollment targets set for each campus. The chart lists campuses in order of overall undergraduate California student population.

CSU Campus	CA Undergrad Enrollment FTE, Fall 2015	FTE Growth in 2015-16	CSU Campus	CA Undergrad Enrollment FTE, Fall 2015	FTE Growth in 2015-16
Northridge	28,356.5	544.0	Chico	14,511.8	437.0
Fullerton	26,381.3	579.0	East Bay	10,782.2	353.0
Long Beach	26,259.1	579.0	San Marcos	9,889.5	580.0
San Diego	23,889.7	548.0	Dominguez Hills	9,858.0	462.0
Sacramento	22,697.9	460.0	Sonoma	7,840.8	250.0
San Jose	21,031.9	453.0	Bakersfield	7,633.1	310.0
San Francisco	20,883.4	485.0	Humboldt	7,226.7	232.0
Los Angeles	19,559.5	650.0	Stanislaus	6,811.3	329.0
Pomona	18,934.2	538.0	Monterey Bay	6,084.7	502.0
Fresno	18,173.7	651.0	Channel Islands	5,232.6	500.0
San Luis Obispo	16,587.6	344.0	Maritime Academy	1,118.7	90.0
San Bernardino	14,987.5	438.0	**Systemwide**	**344,731.8**	**10,314.0**

Preliminary numbers show that CSU received about 185,932 freshman applications for fall 2015, a six percent increase from fall 2013. According to data from the California Department of Education, 42 percent of public high school graduates in 2013-14 completed A-G coursework, which is a minimum requirement for CSU admittance. The LAO suggests that CSU may be admitting more students than the Master Plan calls for, however a freshman eligibility study is currently being conducted, and results are expected by December 1, 2016. This study will provide more information on whether or not the segments are following the Master Plan's admissions guidelines.

Moreover, impaction is a factor in CSU admissions and enrollment. When a CSU campus receives more applications than it can accommodate, the campus can declare "impaction", which allows for increased GPA and/or test scores to be set as minimum qualifications. AB 2402 (Block), Chapter 262, Statutes of 2010, codified an impaction process to provide notice to the public and ensure transparency of decisions affecting admissions criteria for all CSU campuses. In addition to campus impaction, campuses may have a number of individual majors that are impacted. When a specific major is impacted, a student applying for admissions into a major must meet the GPA or test score requirement, or have completed the required transfer courses, determined by the department overseeing that major. The chart below displays impaction by campus and major.

No Campus Impaction	Campus Impaction	Impacted by Major
Bakersfield	Chico	Fresno
Channel Islands	Humboldt	Fullerton
Dominguez Hills	Los Angeles	Long Beach
East Bay	Monterey Bay	San Diego
Maritime Academy	Northridge	San Jose
Stanislaus	Pomona	San Luis Obispo
	Sacramento	
	San Bernardino	
	San Francisco	
	San Marcos	
	Sonoma	

Legislative Analyst's Office Comments.

Similar to UC, the LAO expresses major concerns with the Governor's approach to CSU funding, noting it allows CSU to set its own spending priorities without broader state involvement. According to the LAO, the Administration's discretionary funding approach diminishes the Legislature's role in key policy decisions and allows the universities to pursue their own interests rather than the broader public interest. The continued unallocated base increases at the CSU dilute the role and authority of the Legislature in the budget process and, as a result, the Legislature will have difficulty assessing whether augmentations are needed and ultimately whether any monies provided would be spent on the highest state priorities.

As with UC, the LAO recommends the Legislature set an enrollment target for 2017-18 as a part of the 2016-17 budget. LAO states that this will ensure that funds are appropriated for the year which the associated enrollment growth occurs. To ensure CSU complies with the enrollment expectation, LAO recommends the Legislature specify in trailer legislation that the funding would revert to the state if CSU falls below the target by a certain margin.

Regarding deferred maintenance, the LAO states that the Legislature could consider working with CSU to develop a reasonable estimate of the amount required to be spent annually to keep CSU's maintenance backlog from growing. This estimate would represent the ongoing amount required to adequately maintain facilities. The LAO believes this would create greater transparency to the budgeting of major maintenance, helping the state to track and monitor maintenance funding over time. In tandem with determining an annual earmark, the state could work with CSU to develop a plan for eliminating the existing backlog. Once a reasonable plan has been developed, the Legislature could consider codifying it in trailer legislation.

Staff Recommendation: Hold Open

Issue 2: Graduation Rates

Panel

- Loren J. Blanchard, Executive Vice Chancellor for Academic and Student Affairs, Office of the Chancellor
- Nathan Evans, Chief of Staff for Academic and Student Affairs, Office of the Chancellor
- Ryan Storm, Assistant Vice Chancellor for Budget, Office of the Chancellor

Background

Coming out of the recession, California's universities face numerous critical issues that impact the state's ability to meet educational and workforce demands. In particular, the Public Policy Institute of California (PPIC) released a report, *Will California Run Out of College Graduates* , which found that, if current trends in the labor market persist, 38 percent of all jobs will depend on workers with at least a bachelor's degree, but only about 33 percent of workers will have one in 2030. By 2030, California will have a shortage of 1.1 million workers holding a bachelor's degree. Without more students entering and completing a college degree, California will not meet workforce demands in the future.

In response to growing concerns regarding performance outcomes of the UC and CSU, the state recently adopted broad goals for higher education. Specifically, SB 195 (Liu), Chapter 367, Statutes of 2013, establishes three goals for higher education: 1) improve student access and success, such as increasing college participation and graduation, 2) aligning degrees and credentials with the state's economic, workforce and civic needs, and 3) ensure the effective and efficient use of resources to improve outcomes and maintain affordability.

Moreover, provisional language in the 2015-16 budget act required the UC and CSU to adopt three-year sustainability plans by November 30, 2015. The two segments were required to report on targets for various performance measures, as well as resident and nonresident enrollment projections based on revenue projects from the Department of Finance. The LAO chart below displays the CSU adopted sustainability plan.

CSU's Current Performance and Performance Targets

State Performance Measure	Current Performance	Target
CCC Transfers Enrolled. Number and as a percent of undergraduate population.	143,322 (36%)	145,480 (35%)
Low-Income Students Enrolled. Number and as a percent of total student population.	207,528 (50%)	213,614 (50%) (Fall 2017)
Graduation rates. Various graduation rates:	2011 cohort	2014 cohort
(1) 4-year rate--freshman entrants.	19%	20%
(2) 4-year rate--low-income freshman entrants.	12%	14%
	2009 cohort	2012 cohort
(3) 6-year rate--freshman entrants (CSU only).	57%	59%
(4) 6-year rate--low-income freshman entrants (CSU only).	52%	56%
	2013 cohort	2016 cohort

(5) 2-year rate--CCC transfers.	30%	32%
(6) 2-year rate--low-income CCC transfers.	29%	31%
	2012 cohort	2015 cohort
(7) 3-year rate--CCC transfers (CSU only).	62%	66%
(8) 3-year rate--low-income CCC transfers (CSU only).	62%	65%
Degree completions. Number of degrees awarded annually for:		
(1) Freshman entrants.	36,704	45,238
(2) CCC transfers.	42,771	45,443
(3) Graduate students.	18,831	19,513
(4) Low-income students.	45,660	50,030
(5) All students.	105,693	117,146
First-year students on track to graduate on time. Percentage of first-year undergraduates earning enough credits to graduate within four years.(CSU excludes students not enrolled at the beginning of the second year)	51%	55%
Funding per degree. State General Fund and tuition revenue divided by number of degrees for:		
(1) All programs.	$38,548 (2013-14)	$42,322
(2) Undergraduate programs only.	Not reported	$51,830
Units per degree. Average course units earned at graduation for:		Semester Units
(1) Freshman entrants.	138	138
(2) Transfers.	141	140
Degree completions in STEM fields. Number of STEM degrees awarded annually to:		
(1) Undergraduate students.	18,519	24,531
(2) Graduate students.	4,278	4,766
(3) Low-income students.	8,802	10,628

The 2015-16 budget act also included budget bill language directing CSU to report by April 1, 2016, factors that impact graduation rates for all students, and for low-income and underrepresented student populations in particular. The description below is a brief summary of some of the findings of the report for first time freshman.

CSU reports that graduation rates are improving, but achievement gaps are apparent. During the past few years CSU notes that graduation rates have steadily increased.

Cohort	4- year graduation rate	5- year graduation rate	6-year graduation rate
2004	17.25 percent	41.4 percent	52.4 percent
2009	17.8 percent	44.7 percent	57 percent
2011	19 percent	N/A	N/A

CSU also reports significant achievement differences by race/ ethnicity, and socioeconomic status. The chart below displays graduation rates by race/ethnicity for the fall 2009 cohort.

Race/ Ethnicity	4- year Graduation Rate	5-year Graduation Rate	6-year Graduation Rate
White	27.1 percent	55.6 percent	64.1 percent
Asian/ Pacific Islander	14.1 percent	43.3 percent	60 percent
Black or African American	8.2 percent	29.6 percent	41.8 percent
Hispanic or Latino	11.7 percent	37 percent	51.5 percent

Moreover, the report found that a student's economic background influences graduation rates. Previous information from CSU also indicates a double digit difference between students who receive the Pell Grant versus those who do not. The chart below displays graduate rates by Pell Grant status for the fall 2009 cohort.

	4- year Graduation Rate	5-year Graduation Rate	6-year Graduation Rate
Pell Grant	11.2 percent	36.4 percent	51.7 percent
Non Pell Grant	21.9 percent	49.7 percent	60.3 percent

Many studies indicate that student completion is significantly tied to a student's college proficiency upon arrival on campus. CSU reports that the percentage of students who are ready for college-level English and math has increased from 44.9 percent in the fall of 2004 to 58.7 percent in fall 2014. However, there is a readiness gap, with 63 percent of white students who are proficient in both English and math, compared to 27.8 percent of Hispanic or Latino students, and 17.1 percent of Black or African American students.

The report also suggests that full-time students graduate faster. Students enrolled in less than 15 units, but carrying the necessary 12 units to be considered full-time for federal reporting and financial aid eligibility, are more likely to persist to year two than their full-time, full-load counterparts. However, they are less likely to complete a bachelor's degree in four years, but no less likely to complete the degree in six years, than their counterparts who first enrolled in a full-load of at least 15 units. Enrolling in more units in the first and second year of study is associated with higher four-year and six-year degree completion.

The report includes more than 60 recommendations for improving student outcomes, divided into six categories. These categories are:

1. Improving student preparation for college;
2. Expanding and improving academic support services on campuses;
3. Efforts to mediate the influence of socioeconomic differences;
4. Ensuring students understand degree pathways and career choices;
5. Improving usage of data to ensure students stay on track
6. Eliminating administrative hurdles, such as registration and enrollment practices.

Graduation Initiative. In 2009, the CSU launched the systemwide Graduation Initiative to increase graduation rates for all students. The goal of the initiative was to raise CSU's six-year graduation rates for freshman by eight percentage points by 2015, from 46 percent to 54 percent. Results published in 2015 indicate six-year graduation rates rose by 11 percentage points for the 2009 student cohort. However, the achievement gap was not significantly reduced systemwide, and CSU attributes this to rising graduation rates for all students. CSU recently launched its new initiative, Graduation Initiative 2025. The new goals are to:

- Increase six-year graduation rate for first time freshman to 60 percent
- Increase four-year graduation rate for first time freshman to 24 percent
- Increase the four-year graduation rate for transfer students to 76 percent
- Increase the two-year graduation rate for transfer students to 35 percent
- Close the achievement gap for underrepresented students to seven percent
- Close the achievement gap for low-income students to five percent

Part of the state funding provided to CSU in 2015-16 was used to support student success and completion initiatives at each CSU campus. CSU is spending $38 million, including $20 million General Fund on these initiatives. In particular, the Chancellor's Office reports spending on the following items:

1. Tenure Track Faculty Hiring (55 percent of funds). CSU reports that it will hire 849 tenure track faculty in 2015-16.
2. Enhanced Advising (17 percent of funds). CSU reports it will hire 100 new campus advisors, as well as, investing in technology to help students better plan a graduation pathway and allow campuses to offer courses based on student need.
3. Student Retention Efforts (10 percent of funds). This includes programs such as the Educational Opportunity Program, and other programs that increase student connections to their campus.
4. Address Bottleneck Courses (seven percent of funds). This effort seeks to expand courses that are difficult for students to get into, or improve courses that have a high failure rate.
5. Student Preparation (six percent of funds). The Early Assessment Program, and Early Start Program seek to help high school and incoming college students prepare for college-level work.
6. Data-Driven Decision Making (five percent of funds). Technological advances to help students and campuses make more strategic and informed decisions.