Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Rosilicie Ochoa Bogh

Wednesday, February 9, 2022
9:00 a.m.
State Capitol - Room 3191

Consultant: Christopher Francis, Ph.D.

Items for Discussion

Public Comment

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6440 UNIVERSITY OF CALIFORNIA (UC)

Overview

The University of California (UC) provides instruction in undergraduate, graduate professional, and graduate academic programs through the doctoral degree level; research; continuing education for adult learners; and public service.

UC was founded in 1868 as a public, state-supported land-grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by the Regents of the University of California. The Board of Regents includes the following 26 members: 7 ex officio members, 18 members appointed by the Governor with the approval of the Senate for 12-year terms, and 1 student appointed by the Board. The Governor is President of the Regents.

The 1960 Master Plan for Higher Education designates UC as the primary state-supported academic agency for research. In addition, the university serves students at all levels of higher education in California and is the public segment primarily responsible for awarding the doctorate and several professional degrees, including in medicine and law.

There are ten UC campuses: Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz. Nine of these are general campuses that offer undergraduate, graduate, and professional education. The San Francisco campus is devoted exclusively to the health sciences. The university operates five academic medical centers and administers more than 800 research centers, institutes, laboratories, and programs. It also oversees one United States Department of Energy laboratory and partners with private industry to manage two other Department of Energy laboratories.

The Regents appoint a university president, who is typically responsible for overall policy development, planning, and resource allocation. The ten UC chancellors are responsible for management of the individual campuses. The Regents have delegated authority to the Academic Senate, including responsibility for policies on admissions and academic programs.

3-YEAR EXPENDITURES AND POSITIONS †

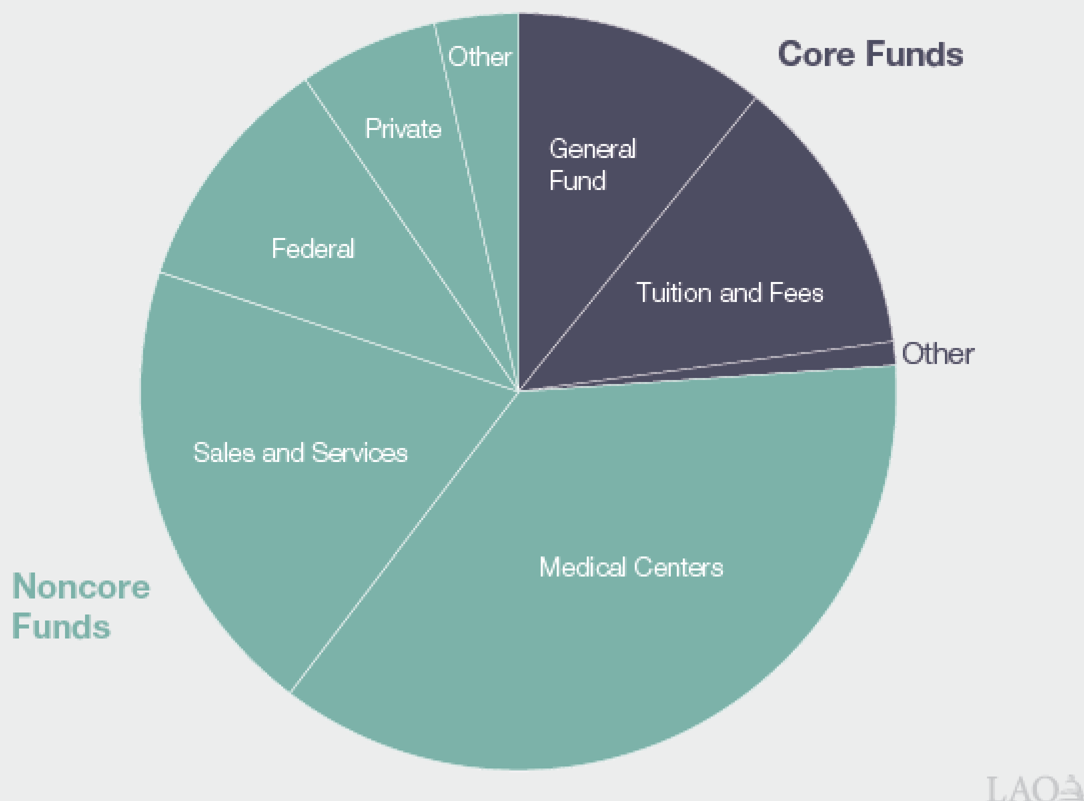
		Positions			Expenditures		
		2020-21	**2021-22**	**2022-23**	**2020-21***	**2021-22***	**2022-23***
5440	Support	113,939.7	117,282.6	117,282.8	$40,317,245	$43,916,798	$45,992,347
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**113,939.7**	**117,282.6**	**117,282.8**	**$40,317,245**	**$43,916,798**	**$45,992,347**

Core Funding. As Figure 1 shows below, UC's budget is comprised of variety of funds, such as state General Fund, student tuition, medical center revenue from its five medical centers, sales and services such as housing, bookstore and extended education, federal government funds for research and student financial aid, private donations, among others. Core funding consists of state General Fund, student tuition revenue, and several other smaller fund sources—with State General Fund and state financial aid combined comprising the largest amounts. Core funding supports the universities' academic functions, including undergraduate and graduate instruction, academic support services (such as tutoring), and related administrative costs. Core funding also supports various research and outreach initiatives.

Figure 1

UC Receives Funding From Many Sources

$44 Billion in 2021-22



The largest portion of UC core fund increase comes from General Fund. Ongoing General Fund would increase from $4 billion in 2021-22 to $4.3 billion in 2022-23, reflecting an increase of $308 million (7.7 percent). In July 2021 the UC Regents estimated that cohort-based tuition would generate an additional $71 million in 2022-23 compared to 2021-22.

Governor's Proposed Budget for UC in 2022-23. The Governor's budget increases ongoing General Fund for UC by $307.3 million and provides a total of $295 million for one-time initiatives. Base increases and enrollment growth account for nearly all new proposed ongoing spending for UC and deferred maintenance accounting for about one-third of proposed one-time spending. Most of these proposals are covered in Issues 1-4.

UC Budget Request for 2022-23. UC requested an increase of $422.1 million General Fund ongoing. Specifically, UC requested an additional: (1) $251.5 million ongoing General Fund to sustain core operations such as address retirement and health benefit increases, faculty merit increases, contractually committed compensation, salary increases, and capital outlay debt service, (2) $ 129.1 million for funding the UC 2030 Framework: Student Access and Success. This includes funding to close equity gaps in graduation, offset lost nonresident tuition revenue, and cover 2022-23 enrollment growth, and (3) $41.5 million to cover high-priority initiatives such as converting one-time Student Academic Preparation and Educational Partnerships funds to ongoing, support programming for Foster/Undocumented /Carceral system-impacted students, and the UC Cancer Consortium.

Issue 1: Base Budget and Tuition

Panel

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

Governor's Budget

- **Base Growth**. The Governor's budget proposes an unrestricted increase of $200.5 million ongoing General Fund for operating costs. (As part of his multiyear compact, the Governor proposes to provide five percent base increases annually through 2026 27, with future increases contingent on UC meeting certain expectations.)

- **UC Also Anticipates Receiving More Tuition Revenue.** UC estimates it will receive roughly $45 million in new student tuition revenue available to cover operating costs. Of this amount, $41 million will come from tuition increases on resident and nonresident students. The remainder will be generated from growing nonresident undergraduate enrollment. The exact amount of tuition revenue UC raises will depend on the number of students it enrolls in 2022 23.

Background

Proposal: Base Growth

UC Has Several Core Operating Costs. As with most state agencies, UC spends the majority of its ongoing core funds (about 70 percent in 2020-21) on employee compensation, including salaries, employee health benefits, retiree health benefits, and pensions. Beyond employee compensation, UC spends its core funds on other annual costs, such as paying debt service on its systemwide bonds, supporting student financial aid programs, and covering other operating expenses and equipment (OE&E). Each year, campuses typically face pressure to increase employee salaries at least at the pace of inflation, with certain other operating costs (such as health care, pension, and utility costs) also tending to rise over time. Though operational spending grows in most years, UC has pursued certain actions to contain this growth. For example, UC has pursued new procurement practices and energy efficiency projects with the aim of slowing associated cost increases.

UC Has Considerable Flexibility to Manage Its Operating Costs. In contrast to most state agencies, UC directly manages its employee compensation programs. That is, it sets salaries for its employees, manages its own employee and retiree benefit programs, and sets its own pension contribution rates. Moreover, about two-thirds of UC's core-funded employees are not represented by a union, giving the university considerable year-to-year flexibility to determine salary increases. That said, UC faces certain limitations each year. For example, UC generally must pay debt service on the bonds it issues. UC also must ensure that its pension system has sufficient funds to pay for pension benefits.

State Has Primarily Supported UC Operations Through Unrestricted Base Increases. In recent years, the state and UC have used three main means to cover its operational cost increases: (1) state General Fund augmentations, (2) additional revenue from tuition increases, and (3) increased nonresident undergraduate enrollment. (Because nonresident undergraduate students pay a supplemental charge that covers more than the cost of their education, the net revenue generated from these students is available to support cost increases.) Figure 2 tracks the use of these budget tools over the past several years. In all but one of the years shown, the state provided UC with base General Fund increases. Notably, in only one of these years (2019-20) was the base increase linked to specific UC operating cost increases. In the other years of the period, the base increases appeared to be set arbitrarily, without a direct link to UC's operating costs. In addition to the base General Fund augmentations, UC campuses regularly increased revenue generated from nonresident students by increasing both their supplemental tuition charge and enrollment levels. In most recent years, UC did not increase the base tuition charge (which is applied to both resident and nonresident students).

Figure 2-UC Has Used Several Means to Cover Operating Cost Increases

Annual Change

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

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

Tuition

Governor Makes Different Tuition Assumptions for UC than other segments in 2022-23. The Governor's compact with UC assumes the university implements the Board of Regents-approved tuition plan. This plan increases tuition each year but only for the incoming cohort of first-time students - entering freshman and transfer students, regardless of residency status. During the remainder of their time at UC, tuition for students in that cohort remains flat. The tuition plan also pegs annual tuition increases to inflation and applies annual increases to all academic graduate students.

Legislative Analyst's Office Comments and Recommendations

Base Increases

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

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

Legislature Then Could Consider Salary Increases. After covering nonsalary cost increases, the Legislature could consider how much funding to provide for salary increases. Generally speaking, the goal of providing salary increases is to ensure the university is able to attract and retain faculty and staff. Though recent evidence of the competitiveness of UC salaries is limited, there is little evidence that the university experiences difficulty with attracting most of its faculty and staff. For example, UC faculty salaries on average are higher than most public universities engaging in a similar level of research. Moreover, faculty separations have remained about the same over the last ten years. That said, campuses have reported to our office that they have difficulty recruiting and retaining certain types of staff, such as mental health counselors. Additionally, inflation is anticipated to be higher in 2022-23 than in past decades, likely generating pressure for larger-than-typical salary increases. The Legislature likely will want to weigh these competing factors when deciding how much funding to provide for salary increases in 2022-23. To help with the Legislature's planning, the LAO estimates each one percent increase in UC's total salary pool in 2022-23 would be approximately $45 million.

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

Tuition

UC's Tuition Plan Reflects More Rational Policy Than State's Past Tuition Practices. According to the LAO, implementing UC's new tuition policy would be a notable departure from previous tuition practices. The state's experience to date has been to have steep tuition increases during economic recessions (in the early 1990s, early 2000s, and Great Recession period) while leaving tuition flat throughout most years of economic recoveries. Such practices tend to work counter to families' fiscal situations, with household income tending to weaken during recessions and improve during recoveries. As a result of such practices, student cohorts enrolling in college during recessions tend to pay a higher share of their education costs than student cohorts enrolling during recoveries. By raising charges more gradually and predictability, UC's new tuition policy has the potential to overcome the main weaknesses of these previous state tuition practices.

Suggested Questions

On base growth,

- The Governor's budget proposal is smaller than the UC's budget request. Within the $200.5 million proposed in the Governor's budget, what are your priorities that would be covered? Overall, what will UC fund with the $200.5 million if this base amount is not increased in the final budget agreement?

- We ask UC and DOF to provide a response to the LAO's recommendations.

On compacts,

- DOF/UC: Looking ahead in the outyears, what costs would the proposed five percent increases support? What percentage of their base allocation does DOF expect UC to use to pay for more students? How does this affect its ability to hire staff to offer more course offerings to meet the needs of additional students – particularly reducing time to degree?

- UC: What would be the fiscal impact of the Governor's proposed compact expectations?

- How does UC contemplate implementing the compact the Governor recommended in exchange for the recommended increases over the next five years?

On tuition,

- DOF: Explain the rationale behind the different tuition assumptions for UC compared to CCC and CSU.

- UC: How is UC's recently adopted cohort-based tuition model is different from previous models. How will it work? How does this factor into their budget request?

Staff Recommendation. Hold Open.

Issue 2: Resident and Nonresident Enrollment

Panel

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

Governor's Budget

Resident Undergraduate Enrollment Growth in 2022-23. The Governor's budget proposes a combined $99 million to grow resident undergraduate enrollment in 2022-23 by 7,132 students. This amount includes funding for base growth of 6,230 students ($67.8 million) and additional funding to reduce nonresident enrollment by 902 students and replacing those students with resident students ($31 million).

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

Background

Recent changes in state approach to enrollment. Since the 2015-16 Budget Act, the state has made three key changes to its enrollment approach for UC, described below.

1. ***Setting an Outyear Target.*** Since the 2015 Budget Act, the state has set resident undergraduate enrollment growth targets at UC in most years. Generally, the state established growth targets for the following year over a baseline year. For example, the 2019 Budget Act set a target growth of 4,860 students in 2020-21 over the level of enrollment in 2018-19. Setting an outyear target allows the state to better influence admission decisions, as campuses typically have already made their decisions for the upcoming year before the enactment of the state budget in June. Along with setting growth targets, the state in most years provided UC funding augmentations supporting the higher level of enrollment. Augmentations have been determined using an agreed-upon per-student funding rate derived from the "marginal cost" formula. This formula estimates the cost to enroll each additional student and shares the cost between anticipated tuition revenue and state General Fund.

2. ***Setting a Growth Target Only.*** In the past, the state commonly specified both the overall level of enrollment it expected and the associated growth over the previous year. (For example, the state might set the total enrollment level at 200,000 students, with associated growth from the

prior year set at 1,000 students.) Since the 2015-16 Budget Act, the state has stopped setting the overall enrollment level and specified only the expected amount of growth over a baseline year.

3. ***Setting Targets for Undergraduate Students Only.*** The state commonly has set targets for overall resident enrollment, giving UC flexibility to determine the mix of undergraduate and graduate students. Most recent budgets, however, have set a target for UC resident undergraduate growth only.

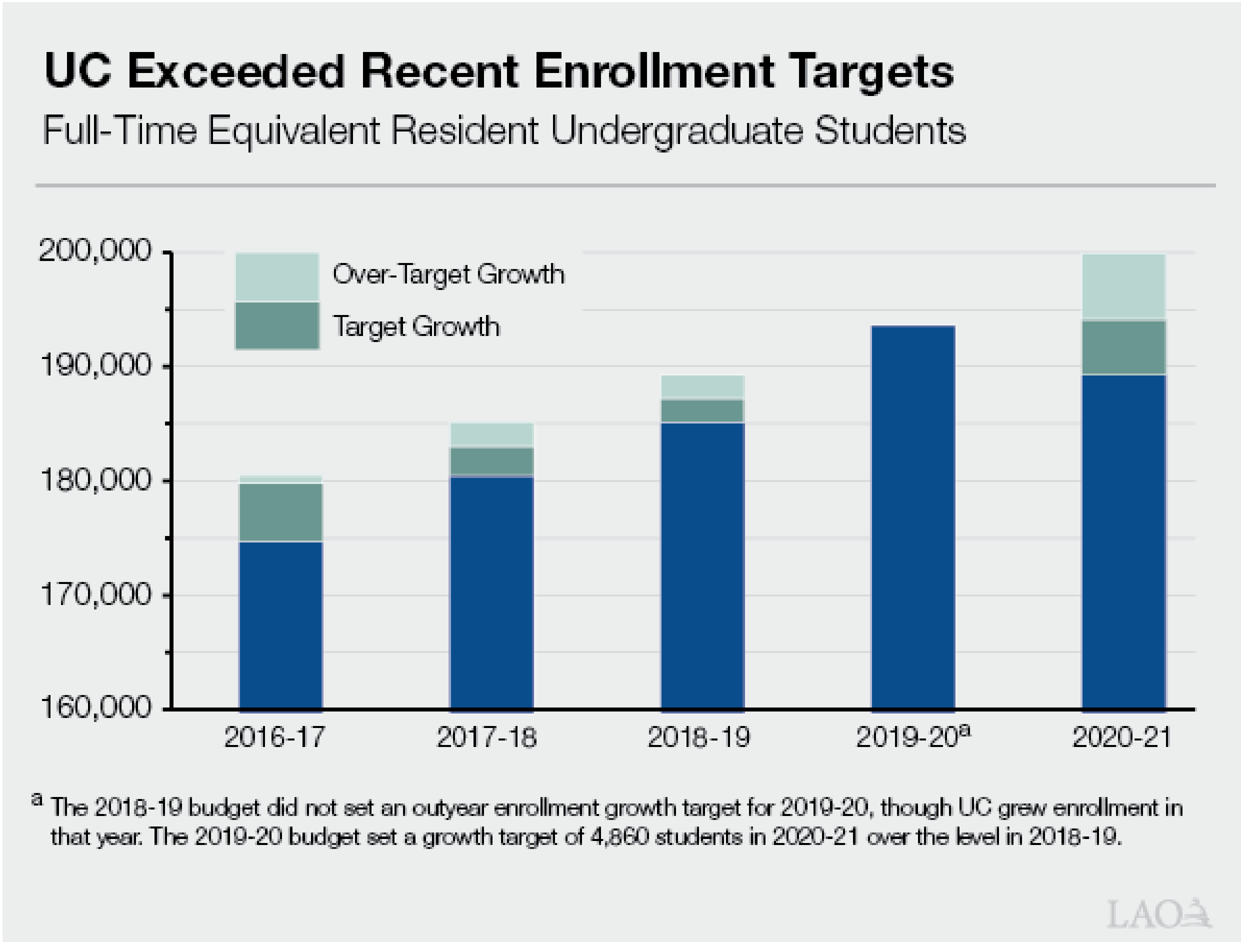
State Set Resident Undergraduate Enrollment Target for 2022-23. In the midst of the pandemic, the Legislature opted not to set enrollment growth targets in the 2020 Budget Act for 2021-22. Such an approach gave UC flexibility to manage funding reductions and uncertain enrollment demand that year. When state revenues recovered the following year, the state resumed setting targets.

Most recently, the 2021 Budget Act specified a target growth of 6,230 resident undergraduate students in 2022-23. The act further stated the intent of the Legislature to provide resources in 2022-23 to support enrollment this growth.

State Also Adopted Multiyear Plan to Reduce Nonresident Undergraduate Enrollment at UC. Additionally, the 2021-22 budget agreement adopted a multiyear plan to reduce nonresident undergraduate enrollment at the Berkeley, Los Angeles, and San Diego campuses. Under the plan, the three campuses would gradually reduce the share of their undergraduate enrollment that is nonresident from their current shares of over 21 percent to 18 percent by 2026-27. The plan is to start in 2022-23, with the state providing funding for the lost tuition revenue associated with the reduction in nonresident students. At the time of adopting this plan, it was estimated UC would have to reduce nonresident enrollment by 902 students annually.

UC Exceeded Targets From 2016-17 Through 2020-21. As Figure 3 from the LAO shows, each year the state established an enrollment growth target, UC exceeded its growth expectation. To date, the state has not provided UC additional General Fund support specifically designated for this over-target enrollment. Instead, the state has built this over-target enrollment into the new baseline it sets for UC. For example, in 2017-18, UC resident undergraduate enrollment grew by around 4,700 students over the level in 2016-17, exceeding the 2,500 student growth budgeted by the state. When the state set the growth target for 2018-19, it set the new baseline at the higher 2017-18 level, thus effectively absorbing the over-target enrollment. Since 2016-17, UC has enrolled around 10,700 students more than the state growth targets, with more than half of the over-target growth occurring in 2020-21 alone.

Figure 3



Resident Undergraduate Total Enrollment. Though the 2021-22 academic year has not yet finished, UC has made initial estimates based on enrollment levels in the summer and fall of 2021. UC estimates 2021-22 resident undergraduate enrollment to be 199,358 students—717 students (0.4 percent) below the level in 2020-21. As Figure 4 shows, UC experienced a drop in summer 2021 enrollment. Summer enrollment spiked in 2020 in the midst of the pandemic, likely because students had more opportunities to study online and fewer summer employment opportunities. The subsequent drop in summer 2021 could reflect fewer online course offerings or improved summer employment opportunities for students. Though UC saw a drop in summer 2021 enrollment, fall 2021 enrollment increased, which likely will translate into a corresponding increase in the spring 2022 term.

Figure 4- UC Enrollment Drop in 2021-22 Attributable to Decline in Summer Enrollment

Resident Undergraduate Full-Time Equivalent Students

	2019-20 Actual	2020-21 Actual	2021-22 Estimated	Change From 2020-21	
				Amount	Percent
Fall through spring	176,984	177,643	180,113	2,470	1.4%
Summer[a]	16,808	22,432	19,245	-3,187	-14.2

Totals	**193,792**	**200,075**	**199,358**	**-717**	**-0.4%**

[a]Summer term is treated as the first term of a fiscal year. For example, summer 2019 is counted toward 2019-20.

UC Is Planning for Lower Growth in 2022-23 Than Directed in Budget. In its 2022-23 budget request to the state, the UC Board of Regents adopted a plan to grow resident undergraduate enrollment by 2,000 students over the level in 2021-22, thus enrolling around 202,000 students in 2022-23. Of the growth of 2,000 students in 2022-23, 900 would be allocated to the Berkeley, Los Angeles, and San Diego campuses (combined) to replace reductions in nonresident students. The remaining 1,100 students would be concentrated at the remaining six undergraduate-serving campuses. According to UC, it does not intend to grow by 6,230 students in 2022-23-the target set in the 2021 Budget Act-- because of having enrollment over its target in previous years. Specifically, UC would like to count over-target growth in 2020-21 toward the state's growth expectation.

Legislative Analyst's Office Comments and Recommendations

Assessment

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

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

Three Undergraduate Enrollment Trends to Consider. The recent pandemic has made it increasingly complicated for the state and UC to project enrollment demand. Nonetheless, three key trends, described below, could shape the Legislature's considerations for UC resident undergraduate enrollment in 2023-24.

- ***High School Graduates.*** The Department of Finance projects the number of high school graduates in California to increase by 0.3 percent in 2021-22 (affecting fall 2022 demand) and by 0.6 percent in 2022-23 (affecting fall 2023 demand). All else equal, a rise in high school graduates increases UC freshman enrollment demand.

- ***Community College Students.*** Transfer student enrollment rose at UC from fall 2016 through fall 2020, corresponding with growth in CCC enrollment over the same time period. CCC enrollment declined in 2020-21, however, and a further drop is expected in 2021-22. Whether this drop results in a corresponding decline in UC transfer enrollment is uncertain. UC has enrollment management tools, such as reducing transfer referrals to less selective campuses, that could allow it to increase its transfer yield rates and maintain its transfer enrollment levels.
- ***Referral Pools.*** UC refers students who are not admitted to their campuses of choice to less selective campuses. UC Merced is UC's sole referral campus for freshman applicants, and UC Merced and UC Riverside are UC's referral campuses for transfer students. Providing funding for more enrollment can potentially reduce the number of students referred to less selective campuses. In fall 2020 (the most recent year of data publicly available), UC referred 9,110 freshman applicants (10 percent). UC does not regularly report the number of transfer students referred.

Eligibility and Admission Policies Remain a Consideration. Historically, the state has expected UC to draw its freshman admits from the top 12.5 percent of the state's high school graduates. As the LAO has noted in previous analyses, UC has been found to be drawing from beyond these pools in recent years and likely will continue to do so. In past periods, the state has expected UC to tighten freshman admission policies when it was found to be drawing from beyond these pools. When the UC tightens its admission policies, it effectively redirects a portion of its enrollment to CSU and CCC.

Outyear Resident Enrollment Target Likely Will Affect Future Nonresident Plans. As the Legislature increases systemwide resident undergraduate enrollment (and thus, overall undergraduate enrollment), it reduces the number of nonresident students UC must reduce to attain the 18 percent goal at the Berkeley, Los Angeles, and San Diego campuses. If the Legislature desires to grow resident enrollment in future years, it will want to receive updated nonresident enrollment and cost information from UC. UC currently is required to submit an annual report with this information to the Legislature by January 31, with the first report due by the time of this published agenda.

Different Set of Considerations for Graduate Enrollment. In contrast to undergraduate enrollment, access has not been a primary focus of the state when deciding whether to support graduate student enrollment growth. Rather, the primary focus in past years has been on state workforce needs for graduate students. Existing workforce demand likely varies for academic doctoral, academic master's, and professional graduate students. For example, there is little evidence that the state is facing overall shortages of doctoral students to fill higher education faculty positions. On the other hand, there is some evidence of regional shortages for certain professions (such as for primary care physicians). Beyond workforce considerations, UC campuses also often seek to grow graduate enrollment proportionate to undergraduate enrollment. This practice ensures campuses have an adequate number of teaching and research assistants to accommodate the higher level of undergraduate courses and faculty workload.

Recommendations

Use UC's Planned Growth as a Starting Point for Resident Undergraduate Enrollment in 2022-23. As UC indicates it will enroll only 1,100 rather than 6,230 additional resident undergraduate students in 2022-23 (excluding the approximately 900 new students from the nonresident reduction plan), the LAO recommends that the Legislature consider that planned growth as a starting point for funding (costing $12 million, using the 2022-23 marginal cost of instruction of $11,200 per student). Though the

Legislature could consider providing more than the $12 million, such action would differ from recent state practice. The Legislature likely would want to consider providing more funding only if it were concerned about UC having over-target enrollment in 2020-21 and its resulting per-student funding being too low.

Adopt Nonresident Reduction Funds. Consistent with last year's budget agreement, the LAO recommends adopting funds for planned reductions in nonresident enrollment (and associated growth in resident students) in 2022-23. The LAO thinks the Governor's proposed level of funding ($31 million for the 900 student replacement) likely is justified. That said, the LAO recommends that the Legislature review UC's forthcoming report, due January 31, to ensure UC intends to reduce nonresident enrollment at the affected campuses by a combined 900 students.

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

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

Suggested Questions

- UC: Please discuss the differences in enrollment for Fall 2021 as compared to 2018, 2019, and 2020.

- The Governor's budget provides enrollment growth funding for 2022-23. UC however anticipates 2021-22 to be slightly down from 2020-21 due to reductions in summer enrollment. What are the implications of the 2021-22 estimates on expected 2022-23 enrollment?

- DOF: What is the Administration's position on UC's enrollment plans for 2022-23?

- UC: What factors should the state consider when setting targets for the 2023-24 year? How can the state account for uncertainty with enrollment planning at campuses while still setting clear enrollment targets?

- UC: How does UC intend to physically have space for the growth over the next decade?

- We ask UC and DOF to provide a response to the LAO's recommendations. What would be the impact of LAO's recommendations on UC going forward?

On non-resident enrollment targets,

- UC: Can you provide an update on the nonresident buyout at the three campuses? Has UC made progress in setting up the system to implement that agreement? Are all three on track to begin that change in Fall 22? What are the targeted nonresident reductions/resident increases at each campus?

Staff Recommendation. Hold Open.

Issue 3: Deferred Maintenance and Energy Efficiency at UC

Panel

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

Governor's Budget

- **Deferred Maintenance and Energy Efficiency.** The Governor's budget proposes an increase of $100 million one-time General Fund for deferred maintenance and energy efficiency projects at UC campuses. Budget bill language would direct the Administration to report to the Legislature on the specific projects selected within 30 days after the funds are released to UC.

Background

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

UC Has Been Developing a Better Estimate of Its Maintenance Backlog. For the past several years, UC has indicated that its maintenance backlog totals billions of dollars. Until very recently, it lacked a more precise estimate. This is because campuses historically maintained their own lists of deferred maintenance projects. According to staff at the UC Office of the President, these lists were not reliable because campuses used different approaches to estimate their backlogs and generally had not undertaken comprehensive condition assessments of their buildings. To obtain a better estimate, UC began undertaking a multiyear project known as the Integrated Capital Asset Management Program (ICAMP). Under ICAMP, UC is conducting facility condition assessments of all its academic facilities and infrastructure. In conjunction with this effort, the Legislature in the *Supplemental Report of the 2019 Budget Act* directed UC to submit a report quantifying its long-term maintenance and renewal needs.

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

State Has Provided Funds to Address Backlogs. In the years following the Great Recession, the state provided one-time funding to help the universities address their maintenance backlogs. Figure 5 below shows the amounts appropriated by the state each year from 2015-16 through 2021-22. Most recently, the 2021 Budget Act provided $325 million General Fund one-time to address UC deferred maintenance and energy efficiency projects.

Figure 5: State funds for UC DM projects

General Fund, Unless Otherwise Noted (In Millions)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	25	35	50	70[b]	179[a,b]	$35[b]	$325

[$350a]The 2020-21 budget package allowed CSU and UC to repurpose unspent 2019-20 deferred maintenance funds for other operational purposes.

[b]In each of these years, $35 million came from state-approved university bond funds.

Proposed Use of Funds to Address Deferred Maintenance. Though UC has not submitted a list of specific projects that would receive funding, UC indicates that it likely would draw from a list of projects totaling $788 million deemed by ICAMP to be "highest risk." (Upon request, UC submitted this list of projects to staff in January 2022.) According to UC, projects in the highest risk category should be addressed within the next few years to avoid disruptions to campus operations.

Legislative Analyst's Office Comments and Recommendations

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

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

Recommendations

Consider Governor's Proposal as a Starting Point. To address UC's maintenance backlog, the LAO recommends that the Legislature provide at least the $100 million proposed by the Governor. As it deliberates on the Governor's other one-time proposals and receives updated revenue information in May, the Legislature could consider providing UC with more one-time funding for this purpose.

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

Suggested Questions

- UC: What are the up-to-date projections for the estimates to address the backlog?
- UC: Of this backlog amount, how much would be considered shovel ready or can be started within the next year?
- Moving forward, how can the state and UC address UC's backlog and prevent a new one from growing?

Staff Recommendation. Hold Open.

Issue 4: Various Governor's Proposals

Panel

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

Governor's Budget

- **Dyslexia Research.** The Governor's budget proposes an increase of $10 million one-time General Fund to support the University of California San Francisco Dyslexia Center.

- **Firearm Research**. The Governor's budget proposes an increase of $2 million ongoing General Fund to support research conducted by the University of California Firearm Violence Research Center.

- **Technical Adjustment-Graduate Medical Education**. The Governor's budget proposes a decrease of $582,000 ongoing General Fund to maintain a total of $40 million annually for a statewide grant program to increase the number of available graduate medical residency slots, based on updated Proposition 56 revenue projections.

Background

Proposal: California Firearm Violence Research Center at UC Davis.

Firearm violence is a significant health and social problem in California and across the United States. The lack of basic information on the epidemiology of firearm violence and its prevention has led to widespread misunderstanding of the problem and has impeded prevention efforts. Evidence of the effects of state policies and programs for reducing firearm violence as well as basic information on benefits, risks, and prevalence of firearm ownership in California are also lacking.

The California Firearm Violence Research Center at UC Davis, initially named the University of California Firearm Violence Research Center, is the first state-funded center for firearm violence research, founded to address these gaps in knowledge on firearm violence and its prevention in July 2017.

Activities and mission. The research center, according to Section 14231 of the California Penal Code, will conduct interdisciplinary work to address:

- The nature of firearm violence, including individual and societal determinants of risk for involvement in firearm violence, whether as a victim or a perpetrator.
- The individual, community, and societal consequences of firearm violence.
- Prevention and treatment of firearm violence at the individual, community, and societal levels.

In addition to rigorous research on firearm violence, the research center is dedicated to its role in policy development, public dissemination of research findings, training of new investigators in the field of firearm violence, and supporting non-research center investigators conducting firearm violence research through its small grants program.

The research center is located at UC Davis, with Dr. Garen Wintemute as its director. The UC Davis Violence Prevention Research Program, which for more than thirty years has conducted firearm research and policy development, will closely work with the research center and provide unique opportunities; VPRP core investigators come have a variety of backgrounds related to firearms and firearm policy, including medicine, epidemiology, statistics and biostatistics, criminology, the law, economics, and policy studies.

In 2020, the research center accepted proposals for grants to support research that explores the causes of firearm violence and evaluates strategies and interventions for reducing firearm-related harm.

State Budget and the Research Center. The Center's state funding appropriations and related actions are as follows:

- An initial $5M appropriation (2016) to establish the California Firearm Violence Research Center (CA FVRC).
- One-time appropriation to CA FVRC in 2019 to establish the BulletPoints Project to educate clinicians about how to prevent firearm injury and death.
- The 2021 Budget Act included AB 173, which changed the name of the center to "the California Firearm Violence Research Center at UC Davis". The 2021 budget act also approved the Governor's Budget proposal to provide $1 million ongoing General Fund to support the center. The budget specified that UC Davis shall not assess administrative costs or charges against these funds.

Use of Funds in Governor's Budget proposal. UC indicates that the augmentation will support an expansion of the Center's work in all the aforementioned activities. Personnel capacity will be increased through the recruitment and retention of additional faculty researchers and staff representing the broad array of disciplines appropriate to the study and prevention of violence. With the increased capacity made possible by the augmentation, we plan to design and execute controlled trials of violence prevention and violence recovery programs and policies.

Proposal: Dyslexia Research

Dyslexia is considered a type of "specific learning disability," which is defined in California's regulations pertaining to students who qualify for special education services. The International Dyslexia Association defines dyslexia as: "a specific learning disability that is neurobiological in origin. It is characterized by difficulties with accurate and/or fluent word recognition and by poor spelling and decoding abilities. These difficulties typically result from a deficit in the phonological component of language that is often unexpected in relation to other cognitive abilities and the provision of effective classroom instruction. Secondary consequences may include problems in reading comprehension and reduced reading experience that can impede growth of vocabulary and background knowledge."

UCSF Dyslexia Center Mission. The mission of the UCSF Dyslexia Center is to eliminate the debilitating effects of developmental dyslexia while preserving and even enhancing the relative strengths of each individual. In addition, the center aims to develop best practice protocols to implement individually catered interventions in classrooms throughout the country.

To accomplish their mission, they have:

- Assembled an interdisciplinary team of preeminent scientists to contribute to their multifaceted approach in characterizing the strengths and weaknesses associated with developmental dyslexia,
- Enlisted the talents of renowned neuroscientists, geneticists and clinicians across language, reading, cognition, aging, visuospatial, aging and social domains to help the center excel in examining the whole person throughout the lifespan, and
- Utilized the newest neuroimaging and genetic techniques in individuals and families to evaluate neurobiology as it relates to cognitive and biological phenotypes.

Finally, the center works closely with schools and educators to apply the knowledge gained from this unique program to develop early interventions and educational strategies to help children with dyslexia thrive.

State Budget and Dyslexia Research. The state funding appropriations for UCSF Dyslexia Center is as follows:

- The 2019 Budget Act provided $3.5 million one-time General Fund, to be expended over three years, to the UCSF Dyslexia Center Pilot Program, now called now “Multitudes,” to support a dyslexia screening and early intervention pilot program.
- Received $1 million in Proposition 98 funds for its involvement in the California Dyslexia Initiative.
- The 2021 Budget Act included $10.2 million for the UCSF Dyslexia Center and added $5 million that will be used to expand pilot sites at local educational agencies to use dyslexia screening tools and assessments and research-based interventions to prevent reading failure, as proposed in the Governor’s May Revision.

Support from the General Fund of the State of California has made possible the development of an emerging system now called UC Multitudes, previously known as “California Universal Readiness for School” tool.

UC Multitudes. This screening tool helped flag certain learning challenges. The first screening tool the center created a few years ago was an iPad application designed to identify literacy challenges among kindergarten and first-grade students. To date, the center has piloted this literacy tool with nearly 2,000 students at 30 schools across the state. More recently, the center has replaced its iPad application with a web-based platform called “Multitudes.” Multitudes screens for literacy challenges as well as a broader array of academic and socio-emotional challenges. Like the original iPad application, Multitudes is intended to identify learning challenges, allowing for targeted early interventions. (Early interventions, for example, could include using hand gestures to support memory association or building words with letter tiles.) According to center staff, these early interventions are intended to prevent students from being referred for special education.

Use of Funds in Governor's Budget proposal. According to the center, with continuing support, Multitudes can be used to screen all public school attending Kindergarten and 1st graders in California. The Multitudes system includes a translational research stream, an implementation stream, and an ongoing basic research and development stream. With $10 million allocated in 2022-23 to spend over the following three years, they anticipate achieving the following goals by the end of the 2024-2025 fiscal year:

UC San Francisco Dyslexia Center Plans to Spend Proposed Funds on Several Activities

(In Millions)	
Validate and update literacy screening tool	$2.5
Explore refining screening tool to accommodate English learners	2.0
Pilot studies of professional development and early interventions	2.0[a]
Support basic science research	2.0
Develop and pilot executive functioning, socio-emotional, and mathematical cognition screening tools	1.0
Validate screening tool for visual-spatial awareness and develop associated interventions	0.5
Total	**$10.0**

[a] Item also will be supported by $300,000 in Proposition 98 General Fund from the California Dyslexia Initiative.

Proposal: Graduate Medical Education Adjustment

Graduate Medical Education Account, CA Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund. Proposition 56 – California Healthcare, Research and Prevention Tobacco Tax Act of 2016 – was passed by voters on the November 8, 2016 ballot and implemented a surcharge on tobacco tax products.

Among the numerous programs supported with Proposition 56 funds, the measure requires $40 million annually to go to UC for primary care physician post-graduate training programs (known as "graduate medical education"). UC uses the funds to support the CalMedForce program, which provides competitive grants to primary care graduate medical education programs throughout California. Under a memorandum of understanding with UC, Physicians for a Health California administers the grants.

The measure also directs the state to reduce the amount of Proposition 56 funds going for UC graduate medical education in response to declining tobacco tax revenues. The objective of this provision is to prevent any one Proposition 56-funded program to be disproportionately impacted from declining revenues. The state has backfilled Proposition 56 funding reductions to CalMedForce with state General Fund, maintaining the program's total level of support at $40 million.

Previous Budget Actions. The 2021 Budget Act approved the May Revision proposal to decrease the Graduate Medical Education grant program by $1.6 million to maintain a total of $40 million for the program based on the most recent Proposition 56 revenue estimates. The budget also gives the Department of Finance the ability to adjust this fund each year to ensure it provides $40 million for this program.

Legislative Analyst's Office Comments and Recommendations

Assessment of Dyslexia Research Proposal

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

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

Recommendation for Dyslexia Research Proposal

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

Suggested Questions

- UC: What priorities are in the UC Regents' budget but are not in the Governor's budget? If the amount of General Fund in the Gov's budget is not increased, which of these priorities would not be funded? Which would you have to forego? Which would be sought by other fund sources?

Staff Recommendation. Hold open all proposals.

Issue 5: UC Agriculture and Natural Resources (Oversight)

Panel

- Jason Constantouros, Legislative Analyst's Office
- Seija Virtanen, University of California
- Glenda Humiston, University of California Vice President for Agriculture and Natural Resources
- Brian Rutledge, Department of Finance

Background

The University of California (UC) Operates Two Main Agricultural and Natural Resource Programs. One program—Agricultural Experiment Stations—supports basic and applied research at the Berkeley, Davis, and Riverside campuses. The other program—Cooperative Extension—conducts applied research and provides outreach to stakeholders across the state. Both programs were established by the federal government more than 100 years ago. Over the years, they have broadened their scope to include research and outreach in areas such as drought and wildfire mitigation.

UC Agriculture and Natural Resources (ANR) Division Administers Programs. A division of the UC Office of the President (located in Oakland), UC ANR is responsible for administering these programs. In practice, UC ANR focuses the bulk of its efforts on Cooperative Extension—overseeing the activities of Cooperative Extension researchers and practitioners working at UC campuses as well as at county-based extension offices and Research and Extension Centers. Campus deans and UC ANR jointly oversee the experiment stations.

UC ANR operates statewide programs including UC California Naturalist, UC Master Gardner, 4-H Youth Development, Expanded Food and Nutrition Education, UC Integrated Pest Management, UC Sustainable Agriculture Research and Education, among others.

State Is a Major Fund Source for Both Programs, but State Now Budgets for Programs Differently. Though receiving funds from several sources, both Agricultural Experiment Stations and Cooperative Extension receive more than half of their ongoing operating support from the state General Fund.

State Recently Began Line-Item Budgeting UC ANR. Historically, the state granted UC significant discretion to determine how much of UC's state funding to provide to the experiment stations and Cooperative Extension. As the below figure from the LAO shows, the state began changing its approach a few years ago, becoming more proactive in setting Cooperative Extension funding levels. As of 2021-22, the state budget contains a line item specifically for UC ANR. This line item provides greater transparency over ANR budgeting and gives the Legislature easier control over making annual Cooperative Extension funding adjustments. The line item solely contains state funding for Cooperative Extension, with state funding for the experiment stations still embedded within UC's main budget appropriation (meaning UC still effectively decides how much to provide for the stations each year).

State Has Adjusted UC ANR Funding Approach Over the Years

Through
2016-17
The state annually adjusted UC's budget, and UC determined level of state funding to provide UC ANR.

2017-18
In the annual budget act, the state specified a certain amount of funding for the UC Office of the President (UCOP), with ANR funding embedded within this amount.

2018-19
In annual budget act, the state retained the UCOP line item and added budget bill language specifying $73 million General Fund for UC ANR.

2019-20
General Fund support for UC ANR remained at $73 million.

2020-21
In response to the COVID-19 pandemic, the state reduced General Fund support for UC ANR—providing $63 million, reflecting a $9.2 million (13 percent) reduction.

2021-22
The state eliminated the UCOP line item but created a line item solely for UC ANR. The state provided UC ANR with $108 million ongoing General Fund, reflecting a $45 million (70 percent) increase over the 2020-21 level. This amount fully restored reductions from the previous year and provided an augmentation for operating cost increases and more specialists and advisors.

ANR = Agriculture and Natural Resources and COVID-19 = coronavirus disease 2019.

LAO

Cooperative Extension Received Significant Augmentation in 2021-22. The 2021 Budget Act implemented the February 2021 early action agreement to provide UCANR $9.2 million to restore funding that was cut in the 2020-21 Budget Act. The budget also provided $32.1 million ongoing General Fund for UCANR Division, and maintains it as a separate budget line item. Moreover, the state provided $3 million one-time funding to UC ANR for limited-term fire advisor positions and one-time activities at the Nutrition Policy Institute.

Legislative Analyst's Office Comments and Recommendations

Three Concerns With State Oversight of Programs. First, the state has considerably less information, budgetary control, and oversight of Agricultural Experiment Stations than it does of Cooperative Extension despite the two programs being intended to work in concert to address pressing agricultural and natural resource issues. Second, the Legislature lacks sufficient budgetary information from UC to adjust funding for these programs on an annual basis. Third, the state does not receive regular performance reporting on both programs despite comprising the largest source of ongoing funding.

Three Recommendations for Enhancing Legislative Oversight. First, the LAO recommends that the Legislature include state General Fund for Agricultural Experiment Stations in the existing UC ANR budget item, thereby budgeting for both programs directly. Second, the LAO recommends that the Legislature require UC to submit a budget report in late fall each year providing key information on anticipated operational cost increases. Third, the LAO recommends requiring UC to report periodically to the Legislature on the activities and outcomes of Agricultural Experiment Stations and Cooperative Extension. Together, these actions would improve budget transparency, provide the information needed to make informed budget decisions moving forward, and enhance legislative oversight of the programs.

Suggested Questions:

- DOF: While last year's augmentation was provided to make up for years of no COLA for Cooperative extension, the proposed budget does not include a COLA. Why is there no COLA proposed for 2022-23?

- UC/UC ANR/LAO: Moving forward, what factors should the Legislature consider when adjusting Cooperative Extension's budget?

- LAO: Given that campus deans and UC ANR jointly oversee the experiment stations, but that UC ANR focuses the bulk of its operations on Cooperative Extension, can you expand a bit more on your recommendation to include the experiment stations under UC ANR?

- UC/UC ANR: What are your responses to the LAO's specific recommendation to include state General Fund for Agricultural Experiment Stations in the existing UC ANR budget item?

- We ask UC and DOF to provide a response to the LAO's other recommendations.

Staff Recommendation. No action needed at this time.

Issue 6: Implementation of Previous Budget Act Agreements (Oversight)

Panel

- Seija Virtanen, University of California

The Budget Act of 2021 included several agreements and investments such as the following:

- **Line Item for UCOP and UCPath Is Removed in 2021-22.**

  Campus Assessment. In 2012, UC undertook a series of changes to the way it allocated funds to its campuses and divisions. Under the new funding model, UC allocated all state General Fund to campuses and charged campuses back an assessment to support central services and programs (UCOP; ANR; and UCPath, the university's systemwide payroll and human resources program). UC implemented this change to give campuses more flexibility and control over their budgets and operations.

State Line Item in 2017-18. In 2017-18, the state altered this funding arrangement by directly budgeting General Fund for UC's central services in the annual budget act. The state established this line item in response to a report from the California State Auditor that raised concerns over UCOP's budget transparency. Since establishing this line item, the annual budget act has prohibited UC from assessing fees on campuses to support UCOP or ANR. (This prohibition also initially extended to UCPath, but since 2018-19, the state has allowed campus assessments to supplement UCPath's General Fund support.)

2021 Budget Act Agreement. The 2021 Budget Act modified this line item. Specifically, it transferred funds for UCOP and UCPath out of the separate budget line item and back into UC's main appropriation. The ANR division alone remains in the separate line item. To ensure legislative oversight of UCOP continues, provisional budget language requires UCOP to annually report on its budget, beginning September 2022. (The budget also maintains an existing reporting requirement for UCPath.) Specifically, the budget requires UC to annually report to the Legislature and the Department of Finance UCOP's budget starting on September 30, 2022 (as well as UCPath's budget each November 1). The budget agreement notes that this action will be for one year, and will be reviewed prior to the enactment of 2022 Budget Act.

Implementation Update Since 2021 Budget Act. Since the 2021 Budget Act agreement, UCOP moved back to a campus assessment. The campuses once again get to choose which funding sources they will use to pay the assessment. UCOP is reporting quarterly to the Board of Regents on the UCOP budget. The UCOP budget, excluding UC Path and UC ANR, for 2021-22 was the same as for the 2019-20 year. This reflected a restoration of the cut provided in 2020-21. This 2021-22 budgeted amount is the same as in 2017-18.

Separately, UC Path was moved to a fee-for-service model that charges campuses based on the number of W-2s issued.

- **UC Program in Medical Education (PRIME).** The 2021 Budget Act increased funding for the UC PRIME program by $12.9 million ongoing General Fund. The budget required UC to establish a new UC PRIME focused on Native American communities, and other programs that are focused on state priorities. UC was encouraged to use these funds to support programs that serve underrepresented areas in the state. The law also requires UC to report by March 1, 2022 and annually thereafter until March 1, 2027, to the Legislature and the Department of Finance on how this funding was used and the outcomes it achieved.

- **Emergency Financial Aid.** The 2021 Budget Act included $15 million one-time General Fund to support emergency financial aid for students. The budget approved the May Revision proposal to align emergency student financial aid eligibility criteria for funding available to UC students with criteria established by AB 85 (Committee on Budget), Chapter 4, Statutes of 2021 for similar funding available to California Community College students.

- **Dual Admission Pathways.** AB 132 modified the Governor's Budget proposal to create a new Dual Admissions transfer program. The trailer bill specified that the program will be available from 2023-24 through the 2025-26 academic year. The dual admissions agreement guarantees that a student will: (1) be admitted to the campus of their choice if the student completes an associates degree or an established course of study for transfer within two academic years at a CCC, and (2) have access to library, counseling and other services from the UC campus nearest to their primary residence. The bill requires UC to report by April 1, 2026 on the program, including college participants, description of services and information on program applicants and student outcomes.

- **California Institutes for Science and Innovation.** The 2021 Budget Act included the Governor's Budget proposal to provide $20 million one-time General Fund to support student stipends at the California Institutes for Science and Innovation. This funding is to support stipends over a five year period to better enable student workers to connect with industry employers, and for research teams to form industry partnerships to better align educational programs with workforce needs.

Additionally, previous Budget Act agreements that are of relevance are:

- **UC Employment and Capital Outlay.** The Budget Act of 2020, through Senate Bill 820 authorized, starting on January 1, 2021 the UC to proceed with General Fund capital expenditures upon signed certification that all cleaning, maintenance, grounds keeping, food service or other work traditionally performed are by UC employees at each facility, building or property. This excluded construction work and other types of work, including carpentry, electrical, plumbing, glazing, painting and other craft work designed to preserve, protect or keep facilities in a safe and usable condition. The law also specified that, starting with the 2021-22 fiscal year, the Department of Finance shall approve each new and ongoing capital expenditure only after the UC has demonstrated compliance with the above.

- **Program Extension.** Existing law requests the University of California to establish and administer the Umbilical Cord Blood Collection Program for the purpose of collecting units of umbilical cord blood for public use, as defined, in transplantation and providing nonclinical units for specified research. The 2017 Budget Act extended the sunset date of the Umbilical Cord Blood Collection Program from January 1, 2018 to January 1, 2023, and required UC to report to the Legislature one year before the sunset date regarding (1) key data on cord blood units (including the number of units collected, registered, and transplanted—disaggregated by race/ethnicity—compared with nationwide data); (2) data on collection and storage costs as well as associated fee revenue and state, federal, and private funding; and (3) evidence as to why the program should or should not be extended beyond the new sunset date.

The above agreements are of relevance to this oversight item.

Suggested Questions:

For all mentioned above:

- To date, what steps has UC taken to implement these agreements?

- What data, if any, has UC collected about it? Does UC have any participation data for these initiatives?

- What challenges, if any, has UC encountered as it implements these initiatives?

On the Umbilical Cord Blood Collection Program,

- What information have you provided the Legislature so far and does the evidence suggest that this program should or should not be extended beyond the current sunset date? What statutory changes, if any, are needed to proceed further?

Staff Recommendation. Hold Open.

Issue 7: Student Housing

Panel

- Seija Virtanen, University of California

Governor's Budget

Per the 2021 Budget Act agreements, the 2022-23 proposed budget provides $750 million one-time General Fund for the second installment of a planned $2 billion one-time General Fund appropriation over a three-year period. This augmentation was included in the 2021-22 budget agreement.

Background

California's housing crisis threatens the state's higher education goals of increasing access and improving affordability. For most students, housing costs are higher than tuition. Despite a significant recent student housing building boom at both the University of California (UC) and California State University (CSU), many campuses report waiting lists for on-campus housing, and students struggle to find affordable and safe off-campus options. Campus housing programs, which suffered losses during the COVID-19 pandemic, are struggling to fund new construction or renovation projects that that keep student costs down and address local government and neighborhood concerns.

The need for more student housing on or around campuses is clear:

- Homelessness is prevalent across California's three higher education segments, with 1 in 20 students at UC, 1 in 10 students at CSU, and 1 in 5 students at California Community Colleges (CCC) reporting experiencing homelessness at some point during the academic year. Even more students experience some form of housing insecurity. For example, 16 percent of UC students in 2020 reported sleeping in nontraditional housing arrangements (such as a hotel, transitional housing, or outdoor location) because they lacked permanent housing.
- Affordable, on-campus housing is a benefit to students. A report to the CSU Board of Trustees in July 2020 noted that research across college campuses nationally and within the CSU suggest that students living on campus have higher grade point averages and lower academic probation

rates, higher retention and graduation rates, and shorter time to graduation than their off-campus peers.

- Insufficient student housing can hinder campuses' ability to increase enrollment and serve more Californians. Both UC Davis and UC Santa Cruz, for example, have agreements with local governments that limit increased enrollment unless housing is added to accommodate that growth. CSU Humboldt has launched a plan to become a polytechnic university and more than double its student body in the next decade, but campus officials note that on-campus housing must be built before dramatically increasing enrollment. The local housing market cannot accommodate thousands of new students.

Historically, student housing has rarely been a discussion point for the education subcommittee, as the state does not traditionally support housing costs and has left campuses and the systems to develop and support their own housing programs, supported by student rent. Given the state's housing crisis, however, that is changing. In urban areas, local market rental rates – among the highest in the country - are forcing students to pack into apartments or homes, and in rural areas, many campuses do not have enough local housing to accommodate current or future enrollment levels.

Higher Education Student Housing Grant Program, and Capacity Expansion Grant Program creation. SB 169 (Committee on Budget and Fiscal Review), Chapter 262, Statutes of 2021 creates two new programs to support affordable student housing at the UC, CSU and Community Colleges, and campus expansion projects at UC and CSU. SB 169 appropriates $500 million one-time General Fund in 2021-22 for student housing projects, includes legislative intent to provide $750 million in 2022-23 and $750 million in 2023-24 for this purpose. This appropriation and proposed funding will be divided as follows: 50 percent to CCCs, 30 percent to CSUs, and 20 percent to UCs. Creates a process for campuses to propose housing projects by October 2021 for inclusion in the subsequent budget act. Creates the campus expansion program and includes legislative intent to provide funding for this program in the future.

Student Housing Update as of January 2022. Of the $500 million one-time General Fund for the Higher Education Student Housing Grant program in 2021-22, $25 million is available for CCC planning grants for student housing. The Department of Finance (DOF) received 114 applications totaling approximately $3.2 billion from CCCs, CSU, and UC in the initial application filing round. By March 1, DOF will provide the Joint Legislative Budget Committee a list of projects proposed to be funded with the 2021-22 appropriation. The funds available in 2021-22 will be appropriated for specific projects and planning grants to be identified in subsequent legislation. The UC submission totals almost $600 million, representing housing needs in seven campuses.

Suggested Questions

- Just for clarification, what is the total amount that UC asked for under the current process? Does UC anticipate requesting more funding during the three year life of this program? How many more projects does this additional funding represent?

- Please describe the UC's student housing plans in relation to the Student Housing Grants. How many projects have been submitted? What are your observations so far?

- What challenges, if any, has the UC encountered so far in developing additional student housing?

- How many more beds does UC need to accommodate student needs?

Staff Recommendation. No action needed at this time.