

# SUBCOMMITTEE NO. 1

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# Agenda

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



**Thursday, March 17, 2016**  
**9:30 a.m. or upon adjournment of session**  
**State Capitol - Room 3191**

Consultant: Anita Lee

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## 6120 CALIFORNIA STATE LIBRARY

### Overview

The California State Library is the state's information hub, preserving California's cultural heritage and connecting people, libraries, and government to the resources and tools they need to succeed and to build a strong California. Founded in 1850, the California State Library is the oldest and most continuous cultural agency in the State of California.

Decades before there was a university system or a public library system, there was the California State Library. The California State Library has responsibility to:

- Collect, preserve, and connect Californians to our history and culture.
- Support a transparent government by collecting, preserving, and ensuring access to California state government publications, federal government information, and patent and trademark resources.
- Ensure access to books and information for Californians who are visually impaired or have a disability and are unable to read standard print.
- Support the capacity of policy leaders to make informed decisions by providing specialized research to the Governor's Office and the Cabinet, the Legislature, and constitutional officers.
- Provide services that enable state government employees to have the information resources and training they need to be effective, efficient, and successful.
- Lead and promote innovative library services by providing and managing state and federal funding programs to ensure all Californians have access, via their libraries, to the information and educational resources they need to be successful.
- Develop and support programs that help Californians (from birth through adulthood) acquire the literacy skills they need to thrive in the 21st Century.

The following table displays the budgeted expenditures and positions for the State Library as proposed in the Governor's budget. Of the amounts displayed in the table, \$27.8 million in 2014-15, \$31.4 million in 2015-16, and \$31 million in 2016-17 are supported by the General Fund. The remainder of funding comes from federal funds and various special funds.

<b>Governor's Budget – State Library Budgeted Expenditures and Positions</b>			
Dollars in millions			
	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Personal Services	\$11.2	\$11.7	\$11.7
Operating Expenses and Equipment	\$12.9	\$14.3	\$14.2
Local Assistance	\$20.9	\$26	\$25.7
<b>Total Expenditures</b>	<b>\$44.9</b>	<b>\$51.9</b>	<b>\$51.6</b>
<b>Positions</b>	<b>137.8</b>	<b>129.2</b>	<b>129.2</b>

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**Issue 1: California Library Services Act**

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**Panel**

- Jack Zwald, Budget Analyst, Department of Finance
- Natasha Collins, Fiscal & Policy Analyst, Legislative Analyst's Office
- Greg Lucas, State Librarian of California, California State Library

**Summary.** The Governor's 2016-17 budget proposes an increase of \$1.8 million General Fund ongoing, and \$3 million General Fund on a one-time basis, for the California Library Services Act program.

**Background**

The 2015 Budget Act included both ongoing and one-time funding for the state's efforts to improve the state's information hub, preserving California's heritage and connecting people, libraries, and government to resources and tools, including:

- **Broadband Equipment Grants.** The budget provided a \$4 million one-time General Fund increase for grants to public libraries that require additional equipment, network upgrades, or modifications to physical sites to support broadband internet access. As a condition of receiving this funding, the State Library or local libraries are required to secure additional non-General Fund resources to ensure that public libraries have access to a high-speed network. The 2014-15 budget also provided \$2 million one-time General Fund increase for similar activities. The State Library notes that \$670,000 is left over from the first year of broadband grants. For the second year, the State Library is expecting to award 51 library jurisdictions with the maximum grant amount of \$30,000, and as a result, 126 of 183 library jurisdictions will have the equipment for their main branch to connect to high speed internet through Corporation for Educational Network Initiatives in California (CENIC). Should 51 grants be awarded, the State Library indicates that \$3.2 million in broadband grants will be left over from the first and second year. The last 57 jurisdictions are deciding whether or not to connect, and should they all receive the maximum grant for their main branch, the State Library notes the total cost may be \$1.7 million.
- **Literacy Program.** The budget provided an increase of \$2 million General Fund ongoing for the Literacy and English Acquisition Services Program and \$1 million one-time General Fund to pilot the Career Online High School program, which provides literacy coaches and resources to adults looking to earn an accredited high school diploma and prepare for workforce entry. The literacy program allocates funds to public libraries to support instruction in basic literacy for adults. According to the State Library, this increase in funding provided literacy services at five additional library jurisdictions, and as a result 800 of 1,100 library branches are offering these services.

Additionally, as noted during the subcommittee's previous hearing on adult education, only formal consortia members, such as school and community college districts, county offices of education (COEs), and joint powers agencies (JPAs), may receive adult education block grant funding directly. However, under a regional plan, funds may be designated for and passed through to other adult education providers, such as libraries, serving students in the region.

- **Preservation Activities.** The budget provides \$521,000 General Fund, including \$181,000 for two new positions, and \$340,000 on a one-time basis for digital scanning equipment, to help the library make critical improvements to better preserve historical materials.

**California Library Services Act Program (CLSA).** The California Library Services Act declares the state's intent for all California residents to have access to library resources regardless of their location. To meet this goal, the state traditionally has provided funding to regional library cooperatives. Currently, the nine regional cooperatives provide their member libraries resource-sharing services, such as purchasing access to online database subscriptions and transferring library materials across jurisdictions.

The program is administered by the 13-member California Library Services Board, which annually reviews and approves the cooperatives' budget plans and awards state CLSA funding based on the number of people residing within each of the library cooperative's boundaries. Nine board members are appointed by the Governor and four are appointed by the Legislature. The Chief Executive Officer of the board is the State Librarian, whom the Governor appoints and the Senate confirms.

**Regional Cooperatives Supported by Federal, State, and Local Funds.** In 2015-16, the federal Library Services and Technology Act provided \$11.3 million to local libraries to fund various activities, including resource sharing through regional cooperatives. The state provided \$1.9 million specifically for regional cooperatives. State funding for regional cooperatives was reduced from \$12.9 million in 2010-11 to \$1.9 million in 2012-13 and thereafter. The state provided a \$2 million one-time General Fund augmentation for CLSA in 2014-15, which the State Library indicates local libraries used primarily for equipment purchases to connect libraries to faster internet. Local libraries collected \$2.9 million in fees to promote resource-sharing through their cooperatives in 2014-15.

### **Governor's Proposal**

The Governor proposes a \$4.8 million increase for CLSA regional cooperatives. Of this amount, \$3 million is one time and \$1.8 million is ongoing. According to the Administration, the board would determine in the future how to distribute the one-time funding, and it would distribute the ongoing funding based on the number of people residing within each of the cooperative's boundaries. The Administration indicates it intends for the regional cooperatives to use the funding to engage in "new business practices" and adopt new technologies to share resources.

The Governor also proposes trailer bill language to modify the CLSA by removing references to the transaction-based reimbursement, which previously covered a small portion of the costs for local libraries extending lending services beyond their jurisdiction. Since 2011, the state has not provided funding for the transaction-based reimbursement. Trailer bill language also clarifies that cooperatives may use CLSA funding for exchanging print and digital materials.

### **Legislative Analyst's Office (LAO) Comments**

The LAO notes that standard practice is for the administration to submit a "budget change proposal" to the Legislature for each of its proposals for state agencies. In these proposals, the Administration provides justification for the funding level requested, analyzes alternatives, and outlines expected results. The Administration did not submit this documentation for this proposal.

The Governor's proposal to allow the board to distribute grant monies to the regional cooperatives and oversee their expenditures conforms to current state law and historical state practice. The board, which

includes four members appointed by the Legislature, has long conducted these activities. Without additional information from the Administration about the proposal; however, the Legislature lacks the ability to evaluate whether the funding provided is an appropriate amount, what alternatives to the proposal exist, and what results it can expect. The Legislature may wish to ask the Administration to provide this information prior to the May Revision.

Upon receiving additional information, if the Legislature were to decide to approve the Governor's proposal, LAO recommends it also require the State Library to report back on the program. Specifically, LAO recommends the State Library submit a report to the Legislature by January 1, 2017, describing (1) what criteria the board used to award grant funding, (2) the amount of funding each cooperative received, (3) a summary of each cooperative's plans and budgets for both one-time and ongoing funding (including existing funding), and (4) a summary of expected outcomes. This report could help the Legislature evaluate future budget requests.

### **Staff Comments**

As noted above, the State Library board has latitude in deciding how funds under the library services act are spent. The Administration indicates it intends for the regional cooperatives to use funding to engage in "new business practices" and adopt new technologies to share resources; however, this is not explicit or required in trailer bill. Moreover, the State Library has not finalized how it will spend this additional funding, and indicates that the board has invited testimony from the directors of the regional library systems and chairs of the administrative councils at its April 8<sup>th</sup> meeting. Initial feedback from librarians and system coordinators have included an interest in building regional libraries of digital materials, and creating analytics that measure the impact of library services within their community. The subcommittee may wish to consider whether these funds should be specifically targeted to priority areas. The subcommittee may also wish to request additional information regarding the Governor's proposal, such as what results it can expect with additional funding, and how the State Library intends to use this funding following the April 8<sup>th</sup> meeting.

### **Subcommittee Question**

- 1) What outcomes does the Administration hope to achieve with this proposal, and how would these outcomes be measured?

**Staff recommendation:** Hold open.

## 6600 HASTINGS COLLEGE OF LAW

Hastings College of the Law (Hastings) was founded in 1878 by Serranus Clinton Hastings, the first Chief Justice of the State of California. On March 26, 1878, the Legislature provided for affiliation with the University of California. Hastings is the oldest law school, and one of the largest public law schools, in the western United States. Policy for the college is established by the board of directors and is carried out by the chancellor and dean and other officers of the college. The board has 11 directors: one is an heir or representative of S.C. Hastings and the other 10 are appointed by the Governor and approved by a majority of the Senate. Directors serve for 12-year terms. Hastings is a charter member of the Association of American Law Schools and is fully accredited by the American Bar Association. The Juris Doctor degree is granted by the regents of the University of California and is signed by the president of the University of California and the chancellor and dean of Hastings College of the Law.

The mission of Hastings is to provide an academic program of the highest quality, based upon scholarship, teaching, and research, to a diverse student body and to ensure that its graduates have a comprehensive understanding and appreciation of the law and are well-trained for the multiplicity of roles they will play in a society and profession that are subject to continually changing demands and needs.

The following table displays the budgeted expenditures and positions for Hastings as proposed in the Governor's budget. Of the amounts displayed in the table, \$9.6 million in 2014-15, \$10.6 million in 2015-16, and \$11.7 million in 2016-17 are supported by the General Fund.

<b>Governor's Budget – Hastings' Budgeted Expenditures and Positions</b>			
Dollars in Millions			
	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Personal Services	\$66.7	\$33	\$33
Operating Expenses and Equipment	\$36	\$40	\$41
Special Items of Expense (Financial Aid)	\$11	\$13	\$16
Total Expenditures	\$103	\$73	\$74
Positions	246.0	245.7	245.7

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**Issue 1: Hastings College of Law Budget Augmentation**

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**Panel**

- Brianna Bruns, Budget Analyst, Department of Finance
- Paul Golaszewski, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- David Faigman, Acting Chancellor and Dean, Hastings College of Law

**Summary.** The Governor's budget proposes an increase of \$1 million General Fund ongoing unallocated base increase for Hastings College of Law.

**Background**

The 2015-16 budget provided \$1 million in new ongoing funding for Hastings operational costs to support the four-year investment plan in higher education, which began in 2013-14. The budget also provided \$36.8 million in lease-revenue bonds for a new academic building, authorized the use of design-build procurement, and required legislative notice before construction begins.

In 2009-10, enrollment at Hastings reached a high point at 1,179 full-time equivalent (FTE) resident JD students. Since then, enrollment has declined to 778 FTE resident JD students in 2015-16 and an estimated 749 FTE resident JD students in 2016-17. Hastings argues that it has reduced enrollment because of its concerns about the job market for its graduates, and its efforts to boost the qualifications of its student body by being more selective in its admissions.

Hastings is not budgeted on a per-student basis, and as a result the law school's state budget appropriation has not been adjusted to reflect the decrease in enrollment. As a part of the 2015-16 budget, the Legislature adopted supplemental reporting language to require Hastings to report on a proposed marginal cost funding formula that could be used to fund enrollment growth and adjust for enrollment declines. The Hastings report raised concerns with using an enrollment funding formula, including:

1. Fixed costs: Hastings relative small size means relatively high fixed costs that do not fluctuate with enrollment. As stand-alone institution, it does not enjoy the economic benefits of integration with a larger institution with extensive economies of scale or substantial endowment. Hastings does not receive funding from the UC. Hastings is obligated to fund costs that are funded at that the campus level at other law schools such as security, payroll and human resources, bursar and records, compliance and finance and financial reporting.
2. Incentives: An enrollment formula might encourage the school to enroll more students, even if students face poor job prospects.
3. Timing: Academic planning would be more difficult due to uncertainty regarding the amount of funding it would receive under the formula.
4. Forecasting: Achieving a specific enrollment target would be difficult due to challenges in predicting how many students would accept offers of admissions.

Tuition at Hastings is \$44,201 in 2015-16. Hastings expects to keep tuition flat in 2016-17, except it indicates its board will consider an increase in its health services fee. This is the fifth consecutive year that tuition has been frozen. Student fees are the primary source of funding for Hastings, accounting for nearly 75 percent of the revenues supporting the core operations (including revenue used for financial aid).

## Governor's Budget

The 2016-17 budget proposes a \$1 million General Fund ongoing unallocated increase to Hastings budget. Excluding general obligation bond debt service and deferred maintenance funds, this represents a ten percent increase to Hastings budget. The Governor proposes to allow Hastings to set its own enrollment, tuition levels and financial aid packages, and spending priorities (aside from the Governor's earmark for maintenance). The charts below describes Hastings total budget, including deferred maintenance funding, which will be discussed in the following section.

### Hastings College of the Law Budget (In Millions)

<b>Revenue<sup>a</sup></b>	<b>Amount</b>
2015–16 Revised	
Tuition and fees	\$27.0
General Fund	12.1
<b>Total</b>	<b>\$39.1</b>
2016–17 Changes	
Tuition and fees	–\$4.6 <sup>b</sup>
General Fund	3.3
<b>Subtotal</b>	<b>(–\$1.3)</b>
Draw down reserves	\$3.8
<b>Total</b>	<b>\$2.5</b>
2016–17 Proposed	
Tuition and fees	\$22.5
General Fund	15.4
<b>Total</b>	<b>\$37.8</b>
<b>Changes in Spending</b>	
Restricted General Fund	
Deferred maintenance (one time)	\$2.0
General obligation bond debt service	0.3
<b>Subtotal</b>	<b>(\$2.3)</b>
Hastings' Plan for Unrestricted Funds	
Benefit cost increases	\$0.2
Salary increases (2.5 percent) <sup>c</sup>	0.1
<b>Subtotal</b>	<b>(\$0.3)</b>
<b>Total</b>	<b>\$2.5</b>
<sup>a</sup> Reflects tuition after discounts. (In 2016–17, Hastings is projecting to provide \$16.3 million in discounts.) Includes all state General Fund.	
<sup>b</sup> Reflects a 3.7 percent decrease in enrollment (–\$1.3 million) and a 25 percent increase in tuition discounts (–\$3.3 million).	
<sup>c</sup> Increases only apply to certain employees comprising about one-quarter of Hastings' workforce.	



**Legislative Analyst's Office Comments.**

As it has been discussed in past years, LAO has concerns with the Governor's approach of providing unallocated increases to Hastings because it diminishes legislative oversight. The LAO suggests the Legislature consider adopting a policy specifying its overarching enrollment objective for the law school and link some portion of Hastings' budget to student enrollment. A state enrollment policy for Hastings could be based on various factors, such as workforce demand for lawyers or student demand for law school.

Hastings plans to increase its tuition discounts by \$3.3 million (25 percent) from \$13.1 million in 2015–16 to \$16.3 million in 2016–17. Hastings' tuition discounts typically are awarded based on merit, not need. As such, Hastings indicates the increase is intended to help it attract more highly qualified students. It also reduces the amount of revenue Hastings has to spend on other areas (such as compensation, maintenance, or instructional equipment). The LAO suggests the Legislature consider whether additional financial aid is a higher priority than other areas. Another consideration for the Legislature is whether it shares Hastings' priorities for awarding financial aid based on merit, rather than need.

**Staff Comments**

The state did not include an eligibility policy for Hastings in its original 1960 Master Plan for Education and the state, to date, has not developed such a policy, nor has it set enrollment targets for Hastings in the state budget. Moreover, the state has not set enrollment targets for specific UC law schools, such as Berkeley Law or UCLA School of Law, or CSU graduate schools. However, enrollment targets are generally set within the UC and CSUs budget, which include undergraduate and graduate students.

As noted above, Hastings resident JD enrollment has been declining from 1,179 FTE students in 2009-10 to an estimated 749 FTE students in 2016-17, a 36 percent drop. Notably, even though resident JD enrollment has decreased, state funding for Hastings has increased by 41 percent during the same time under the Governor's proposal. Hastings indicates it has used the increased funding per student primarily to cover increased retirement costs and lower its student to faculty ratio from 17.3 in fall of 2013 to 13.9 in fall 2015. UC's average student to faculty ratio was 10.35 in fall 2014.

Hastings is unique, as it is a stand alone law school with its own budget line item, separate from UC. Hastings faces some of the same cost pressures as the UC, including rising retirement and health care costs, and it receives no funding from the UC. While Hastings contracts with UC for payroll, investment and reprographic services, Hastings pays on a fee-for-service basis. In addition, decreased student enrollment has lowered revenue from tuition, making General Fund more critical to maintaining operations.

**Subcommittee Question**

- 1) How does Hastings decide each year how many students to enroll? Does it plan to keep reducing enrollment in the coming years? When will enrollment level off or start growing again?

**Staff Recommendation:** Hold Open.

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**Issue 2: Deferred Maintenance****Panel**

- Sally Lukenbill, Principal Program Budget Analyst, Department of Finance
- Paul Golaszewski, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- David Faigman, Acting Chancellor and Dean, Hastings College of Law

**Governor's Budget.** The budget proposes \$2 million one-time General Fund spending on deferred maintenance. This proposal for Hastings is part of a larger package of deferred maintenance spending for various state agencies, which will be heard in Senate Budget and Fiscal Review Subcommittee No. 4. The overall proposal does not require agencies initially to identify specific maintenance projects, though agencies would be required to submit project lists to the Department of Finance after enactment of the budget. The Joint Legislative Budget Committee would have 30 days to review these lists prior to the department approving them.

**Background**

Hastings recently reported an estimated \$8.4 million maintenance backlog to the Department of Finance. Of the \$8.4 million, \$6.8 million is associated with Snodgrass Hall and \$1.6 million is associated with Kane Hall. Though not yet required to do so, Hastings has submitted a project-level deferred maintenance list totaling \$2.5 million. The figure below summarizes Hastings' project list by building and type of project. Hastings indicates it would address a subset of these projects under the Governor's \$2 million proposal.

Hastings' Proposed List of Deferred Maintenance Projects<sup>a</sup>  
2016–17 (In Thousands)

Project Type	Cost
<b>Kane Hall</b>	
Roof	\$1,265
Electrical	478
Lighting	140
Heating, ventilation, and air conditioning	130
Water conservation	60
Floors	50
Waterproofing	42
Building exterior	30
<b>Subtotal</b>	<b>(\$2,195)</b>
<b>Snodgrass Hall</b>	
Heating, ventilation, and air conditioning	\$115
Lighting	85
Water conservation	60
Roof	23
Building infrastructure	15
Electrical	10
<b>Subtotal</b>	<b>(\$308)</b>
<b>Total</b>	<b>\$2,503</b>
<sup>a</sup> Hastings' list includes \$2.5 million in projects, though the Governor's proposal is for \$2 million.	

The 2015–16 budget funds a replacement project for the main part of Snodgrass Hall. Additionally, the Governor's California's Five-Year Infrastructure Plan indicates Hastings would like to modernize the remaining annex portion of Snodgrass Hall in 2017–18. Hastings asserts, however, that the projects for Snodgrass Hall on its deferred maintenance list are urgent and should be undertaken soon.

#### Legislative Analyst's Office Comments

The Governor's proposal would address nearly one-quarter of Hastings' deferred maintenance backlog. The LAO notes that this is a much higher share than the Governor proposes for other higher education agencies, including UC and CSU. (For instance, the Governor proposes \$35 million for UC, though the university asserts it has a backlog of over \$1.2 billion.) Though differing funding levels

may make sense to the extent they reflect differing priorities, the LAO notes that the Governor's proposal did not include a justification for the variation.

If the Legislature decides to provide \$2 million for Hastings, LAO recommends it prioritize Hastings' \$2.5 million list by not funding the projects related to lighting replacements and water conservation, as alternative revenues, such as by cap-and-trade auction revenues or various state revolving fund programs (where project costs are recouped over time through the project's energy savings), might be available to support these projects. LAO further recommends the Legislature prioritize projects at Kane Hall, given the state has approved replacing the main portion of Snodgrass Hall and Hastings plans to propose renovating the annex portion. LAO calculates the remaining projects left after setting these priorities would total \$2 million.

### **Subcommittee Question**

- 1) What is the rationale for choosing this level of funding for deferred maintenance for Hastings?

**Staff Recommendation.** Hold open, pending action in Senate Subcommittee No. 4.