SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Roderick D. Wright
Senator Mark Wyland

Thursday, March 14, 2013
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191, State Capitol

Item	Department	Page
6440	**University of California**	
6600	**Hastings College of the Law**	
6610	**California State University**	

Proposed "Vote Only" Item

Proposed "Vote Discussion" Items

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Item 1: State Cash Management Related Language

Governor's Budget Proposal. The January budget requests a combination of budget bill provisional language (both UC and CSU) and budget trailer bill language (CSU only) related to the state's cash management needs.

- ✓ The budget bill provisional language ensures the continuation of smoothing of payments to UC and CSU that have been carried out the last three years. The continuation of this policy would smooth payments over ten months with the remaining amount owed remitted in the final two months of the year.
- ✓ The budget trailer bill language authorizes DOF to defer up to $250 million of CSU's annual GF appropriation, payable in May or June of the same year. The CSU deferral has been included in a separate cashflow budget trailer bill in previous years.
- ✓ The January budget proposes no change to the existing statutory $500 million within-the-year deferral to UC, payable in May or June of the same year.

Background. These proposals are part of a larger state cash management strategy and are necessary to cover the low points in the state's cash position. While no new education or other payment deferrals are incorporated in the January budget, which is due to the improvement in the cash status, the proposed budget anticipates engaging in internal and external borrowing.

The state's receipts and disbursements of cash occur unevenly throughout the fiscal year, with typical low points occurring in July, October, and November. As a consequence, the GF borrows for cashflow purposes in most years, even though each budget is balanced when enacted, and funds are repaid within the fiscal year. Maintaining an adequate cash balance allows the state to pay its bills in a timely fashion. Interest is paid on both internal borrowing (such as cashflow loans from special funds) and for external borrowing (such as Revenue Anticipation Notes). Another cash management tool of the state is the State Agency Investment Fund, which attracts deposits from entities not otherwise required to deposit funds with the state. During 2012-13, there were deposits totaling approximately $1.7 billion combined into this fund from UC and CSU.

Staff Comment. The Administration's cash management strategy, as it pertains to UC and CSU, simply memorializes current practices. Neither segment has expressed concern with the proposed budget bill provisional and/or budget trailer bill language.

Staff Recommendation. Approve the budget bill provisional and trailer bill language.

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Item 2: Performance Expectations and Annual Base Budget Increases

Governor's Budget Proposal. The main component of the Governor's multi-year budget plan for UC, CSU, and Hastings is annual unallocated base GF increases for the segments. UC and CSU would receive $125.1 million GF each; Hastings would receive $392,000 GF. The Governor loosely links these base increases with an expectation the segments improve their performance but does not link them to enrollment expectations. The four areas of improved performance are:

- ✓ Increased graduation and completion rates;
- ✓ Increased CCC transfer students enrolled at UC and CSU;
- ✓ Decreased time-to-degree; and
- ✓ Increased credit and basic skills course completion.

The Governor's plan also provides the segments with more autonomy in funding debt service, earmarks funding for several technology-related initiatives, caps the number of state-subsidized college units, changes how the state funds retirement costs at CSU, changes to active employee health premiums at CSU, and freezes tuition levels. All of these items, except for those related to capital outlay and debt service/restructuring which will be heard at the Subcommittee's April 25 hearing, are in this agenda.

LAO Analysis. The Governor provides substantial unallocated base funding increases to the institutions, with only a vague connection to undefined performance expectations. Rather than encouraging the segments to address state-identified problems and priorities, the Governor's approach gives the segments much broader authority to pursue their top priorities. For example, the segments might decide to focus on more research, their law and medical schools, or administrative support, even if at the expense of broader public interests. Moreover, based on the segments' own budget plans, the segments likely would use augmentations primarily for employee compensation. As a result, the augmentations would increase the cost per student. Given the almost complete removal of funding requirements and the associated weakening of the incentives segments have to focus on broader public interests, the Governor's approach could end up exacerbating existing problems rather than improving the system.

LAO Recommendation. Reject the Governor's unallocated base increases, as they would be very unlikely to promote systemic change, and the approach of providing equal dollar amounts to each segment irrespective of its needs. Instead, the Legislature should allocate any new funding to meet the state's highest priorities. If more funding is provided than needed to meet existing funding obligations, including for debt service and retirement, the Legislature should link the additional funding with an expectation that the segments develop and implement strategies to improve legislatively specified student outcomes and meet identified cost-containment goals. Broad consensus already exists on some key outcome goals, including improving student persistence, transfer, and graduation; reducing costs; and maintaining quality. Moreover, the Legislature last year passed legislation (SB 721) outlining a process that would enable the state to measure progress and promote improvement in these areas through budget and policy decisions.

Building on this foundation, the Governor and Legislature could establish specific improvement targets and a system for reporting on the segments' performance relative to these targets. The Legislature should also establish enrollment targets (discussed in detail in the next item in this agenda) to ensure that student outcome improvements do not come at the expense of existing student access. These performance and enrollment targets would send a clear signal to the segments regarding the state's priorities and expectations. Compared with unallocated increases of seemingly arbitrary amounts, this approach would be far more likely to result in improved performance of the higher education system.

Staff Comment. Broadly speaking, the multi-year budget plan does not include any specific goals or targets to hold the segments accountable. The plan also effectively decreases legislative oversight and removes key budget tools that the Legislature uses to guide higher education agencies and shifts that authority and autonomy to the segments and/or Administration. This approach raises two broad questions for the Legislature to consider: (1) what is the Legislature's role in the multi-year budget plan; and (2) where is the linkage to a defined accountability framework?

These two questions were discussed in detail by the full budget committee at its February 14, 2013, hearing. At that hearing, the Administration testified that it was beginning to lay out what the system of performance expectations for the four identified priorities would look like, including how to evaluate performance towards achieving goals. The Administration indicated that in the "next couple of weeks" it would be ready to engage the Legislature in the details, including a discussion of the Legislature's role. At the time of the writing of this agenda, the Administration is still developing its proposal and further information will be forthcoming at a future date.

On a bipartisan basis, the Legislature has been developing, supporting, and refining proposals to create greater accountability for higher education since 2002. These actions respond to a stated need for a public agenda and improved oversight of the higher education segments. Being clearer about the goals and the measures will also highlight and drive the budget and policy decisions necessary to support the state's higher education system in meeting the state's goals.

SB 195 (Liu) is the most recent iteration of this effort. It is a reintroduction of Senate Bill 721 (2012), which is described above in the LAO recommendation. SB 721 was approved by wide margins in both houses of the Legislature. It was subsequently vetoed by the Governor due to process-orientated concerns about the leadership of the working group established to identify the metrics that will measure progress towards the identified goals. SB 195 addresses this process concern by requiring the Governor's Office of Planning and Research (as opposed to the LAO) to convene the working group.

It is a positive development that the Governor is focusing on higher education, looking to improve outcomes, and identifying priorities such as reduced time-to-degree and increased graduations. However, without any specifics in the budget, or a linkage to a defined framework of broader policy goals developed in partnership with the Legislature and a system for reporting on the segments' performance relative to those targets housed in statute, the multi-year budget plan is incomplete.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the following questions of the Administration, UC, CSU, and Hastings:

1. DOF, what is the timeframe for when the Legislature will receive details about the “system of performance expectations” for the four identified priorities included in the January budget?
2. DOF, what is the Administration’s view of the Legislature’s role in this process?
3. The segments all report that their governing boards will be considering revised budgets based on the proposed $125.1 million increase (each for UC and CSU) and the $392,000 increase for Hastings. The amount of “revision” necessary depends on the segment; i.e., UC and CSU governing boards adopted 2013-14 budgets totaling $584 million and $370 million, respectively.
    a. UC and CSU, what is the status of the budgetary revision process for your respective segment?
    b. Hastings, the proposed increase of $392,000 is $63,000 short of what is required solely for increased costs for employer retirement contributions in 2013-14. How will your governing board address this?

Staff Recommendation. Staff recommends that this issue be held open, pending receipt of: (1) further information from the Administration about the system of performance expectations; (2) further consideration of SB 195; and (3) the May Revision.

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Item 3: Budgetary Controls – Earmarks and Enrollment Targets

Governor's Budget Proposals. The January budget contains no earmarks of UC's and CSU's GF appropriations, except for new ones to address the Governor's priority; i.e., $10 million provided to each segment to increase the number of courses available through the use of technology.

The January budget also does not include enrollment targets for either UC or CSU; rather, the Budget Summary states that "*enrollment based funding does not promote innovation and efficiency or improve graduation rates. It does not focus on critical outcomes, affordability, timely completion rates, and quality programs. Instead, it builds on the existing institutional infrastructure, allowing public universities and colleges to continue to deliver education in the high-cost, traditional model*."

Background. The UC and CSU are governed by independent boards that make various decisions about how the universities will spend their resources, including the number of faculty, executives, and other employees on the payroll and those employees' salary and benefits; student tuition levels; and the amount of tuition revenue redirected to financial aid, among other fiscal decisions. Further, UC has constitutional autonomy afforded by the California Constitution, under which the Regents have "*full powers of organization and governance*" subject only to very specific areas of legislative control, such as budget act appropriations.

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

With regard to earmarks, typically the annual budget act includes a number of conditions on UC's and CSU's GF appropriations. These earmarks have varied over the years in keeping with the Legislature's and Governor's particular concerns at the time and have covered such programs as nursing and medicine, AIDS research, and science and math teaching initiatives. Due to the Governor's vetoes, the Budget Act of 2012, for the first time, included minimal earmarks in UC's and CSU's budgets. Figure 1 on the next page details the earmarks included in the Budget Act of 2011.

Figure 1 – Budget Act of 2011, UC and CSU GF Earmarks (dollars in millions)

UC		CSU	
Separately Scheduled General Fund Appropriations		Separately Scheduled General Fund Appropriations	
$8.7	Charles R. Drew Medical Program	$3.0	Assembly, Senate, Executive, & Judicial Fellows Programs
$9.2	AIDS research	$65.5	Lease-purchase bond debt service
$52.2	Student Financial Aid		
$3.2	San Diego Supercomputer Center		
$5.0	Subject Matter Projects		
$15.0	UC Merced		
$202.2	Lease-purchase bond debt service		
$4.8	Cal Institutes for Science & Innovation		
Provisional Language		Provisional Language	
$2.8	Energy service contracts	$2.7	Science and Math Teacher Initiative
$1.9	COSMOS	$0.6	Entry-level master's degree nursing programs
$1.1	Science and Math Teacher Initiative	$1.7	Entry-level master's degree nursing programs
$2.0	PRIME	$0.4	Baccalaureate degree nursing programs
$1.7	nursing enrollment increase	$3.6	Baccalaureate degree nursing programs
$3.0	2/12/09 MOU for service employees	$33.8	Student financial aid
		$0.35	Txfr to Affordable Student Housing Revolving Fund

Source: Legislative Analyst's Office

In the interim, i.e., post the 2012 Budget Act vetoes of nearly every earmark, informal "side agreements" with UC have ensured continued funding for many of the earmarked programs at the designated levels. However, this approach provides no public transparency or accountability.

With regard to enrollment targets, historically UC's and CSU's budget have been tied to a specified enrollment target. To the extent that the segments failed to meet those targets, the state funding associated with the missing enrollment reverted to the GF. Beginning with the Budget Act of 2011, enrollment targets have been included in both the budget bill and/or in statute but without any penalty should UC or CSU fail to meet its target in recognition of the overall reductions to their budgets.

Staff Comment. Absent the use of earmarks and enrollment targets, it is unclear what, if any, levers or tools would remain that are as effective and would ensure that state funds are spent in a manner consistent with the Legislature's intent.

The earmarks in question, excluding those related to lease-revenue bond debt costs, represented roughly two to five percent, respectively, of UC's and CSU's GF appropriation in 2012-13. As such, it is arguable that these earmarks "constrain" the segments; rather, they represent a fair balance between legislative priorities and budgetary flexibility for UC and CSU. The inclusion of earmarks in the budget bill also provides a clear public record of budgetary allocations and expectations. The Governor's approach effectively eliminates this budgetary tool for Legislative priorities, but creates a new earmark for his priority related to technology.

Enrollment levels are irrefutably a fundamental building block of higher education budgets. The number of students enrolled is a direct measurement of the "access" provided to higher education. Further, enrollment levels are a central cost driver for the segments and drive other costs, such as state financial aid. For these reasons, enrollment targets have been a major legislative concern.

With no target, as proposed by the Governor, UC and CSU will be empowered to make their own decisions about how many students to enroll with the funding available to them in 2013-14. For example, they could significantly reduce the number of students served, thus raising the amount of funding available per student. Or they could reduce the number of undergraduates served, and use the funding to add a smaller number of higher-cost graduate students. Enrollment decisions have implications not just for educating students, but they also have a profound effect on the level of access provided at each segment. For these reasons, the LAO recommends the Legislature reject any proposal to eliminate enrollment targets.

Shifting control over spending priorities away from the Legislature, as the January budget proposes, raises serious questions given that the universities and colleges are statewide, public institutions. The LAO advised at the February 14, 2013, full committee hearing on the Governor's Multi-Year Budget Plan for Higher Education that the Legislature should be very cautious about ceding its authority to make key high level decisions about the $4.5-plus billion GF that is spent each year on UC and CSU.

In reviewing these proposals, the Subcommittee may also wish to consider the broader question about accountability. As discussed in the preceding item, in the absence of any specifics in the budget, or a linkage to a defined framework of broader policy goals developed in partnership with the Legislature and a system for reporting on the segments' performance relative to those targets housed in statute (such as in SB 195 [Liu]), it is premature to consider ceding further legislative authority.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the Administration, LAO, UC, and CSU the following questions:

1. DOF, does the Administration see the inconsistency in the budget containing no legislative earmarks but including one for the Governor's priority?
2. LAO, what are your recommendations here? Should the budget contain earmarks? If so, on what basis should potential earmarks be evaluated?
3. DOF, with no enrollment target, what assurances does the Legislature have that UC and CSU will continue to serve all students eligible for their institutions under the Master Plan? What recourse is available if the segments fail to do so?
4. LAO, how would you propose to adjust UC and CSU enrollment targets given the increased funding each would receive in 2013-14 under the multi-year plan?
5. UC and CSU, where are you in the Fall 2013 admission process; how does the number of eligible applicants compare with this time last year?
6. UC and CSU, what are recent trends in the percentage of enrollment going to graduate students? To non-resident students?
7. UC and CSU, what are your projections about spring semester transfer admissions in the 2014 and 2015 academic years?
8. UC, in recent years you have expanded non-resident admissions, asserting that there is excess capacity because the state has not funded enrollment growth. If the multi-year plan is adopted, and state funding is no longer tied to enrollment, how will that strategy work going forward; e.g., how will UC determine that it has met California's needs versus having "excess" capacity that can be made available to non-residents?

Staff Recommendation. Direct staff to develop a package of UC and CSU earmarks for selected programs, and the LAO to report back to the Subcommittee by May 1, 2013, its recommendations for 2013-14 enrollment targets for UC and CSU. State that it is the intent of the Subcommittee to adopt both earmarks and enrollment targets for UC and CSU in the 2013-14 budget at a future hearing.

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Item 4: Total Cost of Education Reporting Language

Governor's Budget Proposal. The January budget requests budget trailer bill language requiring both UC and CSU to report biennially to the Legislature and DOF, beginning October 1, 2014, on the total costs of education, on a systemwide and a campus-by-campus basis, segregated by undergraduate instruction, graduate instruction, and research activities. Further, the proposed language requires the costs be reported by fund source, including: (1) state GF; (2) systemwide tuition and fees; (3) nonresident tuition and fees and other student fees; and (4) all other sources of income. Finally, the language states that, for purposes of the report, undergraduate and graduate research for which a student earns credit toward their degree program shall be included under instructional costs.

Staff Comment. By adopting this trailer bill language, the Subcommittee will ensure that it (as well as DOF and the LAO) receives, on a biennial basis beginning in Fall 2014, detailed information about the total costs of education at UC and CSU. This information is crucial to the Legislature's work to continue making key high level decisions about these statewide, public institutions. Delaying the first report until October 2014 also allows UC and CSU ample time to plan and prepare for this new reporting requirement.

As the Subcommittee may also recall, the Budget Act of 2012 included Supplemental Report Language (SRL) following up on State Audit Report 2012-105 that required UC to report to the Legislature: (1) the recommendations of the systemwide working group established to examine variations in funding across the system, and (2) how much GF and tuition each campus spends per type of student (undergraduate, graduate, and health sciences). UC reported on the first component but said it could not on the second because there was no correlation between marginal cost funding per student provided by the state and what a given campus might be allocated for each type of student. It is correct that the marginal cost amount is one rate that the system receives, while the actual money flowing from the UC Office of the President to each particular campus per FTES varies. That was the whole point of the Audit report and the SRL.

In considering this request, the Subcommittee may wish to consider several clarifications to the language. First, depending on how UC and CSU each interpret their "costs of education," there are several components to "educational and general" costs that could be left out. Additionally, greater clarity could be provided to the final sentence of the language, as it is somewhat unclear what is being requested. It appears the basic intent is to ensure that, when a faculty member is allocating his/her time, the amount of time spent supervising students conducting research *for credit* would be counted as an instructional cost as opposed to a research cost. If so, the language could be improved to provide greater clarity.

Staff Recommendation. Adopt placeholder budget trailer bill language, including potential clarifications as noted in the staff comment.

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Item 5: Expanding the Availability of Courses through Use of Technology

Governor's Budget Proposal. The January budget earmarks $10 million each for UC and CSU to expand the availability of courses through the use of technology. Budget bill provisional language specifies that:

- ✓ The funding is for high-demand courses that fill quickly and are required for many different degrees;
- ✓ Development of new courses that can serve greater numbers of students while providing equal or better learning experiences is a priority;
- ✓ The online courses are available systemwide regardless of a student's "home" campus; and
- ✓ Tuition fees will be the same as for regular courses.

The Governor's proposal also: (1) *encourages* UC and CSU to collaborate with the community colleges and each other to offer online courses that will be available to students between the three segments as well; (2) *states intent* that the funds will not be used to support or enhance the self-support elements of their current online efforts, in particular CSU Online and UC Online; and (3) *expects* the segments to report on how the funds have been allocated.

Background. While the state's colleges and universities have been providing distance education for decades through university extension programs, *online instruction for credit towards undergraduate and graduate degrees* has become a much more prominent part of postsecondary education in recent years. At the same time, debates have been sparked about quality assurances. Recent media reports have been focused on the rapid rise of MOOCs (massive open online courses), which are online courses aimed at large-scale participation and open access via the web. Though the design of and participation in a MOOC may be similar to college or university courses, MOOCs typically do not offer credits awarded to paying students at schools. However, that aspect is changing as universities here, and nationally, are now examining opportunities to use the MOOC platform for credit instruction, including the recently announced pilot at San Jose State University using a MOOC platform for introductory and remedial classes.

UC reports that systemwide there are 225 fully online courses that can count toward UC undergraduate degree programs, 116 offered through typical undergraduate offerings and 109 available for credit through UC Extension. In addition, there are 110 graduate online courses and three online masters programs, with several more going through the approval process. Each UC campus either has completed, or is in the process of developing, a strategic plan for online education.

CSU reports that its campuses offer over 15,000 online and hybrid courses and 84 hybrid and online degree programs. Online courses are available at all 23 campuses. The CSU system maintains an updated database of all campus online and hybrid degree programs and uses this site to market said programs. System efforts have also focused on facilitating a coordinated effort to purchase, develop, implement, and support learning management systems, which are the tools by which these courses are developed.

LAO Analysis. There is no justification for earmarking $10 million each for UC and CSU for the development of additional online courses. Each year the state provides funds to UC and CSU to support their operational costs. The segments use these monies to pay faculty to develop and deliver instructional content, and campuses generally decide on their own whether that content is offered through face-to-face or online courses. The segments have chosen to use their general purpose monies to fund a considerable amount of online education. It is unclear why the segments require ongoing augmentations to develop more online courses. However, there are significant opportunities for the segments to share more of their current inventory of online courses. This lack of sharing across campuses and segments has several disadvantages, including duplicative spending of state resources and forgone opportunities to share thoughtful coursework with other educators.

LAO Recommendation. A more cost-effective approach than the Governor's would be for faculty to make their content available to colleagues for reuse. To facilitate sharing, the Legislature should provide one of the segments with a small portion of one-time funding to administer a competitive grant program that would provide grants to faculty (from any of the segments) to modify, as needed, their existing online curricula (or, to the extent a need is identified by the Academic Senates of the three segments, to create a new online course). To assure quality, courses would be reviewed by other faculty in the field. Assuming an average grant amount of $20,000, a $1 million augmentation would fund the modification or development of 50 open online courses.

As part of his online initiative, the Governor also has expressed an interest in increasing opportunities for students to enroll in online courses offered at other campuses, though he does not provide the segments with specific direction as to how to achieve this goal. The state should address this issue, as the current cross-campus enrollment process is disjointed and overly cumbersome for students. Currently, the segments are investigating new systems to facilitate a more streamlined process of cross-campus enrollment in online courses. To better assess the potential of these projects for streamlining online pathways, the Legislature should ask the segments to provide updates at spring budget hearings on their implementation plans and estimated costs.

Staff Comment. If the investment bears fruit as the Administration envisions, the net result will be increased productivity and lower cost per degree for students and the state, as well as increased access for other students. However, it is not clear that enough structure is being provided to UC and CSU to ensure that the investment will bear fruit. For instance, the Administration does not require either UC or CSU to submit a proposed expenditure plan for the $10 million; rather, the budget bill language described above is the only guidance provided. This creates a significant amount of flexibility for UC and CSU, but raises concerns about whether the funds will be spent in a manner that will produce desired outcomes. To this point, UC and CSU each respond with different visions of how they are currently planning to use the $10 million earmark:

- UC indicates that it plans to hold an all-university working meeting this month to consider how best to move forward with enhancing online education at UC. The meeting will guide how the available funds can best be used and the Request for Proposals selection process. Topics to be discussed at the meeting include: (a) how best to develop online curriculum; (b) how to stimulate additional course development both at the campus level and through UC Online Education; (c) how to use faculty oversight to ensure quality is maintained; and (d) what incentives could be used to encourage faculty participation.

- CSU indicates that it is planning a multi-pronged approach to address the various types of bottlenecks experienced across the system and will use technology to: (a) re-design courses with high failure rates, thus reducing the seats needed for students repeating the course and allow students a faster path toward graduation; (b) scale-up best practices in the use of hybrid teaching (combining elements of online and in-person instruction), web-based "virtual laboratories", open source and electronic textbook use, and online teaching; and (c) upgrade student systems to provide support through electronic advising, optimized scheduling, and clearer degree pathways for all students. CSU also indicates that it plans to have campuses respond to a Request for Proposals detailing their plan for addressing bottlenecks and improving academic student services.

When comparing these proposals side-by-side, it is evident that CSU is farther along in the development process. CSU's proposal additionally contains elements of a student services component, while that component remains unanswered as yet by UC. Significantly, UC and CSU are also both not yet able to ensure that online courses are available systemwide regardless of a student's "home" campus, which is one of the requirements of the Governor's proposal:

- UC indicates that while it is feasible for a student to enroll in courses from campuses other than his/her home campus, using a process called "simultaneous enrollment," it is a relatively inefficient and time-consuming process. An initiative is underway to develop a technological intercampus communications structure that will streamline the method of enrollment for students across campuses, as well as facilitate the process by which non-home campus courses are approved by faculty to count toward major and GE requirements.
- CSU indicates that it is in the process of developing this capability, based on successful cross-registration protocols developed as part of the implementing the Early Start Initiative (ESI), which enables students to take summer remediation offered at a campus close to home even if the campus is not the student's freshman "destination" campus.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the Administration, UC, and CSU the following questions:

1. DOF, how will the Administration determine if the funding was used as intended? What metrics will be used, such as increased access or lowered cost, and how will they be measured? Is the Administration concerned about supplantion?
2. DOF, the Administration's approach is largely by "silo," in that UC and CSU each receive funding but cross segmental coordination is not required but encouraged. Why this approach; i.e., should the focus of these funds be for the development of courses that can be made available to matriculated students at each of three public segments, and in areas defined as transferable lower division courses?
3. UC and CSU, please briefly summarize how your current credit online course offerings focus on the high demand courses the Governor is targeting. Are these courses defined as transferable lower division courses?
4. UC and CSU, what has your current online instruction for credit towards a degree effort shown as to which students are likely to succeed online?

5. UC and CSU, what is your implementation timeline generally for your online proposal and specifically for cross campus enrollment? What is the estimated cost to develop the cross campus enrollment capability?
6. UC and CSU, please expand on the student services components of your respective approaches.

Staff Recommendation. Hold this item open, including the budget bill provisional language earmarking the funding, pending receipt of the May Revision.

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Item 6: Unit Caps on State-Subsidized Courses

Governor's Budget Proposal. The January budget proposes budget trailer bill language to cap the number of units the state would subsidize per student at UC and CSU. Under the proposal, students taking units in excess of the cap generally would be required to pay the full cost of instruction.

- ✓ In 2013-14 and 2014-15, the limit would be 150 percent of degree requirements, which equates to 270 quarter-units at UC and 180 semester-units at CSU. The limit would be reduced in 2015-16 and ongoing to the equivalent of about one extra year of full-time attendance, or 125 percent of degree requirements.
- ✓ The following course units are specifically excluded from counting against the unit cap: (1) remedial courses; (2) advanced placement or international baccalaureate units that were obtained while in high school or another secondary school program; and (3) dual enrollment, college-level units obtained by the student prior to receiving a high school diploma.
- ✓ The UC and CSU governing boards would be required to adopt guidelines and criteria for granting waivers on a case-by-case basis to students who exceed the allowed cap "due to factors beyond their control" and allow these students to continue to only pay state-supported systemwide tuition and fees.
- ✓ The unit cap applies to all students, including those attending and enrolled prior to 2013-14. The unit cap is also a "lifetime proposal;" i.e., it applies to former students who might be returning to college later in life. Once a student exceeds the unit cap (and is not grated a waiver), that student will have to pay the full costs of those additional courses.

The Administration does not budget any savings from this proposal, either in 2013-14 or in 2014-15.

Background. Currently there are no state level limits on the number of units the state subsidizes per student.

SB 1440 (2010) improved the efficiency of transfer from CCC to CSU by requiring community colleges to create two-year (60 unit) degrees (known as "associate degrees for transfer") that are fully transferrable to CSU. A student who earns such a degree is automatically eligible to transfer to the CSU system as an upper–division (junior) student in a bachelor's degree program. Though these students are not guaranteed admission to a particular CSU campus or into a particular degree program, SB 1440 gives them priority admission to a CSU program that is "similar" to the student's CCC major or area of emphasis, as determined by the CSU campus to which the student is admitted. Once admitted, SB 1440 students need only to complete two additional years (60 units) of coursework to earn a bachelor's degree. By guaranteeing full credit for courses taken at the CCC and limiting the number of additional units students may be required to complete, SB 1440 also reduces excess unit–taking.

UC reports several campus-specific efforts to reduce excess course-taking and improve on-time graduation rates. For instance, UCLA pioneered "Challenge 45" whereby the campus asked all of the departments in Letters and Sciences to see if they could reduce upper division BA/BS degree requirements to 45 units. More than 2/3rds of the departments responded and now have major requirements at or much closer to 45 units. Many campuses are also using degree audit systems which allow advisors and departments to identify students who are missing required courses. Finally, a number of majors at all the campuses are re-ordering sequences and prerequisites so students do not get too far into majors before attempting difficult courses result in them changing majors and having to take extra courses.

CSU has also engaged in a variety of efforts to reduce excess course-taking and improve on-time graduation rates. CSU campuses have adopted strategies to improve course availability, including block scheduling (assigning a fixed course schedule to entering freshmen) and "four-year pledge programs" (which guarantee to full–time students who follow a specified academic plan that they will be able to get the necessary classes to complete a degree within four years). In January 2013, the CSU Board of Trustees adopted a policy capping the number of units that campus programs may require for a bachelor's degree to 120, with limited exceptions. Currently about 20 percent of CSU bachelor's degree programs require more than 120 units. In addition, last fall, CSU administration proposed three new incentive fees to be assessed on: (1) excess units (similar to the Governor's proposal); (2) high unit load in a given term; and (3) course repeats. Discussion of these three proposals has been deferred to a future board meeting, but all three proposals would reduce excess unit–taking by students.

If in place in Fall 2013 as proposed by the Governor, a unit cap of 150 percent would impact about 2,200 students at UC. Most of these students are multiple, physical science, or engineering/computer science majors. CSU reports a similar number, or 2,100 students impacted by a 150 unit cap, which represents 1.5 percent of current seniors. A unit cap of 125 percent would impact about an additional 6,700 students at UC. CSU reports that 10,700 students, or 7.5 percent of seniors, would be impacted by a unit cap of 125 percent.

LAO Analysis. If they work as intended, caps on state-subsidized units encourage students to seek academic advising and develop academic plans in their first year of college. Unit caps also discourage repeated changes of major and other student choices that result in excess unit-taking yet still providing some room for students to explore other subjects and add new skills. By promoting more efficient course-taking, unit caps likely would reduce costs and improve on-time graduation rates. In addition, unit caps could improve campus practices that contribute to excess unit-taking. The proposed policy would create pressure for campuses to enhance academic advising and ensure availability of required courses. It also would focus attention on course articulation. Campuses also would need to track student progress toward degrees under the proposed policy, providing valuable information for course scheduling as well as student advising.

LAO Recommendation. Because it creates positive incentives for students and motivates institutions to improve the efficiency of their academic programs, the Legislature should adopt a cap on the number of state-subsidized units students can accrue with the following specific provisions: (1) exclude from the cap units earned through other agencies, by internal evaluation, and for unsubsidized courses as long as they do not contribute to FTE student counts; (2) prohibit students from being allowed additional state-subsidized units for double majors; (3) cap the number of failed and dropped courses the state subsidizes; (4) provide additional guidance regarding waivers to avoid an excessive number of appeals; and (5) delay implementation until 2015-16 to provide adequate notice to students and permit the segments to develop systems to identify and monitor excess units as students enroll.

Staff Comment. The cap is intended to create an incentive for students to shorten their time-to-degree, reduce costs for the state, and increase access to more courses for other students. This is a legitimate goal, but ignores some of the realities of the current situation, including most prominently the severe capacity issues brought on in large part by state level budgetary reductions. Students should be able to take appropriate courses and earn degrees in a timely fashion, but there needs to be shared responsibility for doing so. As noted in the LAO analysis, campuses would need to enhance academic advising and ensure availability of required courses. The Governor's proposal also would focus attention on course articulation. Yet, the Governor's proposal contains no requirements or expectations of the segments for any of these student services, but does create a hard penalty for students. It also changes the rules of the game midcourse for all students currently enrolled, which raises a question of fairness.

Neither segment has carried out a systematic analysis to determine to what extent "factors beyond a student's control" have contributed to high numbers of units taken by some students. Given this, and the fact that CSU begins early registration this month for Fall 2013 enrollment, it is highly questionable that either governing board could adopt the guidelines and criteria for granting waivers on a case-by-case basis by the start of the upcoming fall term as proposed by the Governor.

The Administration does not budget any savings from this proposal, either in 2013-14 or in 2014-15.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the Administration, UC, and CSU the following questions:

1. DOF, doesn't this proposal ignore the realities of the current situation including the severe capacity issues brought on in large part by state level budgetary reductions; e.g., does the Administration know how many students that would be above the cap in 2013-14 are in that situation <u>not</u> due to "factors beyond their control"?
    a. UC and CSU, what other situations would be considered factors beyond a student's control? For instance, would it include inconsistent transfer requirements and requirements of particular majors?
2. Students should be able to take appropriate courses and earn degrees in a timely fashion, but there needs to be shared responsibility for doing so. DOF, why is the only measureable component of the multi-year budget plan with specific penalties directed at students?
3. UC or CSU, have you modeled how many students that would be above the cap in 2013-14 are in that situation <u>not</u> due to "factors beyond their control"?
4. UC and CSU, is it feasible to expect that your respective governing boards could develop waiver policies and have them in place for the 2013-14 academic term?

Staff Recommendation. Reject the budget trailer bill language.

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Item 7: Employer Pension Contributions

Governor's Budget Request. The January budget provides a $51.4 million GF increase to fund the annual increase in costs for CSU's required employer pension contribution to the California Public Employees Retirement System (CalPERS). In future years, and under proposed budget bill provisional and trailer bill language, CSU will continue to receive annual GF adjustments based on the 2012-13 payroll level; however, if CSU chooses to increase payroll expenditures above that level, CSU would be responsible for the associated pension costs.

For 2013-14, UC has identified additional retirement costs of $67 million, due to an increase in employer contribution rates and an increase in payroll. Hastings has identified $455,000 in additional costs. The January budget does not identify any funding for these costs. UC could cover them, however, with a portion of the proposed base budget augmentation; Hastings could cover all but $63,000 of its costs with its proposed base budget augmentation.

Background. CSU employees are members of CalPERS, the same retirement system to which most state employees belong. Unlike most other state employees, the state does not collectively bargain with CSU employees. Funding for the CalPERS system comes from both employer and employee contributions. CSU's employees currently contribute either five or eight percent, depending on classification (most other state employees contribute eight to eleven percent, depending on bargaining unit, and will all contribute 50 percent of the normal cost of their pension per Chapter 296, the Public Employee Pension Reform Act of 2012). Each year, as is the case with other state departments, CSU's employer contributions to CalPERS are charged against its main GF appropriation; the employer contribution is based on a percent of employee salaries and wages that is determined by CalPERS. The budget annually adjusts CSU's main appropriation to reflect any estimated changes in the employer contribution. CSU's base 2012-13 budget of $1.9 billion contains $460 million for this purpose.

UC (and Hastings) employees are members of the University of California Retirement Plan (UCRP). UCRP is separate from CalPERS and under the control of UC. UC not only controls its pension costs but also sets benefits levels for its employees. Prior to 1990, the state adjusted UC's GF appropriation to reflect increases and decreases in the employer's share of retirement contributions for state-funded UC employees. Starting in 1990, however, UC halted both employer and employee contributions because the pension plan had become "super-funded." This funding "holiday" lasted nearly 20 years until the plan's assets had declined considerably and contributions once again became necessary. In April 2010, both UC and its employees resumed contributions to the plan. The Budget Act of 2012 provided $89 million to UC, and nearly $900,000 to Hastings, specifically to cover increased retirement costs.

Hastings funds the employer's share for its employees by making direct remittance to UC. Hastings does not commingle funds as it is entirely separate from UC. The amount that Hastings pays each year to UCRP is based on the annual payroll assessment rates as determined by the Regents. In this sense, Hastings is positioned similarly to CSU and its relationship with CalPERS.

LAO Recommendation. The Legislature should adopt the CSU proposal.

In deciding how best to address UC's retirement costs, the Legislature has three main issues to keep in mind: (1) cost control because UC, unlike other state agencies, administers its own retirement plan; (2) payment obligation, as the state is not legally obligated to provide funding for UC's retirement costs; and (3) transparency for the state, because identifying retirement costs would prevent UC from asserting in the future that it did not receive funding for this purpose. For these reasons, the Legislature should specify that $67 million of UC's proposed 2013-14 base budget increase is for pension costs. For Hastings, the Legislature should increase the Governor's proposed base augmentation from $392,000 to $455,000 and designate the full amount for retirement. In addition, and consistent with the approach taken in the Budget Act of 2012, the Legislature should include language in the budget bill reiterating that the state is not obligated to provide any additional funding for this purpose moving forward. Such language is intended to reinforce that the state is not liable for these costs.

The Legislature may want to consider the universities' retirement costs in light of this legislation. This consideration would be useful since UC was specifically exempt from Chapter 296, while the applicability of some provisions to CSU is still being determined. In the future, the Legislature could consider providing the universities with funding for retirement costs comparable with costs incurred by other public employers. Under this approach, the universities would be responsible for any costs beyond that level. Alternatively, the Legislature could consider encouraging the universities to change their retirement plans to conform to other public employers by linking such changes with their state appropriation.

Staff Comment. CSU has requested a modification to the Administration's proposal to instead use the 2013-14 payroll level as the base year. CSU is concerned that the 2012-13 payroll level is artificially low; CSU points to the fact that it is down 3,000 employees since the 2007-08 fiscal year. Setting aside the issue of which base year is used, staff finds that the overall concept has merit. Absent the Governor's proposal, the alternative is that the state's budget will continue to bear these costs yet have no control over the salary/benefits and resulting pension costs (above the base year expenditure level) that CSU negotiates with its employees.

With regard to UC and Hastings, the LAO raises a legitimate point. It is not an option for UC and Hastings to make the required employer contribution to UCRP; the reality is that this requirement is first call on the budget each year. Designating a portion of the base budget augmentation (or in the case of Hastings, designating all of the base budget augmentation) for UCRP, will improve budget transparency.

Staff Recommendation. Approve the CSU proposal in concept, withholding determination of the "base year" pending receipt of further information from the Administration. Pending receipt of the May Revision, hold open the LAO recommendations to: (a) designate $67 million of the $125.1 million UC base budget augmentation for UCRP and (b) increase Hasting's base budget augmentation by $63,000 GF, to a total of $455,000, and designate all the funding for UCRP.

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Item 8: CSU Health Care Plan Premium Rates Trailer Bill Language

Governor's Budget Proposal. The January budget proposes budget trailer bill language to provide CSU with the same statutory authority to negotiate or set employee health care plan premium rates that is provided to the California Department of Human Resources (CalHR) for other state employees.

The language does not specify what the CSU employer contribution rate should be; rather, it provides that it cannot be less than an amount equal to 80 percent of the weighted average of the total premium cost of the four health care plans with the highest enrollment of state employees and 80 percent of the weighted average of the additional premium cost for dependents (80/80 level).

By specifying that this item of compensation be negotiated through collective bargaining like other compensation issues, the language would allow the CSU to impose changes to health care plan premium rates as part of a last, best, final offer.

The Administration does not budget any savings from this proposal, either in 2013-14 or in 2014-15.

Background. State law in effect since 1991 specifies that CalHR shall establish employer contribution amounts for health care plan premium rates for: (1) non-represented state employees through administrative action and (2) represented state employees through the collective bargaining process. State law allows that changes to these rates can be imposed as part of a last, best, final offer. At present, state payments for health care plan premium rates are at the 80/80 level; a minority of state employees in selected bargaining units are at an 85/80 level. This translates to most state employees contributing roughly 20 percent of the health care plan premium costs for themselves (and any dependents).

CSU is governed by law that predates the above and sets a "default" requirement that CSU health care plan premium rate payments for employees equal 100/90, whereby CSU is paying 100 percent of the weighted premium cost for employees and 90 percent for any dependents. This section may be superseded by negotiated bargaining agreements, but in the absence of such agreements, the default formula prevails. Finally, if the provisions of the negotiated bargaining agreement require the expenditure of funds, the provisions may not become effective unless approved by the Legislature.

In 2012-13, CSU will spend an estimated $355 million on active employee health premium rates.

A similar proposal was included as part of the 2012-13 May Revision but was not part of the final budget. Last year concerns were raised about timeliness given that CSU was actively bargaining with the majority of its represented employees. At present, all of CSU's bargaining units are under contract until June 30, 2014.

Staff Comment. The Governor is raising a legitimate point about providing CSU with the same tools as CalHR to better manage and negotiate the entirety of its personnel costs, including employee health care plan premium rates. However, at a basic level, the statutory changes effectively provide CSU as an employer with greater leverage at the bargaining table. It could be argued that allowing imposition of terms, including for health care plan premium rates, provides an incentive for good faith bargaining. However, CSU reports that it has never put this request (to change the 100/90 contribution share) on the bargaining table. How then in considering this proposed trailer bill language can the Legislature be certain that existing law actually precludes CSU from negotiating this issue with its represented employees when CSU has never in fact attempted to bargain this issue?

The Administration does not budget any savings from this proposal, either in 2013-14 or in 2014-15.

Staff Recommendation. Reject the budget trailer bill language.

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Item 9: Multi-Year Freeze of Tuition Fee Levels

Governor's Budget Proposal. The January budget expects UC and CSU to maintain current tuition and fee levels for the next four years. As a result, tuition fee levels would remain flat for a six-year period (2011-12 through 2016-17).

Background. The Maddy-Dills Act previously required higher education fees to be: (1) gradual, moderate and predictable; (2) limited increases to not more than ten percent a year; and (3) fixed at least ten months prior to the fall term in which they were to become effective. The policy also required sufficient financial aid to offset fee increases. However, even with this policy, when the state faced serious budgetary challenges the statute was "not withstood" in order to provide the institutions some flexibility in dealing with the lack of state GF support. In 1996, the Act was allowed to sunset and, since that time, the state has had no long-term policy in statute to set fees.

In the absence of a statutory policy, and while there is an implicit policy whereby students and the state are expected to share educational costs, the relative proportions have become dependent on the state's fiscal situation. As a result, fees have increased steeply during difficult budget years and then gradually declined when the state's fiscal situation improved and more GF support could be provided to UC and CSU.

Chapter 620 (2012) pertains to fees at UC and CSU. It does not contain a fee policy; rather, it focuses on the process by which fee increases are considered by UC and CSU in an effort to ensure transparency and accountability around the costs of educating students and the uses of student fee revenues.

LAO Analysis. The full tuition level currently reflects about 55 percent of education costs at UC and 46 percent at CSU. Because of financial aid, however, fewer than half of students pay the full tuition rate. After accounting for state and institutional financial aid, the average net amount paid by students currently covers about 30 percent of education-related spending at the universities. When federal and private grants are included, the student shares are even lower. These shares are very low compared with other states.

The Governor's proposal would extend for four more years UC and CSU tuition levels that already have been in place for two years (2011-12 and 2012-13). While this would help current students, it likely would increase volatility for future students. Extended tuition freezes have been followed by periods of high annual tuition increases. The proposal also would have the negative near-term effect of reducing the incentive students and their families have to hold higher education institutions accountable for keeping costs low and maintaining quality. Given the important role of tuition in higher education budgets, a relatively low share of cost now borne by students and their families, and likely negative consequences of an extended tuition freeze, there is not a strong justification for having the state bear all higher education cost increases for the next four years.

LAO Recommendation. An extended tuition freeze would not be in the public's best longer-term interests. Instead of an extended tuition freeze, the Legislature should adopt a policy that bases tuition and fee charges at each of the public higher education segments on a share of educational costs. Such a policy would provide a rational basis for fee levels and a simple mechanism for annually adjusting them. It would recognize explicitly the partnership between students and the public. It also would strengthen accountability by giving students and their families an incentive to hold institutions accountable for keeping costs low and maintaining quality. Though such a policy would depend on the state providing its share of funding, it would be more likely than the Governor's proposal to result in moderate, gradual, and predictable tuition increases over time.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the Administration, UC, CSU, and Hastings the following questions:

1. DOF, what is your response to the LAO's recommendations, including adoption of a policy that bases tuition and fee charges at each of the public higher education segments on a share of educational costs?
2. DOF, what is your response to the LAO concern that a tuition freeze would likely increase tuition fee volatility for future students?
3. Hastings, what are the budgetary impacts of a tuition freeze at your institution?
4. UC and CSU, what are the components of a sound long-term policy on tuition fees?

Staff Recommendation. This is an informational item.

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Item 10: CCC Transfer Enrollments at UC and CSU

Background. The 1960 Master Plan for Higher Education includes a number of policies for ensuring college access to the state's public higher education segments. A key provision is the transfer function, which gives state residents an opportunity to begin their postsecondary studies at CCC and eventually move to the UC or CSU to earn a bachelor's degree. Unfortunately, the transfer process from CCC to the public universities has never worked as well as intended. For years, the Legislature has sought to make improvements. Despite these efforts, transfer students still must often navigate a complex maze of requirements that vary across campuses. This can make it very difficult for students to transfer successfully.

In an attempt to fundamentally reform the state's major transfer pathway (from CCC to CSU), AB 2302 and SB 1440 (2010) were enacted into law. SB 1440 requires community colleges to develop two-year (60 unit) associate degrees that are completely transferrable to CSU. Students who earn such a degree are guaranteed admission in the CSU system, and would be required only to complete two additional years (an additional 60 units) of coursework to earn a bachelor's degree. AB 2302 further clarifies that students who pursue the transfer pathway established by SB 1440 will be granted admission priority over all other students and requests that UC participate in the new transfer pathway.

In its spring 2012 report on the implementation of SB 1440, the LAO found that while notable progress has been made on multiple fronts, the results fall short of the legislation's intent. The report made a number of recommendations to the Legislature to provide additional guidance and statutory clarification to CCC and CSU on their responsibilities, as well as continued oversight to track their progress.

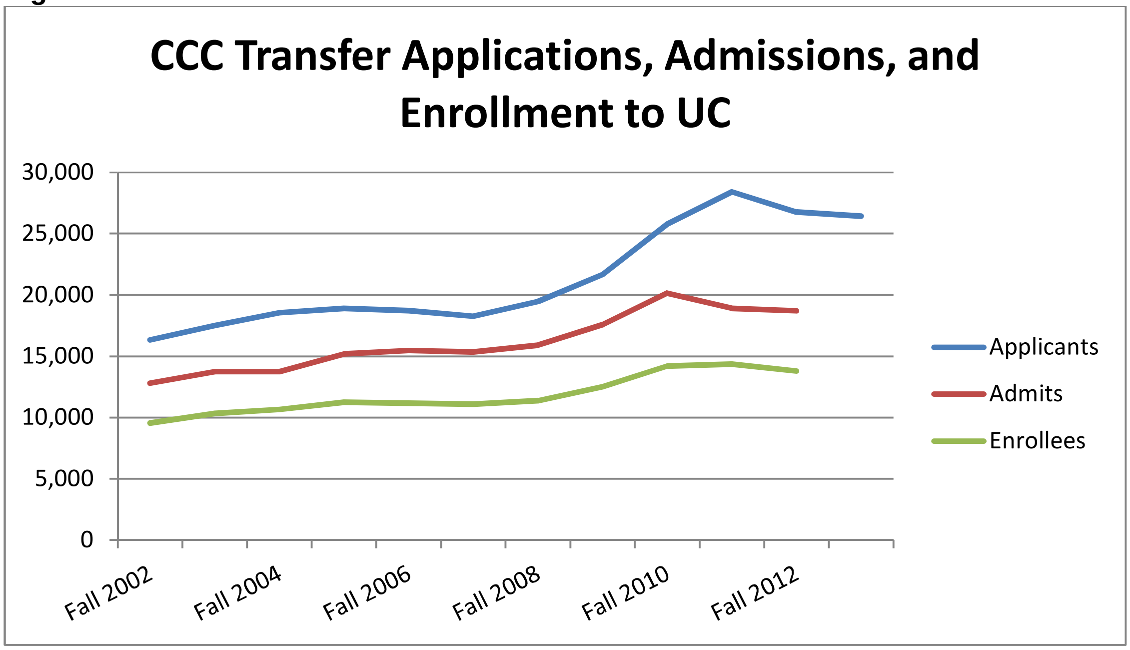
In January 2012, UC submitted its required report under AB 2302. UC reported the following, "*given the specialized nature of UC's degrees, the rigor of the upper-division coursework, and the way in which degree requirements are tied closely to individual campus research priorities, the University's participation in the associate degree pathway will differ in some significant ways from the way in which the CSU will participate. Namely, while UC is aiming to guarantee a comprehensive review for admission to transfer students who have completed associate degrees for transfer in similar majors, it will not be able to guarantee selection for admission. Furthermore, it will not be able to guarantee that students will be able to graduate within 60 units after transfer in all majors on all campuses*."

CSU reports that for Fall 2013, unduplicated applications for transfers total 112,013, a 15.5 percent increase over Fall 2012. This high increase is, in part, attributable to the near-closure of transfer applications for Spring 2013. For Spring 2013, only nine CSU campuses were open for transfer applications, and these were limited to SB 1440 applications.

With regard to fall semester transfer admissions, UC reports in Fall 2011, 28,412 students applied for transfer admission to UC, and 14,360 students enrolled. In Fall

2012, of 26,772 applicants for transfer application, approximately 13,800 enrolled. In Fall 2013, 26,423 students applied for transfer admission to UC. With regard to winter and spring semesters transfer admissions, UC reports that since 2010 the only UC campus that has been open for admission is UC Merced; therefore, the numbers are small and are projected to remain so into the future. In the Winter 2011 and Spring 2012 terms, of 597 transfer applicants to UC, 353 enrolled. Figure 2 below displays UC applications, admissions, and enrollment of CCC transfer students.

Figure 2



Source: UC

Staff Comment. As evidenced by both the Master Plan and AB 2302 and SB 1440, as well as numerous other bills through the years, the transfer function remains a critical priority for the state. It also links directly to the January budget, as one of the four performance expectations proposed by the Governor is increased CCC transfer students enrolled at UC and CSU. The Legislature also has before it SB 440, which is intended to advance the recommendations contained in the LAO's spring 2012 report on the implementation of SB 1440.

By way of explanation for the recent trends as displayed in Figure 2, UC reports that there has been a decline in applications from California resident CCC transfer students (six percent decrease in Fall 2012 and one percent decrease in Fall 2013). UC is working with the CCC Chancellor's Office to explain these decreases. One possible explanation is that the last time UC saw a decline in applications from transfers in the mid-2000s was due to a "pipeline" issue, i.e., students were unable to get the classes required for transfer. Given budget cuts at the CCCs, this may well be the case, although the CSU actually saw an increase in applications during this same time period. The CCC Chancellor's Office also reports that its number of transfer ready students has increased each year since 2011-12. UC offers a second theory, in that in both 2010 and 2011 the numbers were anomalously high and that the drops in 2012 and 2013 are a "correction;" e.g., because of transfer enrollment constrictions at CSU in Spring 2010 and the aforementioned closing of UC campuses to winter/spring transfers after 2009, there was a subsequent spike in the number of applications to UC, which has now self-corrected to normal levels.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask UC and CSU the following questions:

1. UC and CSU, what do you see as your institutional responsibility for CCC transfer?
2. UC and CSU, are CCC transfers evenly spaced across campuses or are they focused at "less desirable" campuses? Are CCC transfer students being displaced by admission of other groups of students?
3. CSU, the LAO's 2012 report highlighted that some of your campuses are not meeting the SB 1440 vision. How is this being addressed and how is the system ensuring a consistent policy and approach across all of its campuses?
4. CSU, what other changes outside of SB 1440 have you done internally to improve transfer function?
5. The point of SB 1440/AB 2302 was to create clear pathways for students. UC reports that it offers students a "guarantee of comprehensive review for admission" but this is not a guarantee of admission. How is UC participating in the new transfer pathway and reducing confusing pathways for students; i.e., what changes have you made internally to improve the transfer function?

Staff Recommendation. This is an informational item.

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Item 11: Federal Sequestration: Higher Education Impacts

Background. The federal sequester is automatic, across-the-board, spending reductions on many federal programs, intended to ensure $1.2 trillion deficit reduction over 10 years. Generally speaking, the reductions are half from defense and half from non-defense programs. The first set of reductions took effect March 1, 2013, impacting mostly federal discretionary spending ($71 billion in cuts) and some mandatory programs ($14 billion in cuts). Certain programs were exempted from the sequester, including entitlements and Pell grants for college students, among others.

Due to the sequester, all federally-funded education programs (other than Pell grants) are subject to an automatic across-the-board reduction of roughly 5.3 percent. Students will also see an increase in the origination fee charged for new federal student loans taken after July 1, 2013. Additional reductions to education programs (including Pell grants) will likely occur in Fiscal Years 2014 through 2021 due to stringent "caps" on so-called discretionary-funded programs, which include all education programs (other than student loans).

Staff Comment. The full impacts of the March 1 reductions are not yet known. CSU estimated federal funding reductions in excess of $22 million for FY 2013. Important programs subject to the cuts include campus-based aid programs; aid to minority-serving institutions; TRIO and GEAR UP. Examples include: (1) Supplemental Educational Opportunity Grants and Work-Study will lose up to $1.5 million, eliminating awards for more than 1,400 students; (2) TRIO and GEAR UP will be cut by a combined $2.1 million, curtailing services to approximately 3,300 students; and (3) funding for improving teacher quality and reforming teacher preparation will be cut almost $500,000, slowing the pace of improvement and innovation. UC will also be impacted by reductions in these same campus-based aid programs, expecting "severe" cuts but did not offer a dollar estimate of the impact.

With regard to federal research spending, UC estimates that more than $335 million in federal support for UC research would be lost in FY 2013, with additional deep cuts anticipated in the subsequent fiscal years, 2014 through 2021. UC researchers are among the nation's leading recipients of funding from the National Institutes of Health (NIH), National Science Foundation (NSF), Department of Agriculture (USDA), NASA, Department of Defense, and Department of Energy and other research agencies, all of which are subject to sequestration. Funding cuts ranging from 8.2 to 9.4 percent in the first year will disrupt UC researchers' ability to contribute scientific discoveries and innovations, and damage job creation and economic recovery in our state and nation. For CSU, examples include a $2.6 million reduction from NSF; a $5.6 million reduction from NIH; and $841,000 from USDA.

Subcommittee Questions. The Subcommittee may wish to ask UC, CSU, Hastings, and DOF for updated reports about the impact of the federal sequester.

Staff Recommendation. This is an informational item.