SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Benjamin Allen
Senator Mike Morrell

Thursday, March 12, 2015
9:30 a.m. or upon adjournment of session
State Capitol – Room 3191

Consultant: Anita Lee

Proposed Discussion

6440	**University of California**
6610	**California State University**
Item 1	Multi-Year Funding Plans
Item 2	Enrollment Oversight
Item 3	Capital Outlay Process Oversight
Item 4	Deferred Maintenance
Item 5	California Health Benefits Review Program Oversight
Item 6	Innovation Award
Item 7	Center for California Studies
	Public Comment

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BACKGROUND

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

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

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

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

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

The following table displays the budgeted expenditures and positions for the UC, as proposed in the Governor's budget. Of the amounts displayed in the table, $2.8 billion in 2013-14, $3.0 billion in 2014-15, and $3.1 billion in 2015-16 are supported by the General Fund. An additional $766 million in 2013-14, $853 million in 2014-15, and $884 million in 2015-16 comes from the General Fund in the form of Cal Grant tuition payments. The remainder of funding comes from tuition and fee revenue and various special and federal fund sources.

University of California
Budgeted Expenditures and Positions
(Dollars in Millions)

	2013-14	**2014-15**	**2015-16**
Personal Services	$10,384	$10,870	$11,348
Operating Expenses and Equipment	$15,817	$16,041	$16,223
Total Expenditures	**$26,201**	**$26,911**	**$27,571**
Positions	**91,183**	**92,034**	**92,034**

Chart includes all sources of funds.

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

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

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

The following table displays the budgeted expenditures and positions for the CSU, as proposed in the Governor's budget. Of the amounts displayed in the table, $2.4 billion in 2013-14, $2.8 billion in 2014-15, and $2.9 billion in 2015-16 are supported by the General Fund An additional $2.9 billion in 2013-14, $3.4 billion 2014-15, and $3.6 billion 2015-16 in the form of Cal Grant tuition payments. The remainder of funding comes from tuition and fee revenue and various special and federal fund sources.

California State University
Budgeted Expenditures and Positions
(Dollars in Millions)

	2013-14	**2014-15**	**2015-16**
Personal Services	$3,731	$4,019	$4,019
Operating Expenses and Equipment	$4,616	$4,469	$4,703
Total Expenditures	**$8,347**	**$8,489**	**$8,723**
Positions	**42,444**	**44,483**	**44,483**

Chart includes all sources of funds.

Issue 1 – Multi-Year Funding Plan

Panel

- Jillian Kissee, Department of Finance
- Paul Golaszeski, Legislative Analyst's Office
- Kieran Flaherty, University of California
- Ryan Storm, California State University

Governor's Proposal

The Governor's proposed budget includes unallocated base increases in General Fund—$119 million for the UC and $119 million for CSU—to support the Administration's third installment of its four-year investment plan in higher education. This plan, initiated in 2013-14, assumes additional General Fund support for the UC, the CSU, and Hastings College of the Law over a four year period.

Under the plan, the UC and CSU received five percent annual base funding increases in 2013-14 and 2014-15 and would receive a four percent increase in the subsequent two years. The continuation of the multi-year plan is contingent upon the UC not increasing current tuition and fee levels in 2015-16, not increasing nonresident enrollment in 2015-16 and taking action to constrain costs. The proposed budget language requires UC to submit a report to the Governor and Legislature verifying the university has met these conditions prior to the release of state funds. Though not specified in budget language, the Governor has indicated he expects CSU to maintain current tuition levels. The Governor also stated his expectation that the UC Regents form a committee, supported by staff of the UC Office of the President and the Administration, to develop proposals to reduce costs, enhance undergraduate access, and improve time-to-degree and degree completion. Subsequent to the release of the budget, this committee was formed, with membership consisting of the Governor and the UC President.

Sustainability Plan

Consistent with last year's budget, the Governor's proposed budget requires the UC Regents and the CSU Board of Trustees to adopt three-year sustainability plans, by November 30, 2015, for fiscal years 2016-17, 2017-18, and 2018-19. Specifically, the Governor proposes that the sustainability plans include:

- Projections of available resources (General Fund and tuition and fees) in each fiscal year, using assumptions for General Fund and tuition and fee revenue provided by the Department of Finance (DOF).

- Projections of expenditures in each fiscal year and descriptions of any changes necessary to ensure that expenditures in each of the fiscal years are not greater than the available resources.

- Projections of enrollment (resident and non-resident) for each academic year within the three-year period.

- The University's goals for each of the performance measures, as specified in Education Code (detailed below), for each academic year within the three-year period.

Background
The Legislature has limited control in regards to the operations and governance of UC due to its constitutional autonomy. The state also has delegated significant autonomy to CSU. Both universities are governed by independent boards that manage university affairs.

Given that significant budget authority has been delegated to UC and CSU, the budget is a critical legislative tool for ensuring that statewide goals and outcomes are being appropriately addressed by the state's universities. The Legislature has historically relied on two primary budgetary control levers or "tools"— earmarks and enrollment targets — to ensure that state funds are spent in a manner consistent with the Legislature's intent and that access is maintained. The use of these tools has also ensured a clear public record and transparency of key budget priorities.

Consistent with the last two budgets, the Governor's 2015-16 budget proposal continues to express major concerns with enrollment-based budgeting and asserts that funding enrollment growth does not encourage postsecondary institutions to focus on affordability, student completion, and education quality.

As mentioned above, the Budget Act of 2014 required UC and CSU to adopt three-year sustainability plans that were based on the General Fund and tuitions assumptions provided by DOF. The DOF's revenue assumptions included $119 million in state support and no additional tuition revenue. In November 2014, UC and CSU adopted three-year sustainability plans that are described below.

Additionally, the 2013–14 budget package required UC and CSU to report annually, by March 15, on a number of performance outcomes such as graduation rates, spending per degree, and the number of transfer and low–income students they enroll, among other measures. As of the drafting of this agenda, the most recent performance outcomes have not been released, and are scheduled to be reported by March 15, 2015.

AB 94 (Committee on Budget), Chapter 50, Statues of 2013, also requires the UC and CSU to report biennially to the Legislature and DOF, beginning October 1, 2014, on the total costs of education, on both a system-wide and a campus-by-campus basis, segregated by undergraduate instruction, graduate instruction, and research activities. Further, the costs must be reported by fund source, including: 1) state General Fund; 2) systemwide tuition and fees; 3) nonresident tuition and fees and other student fees; and 4) all other sources of income. Whereas CSU submitted its report by the statutory deadline, UC did not submit their report until February 17th. The UC explains the delay on difficulties in developing a methodology to break-out costs, as required in statute.

In addition to various reporting requirements, SB 195 (Liu), Chapter 367, Statutes of 2013, set three broad state goals for higher education: 1) improving student access and success; 2) better aligning degrees and credentials with the state's economic, workforce, and civic needs; and, 3) ensuring the effective and efficient use of resources to improve outcomes and maintain affordability. It is intended that these goals guide state budget and policy decisions for higher education. In 2012 and 2013, the Governor proposed a formula to tie future funding increases for the universities to their success in meeting specific performance targets. However, the Legislature did not adopt the proposed performance funding formula, instead opting to establish performance measures and reporting requirements (mentioned above) without linking them directly to funding.

Legislative Analyst's Office Comments
Similar to last year, the LAO has raised serious concerns about the Governor's overall budgetary approach for the universities and recommends the Legislature reject it. The LAO finds most troubling that the Governor provides each segment with an unallocated base augmentation not linked to a specific purpose. This makes it difficult to assess whether the augmentations are needed and whether any monies provided would be spent on the highest state priorities. Moreover, LAO states that the base increases provided by the Governor are in the ballpark of the cost-of-living adjustment (COLA) he provides to the community colleges. LAO recommends the Legislature reject the unallocated base increases and instead provide a COLA to the UC and CSU. LAO estimates applying a 2.2 percent COLA to the base state appropriations and tuition revenue for UC and CSU would cost $127 million and $94 million, respectively. The LAO also recommends the state adopt a share-of-cost policy between General Fund and tuition revenue. If the state were to continue last year's share-of-cost, the state instead would allocate $66 million to UC and $47 million to CSU from the General Fund and allow the universities to cover the remainder of the COLA through a 2.2 percent tuition increase.

In reviewing the segments performance targets set in the sustainability plans, LAO stated that overall, the segments targets were somewhat lackluster. For example, CSU set a goal of raising its current six-year graduation rate for low-income students from 46 percent to 48 percent by 2017-18. Additionally, for funding per degree (an efficiency measure) CSU projected becoming less efficient between 2013-14 and 2017-18, with funding per degree set to increase from $36,300 to $41,100. UC's goals were similar, with modest projected improvement in 4-year graduation rates from 56 percent to 60 percent for low-income freshman entrants, no improvements in units per degree, and a notable increase in funding per degree from $98,300 to $112,900.

Segments' Budgets

UC's Budget Plan
The UC Board of Regents adopted a budget in November 2014 that includes total spending of $459 million—$340 million more than the Governor's proposed base augmentation. Of the $459 million, UC identifies the following expenditures:

- Mandatory Costs: $125 million including retirement contributions, health benefit increases, and its faculty merit program;

- High–Priority Costs: $179 million consisting of compensation increases ($109 million), deferred maintenance ($55 million), and other high–priority capital needs ($14 million);

- Institutional Financial Aid: $73 million;

- Investment in Academic Quality: $60 million; and,

- Enrollment Growth: $22 million (includes 1,025 new resident undergraduates, 750 graduate students, and funding for 425 existing students the university believes to be "unfunded").

To pay for the increased expenditures above the Governor's level, the UC Board of Regents voted to increase resident student tuition and fees by five percent per year for a five-year period beginning with the 2015-16 school year. The tuition hike will raise tuition and fees from the current $12,192 annually to $15,564 annually by 2019-20. The university estimates the systemwide tuition increase would result in $98 million in additional revenue in 2015-16 (after accounting for additional revenue set aside for financial aid).

As mentioned above, UC was required to submit a sustainability plan which had to include UC's plan for expenditures and enrollment using revenue assumptions provided by DOF. Based on these revenue assumptions and higher spending in the UC Regents adopted budget, UC reported that in 2015-16 it would increase nonresident enrollment by about 3,000 students (eight percent) and decrease resident enrollment by about 4,000 students (two percent). This would allow the university to fund the expenditure increases because nonresidents pay significant supplemental tuition beyond the system-wide charge that applies to both residents and nonresidents.

UC President Janet Napolitano has the authority to freeze or lower the tuition hike if the state provides funding to offset the proposed revenue increase. Most recently, on March 3, 2015, UC President Napolitano announced that unless UC receives additional state funding, it will not increase resident enrollment for 2015-16. UC will also cap out-of-state enrollment at current levels next year for UC Berkeley and UCLA, however other UC campuses will be able to move forward with non-resident enrollment increases.

CSU Budget Plan
The CSU's budget plan proposes $97 million in additional state funding, above the Governor's four percent base budget adjustment. Specifically, the CSU's adopted budget includes:

- **Mandatory Cost Increases**: $ 23.1 million for (e.g. health benefits, retirement and new space)

- **Compensation Pool Increase**: $ 65.5 million for a two percent increase, subject to collective bargaining, for all employee groups effective July 1, 2015.

- **Student Success and Completion Initiatives**: $ 38.0 million for a variety of strategies to close achievement gaps and degree completion. This would fund tenure-track faculty hiring, enhanced advising, augment bottlenecks solution initiatives, student preparation, data, and other student retention practices such as service learning projects, and peer mentoring.

- **Enrollment Growth**: $103.2 million for three percent increase in enrollment or approximately 10,400 FTES. This would accommodate for growth in number of students serviced, and could also accommodate existing demand by current students for additional courses.

- **Information Technology Infrastructure**: $14.0 million to replace the remaining obsolete switching and routing hardware, obsolete wireless access points and controllers, and obsolete network security devices at all campuses.

- **Center for California Studies**: $0.2 million for anticipated increases in personnel costs due, maintain financial access to the Fellows and other programs by modestly increasing stipends, and fund other inflationary increases.

- **Maintenance and Infrastructure**: $25.0 million to address backlog of facility maintenance and infrastructure needs. CSU argues that even with the state statutorily changing the way it handles CSU academic-related infrastructure needs by providing the CSU with the autonomy to self-determine CSU's capital program (discussed below), the state did not provide sufficient funds in 2014-2015 for the CSU to capitalize on the new program.

These recommended items would require new ongoing revenues from the state of $216.6 million ($269 million anticipated expenditures, less $52 million from additional tuition revenue.) In its sustainability plan, CSU reports that it will fund mandatory cost increases, compensation pool increases, and one percent enrollment growth, with the remaining $14 million to be allocated toward the other specified priorities.

Alternative Funding Plan

In response to concerns about the affordability and accessibility of higher education, several legislative proposals and plans have developed. Specifically, SB 15 (Block/ de León) would establish polices that promote access, affordability and completion for UC and CSU students. The bill would eliminate the UC's five percent tuition increase for students; ensure 5,000 more California students are able to attend the UC in 2015-16; establish a Completion Incentive Grant (CIG) provided to CSU students to encourage more timely degree completion; create 10,500 more student slots at the CSU in 2015-16; repeal this year's scheduled 11 percent cut to Cal Grants; and provide 7,500 additional Cal Grant Competitive Awards for students who are not graduating high school seniors or recent graduates. The proposal pays for this plan through three sources: (a) increasing non-resident tuition at UC by 17.5 percent (about $4,000); (b) repurposing the Middle Class Scholarship program; and (c) increasing General Fund investment.

Staff Comments

Coming out of the recession, California's universities face numerous critical issues that impact the state's ability to meet educational and workforce demands. The Governor's budget overview recognizes some of these issues by pointing out the high-cost structure of the UC and the low completion rates of the CSU. However, while the Governor notes that the Administration's long-term plan moves away from funding higher education based on the traditional model of enrollment targets, as previously mentioned, his budget does not explicitly tie funding to performance or specific outcome measures other than the maintenance of current tuition and fee levels and current non-resident enrollment at the UC. This approach diminishes the Legislature's role in key policy decisions and could allow the universities to pursue their own interests rather than the broader public interest. The continued unallocated base increases at the UC and 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.

While the LAO states that the Governor's focus on UC's costs is laudable; one major concern with his approach to tackling the issue is that he has not invited the Legislature to participate in the discussion. As mentioned above, the UC Regents formed a committee comprised of the Governor and the UC President to develop recommendations on methods to lower cost and obviate the need for increased tuition or increasing out-of-state enrollment. The Legislature may have different ideas regarding how to evaluate and address the UC's cost drivers. However, the Administration's committee approach diminishes the Legislature's role in key policy decisions. The Administration indicates it plans to release preliminary information from the committee's work at the next UC Board of Regents meeting in March 2015.

While California is starting to reinvest in higher education, plans to increase tuition have heightened concerns about the affordability of a college education and the appropriate level of investment necessary to meet statewide priorities. In reviewing the Administration's proposals, the subcommittee may wish to ask:

- How does the Governor's approach ensure that additional state funding will support the state's priorities?

- Does the Governor's proposal sufficiently engage the Legislature in this accountability and budget process?

- What is the appropriate state funding level to allow for enrollment growth, efficient per-student costs and improved outcomes?

- Are the performance targets set by UC and CSU reasonable and acceptable towards meeting the three goals established for higher education (SB 195)?

Recommendation: Hold Open

Panel

- Jason Constantouros, Legislative Analyst's Office
- Jillian Kissee, Department of Finance
- Kieran Flaherty, University of California
- Ryan Storm, California State University

As state funding declined, UC sought other revenue sources, including philanthropy and changing its investment patterns. 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 (see chart on page 13), also dramatically increased the number of nonresident students it enrolled. Out-of-state students pay approximately $23,000 more in non-resident supplemental tuition, more than double the amount California students pay. The UC's budget continues the trend of increasing tuition and out-of-state students enrollment, while restricting resident enrollment.

Enrollment Funding

Historically UC's and CSU's budgets have been tied to a specified enrollment target, which reflect the state's expectations for access to the public universities and are based on the eligibility policies included in the Master Plan for Higher Education. To the extent that the segments failed to meet those targets, state funding associated with the missing enrollment reverted to the General Fund. Since 2007-08, the state budget only twice included both enrollment targets and enrollment growth funding. This was largely due to difficult budget years in which the state reduced support for the universities, and in turn provided the universities with increased flexibility in how to respond. Though the state began to recover its fiscal footing in 2013-14, the Administration's 2013-14 and 2014-15 budget proposals did not provide enrollment targets or enrollment funding, and instead gave the UC and CSU greater flexibility in managing their resources to meet obligations, operate instructional programs most effectively, and avoid tuition and fee increases.

Enrollment at UC and CSU is driven by several factors, including state funding and the college-age population. The state also routinely considered college participation rates and freshman eligibility studies; however, the last eligibility study conducted was in 2007. Additionally, to calculate the associated cost of enrollment growth, the state used a marginal-cost formula based on the estimated cost of admitting each additional student. This formula assumed the universities would hire a new professor for roughly every 19 additional students. It linked the cost of the new professor to the average salary of newly hired faculty. The formula also included the average cost per student for academic and instructional support, student services, instructional equipment, and operations and maintenance of physical infrastructure.

The table below shows enrollment of California students at both segments just before, during, and just after the Great Recession. Enrollment at both segments fluctuate somewhat, with UC growing enrollment during this period and CSU decreasing enrollment significantly during the recession, before recently growing enrollment.

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Change, 07-08 to 14-15
UC	203,906	210,558	213,589	214,692	213,763	211,212	210,986	211,267	7,361
CSU	354,111	357,223	340,289	328,155	341,280	343,227	351,955	360,000	5,889

Note: This depicts Full Time Equivalent students (both undergraduate and graduate students) and is California Residents Only

Most recently, in 2013-14, the Legislature adopted budget bill language setting enrollment targets for the UC and CSU that would maintain 2012-13 enrollment levels. The Governor vetoed the budget bill language, thus eliminating the enrollment targets, noting that the Administration would rather give the UC and CSU greater flexibility to manage its resources to meet obligations, operate its instructional programs more effectively, and avoid tuition and fee increases.

As required by budget language, UC and CSU also set forth resident and nonresident enrollment targets in their sustainability plans. The figure below compares current enrollment with the segments' targets under the Governor's proposed funding levels. UC plans on reducing resident undergraduate enrollment by almost 16,000 students (10 percent) over a period of three years, while more than doubling nonresident undergraduate enrollment. In contrast, CSU is planning to increase both resident and nonresident enrollment by three percent.

Figure 8

UC and CSU Enrollment Targets Under Administration's Revenue Assumptions

			Change from 2014-15	
	2014-15	**2017-18**	**Amount**	**Percent**
UC				
Resident undergraduate	158,410	142,678	-15,732	-10%
Nonresident undergraduate	23,832	47,939	24,107	101
Graduate/professional	49,892	52,142	2,250	5
Totals	**232,134**	**242,759**	**10,625**	**5%**
CSU				
Resident	420,271	433,004	12,733	3%
Nonresident	22,274	22,949	675	3
Totals	**442,545**	**455,953**	**13,408**	**3%**

University of California

When examining UC enrollment patterns, the most significant change involves the significant increase of out-of-state students and decreases at some UC campuses.

Students	Fall 2007	Fall 2014	% Change
CA Students	157,985	168,538	6.6%
Non-Resident, Domestic Students	6,118	9,653	57.7%
Non- Resident, Foreign Students	3,590	16,621	362.9%

Note: This headcount includes undergraduate students only.

Nonresident students make up about 13 percent of the overall undergraduate student body. But at specific campuses, the proportion is more dramatic. Nonresidents make up about 25 percent of the UC Berkeley undergraduate student body, 19 percent of UCLA, and 17 percent of UC San Diego. Below are the changes for the three campuses with the most significant increase in undergraduate out-of-state students.

UC Berkeley	Fall 2007	Fall 2014	% Change
CA Students	22,242	20,568	-7.5%
Non-Resident, Domestic Students	1,694	3,231	84.8%
Non- Resident, Foreign Students	700	3,327	375.3%

Note: This headcount includes undergraduate students only.

UCLA	Fall 2007	Fall 2014	% Change
CA Students	23,463	23,305	-0.6%
Non-Resident, Domestic Students	1,392	2,679	92.4%
Non- Resident, Foreign Students	1,073	3,649	240%

Note: This headcount includes undergraduate students only.

UC San Diego	Fall 2007	Fall 2014	% Change
CA Students	20,756	20,211	-2.6%
Non-Resident, Domestic Students	747	1,204	61.2%
Non- Resident, Foreign Students	545	3,395	523%

Note: This headcount includes undergraduate students only.

UC states that system wide nonresident undergraduate enrollment represents a little over 13 percent of the undergraduate population in 2014-15, whereas more than 30 percent and 40 percent of undergraduates are nonresidents at the University of Virginia and the University of Michigan respectively. However, enrollment targets for nonresident students are established at the campus level rather than at the system level, and revenue from non-residents students also stays at the campus. UC states that it is a priority of the UC that campuses ensure enrollment of nonresident students does not displace "funded" enrollment of California residents. Yet the dramatic increase in nonresident students has made it arguably more difficult for California students to attend schools like UC Berkeley, UCLA or UC San Diego.

California State University

CSU enrollment has changed significantly during the last eight years. Unlike UC, CSU dropped enrollment as state funding deceased, and only recently increased its enrollment.

	Fall 2009	Fall 2010	Fall 2011	Fall 2012	Fall 2013	Fall 2014
Admitted Students	193,928	173,562	178,615	194,564	212,152	214,939
Denied Eligible Students	10,435	28,803	21,697	22,123	26,430	30,209

This supply and demand imbalance is more profound at some CSU campuses. When campuses or specific programs receive more eligible applicants than they have resources for, impaction occurs and campuses or programs restrict enrollment. For 2015-16, all programs are impacted at CSU Fullerton, CSU Long Beach, San Diego State University, San Jose State University, and Cal Poly San Luis Obispo.

As the state continues to reinvest in higher education, the Legislature may wish to consider how these investments address current and long-term education needs. This is particularly critical in light of a report from Public Policy Institute of California (PPIC) regarding California's workforce demands, which found that by 2025, California will face a shortfall of one million college graduates required to meet the state's skilled workforce needs. The CSU reported that, in the fall of 2013, it denied admission to more than 26,000 eligible students due to lack of funding. Additionally, in light of recent comments and actions taken by the UC, it is evident that there is an access problem to the state's public universities.

As mentioned previously, the Administration has not been supportive of funding a new university eligibility study. As a result, the state has limited information on whether UC and CSU continue to meet Master Plan goals of student access. According to the LAO, linking funding with enrollment serves an important state purpose because it expresses the state's priority for student access and connects funding with student-generated costs. Despite these benefits, the Governor continues to disregard the state's longstanding enrollment practices for UC and CSU. The Legislature may wish to consider an eligibility study to assess whether university admission policies conform to Master Plan eligibility guidelines.

Both UC and CSU are seeking additional state funding to allow for enrollment growth, based on proposed budgets adopted in the fall. With $119 million of new General Fund support, CSU would only add about 3,500 new full-time students about a one percent enrollment growth. CSU Board of trustees adopted budget includes $103.2 million for three percent increase in enrollment or approximately 10,400 FTES. UC states that under the Governor's proposal, it would have to cut state students by 4,000 (two percent). The UC Regents plan calls for one percent enrollment growth, which is about 2,200 students. However, UC indicates that about 1,200 of these slots would go toward graduate student enrollment and backfilling past enrollment growth that occurred while the state was cutting UC funding.

Legislative Analyst's Office Comments
Under the DOF's state demographic projections, the college age population will decline by more than one percent from 2015 to 2016, with no change in the number of California public high school graduates. LAO states that these trends will ease pressure for new enrollment at UC and CSU in the near future. LAO recommends setting UC enrollment target at current–year level. LAO argues that the university does not appear to be facing significant increased enrollment demand, given the projected demographic declines and the university's continued ability to accommodate eligible students.

LAO raises concerns about CSU's denied eligible students. CSU functions as a regional system, providing education to eligible students in their general vicinity. The university has not specified how many of these eligible students were denied access to their local CSU campus. LAO recommends requiring CSU to report on transfer eligibility by May 1, 2015 on (1) how many eligible transfer students were denied access to their local campuses in fall 2014, and (2) how many nonlocal students were admitted in fall 2014 to campuses denying admission to eligible local transfer students. Additionally, LAO recommends the Legislature consider an eligibility study to assess how many, otherwise eligible students are being denied admission to California's universities based on a lack of space.

The subcommittee may wish to ask:

1. Why would the Administration provide specific funding for enrollment growth at community colleges but not UC and CSU? How would enrollment growth at community colleges impact enrollment demand at UC and CSU?

2. What happens to the denied eligible CSU students?

3. Does UC and CSU believe that they have achieved their Master Plan goals and accepted all eligible students? If so, how was this determined and measured? If not, why?

4. In general, how do UC campus' use their additional non-resident tuition revenue? Does the UCOP have guidelines to prioritize how the funds are spent?

5. How much would an eligibility study cost? Who should administer it?

Issue 3 – Capital Outlay – Oversight

Panel

- Jillian Kissee, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- Kieran Flaherty, University of California
- Ryan Storm, California State University

Background

Starting in 2013–14 for UC and 2014–15 for CSU, the state no longer issues bonds for university capital outlay projects. Instead, the state granted each university the authority to pledge its state support appropriation to issue bonds for academic facilities and associated campus infrastructure. Additionally, the state allows each university to pay the associated debt service using its state support appropriation.

Under the new authority, UC and CSU are required to submit project proposals to DOF and the budget committees by September 1 for the upcoming fiscal year. By February 1, DOF is required to notify the Legislature as to which projects it preliminarily approves. The budget committees then can express any concerns with the projects to DOF and request DOF to approve, modify, or reject projects. The DOF can approve projects no sooner than April 1 for the upcoming fiscal year. For CSU only, two sets of timelines apply in the current fiscal year: the one outlined above for 2015–16 projects and an expedited process for 2014–15 projects that requires preliminary DOF approval by November 1, 2014, and final approval no sooner than December 1, 2014. This is because 2014–15 is the first year CSU was granted the new authority.

UC received the new authority in 2013, and UC Regents acted quickly to approve projects and submit them to the state for review by the deadlines specified in statute. The DOF informed the budget committees of the Legislature of its preliminary approval of UC's projects in a letter dated January 26, 2015. Eight new projects cost $218 million whereas $80 million is associated with seven continuing projects for which the state has already approved earlier phases. UC also plans to use $136 million in nonstate funds to partially support five new projects and two continuing projects. UC would issue university revenue bonds to pay for the projects and estimates the associated debt service is $22 million annually. The university would pay for the debt service from its main state budget appropriation.

In contrast, CSU has proceeded more cautiously and missed both deadlines mentioned above. Prior to approving projects using the new authority, the Trustees deliberated for several months over the associated consequences. When the Trustees finally did act to use the new authority, they acted in two stages. First, they decided in November 2014 to set aside $10 million annually from CSU's operating budget for debt service. Second, they decided in January 2015 to approve the associated projects. Due to the lateness of the Trustees' action, DOF has not yet submitted its list of preliminarily approved projects to the Legislature. The DOF indicates it might submit a list for approval this spring, even though the statutory deadline expired February.

Staff Comments

Last year, staff noted that the Governor's approach was a dramatic departure from how UC and CSU capital outlay has been historically addressed. The Administration indicated the motivation for combining the universities' support and capital budgets was to provide universities with increased flexibility, given limited state funding. However, the Administration did not identify specific problems with the previous process used or any specific benefits the state might obtain from the new process. Additionally, the change occurred without any analysis of ongoing need, not only for capital outlay but also deferred maintenance at existing buildings, and for campuses that might be needed in the future.

Moreover, the Office of the President (UCOP) states that it allows each campus to determine its capital priorities, and UCOP does not have a process for prioritizing projects across campuses. According to UCOP, it gives campuses broad discretion to set their own capital priorities and then tries to show fairness to each campus in selecting projects to propose for state funding. LAO recommends the Legislature establish project priorities for higher education facilities to provide more guidance to the segments. For example, the Legislature could state its priorities for funding projects in the following order: (1) life safety, (2) seismic corrections, (3) modernization, and (4) program expansions. This likely would result in the segments submitting projects in accordance with the state's priorities.

Since the Trustees did not officially approve projects until January (a couple of months after the statutory deadline), and DOF has not yet submitted its preliminary list of approved projects (also missing its statutory deadline), reviewing the proposed projects and conducting proper oversight is challenging. Rather than having to complete its review by April 1, LAO recommends the Legislature work with the Administration to develop a new processing schedule for this year. Consistent with statutory intent, LAO encourages the Administration to give the Legislature 60 days to review CSU's projects upon receiving the project list submitted by DOF.

The subcommittee may wish to ask:

1. What is the status of the CSU's preliminary list of approved projects?

2. Why did the CSU move cautiously in this process?

3. What benefits and challenges have the segments had with this new process? Is this an improvement on the previous process, and what problems have been fixed?

Issue 4 – Deferred Maintenance Funding

Panel

- Jillian Kissee, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Kieran Flaherty, University of California
- Ryan Storm, California State University

The budget provides UC and CSU with $25 million onetime General Fund each to address deferred maintenance issues on campuses. The funding will be allocated after UC and CSU provide a list of deferred maintenance projects it intends to address to the Department of Finance. The department will review the list and allow for a 30-day legislative review process by the Joint Legislative Budget Committee before the money is distributed.

Background

Facilities require routine maintenance and repair to keep them in acceptable condition and preserve and extend their useful lives. When such maintenance is delayed or does not occur, we refer to this as deferred maintenance. Deferred maintenance can be caused by various factors, including diverting maintenance funding to other operational purposes or poor facility management. The Governor's budget and the associated five-year infrastructure plan identify $66 billion in total state infrastructure deferred maintenance needs. The Administration identified $692 million in deferred maintenance needs at the CSU, and $100 million in deferred maintenance needs at the UC.

The 2014-15 enacted budget included up to $200 million in one-time General Fund spending for deferred maintenance in various departments, including $50 million General Fund for UC and CSU each, contingent on certain revenue conditions being met. DOF determined that revenue conditions were not satisfied and therefore departments ultimately did not receive additional funding for these purposes. The Governor's 2015-16 proposed budget does not make the proposed funding contingent on any revenue.

Staff Comments

While providing one-time funding is a step in the right direction, it is only a short-term response to the problem. The Administration has not identified a long-term plan for working through deferred maintenance backlog. The Governor's proposal also does not require the identification of specific projects priorities.

LAO states that the state's current approach has several shortcomings. Specifically, the state lacks (1) budgetary practices to incentivize segments to prioritize maintenance, (2) consistent definitions and adequate data to assess the magnitude of each segment's backlog, and (3) a long–term plan to eliminate the backlogs. To address these concerns, LAO recommends the Legislature to require the segments to develop and submit maintenance plans that include (1) definitions used to classify maintenance projects, (2) a description of the approach used to fund maintenance projects, (3) the annual amount spent on maintenance, (4) a multiyear expenditure plan to address the backlog (including proposed funding sources), and (5) a plan for how to avoid developing a maintenance backlog in the future.

As noted earlier, the Governor requests the Legislature approve $25 million for each UC and CSU for deferred maintenance even though it has not yet received a list of specific projects to be funded. This proposed funding process could divorce the decision on the amount of funds provided from the set of projects to be funded. It also provides the Legislature with less time to review proposed projects than the traditional budget process. Accordingly, LAO recommends the Legislature require the segments to report at spring budget hearings on the specific projects they propose to address prior to approving funding.

Recommendation: Hold Open.

Issue 5 – California Health Benefits Review Program (CHBRP) – Oversight

Panel

- Garen Corbett, California Health Benefits Review Program

Background

The California Health Benefits Review Program (CHBRP) was established under AB 1996 (Thomson), Chapter 795, Statutes of 2002, which requested UC to assess legislation that propose a mandated benefit or service (referred to as "mandate bills") and prepare a timely written analysis within 60 days with relevant data on the medical, economic, and public health impacts of proposed health plan and health insurance benefit mandate legislation. Current law requires health plans, except specialized health plans, and health insurers, for fiscal years 2010-11 to 2014-15, to be assessed an annual fee to fund CHBRP, this amount is to not to exceed $2 million. CHBRP is administered in UCOP and has staff that supports a task force of faculty from six UC campuses (Berkeley, Davis, Irvine, Los Angeles, San Diego, and San Francisco) and three private universities (Loma Linda University, the University of Southern California, and Stanford University) to complete each analysis. CHBRP is set to sunset on December 31, 2015. The Governor's proposed budget provides $2 million, as mentioned above, for CHBRP.

Since 2004, CHBRP has analyzed 103 mandate bills, 45 of which were passed by the Legislature and enrolled to the Governor. Thirty-three of those bills analyzed were vetoed, and 11 were signed into law. Since CHBRP's inception, the number of bills mandating benefits and services has fluctuated, and in the last year has decreased significantly. When AB 1996 was being considered by the Legislature, the author stated that during the 2001- 2002 legislative session, more than 14 mandate bills were introduced. In 2003, the first year that the UC received requests for analysis of mandate bills, only four were introduced and analyzed. The following year, there were 13 mandate bills analyzed. Between 2005 and 2014, the number of mandate bills introduced has varied, with the largest number (15 mandate bills) in 2011.

60-day timeline

AB 1996 and subsequent legislation that extended the sunset date for CHBRP included a request that analyses be provided to the Legislature within 60 days. CHBRP developed a model that has resulted in analyses not being completed prior to that 60-day deadline. According to CHBRP's 2013 report to the Legislature, it uses a 60-day timeline that details which activities occur on what day. The 60-day clock is initiated by CHBRP upon receipt of a request from the Senate or Assembly Health Committee. CHBRP faculty, actuaries, librarians, reviewers, and staff must produce and review multiple drafts on multiple bills in what they consider a very compressed timeframe, given their model. This timeline has led to challenges for policy committee staff, because policy staff requires the CHBRP analysis prior to completing their analysis. Often times mandate bills are introduced close to the bill introduction deadline, which is also about 60 days before deadline for policy committees to hear bills, and there is a tight window between the time the CHBRP analysis is received and the committee analysis must be completed. If the goal is to provide timely analysis to help the Legislature make informed decisions, this arrangement gives policy committees and staff little time to incorporate its findings in a meaningful way into the committee analysis. Currently, CHBRP is working with staff to address the timeliness and structure of its delivery model.

Staff Comments

Given the new post-Affordable Care Act environment, there is need for in-depth, independent review of proposed legislation beyond mandate bills. And while there is ongoing value to having independent evaluation, to be most valuable to stakeholders and policymakers, the process has to be nimble and responsive to the legislative calendar. There is oversight needed to ensure that CHBRP's review is delivered in a timely fashion and to ensure that the intent of the authorizing legislation and the goals of the program are met.

Additionally, while CHBRP has received the same budget appropriation of $2 million from 2010 to 2015, the number of bills it has analyzed has fluctuated from four bills (2012) to 15 bills (2011). In light of varied workload, the committee may wish to consider whether Governor's budget proposal is appropriate.

Alternatively, the legislature may wish to consider revisions to the types of reviews that could be requested of CHBRP and expand its scope. This could include review of bills that impact health insurance benefit design, cost-sharing, and premiums, and other health insurance topics. SB 125 (Hernandez) proposes to extend the sunset to July 1, 2017 and expands the scope of potential review. In addition, the committee may wish to consider allowing CHBRP to carry over funds if the work load created by the requests for review does not justify the full amount. This would allow annual assessment of how much to appropriate as opposed to the automatic appropriation of the full amount, as has been the practice, and would increase legislative oversight.

The subcommittee may wish to ask:

1. Is CHBRP flexible enough to respond to legislative inquiries more quickly and still maintain quality control?

Issue 6 – Awards for Innovation in Higher Education – Oversight and Proposal

Panel

- Mollie Quasebarth, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Ryan Storm, California State University

Governor's Proposal

The budget would provide $25 million for innovation awards to CSU campuses that improve policies, practices and/or systems to ensure that more students graduate with bachelor's degrees within four years after beginning higher education. This is similar to the program that was launched in 2014-15 for all three segments; in 2015-16 the Governor proposes to limit the funding to CSU campuses or other segments' campuses that partner with CSU. A committee chaired by the Department of Finance would select winners through an application process.

Background

The 2014–15 budget provided $50 million in one–time funding to promote innovative models of higher education at UC, CSU, and CCC campuses. Campuses with initiatives to increase the number of bachelor's degrees awarded, improve four–year completion rates, or ease transfer across segments could apply for awards. Campuses could apply on their own or in collaboration with other campuses. A committee of seven members—five Governor's appointees representing DOF, the three segments, and the State Board of Education, as well as two legislative appointees selected by the Speaker of the Assembly and the Senate Rules Committee—will make award decisions.

The state received 58 applications, and of those 29 were community colleges, 21 were CSU campuses, and 8 were UC campuses. On March 20th, the Committee is scheduled to approve 14 awards for about $3.5 million each. Awardees must submit a report on the proposed use of funds by April 10th, and the Committee is required to approve the proposed uses of the awards before they can be released. The following applications have been selected for awards: CSU Monterey Bay, CSU San Bernardino, Long Beach City College, Santa Ana College, Shasta College, CSU Dominguez Hills, City College of San Francisco, Humboldt State University, San Francisco State University, Butte College, CSU San Marcos, UCLA, and West Hills College Lemoore. CSU Monterey Bay will receive two awards based on two separate applications.

Staff Comments

The LAO raises several concerns about the Governor's proposal for Awards for Innovation. First, the proposal does not identify the causes of low graduation rates at CSU. CSU currently is investigating the underlying causes of poor performance, including: lack of preparation among entering freshmen, low retention rates from freshmen to sophomore year, poor fee and financial aid incentives, weak incentives to take 15 units per term, students working excessive hours, lack of access to required courses, or other problems. The Governor's approach to innovation awards appears to tackle a single symptom—that is, low graduation rates—without more comprehensively and systematically addressing underlying issues. Second, LAO has doubts that small amounts of one–time funding will provide sufficient incentive for CSU campuses to refocus efforts on improving graduation. The proposal targets campuses that have already implemented efforts to improve graduation rates. It is likely that campuses will submit proposals of initiatives that they would have implemented with or without the opportunity to earn additional funding. LAO recommends the Legislature reject the proposal and suggests that the Legislature could use these onetime funds for other priorities, such as deferred maintenance, that are one–time in nature.

The Governor’s proposal to convene a committee of stakeholders, similar to the structure as used for the first–year awards, most of whom are appointed by the Governor, raises a number of questions in regards to the assurance that state and legislative priorities are appropriately considered in the decisions of the committee, as well as whether it would be more appropriate for the state to have a higher education coordinating entity to oversee and provide advice on statewide higher education policy. Staff also notes that this proposal sets up a significant bureaucratic infrastructure to determine "winners," which will require staff time for both the committee and the campuses and segments writing grant proposals. The committee has not made decisions for last year’s award, and CSU is still investigating causes of its low graduation rates. Thus the results of both efforts are not clear. Expanding this area before giving existing efforts time to show results would be premature. The subcommittee may wish to examine program results in the current year before investing more resources.

The subcommittee may wish to ask:

- Why shouldn't the Legislature and Governor simply determine the most appropriate way to use the funding and specify that in the budget?

- How will the Legislature determine if the funding achieves improved outcomes?

- Will the Administration seek to distribute the funding in some equal way across the CSU system? Why or why not?

Recommendation: Hold Open.

Issue 7 – Center for California Studies

Panel
- Jillian Kissee, Department of Finance
- Jason Constantouros, Legislative Analyst’s Office
- Steve Boilard, Center for California Studies

Governor’s Proposal

The Governor’s proposed budget moves the CSU's Center for California Studies from its own budget line item into the main CSU appropriation, with budget language requiring CSU to provide at least $3.5 million to fund the center.

Background

The Center for California Studies is a public education, public service, and applied research unit of California State University Sacramento. Founded in 1982 and located on the capital campus of the California State University (CSU), the center administers the Capital Fellows Program; LegiSchool Project, a civic education collaboration between Sac State and the Legislature; and conducts various policy research projects.

Staff Comments

Past budgeting practices displayed the center with a line item and specific amounts for eight programs the center oversees, including legislative, executive and judicial fellowship programs. While Governor’s proposal is cost-neutral, it does modify how information about the center's budget is presented, and reduces transparency on how funds are appropriated. Moreover, the current approach provides the Legislature with greater control over funding for the center. Keeping the center as a separate budget item recognizes the center as distinct from the rest of the CSU’s activities. The LAO recommends the Legislature to reject this proposal. The committee may wish to consider whether it is appropriate to keep the center as a separate item in the budget providing greater transparency and control on how funds are used, or move it into the CSU’s main budget appropriation.

Recommendation: Hold Open.