Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Anthony J. Portantino, Chair
Senator Hannah-Beth Jackson
Senator John M. W. Moorlach

Thursday, May 4, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 3191

Consultant: Anita Lee, and Elisa Wynne

Items for Discussion

Public Comment

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6100 DEPARTMENT OF EDUCATION

Issue 1: Student Friendly Services: California College Guidance Initiative

Panel:
- Tessa Carmen De Roy, Ed.D. Executive Director, California College Guidance Initiative
- Jeff Vaca, Chief Governmental Relations Officer, Riverside County Office of Education

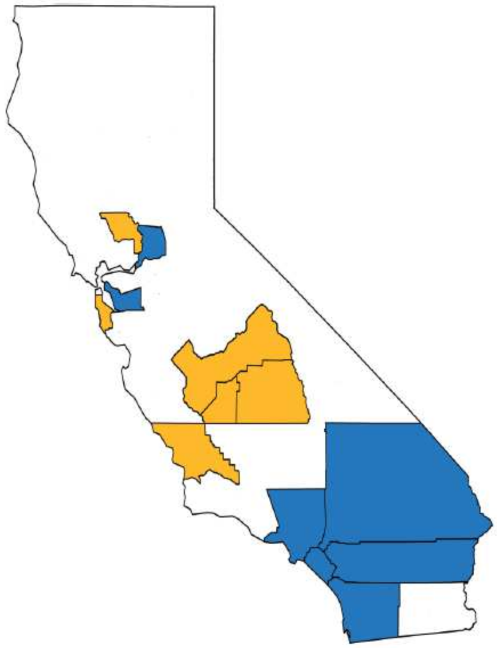
Background:

The Student Friendly Services budget item (6100-172-0001) supports the California College Guidance Initiative (CCGI). The CCGI is a non-profit organization that manages a college planning website, (californiacolleges.edu) and provides other data-related services. Specific services include:

- Website services available to all middle and high school students:
  - Personal account for tracking of academic plans and progress, management of financial aid and college admissions applications.
  - Career assessment and tools to assist in career and college exploration
- Additional services available to partner districts (pay a fee to CCGI):
  - Electronic transcript platform can be used to submit verified transcript data along with an application for admission to CSU.
  - District data for counselors to track A-G courses and other academic progress of students and districts to use for ensuring they are making progress towards college-readiness for their students.
  - Verified data for CCC to ensure correct placement of incoming students (under development).
  - Data matching with the California Student Aid Commission (under development).

Usage of the site has increased significantly in the past few years. In 2016-17, CCGI is working with 23 partner districts that serve approximately 420,000 students in grades six through 12 (approximately 13 percent of statewide enrollment and 21 percent of statewide free and reduced price lunch enrollment in these grades.) In addition the number of partner districts is projected to grow to approximately 40 in 2017-18.

District Partnerships



Alameda County
Oakland
Hayward*

Fresno County
Firebaugh*
Kerman*
West Park*

Kings County
Hanford Joint Union*

Los Angeles County
Compton
El Monte
El Rancho
Hacienda La Puente
Long Beach
Los Angeles**
Norwalk-La Mirada*
Pomona
Rowland

Orange County
Anaheim
Garden Grove
Santa Ana

Riverside County
Coachella Valley*
Corona-Norco
Desert Sands
Hemet
Jurupa*
Moreno Valley
Murrieta Valley
Perris Union
Temecula Valley
Val Verde

Sacramento County
Sacramento City
Elk Grove*

San Bernardino County
Chaffey Joint
Chino Valley
Upland

San Diego County
San Marcos

San Luis Obispo County
Coast*
Paso Robles*
San Luis Coastal*
Templeton*

San Mateo County
Jefferson Union High*

Tulare County
Cutler-Orosi Joint*

Yolo County
Woodland Joint*

Counties with current and/or potential new 2017-18 districts

Counties with potential new 2017-18 districts

* Districts that have applied for 2017-18 but have not signed a contract.

** Districts that have requested and received proposal for partnership from CCGI.

Source: CCGI

Funding.

Prior to 2015-16, funding for Student Friendly Services was provided to the California Community College Chancellor’s Office who provided administrative services. In the 2015-16 budget act, the $500,000 Proposition 98 appropriation was transferred to the Riverside County Office of Education who took over administration of the program and an additional $500,000 in one- time funding was provided to support the program. The 2016-17 budget increased ongoing support of Student Friendly Services to $2.5 million. In addition, the CCGI receives revenue from partner district fees (per student fees for 2017-18 are $2.00 per middle school and $2.75 per high school student), raises funds from private foundations, and receives funding from CSU. The current and projected funding breakout is shown below:

Shared Cost Model

	2014-2015	2015-2016	2016-2017	2017-2018 (projected)
SFS line item (ongoing)	$500,000	$500,000	$2,500,000	$2,500,000
One time funds		$500,000		
District Revenue	-	$250,000	$750,000	$1,250,000
CSU Investment	$75,000	$100,000	$250,000	$250,000*
Philanthropy (operating funds)	$1,600,000	$1, 800,000	$1,200,000	$1,300,000
Philanthropy (technology rebuild)		-	$1,100,000	$200,000
TOTALS	$2,175,000	$3,150,000	$5,800,000	$5,725,000

*CSU investment funding amount to be determined.
Source: CCGI

Suggested Questions:

1. How does CCGI determine with which districts to partner? What is the demand among districts statewide for these services?

2. What additional functionality is CCGI currently working on or considering adding in future years?

Staff Recommendation: Information Only.

6100 DEPARTMENT OF EDUCATION

Issue 2: College Readiness Funds and Practices

Panel:

- Debra Brown, Department of Education
- Stephen Koffman, Executive Director, San Francisco Unified School District, Office of College and Career Readiness
- Fernando Meza, Administrative Director of Pupil & Community Resources, Pomona Unified School District
- Erick Gonzalez, High School Student

Background:

California Education Code includes specific required courses that students must pass in order to graduate from high school and receive a diploma. The state sets minimum requirements, and local school boards may establish their own graduation requirements for their school district that include, and may go beyond, the state requirements. Both the University of California (UC), the California State University (CSU), and many private colleges require students to complete additional coursework to be eligible for admission. This includes required A-G courses, a total of 15 courses compared to the minimum 13 courses. California community colleges are required to admit California residents possessing a high school diploma or equivalent and may admit students without diplomas under certain circumstances. See the below chart for a comparison of high school graduation, UC, and CSU requirements:

High School Subject Area	State Mandated Requirements (EC 51225.3) for High School	UC Requirements for Freshman Admissions	CSU Requirements for Freshman Admissions
English	Three years	Four years of approved courses	Four years of approved courses
Mathematics	Two years, including Algebra I	Three years, including algebra, geometry, and intermediate algebra. Four years recommended.	Three years, including algebra, geometry, and intermediate algebra.
Social Studies/Science	Three years of history/social studies, including one year of U.S. history and geography; one year of world history, culture, and geography, one semester of American government and civics, and one semester of economics.	Two years of history/social science, including one years of U.S. history or one-half year of U.S. history and one-half year of civics or American government; and one year of world history, cultures, and geography.	Two years, including one year of U.S. history or U.S. history and government and one year of other approved social science.
Science	Two years, including biological and physical sciences.	Two years with lab required, chosen from biology, chemistry, and physics. Three years recommended.	Two years, including one year of biological and one year of physical science with lab.
Foreign Language	One year of either visual and performing arts, foreign language, or career technical education.	Two years in same language. Three years recommended.	Two years in same language.
Visual and Performing Arts	One year of either visual and performing arts, foreign language, or career technical education.	One year of visual and performing arts from approved list.	One year of visual and performing arts from approved list.
Physical Education	Two years	N/A	N/A
Electives	N/A	One year from approved list	One year from approved list
Total	**13**	**15 (7 in the last two years of high school)**	**15**

Source: Department of Education

College Readiness Block Grant. In the 2016-17 budget act, $200 million in one-time Proposition 98 funding was provided to districts with students in grades 9-12. Funds were distributed on a per-student basis for students who are low-income, foster youth, or English learners, with no LEA receiving less than $75,000 if they served at least one low-income, foster youth, or English learner student. LEAs may use these funds over a three-year period to provide additional opportunities and supports for students to increase their four-year college going rates, such as expansion of A-G course offerings, student and parent counseling, and advanced placement exam fees. As a condition of receiving funds, LEAs were required to submit a plan to CDE by January 1, 2017. detailing how the LEA will measure the impact of funds received on the LEA's low-income, foster youth or English learner students access and matriculation to higher education. CDE is currently working on a summary report of the information LEAs have provided around this funding.

College Readiness Accountability. A College and Career Readiness Indicator was adopted by the State Board of Education in February of 2017. The new indicator is included in the state's multiple measure accountability system, the California School Dashboard. The indicator ranks post-secondary preparedness with three levels: prepared, approaching prepared, and not prepared as described below:

- **Prepared Level - Does the graduate meet at least one measure below?**

  High School Diploma and any one of the following:

  - Career Technical Education (CTE) Pathway Completion **plus one** of the following criteria:
    - Smarter Balanced Summative Assessments: At least a Level 3 "Standard Met" on English language arts or mathematics and at least a Level 2 "Standard Nearly Met" in the other subject area
    - One semester/two quarters of dual enrollment with passing grade (Academic/CTE subjects)
  - At least a Level 3 "Standard Met" on both ELA and Mathematics on Smarter Balanced Summative Assessments
  - Completion of two semesters/three quarters of Dual Enrollment with a passing grade (Academic and/or CTE subjects)
  - Passing score on two advanced placement (AP) exams or two international baccalaureate (IB) exams
  - Completion of courses that meet the University of California (UC) a-g criteria **plus one** of the following criteria:
    - CTE Pathway completion
    - Smarter Balanced Summative Assessments: At least a Level 3 "Standard Met" on ELA or Mathematics and at least a Level 2 "Standard Nearly Met" in the other subject area
    - One semester/two quarters of Dual Enrollment with passing grade (Academic/CTE subjects)
    - Passing score on one AP exam **OR** on one IB exam

- **Approaching Prepared Level - Does the graduate meet at least one measure below?**

  High School Diploma and any one of the following:

  - CTE Pathway completion.
  - Scored at least Level 2 "Standard Nearly Met" on one or both ELA and Mathematics Smarter Balanced Summative Assessments.
  - Completion of one semester/two quarters of Dual Enrollment with passing grade (Academic/CTE subjects).
  - Completion of courses that meet the UC a-g criteria.

- **Not Prepared Level**

  Student did not meet any measure above or did not graduate.

Audit. The California State Auditor released a report in February of 2017, *College Readiness of California's High School Students*, that analyzes access to and completion of college preparatory coursework needed for admission to the state's public university systems. The audits recommendations include:

- Devoting additional or reallocating existing resources to ensure students have the academic preparation in kindergarten through grade eight to be ready to take on college preparatory coursework in high school.

- Districts should develop and implement a model (similar to San Francisco Unified's approach) that allows for the identification of students who are not completing grade-level college preparatory coursework and intervene, if necessary.

- Districts should create credit recovery options that reflect the needs of their students, such as summer school and evening courses.

- Require CDE or other state entity to coordinate statewide college readiness efforts focused on increasing college preparatory completion rates and to provide training and guidance to LEAs throughout the state on the creation and application of appropriate district and school level access analyses.

- Require county offices of education to monitor districts to determine whether they offer students adequate access to college preparatory coursework and review district's accountability plans and actions to implement plans.

Suggested Questions:

1. For CDE: What common metrics have LEAs identified for tracking the effectiveness of their College Readiness Block Grant funding?

2. For LEA representatives: What needs did the district identify as unique to their community or population and how are they using block grant funding and other funds sources to address those needs and increase college readiness among students?

3. For student representative: What resources did your school provide to help ensure you had the opportunity to ensure you were ready for post-secondary education? How did these help you to meet your individual challenges as you prepare to attend college?

Staff Recommendation: Information Only.

6440 UNIVERSITY OF CALIFORNIA

Issue 3: UC Student Support Services Oversight

Panel:

- Jason Constantouros, Legislative Analyst Office
- Dave Marshall, Executive Vice Chancellor, University of California, Santa Barbara
- Kieran Flaherty, University of California

Background

As part of a package of initiatives proposed by Senate President Pro Tempore Kevin de León, the 2016-17 budget for UC included $20 million in one-time for support services for "low-income students and students from underrepresented minority groups," including students who were enrolled in Local Control Funding Formula (LCFF)-plus schools. LCFF-plus schools are schools where more than 75 percent of the school's total enrollment (unduplicated) is composed of students who are either English learners, eligible for a free or reduced-price meal, or foster youth. These schools are eligible for supplemental funding under LCFF. The additional funding in the budget act was designed both to increase the number of LCFF-plus and other low-income students who enroll at UC and to expand academic support services to ensure their academic success and timely graduation.

The UC Regents January board agenda notes that in August 2016, the UC Office of the President (UCOP) allocated the $20 million in one-time funds to campuses based on the number of students who graduated from LCFF-plus high schools who were enrolled on each undergraduate campus in the fall of 2015. Students who entered as either freshmen or transfers were included in this count. In addition, funds were set aside for outreach services provided by UC San Francisco and for supplemental funding for particularly promising and innovative programs. The chart below displays the distribution of funds and the number of LCFF-plus students by campus.

UC Campus One-time Funding Eligibility for Enhanced Outreach and Student Support Services

Campus	Funding	# of LCFF+ students
Berkeley	$1,552,000	2,474
Davis	2,086,000	3,326
Irvine	3,451,000	5,499
Los Angeles	2,651,000	4,226
Merced	1,374,000	2,190
Riverside	2,615,000	4,169
San Diego	1,745,000	2,782
San Francisco	300,000	
Santa Barbara	1,667,000	2,658
Santa Cruz	1,559,000	2,485
Reserve: High-potential projects	1,000,000	
Total	$20,000,000	29,809

Prior to receiving the allocation of funds, each campus was required to provide UCOP with a spending plan indicating how these funds would be used, what outcome metrics would be tracked, and the timeline for implementation. The additional one-time funding could be used by campuses to expand current programs or launch new efforts, but could not be used to fund existing programs at their current scale.

Campuses were asked to use 20 to 40 percent of their funding for efforts to increase the application, admission, and enrollment of students from LCFF-plus schools. Examples of eligible funding include partnering with community-based organizations to raise awareness of UC, and better serve LCFF-plus students and their families, or using UC proprietary software other tools to identify students attending LCFF-plus schools who are close to achieving UC eligibility and providing college advising and academic enrichment programs to those students.

The remaining 60 to 80 percent is to be used to provide academic support services to enrolled students, focusing on those who are low-income, first-generation college, or otherwise educationally disadvantaged. Examples of eligible funding include additional academic support and learning assistance programs for students, including targeted support services in the fields of writing and science, technology, engineering, and mathematics; or training faculty, advisors, and peer mentors how to best support low-income, first-generation, and educationally-disadvantaged students. Campuses provided preliminary progress reports to UCOP in late April regarding their efforts, and final reports will be available in early fall.

Additionally, for the fall 2017 application cycle, in order for applicants to receive full consideration in the comprehensive review process, campuses received special rosters of all applicants to from LCFF-plus schools. For 2018, the UC application system will be redesigned to automatically identify these applicants on their UC applications, which is similar to how UC identifies students who qualify for the Eligibility in the Local Context Program. Additionally, UC is also redesigning its application fee waiver so that applicants who report low family incomes are automatically granted these waivers, rather than being required to apply for them.

In addition to the one-time funding, AB 1602 (Committee on Budget), Chapter 24, Statutes of 2016, also required UC to provide direction to each campus regarding supplemental consideration in the admission process for pupils who are enrolled in LCFF plus schools, and meet all the same admission requirements.

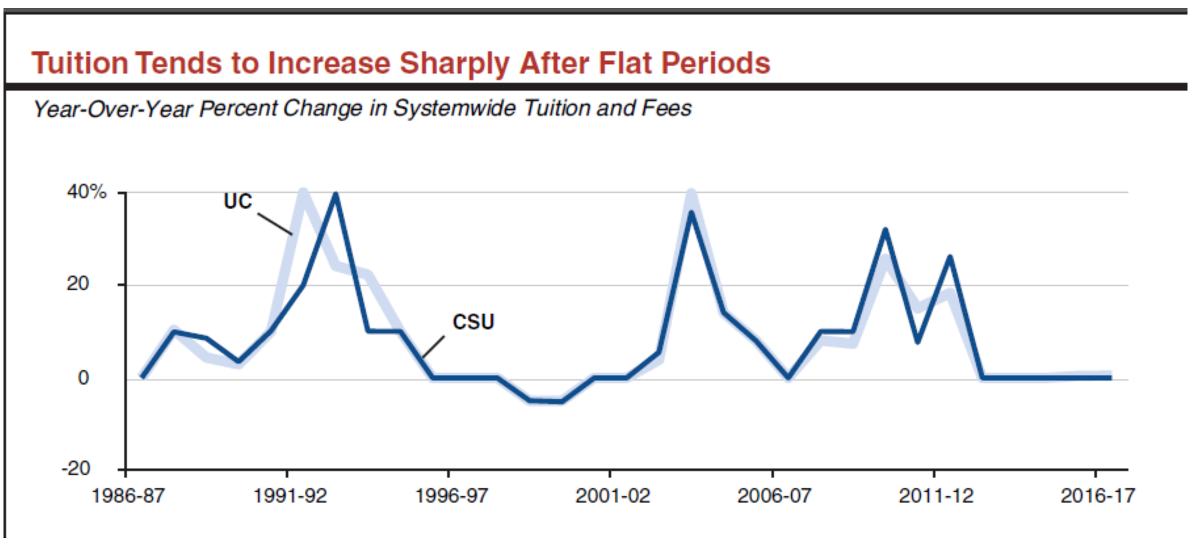
6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

Issue 4 Tuition (Information Only)

Panel:
- Christian Osmena, Department of Finance
- Jason Constantorous, Legislative Analyst's Office
- Kieran Flaherty, University of California
- Ryan Storm, California State University

Background.

Tuition and fees at UC and CSU tend to be volatile, with periods of flat tuition followed by sharp increases. The periods of flat tuition generally correspond to years in which the state experienced economic growth, whereas the periods of steep tuition increases generally correspond to periods when the state experienced a recession. During recessions, the state has often balanced its budget in part by reducing state funding for the segments. UC and CSU, in turn, increased tuition and fees to make up for the loss of state support. This was the case in the recent recession; between 2004 and 2013, tuition at UC and CSU more than doubled. However, as the economy recovered, this trend of divestment started to reverse. The passage of Proposition 30 and recent budget acts facilitated a renewed investment in public higher education. Since the passage of Proposition 30 in 2012, the state has funded a multiyear investment plan at UC and CSU.



University of California. In November 2015, the UC Regents' authorized the UC President to increase student tuition by up to 28 percent over five years. This action led to large public outcry regarding the affordability of higher education. In response to this outcry, the Administration and the UC developed a multi-year budget framework, released in May 2015. Regarding state funding, the Administration proposed providing four percent unrestricted General Fund base increases. Regarding tuition, UC committed to hold tuition flat for an additional two years. Moving forward, the Administration noted that it is reasonable to expect that tuition to increase modestly and predictably at around the rate of inflation beginning in 2017-18. The Governor and the UC President also agreed on several initiatives to reduce the cost structure of the UC. Their framework, which was ultimately adopted by the Board of Regents, requires UC to reevaluate how students' prior academic experiences are recognized as part of UC degree programs, how academic programs are structured, and how instruction is delivered.

In January 2017, the UC Regents voted for a tuition increase of 2.5 percent, or $282, for a total annual tuition of $11,502. Additionally, the UC Regents voted to increase the student services fee by five percent, a $54 increase for a total of $1,128 annually. This will generate about $89 million. Of this amount, UC notes that about (1) $31 million will be provided as financial aid to UC students, (2) the remainder will help cover mental health services, capital needs, and student support services. This tuition increase would grow state spending on Cal Grant by $17.7 million in 2017-18 beyond the costs reflected in the Governor's budget. The regents also voted to increase nonresident tuition by five percent, or $1,332.

The Administration's budget assumes no tuition increase; however, the Governor's budget summary notes that any tuition increase at UC must be viewed in the context of reducing the overall cost structure.

California State University.

In November, the CSU's adopted budget request included a base increase of (1) $325 million General Fund and (2) about $18 million in increased tuition revenue from a planned one percent growth in resident enrollment. The chart below displays the CSU's request:

	Dollars in Millions
Graduation Initiative 2025	$75
Enrollment Growth: 3,600 FTES	$38.5
Compensation: Existing Contracts	$139.1
Compensation: Open Contracts and Non-represented employees	$55.1
Academic Facilities and Infrastructure needs	$10
Mandatory Costs	$26
Total (assumes $18.8 million net tuition revenue adjustment associated with increase of FTES)	$343.7

In contrast to CSU's request, the Administration's proposed budget only includes an increase of $157 million General Fund (about a four percent year-over-year General Fund augmentation)—$168 million below the CSU's budget request. In March 2017, the CSU Board of Trustees voted on a five percent tuition increase, or $270, for a total annual tuition price of $5,742. The tuition increase is scheduled to take effect in fall 2017. As a part of the action, if the Legislature fulfills the system's budget request, the chancellor will automatically rescind the tuition increase. However, it is unclear what action the CSU would take if the Legislature only partially funded their CSU's request. This tuition increase would generate about $77.5 million in net revenue, after spending $38 million on State University Grant (SUG) to students. This tuition increase would grow state spending on Cal Grant costs by $24.9 million in 2017-18, which is beyond the costs reflected in the Governor's budget. CSU notes that more than 60 percent of all CSU undergraduate students receive grants and waivers (such as the Cal Grant, Pell Grant, and SUG) to cover the full cost of tuition, and nearly 80 percent of all students receive some form of financial assistance. CSU does not expect these percentages to change as a result of the tuition increase.

The CSU notes the purpose of the tuition increase is to partially cover the support budget request, and would allow for significant investment in the Graduation Initiative 2025.

The Administration's budget assumes no tuition increase, however the Governor's budget summary states that CSU's proposed tuition increase must be viewed in the context of improving the graduation rates. The subcommittee will discuss CSU's graduation rates later in this hearing.

The LAO notes that a five percent increase in tuition at CSU may be considered too high given anticipated inflation in the budget year. Instead, LAO suggests the Legislature consider a tuition increase of a lesser amount (such as 2.5 percent) to generate funding for (1) additional transfer enrollment growth and (2) a compensation pool for bargaining groups with open contracts.

Total Cost of Attendance. In addition to tuition and fees, other expenses such as housing and food, personal expenses, books and supplies, and transportation make up the total cost of attendance for higher education. The cost of attendance varies across campuses within each system because some expenses, such as housing, vary by location. The cost also varies depending on whether a student lives on campus, off campus not with family, or off campus with family. For each system, students living at home with family have the lowest cost of attendance. The cost of attendance for students living on campus, and off campus not with family, tend to be similar.

Other States. According to the LAO, UC and CSU's tuition and fee levels vary compared to public colleges in other states. UC tends to have higher tuition and fees compared to other public universities with a similar level of research activity. Specifically, UC's tuition and fees are higher than all but ten of the 65 largest public research universities in other states. By contrast, tuition and fees at CSU are lower than all but 42 universities among a group of 244 masters–level public universities in other states.

Financial Aid. As discussed in the subcommittee's March 16th hearing on financial aid, California has one of the country's most generous state financial aid programs, which helps many low-income students attend UC and CSU. The state's Cal Grant program guarantees aid to California high school graduates and community college transfer students who meet financial need criteria and academic criteria. In addition, students who do not qualify for high school or community college entitlement awards but meet other eligibility criteria may apply for a limited number of competitive grants. Awards cover full systemwide tuition and fees at the UC and CSU, and up to a fixed dollar amount toward costs at private colleges. The Cal Grant program also offers stipends, known as access awards, for some students to help cover some living expenses, such as the cost of books, supplies, and transportation. A student generally may receive a Cal Grant for a maximum four years of full–time college enrollment or the equivalent. Cal Grant spending is driven by increased tuition and participation.

Student Loans and Debt. According to the Legislative Analyst's Office, by the time UC and CSU students graduate, 55 percent of UC students and 49 percent of CSU students have taken out student loans. Among those borrowing, the average student loan debt at graduation is $19,100 for UC students and $14,388 for CSU students. Student borrowing at UC and CSU is lower than the national average, with 60 percent of students at other four–year public universities graduating with loans, with an average debt load of $25,900.

Issue 5: Academic Sustainability Plan

Panel:
- Christian Osmena, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Kieran Flaherty, University of California
- Ryan Storm, California State University

Background

AB 94 (Committee on Budget), Chapter 50, Statutes of 2013, put into place a framework for measuring performance at the UC and CSU. Specifically, Education Code Sections 89295, subdivision (b), and 92675, subdivision (b), require the UC and CSU to report the following information annually, starting in March 2014, as follows:

- Number/proportion of transfers.
- Number/proportion of low-income students.
- Four-year graduation rates for both UC and CSU and six-year graduation rates for CSU (disaggregated by freshman entrants, transfers, graduate students, and low-income status).
- Degree completions (disaggregated by freshman entrants, transfers, graduate students, and low-income status).
- First-years on track to degree (i.e., what percent of first years earned a specified number of units).
- Spending per degree (core funds).
- Units per degree.
- Number of science, technology, engineering and mathematics (STEM) degrees.

AB 94 also requires the UC and CSU to report biennially to the Legislature and DOF, beginning October 1, 2014, on the total costs of education, on both a systemwide, disaggregated by undergraduate instruction, graduate instruction, and research activities. Further, the costs must be reported by fund source, including: 1) state General Fund; 2) systemwide tuition and fees; 3) nonresident tuition and fees and other student fees; and 4) all other sources of income.

Beginning with the 2014-15 Budget Act, UC and CSU were required to submit performance reports (commonly referred to as "academic sustainability plans") by November 30 each year. In these reports, UC and CSU are to set performance targets for various statutory measures, such as graduation rates, and degree completions, for each of the coming three years. The plans include several years of actual performance on each of the measures. Additionally, the sustainability plans must include:

- Projections of available resources in each fiscal year, using assumptions provided by the DOF for General Fund and tuition and fees.
- Projections of expenditures in each fiscal year and descriptions of any changes necessary to ensure that expenditures in each of the fiscal years are not greater than the available resources.
- Projections of enrollment (resident and non-resident) for each academic year within the three-year period.
- The university's goals for each of the performance measures, as specified in Education Code, for each academic year within the three-year period.

These were proposed by the Governor in an effort to encourage the universities to adopt internal budget plans consistent with the state's multiyear funding plan.

The Legislative Analyst's Office charts on the following pages displays information from UC and CSU's sustainability plans. Staff notes that CSU's graduation rates will be discussed later in the agenda.

UC's Performance Measures and Targets

State Performance Measure	Target for 2015-16	Actual 2015-16 Performance	Target for 2019-20
CCC Transfers Enrolled. Number and as a percent of undergraduate population.	33,904 (18%)	34,197 (18%)	37,589 (18%)
Low-Income Students Enrolled. Number and as a percent of total student population.	71,462 (39%)	75,608 (40%)	82,359 (40%)
Graduation Rates			
4-year rate—freshman entrants	63%	64%	68%
4-year rate—low-income freshman entrants	57%	58%	62%
2-year rate—CCC transfer students	55%	55%	59%
2-year rate—low-income CCC transfer students	51%	51%	55%
Degree Completions. Number of degrees awarded annually to:			
Freshman entrants	34,200	34,519	39,756
CCC transfer students	14,600	14,866	16,396
Graduate students	18,600	14,497	15,580
Low-income students	21,800	24,660	28,017
All students	69,100	63,882	73,181
First-Year Students on Track to Graduate on Time. Percentage of first-year undergraduates earning enough credits to graduate within four years.	51%	52%	52%
Funding Per Degree. State General Fund and tuition revenue divided by number of degrees for:			
All programs	$107,771	$111,328	$126,029
Undergraduate programs only	Not reported	Not reported	$74,981
Units Per Degree. Average quarter units earned at graduation for:			
Freshman entrants	187	183	183
Transfer students	100	95	95
Degree Completions in STEM Fields. Number of STEM degrees awarded annually to:			
Undergraduate students	17,100	20,503	23,382
Graduate students	9,300	8,620	9,264
Low-income students	7,100	9,284	10,549

CCC = California Community Colleges and STEM = science, technology, engineering, and math.
Source: UC Academic Sustainability Plans.

CSU's Performance Measures and Targets

State Performance Measure	Target for 2015-16	Actual 2015-16 Performance	Target for 2019-20
CCC Transfers Enrolled. Number and as a percent of undergraduate population.	145,436 (36%)	143,445 (36%)	144,879 (36%)
Low-Income Students Enrolled. Number and as a percent of total student population.	207,528 (50%)	206,926 (50%)	218,948 (51%)
Graduation Rates			
4-year rate—freshman entrants	18%	19%	24%
4-year rate—low-income freshman entrants	11%	12%	19%
6-year rate—freshman entrants	54%	57%	62%
6-year rate—low-income freshman entrants.	47%	52%	57%
2-year rate—CCC transfer students	28%	31%	36%
2-year rate—low-income CCC transfer students	26%	30%	36%
3-year rate—CCC transfer students	65%	62%	69%
3-year rate—low-income CCC transfer students	64%	62%	69%
Degree Completions. Number of degrees awarded annually to:			
Freshman entrants	37,915	38,770	47,803
CCC transfer students	43,152	47,034	51,415
Graduate students	18,938	20,788	22,248
Low-income students	40,482	51,226	64,080
All students	106,788	112,832	127,706
First-Year Students on Track to Graduate on Time. Percentage of first-year undergraduates earning enough credits to graduate within four years.	51%[a]	52%[a]	57%[a]
Funding Per Degree. State General Fund and tuition revenue divided by number of degrees for:			
All programs	$41,049	$40,781	$42,789
Undergraduate programs only	$51,670	$49,991	$46,780
Units Per Degree. Average semester units earned at graduation for:			
Freshman entrants	139	138	138
Transfer students	140	141	141
Degree Completions in STEM Fields. Number of STEM degrees awarded annually to:			
Undergraduate students	18,846	20,201	26,994
Graduate students	3,958	5,693	7,453
Low-income students	7,470	10,462	13,927

[a]CSU excludes students who do not return to CSU for their second year. Including these students reduces CSU's performance by about 8 percentage points.
CCC = California Community Colleges and STEM = science, technology, engineering, and math.

Governor's Proposal. The Governor proposes to eliminate the provisional budget language that requires UC and CSU to submit performance reports to the Legislature each November.

Legislative Analyst's Office Comments. Given that these plans provide key performance data—including former targets, actual results, and future targets—the LAO recommends the Legislature reject this proposal. Should the Legislature wish to reduce the universities' reporting workload, the LAO recommends the Legislature eliminate the segments' statutorily required March performance reports. The March reports contain the same past actual data as the November reports but, unlike the November reports, do not include the universities' performance targets and certain other useful information.

Staff Comments. As a part of the Governor's January budget proposal in 2014, the Administration proposed requiring a sustainability plan. However, both houses of the Legislature raised concerns regarding the sustainability plan and rejected the proposal. Specifically, the subcommittee previously noted that the sustainability plan "appears to be somewhat duplicative of the budget report the UC Regents already adopt each fall, but adds new workload for UC. Perhaps more importantly, the process in which the Administration would provide the UC each fall with its proposed funding for the following budget year creates a public budget negotiation before the Legislature has input. This could limit the Legislature's ability to determine its budget levels and priorities for the UC." Moreover, both UC and CSU have indicated that the sustainability plan is burdensome and duplicative. The subcommittee may wish to consider working with LAO staff to identify which elements of the sustainability plan is useful in deliberating budgets.

Staff Recommendation: Hold open

6440 UNIVERSITY OF CALIFORNIA

Issue 6: Enrollment

Panel

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Kieran Flaherty, University of California

Background

Master Plan for Higher Education. The California Master Plan for Higher Education of 1960 set forth each of the three segments' missions and student eligibility policies. Specifically, the plan calls for UC to be the state's primary public research university and directs it to grant bachelor's, master's, and doctoral degrees, and for CSU to focus on instruction leading to bachelor's and master's degrees. Additionally, the Master Plan sets eligibility policy for students. For freshman eligibility, UC is to draw from the top 12.5 percent of public high school graduates; whereas CSU is to draw from the top 33 percent. For transfer eligibility, UC is to admit students who have completed lower-division coursework with at least a 2.4 grade point average; whereas CSU is to admit those having at least a 2.0 grade point average. The transfer function is intended both to (1) provide students who do not qualify for freshman admission an opportunity to earn a bachelor's degree and (2) reduce costs for students seeking a bachelor's degree by allowing them to attend CCC for their lower-division coursework. The master plan does not include eligibility criteria for graduate students. Instead, it calls for the universities to consider graduate enrollment in light of workforce needs, such as for college professors and physicians.

A-G Requirements. For freshmen, the university systems are responsible for setting specific admission criteria intended to reflect their respective eligibility pools. As a minimum criterion, both systems require high school students to complete a series of college preparatory courses known as the "A-G" series. The series includes courses in math, science, English, and other subjects. To qualify for admission, students must complete this series while earning a certain combination of course grades and scores on standardized tests. In 2014-15, 43 percent of high school graduates completed the A-G series with a "C" or better in each course. For transfer students, the university systems set general education and pre-major course requirements. Transfer students completing these courses and meeting the master plan's grade point average requirements are eligible for admission.

Eligibility Study. To gauge whether the universities are drawing from their freshman eligibility pools, the state periodically funds "eligibility studies." These studies examine public high school graduates' transcripts to determine the proportion of students meeting each university system's admission criteria. If the proportion is significantly different from 12.5 percent and 33 percent for UC and CSU, respectively, the universities are expected to adjust their admission policies accordingly. For example, UC tightened its admission criteria after an eligibility study conducted in 2003 found it drawing from the top 14.4 percent of public high school graduates. The last eligibility study was conducted in 2007. The 2015-16 budget provided $1 million for the Office of Planning and Research to complete a new eligibility study by December 1, 2016. However, due to data collection issues, the release of the report has been delayed to the July 2017.

Department of Finance's Demographic Unit does projections of high school graduates. It's most recent forecast projects high school graduates increasing from about 420,000 in 2016-17, to 445,000 in

2023-24, followed by declines in the following two years. Over this period (through 2025-26), the projected average annual growth rate is less than one percent.

Enrollment Funding. For decades, the state funded enrollment growth according to a “marginal cost” formula that estimated the cost of admitting one additional student. The most recently used formula assumed the universities would hire a new professor for roughly every 19 additional students and linked the cost of the new professor to the average salary of newly hired faculty. In addition, the formula included the average cost per student for faculty benefits, academic and instructional support, student services, instructional equipment, and operations and maintenance of physical infrastructure. The state provided the systems flexibility to determine how to distribute enrollment funding to its campuses. If the systems did not meet the enrollment target specified in the budget within a certain margin, then the associated enrollment growth funding reverted back to the state. UC notes that their marginal cost is about $10,000.

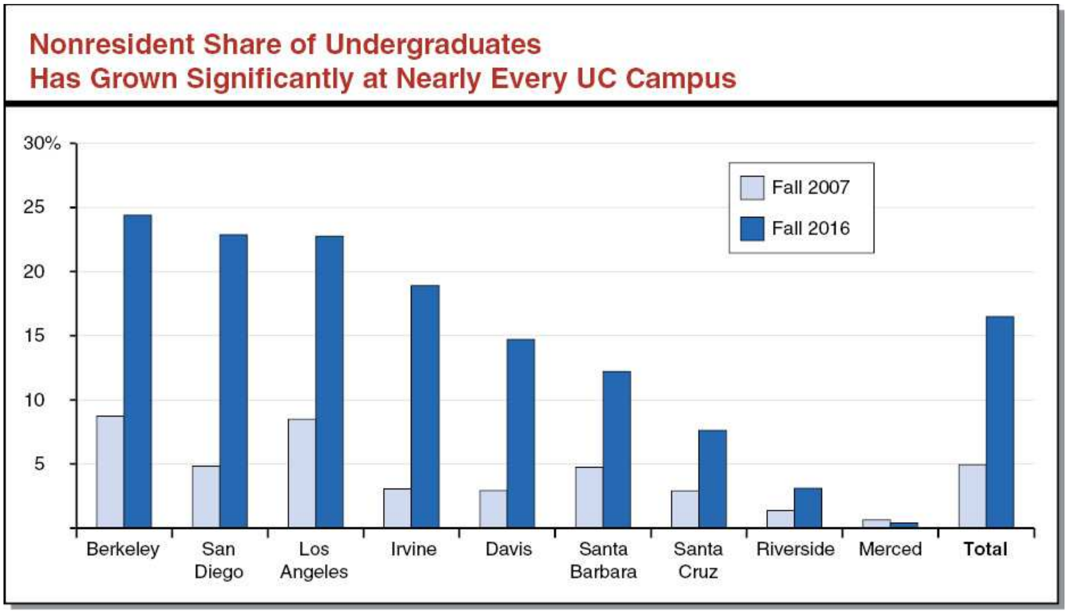
Recent Budget Acts. Due to the economic recession, the 2008-09 budget began omitting enrollment targets to provide UC and CSU flexibility to manage state funding reductions. The state resumed enrollment funding from 2010-11 through 2012-13, but, in two of the three years, it did not require the universities to return money to the state if they fell short of the target. In 2013-14 and 2014-15, the state again chose not to include enrollment targets in the budget.

Beginning in 2015-16, the state resumed setting enrollment targets for UC for the subsequent academic year. This change was intended to give UC more time to respond to legislative direction. In the 2015-16 budget, the state set a goal for UC to enroll 5,000 more resident undergraduate students by 2016-17 (than the 2014-15 level) and allocated an associated $25 million in ongoing funding for the growth. The state continued this practice in 2016-17, setting an expectation that UC enroll 2,500 more resident undergraduate students in 2017-18 than in 2016-17. The budget provides an associated $18.5 million, contingent on UC providing sufficient evidence by May 1, 2017 that it would meet this goal. The funding also is contingent on UC adopting a policy by the same deadline that limits nonresident enrollment. The state did not set targets for graduate student enrollment in either year. Based on preliminary estimates, UC has enrolled about 7,500 more FTE resident undergraduate students in 2016-17 than in 2015-16. For 2017-18, UC is requesting $25 million to increase enrollment by 2,500 resident undergraduate students in 2018-19.

UC policy guarantees admission to residents through two paths—a statewide path and a local path—that recognize and reward the academic accomplishment of the state's top high school graduates. The statewide path includes students with grade point averages and test scores in the top nine percent of all California high school graduates. The local path, known as “eligibility in the local context,” includes students who have earned at least a 3.0 grade point average and are in the top nine percent of their participating California high school, regardless of their test scores. Every resident applicant who is guaranteed admission to UC, but who is not admitted to any of the campuses to which the student had originally applied, is given the opportunity to enroll at a different UC campus through a process called “referral”. Eligible freshmen applicants who are not accepted to their first choice campus are redirected to UC Merced.

Nonresident Enrollment. Currently, nonresidents make up 17 percent of all students at UC. Nonresidents comprise more than 20 percent of enrollment at UC’s four most selective campuses (Berkeley, San Diego, Los Angeles, and Irvine). UC undergraduate nonresident enrollment increased from about 7,100 students in 2007-08 to an estimated 32,300 students in 2016-17. Nonresidents’ share of the UC undergraduate student body more than tripled during this time. As the figure below shows, the share of nonresident undergraduates has grown at every UC campus, except for Merced. UC asserts that the growth in nonresident undergraduate students allowed it to further grow resident enrollment.

This is because UC charges nonresidents a supplemental charge (around $27,000) that significantly exceeds their average expected cost (around $10,000).



As noted above, as a part of the 2016-17 budget, should UC enroll an additional 2,500 resident undergraduates, and adopt a policy that limits nonresident enrollment, UC would receive an additional $18.5 million. At the March Board of Trustees hearing, the UC Regents heard an item regarding nonresident enrollment. The policy would do the following, (1) limits the proportion of nonresident undergraduates across the UC system to 20 percent of the total undergraduate enrollment, (2) caps the proportion of nonresidents at UC Berkeley, UCLA, and UC San Diego at current levels, and (3) allows campuses, who currently enroll lower numbers of nonresidents, to enroll additional nonresidents up to, but not exceeding twenty percent of undergraduate students. The policy also calls for a review by the Regents at least once every five years. However, the UC did not formally adopt the policy, and it is unclear whether DOF will release the additional $18.5 million to UC.

UC notes nonresidents provide significant revenue to campuses, and during the recession, when the state did not provide sufficient funding to UC, campuses had to rely on nonresident students to balance their budgets. If UC Berkeley, UCLA, and San Diego were to reduce its resident enrollment to 20 percent, UC notes that this would result in a net loss of revenue of $24 million, $17.6 million, and $14.2 million, respectively. In addition, more than $70 million of the base tuition that nonresident undergraduates pay in 2016-17 directly subsidize need-based aid for residents. This is about $700 for each resident receiving a UC grant. UC states that nonresident students do not displace California students, and that it continues to admit all applicants from the top one-eighth of students who graduate from California high schools.

Graduate Enrollment. As noted above, the master plan does not include eligibility criteria for graduate students. Additionally, in the last few years, the state did not set targets for graduate enrollment. UC is requesting $9 million to support enrollment growth of 900 graduate students. UC notes that the additional graduate students will complement and support undergraduate growth, as they are critical to attracting and retaining faculty members, and serve as educators for undergraduate students. According to the LAO, UC is enrolling about 37,000 graduate students in the current academic year. This includes students in master's degree programs, doctorate programs and professional schools, such as law schools. LAO enrollment data DOF enrollment data suggests UC increased graduate student enrollment by more than 1,000 students, even though the state did not specify an enrollment target for graduate students.

UC offers a variety of outreach programs to attract graduate students. In particular, the Summer Institute for Emerging Leaders was created in 2012 as a joint effort of the UC business schools and UCOP to recruit underrepresented minority students for Masters in Business Administration programs at UC. Each of the six business schools rotates as a host for a two-week summer program for two summers, and targets freshman and sophomores from historically black colleges and universities (HBCU) and Hispanic serving institutions (HSI) across the country. The fellowship is open to 25 freshman per fellowship class. This program is funded by private donations, with an annual budget about $175,000. Because this program rotates among the UC business schools, it is difficult to identify or track long-term outcomes. The program could benefit from dedicated funding, a central database, and a specific program lead across the business schools project.

Staff Recommendation. Hold Open

Issue 7: Proposition 56

Panel

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Kieran Flaherty, University of California

Background

In November 2016, voters approved Proposition 56, which increases excise taxes on tobacco products by $2. The measure also prescribes how to distribute the revenues. While the measure specifies that the bulk of the revenue be spent on health care for low-income Californians, the measure also specifies $40 million to UC for "the purpose and goal of increasing the number of primary care and emergency physicians trained in California. This goal shall be achieved by providing this funding to the UC to sustain, retain, and expand graduate medical education programs to achieve the goal of increasing the number of primary care and emergency physicians in the State of California based on demonstrated workforce needs." The measure also notes that residency programs accredited by federally-recognized organizations and located in California are eligible to apply to receive funding.

Governor's Proposal

The Administration proposes allocating $50 million in Proposition 56 funds to UC for graduate medical education (GME). The Administration uses Proposition 56 revenue in place of $50 million General Fund revenue that the Administration estimates supported graduate medical education in 2016-17. Generally, General Fund for UC is not earmarked for specific purposes. The Administration proposes repurposing the $50 million General Fund for the Governor's commitment to provide a four percent unallocated base funding increase to UC.

Graduate Medical Education. GME, or residency training, is required for medical licensure. This supervised training prepares doctors for independent practice or surgical specialty. Following a four-year medical school education, resident physicians typically spend three to seven years in GME training. There are roughly 5,000 residents enrolled in UC-sponsored residency and affiliated family medicine programs, which account for nearly half of California's total number of medical residents.

UC states that the average total cost to train a resident is about $150,000 per year. Since 1965, Medicare has been the largest single funder of GME. State funding for these students comes mostly from the Song-Brown Program administered by the Office of Statewide Health Planning and Development (OSHPD). In 2016, UC received about $3.1 million from the Song-Brown program. Some state General Fund also supports GME, but it is difficult to pinpoint exactly how much. For example, UC notes that some portion of a physician faculty's salary is supported by General Fund; however it is lumped in with other funds such as federal funding, grants and hospital revenue.

Legislative Analyst's Office Comments

The LAO notes that the Administration's use of GME funds may not meet the goals of the measure. While the measure does not require Proposition 56 revenues to supplement existing resources for medical education programs, the measure does state those funds are to be used "for the purpose and goal of increasing the number of primary care and emergency physicians training in California." LAO notes that using the Proposition 56 revenues to replace General Fund resources used for graduate medical education (at least according to Administration estimates) arguably does not meet this goal.

Staff Comments

The Administration's proposed budget replaces General Fund resources with Proposition 56 funds, and ensures status quo state support for UC. UC has indicated it will use this funding for core operations. Moreover, the Administration's methodology assumed a marginal cost of about $10,000 per resident. Staff questions whether this is an appropriate methodology in determining how much state funding is used to support GME. Additionally, it is unclear how the Administration's proposal would lead to an increase in residents, as the proposal merely swaps out fund sources. Lastly, should the subcommittee seek to reallocate this funding to increase the number of residents; the subcommittee may wish to consider if and how it will backfill this General Fund swap.

Staff Recommendation. Hold Open.

Issue 8: Cord Blood Collection Program

Panel

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Kieran Flaherty, University of California
- Jon Walker, Supervisor, Clinical Laboratory, Institute for Regenerative Cures, University of California, Davis
- Delia Roberts, Manager, Stem Cell Program, Institute for Regenerative Cures, University of California, Davis

Background

AB 34 (Portantino), Chapter 516, Statutes of 2007, established the Umbilical Cord Blood Collection Program, to be administered by the California Department of Public Health. The legislation included intent language that the program contributes to federal efforts to diversify cord blood units that are listed in the national registry. AB 34 authorized the department to make medically unusable units available for stem cell research. The bill established a fund to deposit any state, federal, or private contributions for the program. Due to implementation challenges at the Department of Public Health, AB 52 (Portantino), Chapter 529, Statutes of 2010, shifted the program to UC. AB 52 imposed a mandatory $2 fee on California birth certificates, which, in turn, generates about $2.5 million each year for UC to administer the cord collection program. AB 52 will sunset on January 1, 2018.

UC coordinates the collection and transportation of cord blood donations from hospitals in California to several banks across the country. UC enters into agreements with hospitals and banks to collect and store donated units. Under some agreements, UC uses its own hospital staff to collect donations and contracts with a third party for transportation services; whereas, under other agreements, it reimburses hospitals and banks for their associated costs.

The UC program collects cord blood units from 11 hospitals in California (including one at UC Davis) and contracts with four banks to store the units. Between 2012 and 2017, the program added 1,561 units to the national registry, of which 28 were used in a transplant. Six of those units were used by Californians.

Data by Participating Cord Blood Bank, 2012-2017

Banks	Number of Hospitals Collected From	Date Collection Activities Began	Number of Cord Blood Units			
			Collected	Added to National Registry	Used in Transplant	Used for Research
StemCyte (Los Angeles)	5	2012[a]	—[b]	1,419	26	0
San Diego Blood Bank	4	2013	3,448	127	1	454
Clinimmune Labs, Colorado	1	2013	593	15	1	0
Cleveland Cord Blood Ctr, Ohio	1	2017	—[c]	0	0	0
Total	11		—	1,561	28	454

[a] Of the five hospitals that StemCyte partners with, three began collecting units in 2012 and two began collecting units in 2014.

[b] UC does not require StemCyte to report on the number of units it collects.
[c] UC indicates that reliable collection data do not yet exist, as this agreement just started.

For a transplant to be successful, a patient must share certain biological similarities to a donor. It is generally accepted that a patient is more likely to match to a donor of the same race and ethnicity. Since 2005, the U.S. Department of Health and Human Services has provided funding to certain banks to increase the racial and ethnic diversity of units in the national registry. The program has collected units from a higher proportion of certain underrepresented groups than in the national registry, particularly from multiracial donors. Specifically, 26 percent of the units collected under the UC program were from individuals of more than one race, as compared to 10 percent of such individuals in the national registry. The UC program also has registered a greater proportion of units from Hispanic donors, a similar proportion from Asian donors, and a lower proportion from white and African American donors.

Governor's Proposal

The Administration proposes trailer bill language to eliminate the sunset date for the UC's Umbilical Cord Blood Collection Program.

Legislative Analyst's Office Comments

Although a few other states subsidize cord blood banking, in most cases banks directly fund the collection and storage of cord blood donations. In addition to receiving payment for each cord blood unit used in a transplant, many banks support their activities through other revenue sources, such as cross-subsidies from other banking activities and some federal support. The Legislature may wish to consider alternative funding sources because the service provided appears to benefit other states. The LAO also states that as medical technology advances, the demand for cord blood units may decrease.

The LAO recommends the Legislature revisit this program by extending the sunset date through January 1, 2023. The LAO also recommends the Legislature require UC to report on the program one year before the sunset date. The report should include the following information: (1) key data on cord blood units (including the number of units collected, registered, and transplanted—disaggregated by race/ethnicity—compared with nationwide data); (2) data on collection and storage costs as well as associated fee revenue and state, federal, and private funding; and (3) evidence as to why the program should or should not be extended beyond the new sunset date.

Staff Comments

SB 23 (Portantino) extends the Umbilical Cord Blood Collection Program until January 1, 2025, and increases the fee for a certified copy of a birth certificate by $1 to provide funds to implement and expand the program. SB 23 is currently pending in Senate Appropriations Committee. Using current fees for birth certificates, the UCBCP acquires an estimated $1.14 million annually from certified birth certificates to fund its operations. With an increase of $1 in certified birth certificate fees that would go towards the UCBCP, the program would collect an estimated $1.71 million annually. Additional funds to the program are expected to be used to expand the operations to more hospitals in the state with diverse patients, as well as add trained staff to existing locations where donations are currently only possible during certain hours.

Staff Recommendation. Hold open.

Issue 9: California Health Benefits Review Program (CHBRP)

Panel

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Garen Corbett, University of California – CHBRP

Background

CHBRP was established under AB 1996 (Thomson), Chapter 795, Statutes of 2002, which requested UC to assess legislation that propose a health insurance mandated benefit or service and prepare a written analysis. These types of bills typically require health insurers and health care service plans to provide certain benefits, such as specific treatments or services, to certain individuals. Under AB 1996, legislative leadership (including the Assembly Speaker, President pro Tempore of the Senate, or chair of the relevant policy or fiscal committee) may request CHBRP to perform a bill analysis. Upon receiving a request, CHBRP has 60 days to assess the medical, financial, and public health impact of the bill. CHBRP staff works with a UC faculty task force that assembles teams of experts from several UC campuses to perform this analysis. For example, faculty experts at the San Francisco, Davis, and San Diego campuses analyze the potential medical and public health impacts of bills. UC contracts with a private company for the actuarial analysis, but faculty experts at the Los Angeles campus write the accompanying financial impact analyses. CHBRP staff coordinates each report as well as solicits feedback from a panel of experts outside of California. Since 2004, the program has analyzed 85 Assembly bills and 44 Senate bills, averaging about 10 analyses per year. CHBRP is a unit of the UC Office of the President and employs five program staff.

The CHBRP program is funded by the Health Care Benefits Fund, which provides CHBRP with up to $2 million annually from fees assessed on health insurance providers. CHBPR staff reports that it spends the maximum amount ($2 million) every year regardless of the number of analyses the Legislature asks it to produce. This is because CHBRP staff each year "buys out" in advance a fixed amount of faculty and staff time to ensure that adequate personnel is available during legislative sessions to conduct quick-turnaround analyses.

Governor's Proposal

AB 1996 called for the program and its fund source to sunset on January 1, 2007. Subsequent legislation has since extended this sunset date several times, with SB 125 (Hernandez), Chapter 9, Statutes of 2015, extending the date to June 30, 2017. The Governor proposes trailer legislation that would eliminate the sunset date, thereby indefinitely authorizing the program and the Health Care Benefits Fund.

Legislative Analyst's Office Comments

In a typical year of producing 10 reports, CHBRP spends on average $200,000 to complete each report. Workload varies from year to year, however—from four reports in 2012 to 16 reports in 2011. Because UC receives $2 million annually regardless of workload, the annual per-report cost has ranged from a low of $125,000 to a high of $500,000.

Health policy has changed significantly in recent years, which in turn has affected the number of proposed health insurance-related bills and CHBRP's workload. During the program's first years of operation, CHBRP reviewed on average 11 reports per year, peaking in 2011. After 2011, CHBRP's average workload declined to eight analyses per year. Some of this decline likely is due to the expansion of benefit coverage provided under the federal Affordable Care Act (ACA). The number of benefit mandate bills proposed in the future is uncertain, though CHBRP's workload in 2016 (14 reports) might reflect renewed interest in benefit mandate bills. Future action by the federal government on ACA also could increase or decrease the volume of health mandate bills proposed by legislators.

Legislative staff has found the program's reports to be credible sources of nonpartisan information and useful overall to the legislative process. However, some staff expressed concerns that that CHBRP consistently takes 60 days to complete reports, even for relatively straightforward analyses, that they believe could be completed sooner. These staff also indicated that the length of the reports, which sometimes total more than 100 pages, make them challenging and time-consuming to digest. Legislative staff did note that the regular sunset dates have provided opportunities for CHBRP staff and the Legislature to review past products and agree on expectations moving forward.

The LAO recommends rejecting the Governor's proposal. The sunset date has allowed legislative staff to revisit its expectations for CHBRP and that CHBRP's future workload is uncertain given federal changes. Previous extensions of the sunset date have ranged from two to five years. The Legislature could require a legislative or state agency to bid a contract competitively each year for a certain number of bill analyses. This approach could have the benefits of selecting the highest quality, fastest, and least expensive provider as well as change providers if problems with quality, timing, or usability emerged.

Staff Recommendation. Hold open.

Issue 10: Capital Outlay and Deferred Maintenance and Co-Generation Plant

Panel

- Sally Lukenbill, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Kieran Flaherty, University of California
- Herbert Lee, Interim Executive Vice Chancellor and Provost, UC Santa Cruz
- David Lane, Senior Educational Facilities Planner, UC Santa Cruz

Background

Capital Outlay. Prior to 2013-14, the state funded construction of state-eligible projects by issuing general obligation and lease-revenue bonds and appropriated funding annually to service the associated debt. General obligation bonds are backed by the full faith and credit of the state and require voter approval. Lease-revenue bonds are backed by rental payments made by the segment occupying the facility and only require a majority vote of the Legislature. The debt service on both is repaid from the General Fund. State-eligible projects are facilities that support the universities' core academic activities of instruction, and in the case of UC, research. The state does not fund nonacademic buildings, such as student housing and dining facilities.

AB 94 (Committee on Budget), Chapter 50, Statutes of 2013 and SB 860 (Committee on Budget and Fiscal Review), Chapter 34, Statutes of 2014, revised this method by authorizing UC and CSU, respectively, to pledge its state support appropriations to issue bonds for state-eligible projects, and as a result, the state no longer issues bonds for university capital outlay projects. The authority provided in AB 94 and SB 860 is limited to the costs to design, construct, or equip academic facilities to address: (1) seismic and life safety needs, (2) enrollment growth, (3) modernization of out-of-date facilities, and (4) renewal of expansion of infrastructure to serve academic programs. SB 860 also included the deferred maintenance for CSU. Additionally, the state allows each university to pay the associated debt service of academic facilities using its state support appropriation.

Deferred Maintenance. The 2015 Budget Act provided UC with $25 million one-time General Fund to support deferred maintenance projects. The 2016 Budget Act provided $35 million in one-time General Fund to UC. The Governor has made no similar proposal this year.

UC Santa Cruz Cogeneration Plant. In 2011, UC initiated the process for building a cogeneration replacement plant on the Santa Cruz campus. A cogeneration plant simultaneously generates electricity and heat. The purpose of the project was to ensure that the campus had a reliable uninterrupted, backup power for campus responders, critical life safety systems, and some instruction and research equipment. Additionally, UC Santa Cruz notes that the plant also reduces campus utility costs by generating electricity that normally would be purchased from the utility provider at a higher cost.

UC notes that at the time, the project would have been eligible for state funding, however the remaining GO bond authority for UC and CSU was nearly exhausted and were being allocated primarily to the final equipment phases of existing projects. Therefore UC did not submit the project for approval from the Legislature.

In April 2013, the UC Regents decided to move forward with the estimated $37.1 million project. UC Santa Cruz funded the project through non state campus funds and external financing. In February 2016, UC Santa Cruz recently completed the project and paid $1.1 million in associated debt service in

2015-16 using non state funds. The campus expects to continue incurring debt service through 2045, with annual payments ranging from $1.3 million to $1.6 million.

In a letter dated April 1, 2016, the Administration notified the Joint Legislative Budget Committee (JLBC) of their intent to authorize UC to use its General Fund appropriation to pay for debt service associated with a recently constructed cogeneration plant at the Santa Cruz campus. Under state law, DOF may grant UC authorization to use its General Fund support appropriation to pay for energy efficiency projects, including debt service, no sooner than 30 days after notifying the Joint Legislative Budget Committee.

In response to the Administrations letter, LAO recommended rejecting UC's request. Specifically, UC did not receive state approval prior to building the cogeneration plant, thereby violating the longstanding process of seeking state review and approval prior to proceeding with major capital outlay projects. The LAO notes that asking for state funding after completing a project is highly irregular. Second, even without state funding, UC indicates it has sufficient funding to retire the associated debt service. In May 2016, the JLBC responded to UC's request highlighting the concerns raised by the LAO, and as a result, the JLBC did not concur with UC's request.

Governor's Proposals

Capital Outlay. As part of its 2017-18 request to the state, UC submitted seven projects totaling $111 million. Of this amount, six projects (totaling $61 million in state funding) would correct seismic and life safety deficiencies for specific academic facilities and one project (associated with $50 million in state funding) would entail constructing a new science facility at the Irvine campus. DOF provided preliminary approval for these projects on February 3rd and final approval April 24th.

Deferred Maintenance. In addition to these seven capital outlay projects, UC also requested authority to use $50 million in bond funding for deferred maintenance. Of the $50 million, $15 million would fund a team of experts to visit each campus and assess the current condition of academic facilities. The goal of the program would be to provide a more accurate estimate of the system's total deferred maintenance backlog and prioritize each facility according to its current condition, likelihood of failure, and life‑safety risk. UC estimates the assessment will take up to three years to complete. The remaining $35 million would fund deferred maintenance projects. Similar to the capital outlay proposals, DOF provided preliminary approval for these projects on February 3rd and final approval April 24th.

The Governor proposes trailer bill legislation to include deferred maintenance as an eligible capital expenditure for UC's capital outlay process. The Administration notes that this will conform to how deferred maintenance costs are handled at the CSU.

Due to a lack of resources, UC notes that campuses have not performed a comprehensive facility condition assessment as a part of their ongoing maintenance programs. Instead, campuses have only been able to collect limited deferred maintenance information as it is encountered during preventative and corrective maintenance visits. According to UC, this approach only identifies emergency and critical items, rather than providing for the systematic and comprehensive approach that a new facility conditions assessment would require.

Cogeneration Plant. Additionally, the Administration also submitted a budget change proposal to allow UC to use its AB 94 authority to use General Fund to pay the debt service for the UC Santa Cruz cogeneration plant. Although DOF has submitted back-up documentation for the proposal, no formal change has been proposed in the budget bill or trailer bill, nor has DOF provided preliminary or final approval for the project through the AB 94 capital outlay process.

Legislative Analyst's Office Comments

The LAO notes that it is unclear why UC could not regular assess the condition of facilities, and why it cannot use staff in existing plant and facility divisions, and that knowing facility conditions and system life spans seems a key responsibility of these divisions. The LAO and staff also question using bonds, which are intended to spread major infrastructure costs over many years, for a one-time facility assessment. Absent of a stronger justification, the LAO recommends UC to redirect the $15 million for the conditions assessment into maintenance of projects. Additionally, the LAO notes that UC lacks a plan to eliminate its $3.17 billion backlog (this includes 4,600 projects) and improve ongoing maintenance practices. the LAO continues to have concerns regarding the UC Santa Cruz cogeneration plant. If the state were to provide UC with authority to use its state funds for remaining debt service, UC could free up campus funds for other purposes. Campus funds generally are less restrictive than state funds.

Staff Comments

Staff agrees with the LAO and the JLBC that the UC Santa Cruz cogeneration plant request is highly unusual since UC did not ask for state approval prior to building the cogeneration plant. Additionally, it is unclear why in 2016, UC indicated that it has sufficient non-state funding to retire the associated debt service, but has since then told staff that they have limited availability of non-state funds, and now want to free up funds with General Fund to pay for other projects. Lastly, it is unclear if there are other projects that the Legislature previously did not approve, that may have been eligible for state funding. Approving such an exception may set precedence for other projects not approved by the state to request for AB 94 authority. Staff also notes that the cogeneration plant was not built into the Governor's January budget proposal.

Staff Recommendation. Hold open.

6610 CALIFORNIA STATE UNIVERSITY

Issue 11: Enrollment and Impaction

Panel

- Yong Salas, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Ryan Storm, California State University
- Jeff Gold, California State University

Background

As noted in earlier in the agenda, the California Master Plan for Higher Education establishes student eligibility policies. For freshman eligibility, CSU is to draw from the top 33 percent, and for transfer students, CSU is to admit those with at least a 2.0 grade point average. Additionally, as a minimum, CSU requires high school students to complete A-G courses.

A 2011 report by the LAO noted that historically most CSU campuses have served as regional institutions, with admissions policies and practices reflecting a focus on regional needs. Most campuses have a "local service area," which allows for priority admission for local students, and campus outreach programs target high schools within the local service area. This regional focus, however, is not specifically required by statute.

Recent Budget Acts. Historically, the state funded enrollment growth at CSU based on a marginal cost formula, and set enrollment targets annually. At CSU, the marginal cost for admitting one additional student at CSU is about $8,000. As noted previously, during the economic recession, the state did not include enrollment targets to provide CSU flexibility to manage state funding reductions. The 2015-16 budget resumed enrollment targets for CSU. In fact, the 2015-16 budget fully funded CSU's budget request of $97 million General Fund above the Governor's proposal of $119 million. Budget bill language included intent language to increase enrollment by at least 10,400 FTES, or three percent, by the end of fall 2016, when compared to 2014-15.

Additionally, the 2016-17 Budget Act sets an expectation for CSU to increase resident enrollment by 1.4 percent (an additional 5,194 FTE students) over 2015-16. Based on preliminary enrollment data provided by CSU, campuses appear to be on track to meeting this target, with fall 2016 FTE student enrollment about 1.3 percent higher than the previous fall.

As a part of the CSU's 2017-18 total budget request of an additional $168 million, about $38.5 million from all fund sources will provide for a one percent enrollment (2,616 FTES) increase. Under the Governor's proposed budget increase of $157 million, CSU notes they would only fund existing compensation contracts and mandatory costs, such as health and dental benefits, and would not be able to increase enrollment at CSU.

Impaction. When the number of applications received from fully qualified applicants exceeds the number of available spaces an undergraduate major or campus is designated as impacted. Such majors or campuses are authorized to use supplementary admissions criteria to screen applicants. According to the CSU' student academic services website, impaction is defined as the following:

- Major impaction means that the number of applications from fully eligible students to a designated major on a CSU campus during the initial filing period far exceeds the number of spaces available in that major. However, students can still be admitted to the campus in an alternate major, or they may eventually be admitted to the oversubscribed major if they meet the supplementary admission criteria. Fullerton, Long Beach, San Diego, San Jose, and San Luis Obispo campuses are impacted in all majors.

- Campus impaction (otherwise known as campus wide impaction) means that a campus has exhausted existing enrollment capacity in terms of the instructional resources and physical capacity of the campus. Because the campus receives more eligible applicants during the initial admission application filing period than can be accommodated, the campus must therefore restrict enrollment to the campus for a specific enrollment category (i.e. first-time freshmen or transfers).

CSU notes that in most cases, students admitted into impacted majors are first given "pre-major" status. In this status, the student must complete the lower division courses established as prerequisites for admission to the impacted major. They must also complete all other supplemental admission criteria required for admission to the impacted major

Although most impacted campuses guarantee admission to eligible local applicants, six campuses that have declared every major to be impacted (Fresno, Fullerton, Long Beach, San Diego, San Jose, and San Luis Obispo) do not guarantee admission even to their local students.

No Campus Impaction	Campus Impaction	Impaction in All Programs
Bakersfield	Chico	Fresno
Channel Islands	Humboldt (for first-time freshman)	Fullerton
Dominguez Hills	Los Angeles	Long Beach
East Bay	Monterey Bay	San Diego
Maritime Academy	Northridge	San Jose
	Pomona	San Luis Obispo
	Sacramento	
	San Bernardino	
	San Francisco	
	San Marcos	
	Sonoma	

Impaction has existed in the CSU system since the 1970s, though all-program impaction generally is a more recent phenomenon. For example, Fresno State University declared all of its programs impacted in 2016-17. An impaction process was codified by AB 2402 (Block) in 2010, “to provide notice to the public and ensure the transparency of decisions affecting admissions criteria for all of the campuses of the California State University” in response to concerns that impaction was happening without considering the needs of local stakeholders.

Qualified, But Denied Students. Despite significant increases in state funding for CSU during the past five years, CSU continues to deny admission to thousands of students who have the minimum qualifications for systemwide admission. That number increased by more than 9,000 students between 2012 and 2016, as the chart below indicates.

	Fall 2012	Fall 2013	Fall 2014	Fall 2015	Fall 2016
Admitted	194,564	212,152	212,538	216,755	222,192
Qualified But Not Admitted	22,123	26,430	30,665	31,825	31,402

CSU has conducted an analysis of these qualified-but-denied students and found data in the National Student Clearinghouse that about 77 percent of qualified-but-denied students enrolled other higher education institutions. Specifically, about 57 percent appeared to be attending a California college: either a UC, private college, or a community college. CSU notes that about 7,100 students cannot be found in national college databases, indicating these students had good enough grades and test scores to attend CSU but may not be attending college. (CSU notes, however, that not all colleges report their attendance to a national clearinghouse, so it is possible that some of these students have enrolled in college.)

CSU also notes in 2016, about 60 percent, or 19,000 of the 31,402 qualified students denied admission applied to only one CSU campus, and may have therefore been seeking admission to a specific, selective program or location. CSU notes that 6,748 students denied admission to CSU applied only to San Luis Obispo, and 5,479 students applied only to San Diego State. These are generally considered to be among the most selective CSU campuses, with highly-impacted programs. It is not clear how many of these qualified-but-denied students are local area students.

Program impaction may unfairly harm local students' admittance to the CSU closest to home. While local students do receive preference in the admissions process to the CSU campus closest to their homes, they may receive no preference or only a slight preference in admission to specific programs that are impacted. For local students seeking admission to campuses with all programs impacted, this may unfairly limit their ability to stay close to home and obtain a bachelor's degree at CSU.

CSU officials suggest that lack of funding is the biggest reason why thousands of qualified students are being turned away. However, staff notes that when the Legislature fully funded the CSU’s budget request in 2015-16, the CSU reports minimal changes in the number of qualified-but-denied students. Additionally, CSU previously indicated that CSU lacks capacity to increase enrollment. CSU reports addressing this issue in several ways, including a revamped application system that warns students that they are applying to an impacted campus or program, and provide suggestions for other CSU campuses and programs that may have more room. CSU also notes that it sent $2.9 million in extra funding to four campuses in 2016-17 that were forced to admit transfer students redirected from impacted campuses.

The LAO has recommended that the Legislature should enact statute formalizing CSU's role as a regional education system and consider specifying that local students be given admission priority at CSU. CSU could adopt a more formalized redirection process for students who are denied admission to a specific program or campus. CSU could change program impaction to provide significantly more preference to local students. Additionally, CSU does not have a referral process like UC, where a qualified student gets referred and admitted to another CSU campus.

The past several years CSU has reported denying admission to about 10,000 eligible transfer students (which are included in the numbers in the above table). Given this development, together with statute that requires CSU campuses to prioritize eligible transfer applicants over freshman applicants, the Legislature may want to consider targeting enrollment growth funding for transfer students in 2017-18.

Similar to the UC, given that a freshman eligibility study is currently underway, the Legislature may wish to wait until the May Revision before deciding on enrollment growth funding for freshmen.

Staff Recommendation: Hold open

Issue 12: Graduation Rates

Panel

- Yong Salas, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Jeff Gold, California State University

Background

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

As described earlier in the agenda, the 2014-15 budget act required the UC and CSU to annually adopt three-year sustainability plans by November 30. The two segments were required to report on targets for various performance measures, as well as resident and nonresident enrollment projections based on revenue projects from the Department of Finance. Additionally, AB 94 required UC and CSU to report each year by March 1st on various performance measures.

Graduation Rates. In March, CSU submitted their state performance measures report to the Legislature for freshman and transfer students. Regarding freshmen, CSU reports meeting or exceed all of its graduation improvement goals. The figure below displays freshman graduation rates. During the past few years CSU notes that graduation rates have steadily increased for first-time freshmen.

Cohort	4- year graduation rate	5- year graduation rate	6-year graduation rate
2010	18.6%	46.8%	59.1%
2011	19.1%	47.3%	N/A
2012	20%	N/A	N/A

Regarding transfer students, CSU also met most of its graduation rate goals. The two-year rate at CSU has increased from 21 percent to 31 percent over the same period. CSU, however, did not meet its target for the three-year graduation rate for transfer students (analogous to a six-year graduation rate for freshmen entrants)—aiming for 65 percent but falling short at 62 percent. As with the graduation targets for freshmen entrants, CSU has set higher out-year graduation targets for transfer students.

Although CSU reports that graduation rates are improving, achievement gaps by race/ ethnicity, and socioeconomic status still persist. The chart below displays graduation rates by race/ethnicity for the fall 2006 cohort compared to fall 2010 cohort.

Race/ Ethnicity	4- year Graduation Rate of 2006 Cohort	4- year Graduation Rate of 2010 Cohort	5- year Graduation Rate of 2006 Cohort	5-year Graduation Rate of 2010 Cohort	6- year Graduation Rate of 2006 Cohort	6-year Graduation Rate of 2010 Cohort
White	22.5%	29.2%	49.7%	58.2%	58.4%	66.5%
Asian/ Pacific	12.6%	14.7%	39.1%	46.1%	53.4%	63%

Islander						
Black or African American	8.3%	8.7%	24.7%	31.9%	34.7%	43.6%
Hispanic or Latino	10.4%	12.1%	32.4%	39.4%	44.6%	53.4%

Moreover, the report notes that a student's economic background influences graduation rates. Previous information from CSU also indicates a double digit difference between students who receive the Pell Grant versus those who do not, and it appears that the achievement gap between these students has not improved. The chart below displays graduate rates by Pell Grant status for the fall 2006 cohort and 2010 cohort.

	4- year Graduation Rate of 2006 Cohort	**4- year Graduation Rate of 2010 Cohort**	**5- year Graduation Rate of 2006 Cohort**	**5-year Graduation Rate of 2010 Cohort**	**6- year Graduation Rate of 2006 Cohort**	**6-year Graduation Rate of 2010 Cohort**
Pell Grant	10%	11.8%	31.2%	39.3%	44.2%	53.5%
Non Pell Grant	18.4%	24%	44.6%	52.8%	54.6%	63.5%

College Readiness. Many studies indicate that student completion is significantly tied to a student's college proficiency upon arrival on campus. While the percentage of students who are ready for college-level English and math has increased from 58.7 percent in the fall of 2014 to 62 percent in fall 2016, the March BOT agenda item shows there is a readiness gap, with 80 percent of white students who are proficient in both English and math, compared to 53 percent of Hispanic or Latino students, and 41 percent of Black or African American students. However, this is an improvement compared to fall 2014 first-time freshman, where the 80 percent of white students were proficient in both English and math, compared to 48 percent of Hispanic or Latino students, and 38.3 percent of Black or African American students.

CSU appears to be starting to address the remedial education issues. At the March board meeting, CSU administrators discussed four ways in which the system was looking at this issue to improve student outcomes and time-to-degree:

- Promoting the completion of four years – instead of three – of mathematics and quantitative reasoning during high school, which will better prepare Californians to begin CSU at college-level math courses.
- Shift to a heavier reliance on high school grades to place students as they enter CSU.
- Strengthen the Early Start program, which provides remedial courses for students in the summer before they begin CSU.
- Restructuring remedial education programs to reflect national best practices.

Graduation Initiative. As noted previously, in March 2017, the CSU Board of Trustees voted for a five percent tuition increase, which would generate $78 million in additional net revenue, which CSU officials have indicated would be used primarily to augment funding for the Graduation Initiative. CSU recently updated this initiative, the Graduation Initiative 2025, which seeks to more than double its four-year graduation rate (for all entering freshmen) between now and 2025, moving from its current rate of 19 percent to 40 percent. Moreover, the CSU seeks to increase their transfer students two-year graduation rate from the current 31 percent to about 45 percent in 2025. Additionally, the CSU is seeking to increase the average four-year graduation rates for underrepresented students from 12 percent to 40 percent. This 2025 initiative includes hiring more faculty and increasing the faculty-to-student ratio, encouraging faculty to adopt new instructional methods, and providing enhanced student support services such as tutoring and advising. CSU reports spending $48 million in base funds on these Graduation Initiative strategies.

Recent Budget Acts. Student achievement has been a priority of the Senate, and as a result, the 2015-16 budget act fully funded the CSU's budget request, which included $38 million for the CSU's Graduation Initiative. The goals of this initiative, which was originally launched by the Chancellor's Office in 2009, are to boost graduation rates for freshmen and transfer students as well as eliminate achievement gaps for low-income and other traditionally underrepresented students. Furthermore, the 2016-17 budget included $35 million one-time for CSU to address its graduation rates, and required CSU develop a plan to improve four–year and two–year graduation rates for freshman and transfer students, respectively, and close gaps in graduation rates for three groups of students: those who are (1) low income, (2) underrepresented minorities, and (3) first–generation college–goers. Each campus submitted plans to the CSU on the types of investments and methods they would use to increase graduation rates at their campuses. The 2016-17 budget also provides $1.1 million ongoing to support a network of working groups comprised of staff and employees. The purpose of the network is to investigate the underlying causes of low graduation rates at CSU. The Education Insights Center, located at the Sacramento campus, will administer this funding.

According to the CSU, the $35 million one-time funds from the 2016-17 budget, were distributed to campuses as follows:

1) $12 million was proportionally allocated to campuses based on historic numbers of freshman who graduated in 4.5 years, and transfer students who graduated in 2.5 years;
2) $20.5 million was proportionally allocated to campuses based on the number of students receiving Pell Grants, and developmental (remediation) needs; and
3) $2.5 million to small campuses with less than 11,000 FTES.

Legislative Analyst's Office Comments

The LAO notes that CSU is employing a number of strategies aimed at improving graduation rates. The LAO observes that the CSU has opportunities to further boost student outcomes by rethinking its assessment and placement policies. Currently, CSU primarily uses placement tests to assess college readiness. Based on these test results, CSU deems about 40 percent of its admitted freshmen as unprepared for college-level math, English, or both. Students who do not demonstrate college-level skills are required to enroll in remedial coursework. National research has shown that relying solely on placement tests routinely results in college-ready students being misplaced into remedial courses, which, in turn, increases education costs for them and the state while also reducing their chances of graduating on time. A growing amount of research is finding that a better way to assess college readiness is to use multiple measures (including data from students' high school records) to place students.

Additionally, a number of CSU campuses currently have policies requiring even students who are deemed college ready in math to take a second diagnostic (department) test in order to enroll in many lower-division math courses (such as calculus and college-level algebra). Students who fail to obtain a specified cut score on these department exams may be required to enroll in precollegiate-level courses (such as intermediate algebra), thereby delaying their progress toward a degree. These secondary diagnostic tests also are at odds with national research on effective ways to identify students who are capable of success in college-level coursework.

CSU continues to have a problem with excess unit-taking by both freshman entrants and transfer students. Students who accrue more units that their degree requires generally take longer to graduate, generate higher costs for the state and themselves, and crowd out other students. Based on the experience of other institutions, a number of causes may be contributing to CSU's high rate of excess units, including unclear degree pathways for students and uneven articulation of lower-division transfer courses between community colleges and CSU. Were CSU to reduce excess course-taking, it could increase the availability of required courses within existing resources.

The LAO recommends the Legislature direct CSU to study these issues in more depth and, based on its findings, implement new policies using existing Graduation Initiative monies and other system resources. Specifically, the LAO recommends the Legislature require CSU to report by January 1, 2018 on (1) its plans to put in place research-based methods for assessment and placement, as well as (2) opportunities for campuses to make available more course slots by reducing the number of excess units that students earn. Given these opportunities for further reform and given the many other competing cost pressures facing CSU in the budget year, the Legislature may wish to place a lower priority on providing additional funding for the Graduation Initiative in 2017-18.

Similarly, the State Auditor recently released an audit report on CSU, *California State University: Stronger Oversight Needed for Hiring and Compensating Management Personnel and for Monitoring Campus Budgets,* which recommended the Legislature improve its oversight of CSU by requiring CSU to submit an annual report that provides information on specific activities that CSU engaged in during the previous years to meet the State's goals for student success.

Staff Comments

Improving graduation rates is a shared goal of the Legislature, CSU and the Administration. The revised graduation goals of CSU are laudable. However, staff shares the concerns of the LAO as to whether there are additional steps the CSU could take to address its graduation rates. Specifically, staff is concerned about duplicative diagnostic and placements tests, and overreliance on these for course placement. CSU appears to be making progress on addressing this; however the subcommittee may wish to consider the LAO's recommendation to require CSU to report on its progress in making changes to their remedial education practices and policies. Additionally, since improving graduation rates is a priority of the Legislature, the subcommittee may wish to consider the State Auditor's recommendation on additional detailed reporting on CSU's student success activities.

Staff Recommendation. Hold open

Issue 13: Other Post-Employment Benefits Vesting Schedule Trailer Bill Language

Panel
- Yong Salas, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Ryan Storm, California State University

In April 2016, the CSU announced a collective bargaining agreement with the California Faculty Association (CFA). The agreement covers the 2015-16, 2016-17 and 2017-18 fiscal years and includes the following changes:

- Five percent general salary increase for all faculty on June 30, 2016.
- Two percent general salary increase for all faculty on July 1, 2016.
- 3.5 percent general salary increase for all faculty on July 1, 2017.
- 2.65 percent service salary increase for all eligible faculty in 2017-18. It is estimated that about 43 percent of faculty would be eligible for this step increase.
- An increase in the vesting period for full retiree healthcare benefits for new employees from five years to 10 years, meaning new employees hired after July 1, 2017 must work for CSU for 10 years to receive retiree healthcare benefits.
- An increase in salaries for faculty when they are promoted. Promoted faculty would receive a minimum nine percent salary increase instead of the current minimum of 7.5 percent.

In order to implement the revised vesting period for retiree healthcare benefits, CSU is requests amending existing statute.

Governor's Proposal. The Administration and CSU is proposing trailer bill language to amend the Government Code to stipulate that members of CFA and non represented employees hired after July 1, 2017, will not receive retiree health and dental benefits until working for the CSU for 10 years. This language would only be operative if the trustees adopted this proposal, or if agreed to in collective bargaining agreement.

Staff believes that CSU administration, the CFA and the Department of Finance have agreed on this language.

Staff Recommendation: Hold open.