Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

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

Wednesday, May 20th, 2015
1:00 p.m.
Room 3191

Consultant: Anita Lee
Part B

Item	Department
6120	**California State Library**
6440	**University of California**
6610	**California State University**
6645	**Health Benefits for CSU Annuitants**
6910	**Innovation Awards**
6980	**California Student Aid Commission**

Vote Only Issues

Issue 1	UC Revenue Adjustment
Issue 2	Health Benefits for CSU Annuitants
Issue 3	CSAC May Revision Proposals
Issue 4	CSAC Modernization Project

Public Comment

Items Proposed for Discussion and Vote

Issue 5	Innovation Awards Trailer Bill Language
Issue 6	CSAC Legislative Augmentations
Issue 7	UC Funding Package
Issue 8	CSU Budget Package
Issue 9	CSU Capital Outlay Trailer Bill Language
Issue 10	CSU Capital Outlay Reappropriation of Funds
Issue11	Eligibility Study
Issue 12	Dream Loan
Issue 13	Senate UC and CSU Plan
Issue 14	State Authorization Trailer Bill Language
Issue 15	California Health Benefits Review Program
Issue 16	California State Library

Public Comment

PROPOSED VOTE-ONLY ISSUES

Issue 1: UC Revenue Adjustment

Governor's Proposal. The May Revision includes a decrease of $1.6 million from the Cigarette and Tobacco Products Surtax Fund Research Account. The May Revision also includes an additional one-time funding increase of $430,000 from the Earthquake Reduction Fund and conforming budget bill language for this purpose.

Background. The $1.6 million adjustment is being proposed to maintain an adequate reserve in the Cigarette and Tobacco Products Surtax Fund Research Account due to a decrease in the amount of revenues projected to be deposited in the account. The purpose of this funding is for tobacco-related disease research.

The addition of the $430,000 from the Earthquake Reduction Fund to the UC is for the purpose of earthquake engineering research to be used until June 30, 2018.

Staff Recommendation. Approve as proposed.

Issue 2: CSU Health Benefits for Retired Annuitants

Governor's Proposal. The May Revision proposes an increase of $3.6 million to reflect projected medical premiums for CSU's retirees. The Governor's January budget projected 2016 premiums to increase 5.5 percent over 2015 rates. The May Revision projects those premiums to increase 8 percent.

Staff Recommendation. Approve as proposed

Issue 3: CSAC May Revision Proposals

Governor's Proposal. The May Revision provides no new significant policy changes from the January budget for the California Student Aid Commission (CSAC); rather it includes funding changes to the Cal Grant program primarily due to updated participation and funding swaps. The following chart displays CSAC's May Revision proposals:

CSAC May Revision Proposals		
Cal Grant Program Caseload	-$54 million GF – 2014-15 -$42.2 million GF – 2015-16	Due primarily to an decrease in the number of awards in the current year.
Cal Grant B Access Awards	$1.9 million - 2015-16	Reflects revised estimates of College Access Tax Credit Fund

Law Enforcement Personnel Depends Grants Program	-$9,000 GF – 2014-15 $20,000 GF – 2015-16	Reflects revised estimates of participation in this program
Loan Assumption Program Caseload	-$1.2 million – 2014-15 -$399,000 GF – 2015-16	Reflects revised caseload estimates for the loan assumption programs.
Middle Class Scholarship*	-$18 million GF – 2014-15	Reflects revised estimates of participation.
Temporary Assistance for Needy Families (TANF) Reimbursements	-$247.3 million GF – 2015-16	Primarily related to a change in GF requirements for social service programs

***Reflects May Revision amount, however, was proposed in the Governor's budget

Staff Recommendation. Approve as proposed and adopt conforming budget bill language.

Issue 4: Grant Delivery System Modernization

Governor's Proposal. The Governor's budget provides $840,000 General Fund to CSAC for four new information technology positions and three limited term consultants to begin the process of creating a new financial aid delivery system. The consultants will cost $511,000 in the budget year, which will include a project manager, independent verification and validation (IV&V), and independent project oversight (IPO). Provisional language in the budget requires CSAC to work with the department, and CSAC has agreed to follow the department's procedures as it develops this project.

Background. The subcommittee heard this issue at its April 23rd hearing.

The four new information technology positions will include three staff programmer analysts and one systems software specialist II. The staff programmer analysts will support major functions of the GDS that are currently spread among existing staff. Often only one staff member has expertise on the applications with no one to back them up. CSAC states that if an ITSD person leaves CSAC or chooses to retire, it will put this modernization project at risk. Similarly, the new system software specialist will provide support for the current GDS, while the current staff works with the vendor to develop the new system. CSAC states that these positions need to be ongoing to continue the operations and maintenance of the current GDS system, and once the project is completed these staff will transition to support the new GDS system.

Staff Recommendation. Approve as proposed.

ISSUES PROPOSED FOR DISCUSSION AND VOTE

Issue 5: Innovation Awards Trailer Bill Language and Proposal

Panel

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

Governor's Proposal. The Governor proposes $25 million General Fund for Innovation Awards to CSU campuses that improve policies, practices and/or systems to ensure that more students graduate with bachelor's degrees within four years after beginning higher education as well as trailer bill language to codify the awards program. The May Revise alters trailer bill language to state that the goal of the program is to address higher education objectives described in Chapter 367, Statutes of 2013 (SB 195.)

Background. The Subcommittee heard this item at its March 12th hearing.

The 2014 Budget Act provided $50 million in one-time funding to promote innovative models of higher education at UC, CSU, and community colleges campuses. Campuses with initiatives to increase the number of bachelor's degrees awarded, improve four-year completion rates, or ease transfer across segments could apply for awards. Campuses could apply on their own or in collaboration with other campuses. Out of 58 applications, a committee of seven members - five Governor's appointees, as well as two legislative appointees selected by the Speaker of the Assembly and the Senate Rules Committee - announced 14 winners.

The Governor's January Budget proposed $25 million in one-time awards to CSU campuses that are implementing initiatives to improve four-year graduation rates. Award process is the same as the current-year process. The budget also included trailer bill language that would establish this program in statute.

The May Revise increases the Awards funding proposal to $50 million total by adding $25 million Proposition 98 General Fund, which will allow community colleges to seek awards. The subcommittee took action on May 19th to reject this proposal.

Staff comments.
The goals of this program are worthwhile, but questions remain about whether providing small, one-time prizes to various campuses who apply for the award is the best use of funding to achieve the goals. At its March 12th hearing, the subcommittee raised several concerns about the Governor's proposal for Awards for Innovation. First, the proposal does not identify the causes of low graduation rates at CSU. CSU currently is investigating the underlying causes of poor performance, including: lack of preparation among entering freshmen, low retention rates from freshmen to sophomore year, poor fee and financial aid incentives, weak incentives to take 15 units per term, students working excessive hours, lack of access to required courses, or other problems.

The Governor's approach to innovation awards appears to tackle a single symptom—that is, low graduation rates—without more comprehensively and systematically addressing underlying issues. Second, the subcommittee has doubts that small amounts of one–time funding will provide sufficient incentive for CSU campuses to refocus efforts on improving graduation. The proposal targets campuses that have already implemented efforts to improve graduation rates. It is likely that campuses will submit proposals of initiatives that they would have implemented with or without the opportunity to earn additional funding.

Staff Recommendation. Conform to Senate UC and CSU Plan in Issue 13.

Issue 6: CSAC Legislative Augmentations

Panel:

- Matthew Saha, Department of Finance
- Paul Golaszewski, Legislative Analyst's Office
- California Student Aid Commission

Background. The subcommittee heard CSAC's budget on March 13th.

Cal Grant Program. The Cal Grant program is the primary financial aid program run directly by the state. Modified in 2000, to become an entitlement award, Cal Grants are guaranteed to students who graduated from high school in 2000-01, or beyond, and meet financial, academic, and general program eligibility requirements. Administered by CSAC, the following table displays the Cal Grant entitlement awards.

Cal Grant Entitlement Awards	
Cal Grant A	Provides tuition fee funding for the equivalent of four full-time years at qualifying postsecondary institutions to eligible lower and middle income high school graduates (income ceiling of $87,400 for a family of four) who have at least a 3.0 grade point average (GPA) and apply within one year of graduation.
Cal Grant B	Provides funds to eligible low-income high school graduates (income ceiling of $45,900 for a family of four) who have at least a 2.0 GPA and apply within one year of graduation. The award provides up to $1,648 for book and living expenses for the first year and each year following for up to four years (or equivalent of four full-time years), this is also known as the Cal Grant B Access Award. After the first year, the award also provides tuition and fee funding at qualifying postsecondary institutions.
Community College Transfer	Provides a Cal Grant A or B to eligible high school graduates who have a community college GPA of at least 2.4 on a four-point scale and transfer to a qualifying baccalaureate degree granting college or university.

The maximum award for new Cal Grant A and B recipients in 2015-16 is equal to the mandatory systemwide tuition at the University of California (UC) and the California State University (CSU): $8,056 at private, non-profit institutions, and private, for-profit institutions that are accredited by the Western Association of Schools and Colleges (WASC) as of July 1, 2012, and $4,000 at private, for profit institutions that are not WASC accredited as of July 1, 2012. Renewal award recipients at private, for-profit and non-profit institutions will continue to receive an award amount of $4,000 to $9,223, depending on when they received their first award.

In addition to the entitlement awards, the Cal Grant program includes a limited number of competitive awards and awards for occupational or technical training. These awards are displayed in the following table.

Non-Entitlement Cal Grant Awards	
Competitive Awards	There are 22,500 Cal Grant A and B competitive awards available to applicants who meet financial, academic, and general program eligibility requirements. Half of these awards (11,250) are offered to those applicants who did not receive an entitlement award and meet the March 2 deadline. The remaining 11,250 awards are offered to students who are enrolled at a California Community College and meet the September 2 deadline.
Cal Grant C	The Cal Grant C Program provides funding for financially eligible lower income students preparing for occupational or technical training. The authorized number of new awards is 7,761. For new and renewal recipients, the current tuition and fee award is up to $2,462 and the allowance for training-related costs is $547.

Competitive Cal Grants. Every year the state turns away hundreds of thousands of eligible applicants because there aren't enough competitive Cal Grant awards. While everyone who qualifies for an entitlement grant receives one, existing law limits the number of competitive Cal Grant awards to 22,500 annually. Over recent years, the growing imbalance between available competitive grants and eligible applicants has led to increasingly slimmer odds of receiving a grant. In the most recent award cycle, for 2014-15, TICAs notes that the number of eligible applicants exceeded the number of available competitive grants, for every competitive award available, there are 17 eligible applicants.

The Cal Grant maximum award for students attending private nonprofit colleges and universities is scheduled to decrease by 11 percent in the budget year. The 2012 budget act put in place reductions to the Cal Grant award amounts for independent non-profit and accredited for-profit institutions. The Governor's 2015-16 budget proposes to continue this reduction. More than 32,000 California students use Cal Grants to help them attend these schools, allowing access to college for low-income students during a period in which the CSU system is turning away eligible students. The chart below indicates the reduced amount of the Cal Grant for these schools.

Cal Grant Maximum Award for WASC Accredited Private Colleges and Universities						
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**Cumulative Change**
Cal Grant Amount Per Student	$9,708	$9,223	$9,084	$9,084	$8,056	-17%

Given the role that accredited private nonprofit colleges and universities play in California's postsecondary education system, and the need to maximize degree and certificate output, it is important to understand how the reductions in the maximum Cal Grant award impact access and affordability at these institutions.

The Middle Class Scholarship Program. Provides a scholarship to UC and CSU students with family incomes of up to $150,000. The scholarship amount is limited to no more than 40 percent of the UC or CSU mandatory system-wide tuition and fees. The individual award amount is determined after any other publicly-funded financial aid is received. The program will be phased in over four years, with full implementation in 2017-18. The program is funded from the General Fund. The Governor's 2015-16 budget includes $141,000 and two positions to support the program, $500,000 for outreach, and $152 million to support the second year of the program.

CSAC provided the following information regard Middle Class Scholarship participation at its April 16 commission hearing.

Segment	Applicants[2]	Awards	% Awarded of Applicants	Offered Award Amount	Amount Disbursed	% Disbursed of Offered Amount
UC	125,364	17,234	14%	$18,466,645	$10,865,560	59%
CSU	289,466	68,241	24%	$40,378,647	$26,864,474	67%
TOTAL	**414,830**	**85,475**	**21%**	***$58,845,292***	***$37,730,034***	***64%***

Overall, the average Middle Class Scholarship award is $895 (the average UC and CSU student award is $1,206 and $584, respectively). Additionally, CSAC provided a breakdown of Middle Class Scholarship awardee asset levels.

Assets	UC	CSU	TOTAL
Not Reported	1,036	10,568	**11,604**
$67,600	9,793	48,646	**58,439**
$67,601-$100,000	757	1,625	**2,382**
$100,001-$150,000	920	1,768	**2,688**
$150,001-$200,000	667	1,072	**1,739**
$200,001-$250,000	496	898	**1,394**
$250,001-$500,000	1,669	2,053	**3,722**
$500,001-$1,000,000	1,265	1,150	**2,415**
$1,000,001-$1,500,000	350	245	**595**
$1,500,001-$2,000,000	124	95	**219**
Over $2,000,000	157	121	**278**
TOTAL	**17,234**	**68,241**	**85,475**

An asset includes real estate interests, such as second homes and rental properties, checking/savings accounts, stocks, bonds, mutual funds and money market accounts, trust funds and 529 college saving plans.

Until recently, federal and state financial aid programs have focused on increasing access and affordability for low-income students. The Middle Class Scholarship, as

mentioned above, was created to help aid students with family incomes up to $150,000. While the Middle Class Scholarship has an income ceiling, it does not have an asset ceiling. According to the chart above, at least 1,000 students have reported assets over $1 million. Additionally, 11,600 students did not report their assets, therefore it is unclear if there are more students with high assets. Recently, the CSAC issued a letter suggesting the Legislature to reconsider this feature of the program.

Moreover, many financial aid programs, including Cal Grants, provide support for a limited number of years (typically four years of full–time enrollment or the equivalent). LAO points out that such limits provide a strong incentive for students to complete their studies expeditiously. For the new Middle Class Scholarship Program, however, the number of years a student may qualify for awards is unlimited.

Lastly, staff notes that the minimum GPA requirement to qualify for the Middle Class Scholarship is 2.0, whereas other awards require higher GPAs, for example the CCC Transfer and Cal Grant A require at least a 2.4 and 3.0,respectively. While the Cal Grant B has a minimum GPA requirement of 2.0, this grant is only for eligible low-income high school graduates.

Given these concerns, the subcommittee proposes to use some funding from the Middle Class Scholarship towards additional student support services, course availability, and other programs and initiative to increase time-to-degree and access and affordability for all students.

Staff Recommendation. Conform to Senate UC and CSU Plan, Issue 13.

Issue 7: UC Funding Package

Panel:

- **Christian Osmena, Department of Finance**
- **Paul Golaszewski, Legislative Analyst's Office**
- **Kieran Flaherty, University of California**

Governor's Proposal. The Governor's May Revise proposes to remove the cap on non-resident enrollment and UC's reporting requirement regarding actions taken to reduce costs. Additionally, the Governor proposes to provide UC with $96 million in Proposition 2 funds in 2015-16 and $107 million 2016-17 and 2017-18 to pay down UC's pension liabilities contingent upon the UC adopting limits to their pensionable compensation consistent with the Public Employees' Pension Reform Act of 2013 (PEPRA).

Background. In November 2014, the UC Regents' voted to authorize the UC President to increase student tuition by up to 28 percent over five years, in response to this, the Administration and the UC President undertook a review of UC as part of a select advisory committee to develop and evaluate proposals to reduce the University's cost structure, while maintaining or improving access, quality, accountability, and outcomes.

As a part of the Administration's multi-year funding plan, the Governor's January proposed budget includes unallocated base increases in General Fund $119 million for UC, which would have been contingent on UC not raising its tuition or non-resident enrollment. However, the May Revision withdraws these requirements.

UC provides pension benefits for more than 61,700 retirees and survivors through the UC Retirement Plan (UCRP), which is separate from the CalPERS system and controlled by the UC Regents. In 2014-15 UC is expected to spend about $1.3 billion on the UC Retirement Plan (UCRP), with $389.6 million from Core Funds. UC has noted that the state currently provides funding for employer pension costs for state agencies, but not for UC. In the early 1990s, UC suspended payments into UCRP, and for nearly 20 years neither employer nor employee contributions were made. The funded status of UCRP declined during the recession, and in April 2010, UC and its employees began making contributions again. Thus, UC faced this new cost just as the recession hit hardest.

Proposition 2, approved by the voters in November 2014, places formulas into the State Constitution that determine the minimum amount of debt payments and budget reserve deposits to be made in a fiscal year.

May Revise

As a result of the select advisory committee discussions, the Governor and the UC President have agreed that UC will undertake a number of reforms to manage its operations and that the President will strongly recommend that the Academic Senate undertake reviews of additional reforms. Under this framework, UC has agreed that tuition for California undergraduate students will remain flat through 2016-17.

Specifically, the Governor's May Revision provides $96 million in Proposition 2 funds in 2015-16 and $107 million 2016-17 and 2017-18 to the UC, should they adopt a program that limits pensionable compensation consistent with the limits in the Public Employees' Pension Reform Act (PEPRA). PEPRA limits the compensation used to calculate pensions for new employees hired after January 1, 2013, in state government, local government, and schools. For members who participate in Social Security, PEPRA caps pensionable compensation at the Social Security Wage Base, with adjustments using the Consumer Price Index. The 2015 cap is $117,020. (For members who do not participate in Social Security, the cap is 120 percent of that amount.) The University of California Retirement Plan complies with an Internal Revenue Service cap of $265,000.

By July 1, 2016, the Governor's May Revision requires the Regents to adopt a program for new employees in which an employee can elect either a defined benefit plan that includes a cap on pensionable compensation consistent with PEPRA (with, for some employees, a supplemental defined contribution plan) or a full defined contribution plan.

Additionally, the Governor's May Revise summary indicates that the multi-year plan will continue to provide 4-percent increases in direct General Fund support in future years, UC indicates that the multi-year funding plan will be extended for an additional two years.

Moreover, UC has agreed to undertake a variety of programmatic changes including:

- Create transfer pathways for its 20 most popular majors that are closely aligned to associate's degrees established by community colleges and CSU pursuant to SB 1440 (Padilla), transfer pathways;

- By July 1, 2017, review course requirements for 75 percent of majors and reduce them to no more than 45 units wherever possible;

- Encourage its Academic Senate to review policies on credits for AP courses, College Level Examination Program tests and use of the Common Identification Numbering System;

- Pilot alternative pricing models for summer session at three campuses;

- Develop three-year degree pathways for 10 of the top 15 majors at each campus by March 1, 2016;

- Pilot an activity-based costing model at three campuses;

- Establish a multi-campus pilot program focused on adaptive learning technologies that improve instruction and increase completion rates;

- Expand the impact of the university's existing Innovative Learning Technology Initiative; and,

- Convene industry leaders and other stakeholders this summer to identify online certificate and master's degree programs needed for California's workforce.

The UC has agreed to a new pension tier which would provide, at the employee's election, either a defined benefit plan that caps the amount of salary used to calculate benefits at a level consistent with the State's 2012 pension reform law (currently $117,020) plus a supplemental defined contribution (DC) plan for certain employees, or an optional fully DC plan. Because the limit would apply only to new employees hired after the change takes effect, the associated savings would be small in the near term but would grow over time. Based on information provided by UC, the long-term savings associated with the change could grow to be several hundreds of millions of dollars annually in a few decades.

On May 21st, the UC Regents will meet to take action to endorse the framework, discussed above, agreed upon by the Governor and UC President, as well authorize the UC President to implement Nonresident Supplemental Tuition increases of up to eight percent annually for the years 2015-16 through 2019-20. An eight percent increase in nonresident supplemental tuition equates to approximately $18 million in additional revenue for the UC.

Staff Comments.
UC has indicated that the additional $96 million in Proposition 2 would not free up any core funds, nor would it have any impact on California resident enrollment. Instead, UC states that if there is no additional state support, they will move forward with the regents' approved action in the fall to increase non-resident enrollment by 2,000 students systemwide. In March, UC President Janet Napolitano announced that UC would not increase enrollment of California students in the 2015-16 school year unless the state provided funding above the Governor's proposed spending level.

As discussed in the subcommittee's March 12th hearing, during the great recession, campuses, most notably UCLA, UC Berkeley and UC San Diego dramatically increased the number of nonresident students it enrolled while decreasing the number of California resident enrollment. Out-of-state students pay approximately $23,000 more in non-resident supplemental tuition, more than double the amount California students pay.

Though the Governor states his expectations for UC to report back by certain deadlines for some initiatives mentioned above, his budget plan does not include formal reporting requirements to monitor UC's progress in implementing the changes. Moreover, the Governor does not set specific deadlines for certain initiatives. To monitor UC's progress in implementing the changes, the Legislative Analyst's Office recommends the Legislature adopt supplemental report language specifying for each initiative the deadlines and information UC is to report over the next several years.

Additionally, various programs have historically been earmarked in the UC budget because they address legislative priorities. Specifically, the Labor Centers at UC Berkeley and UCLA conduct research on issues such as the implementation of the Affordable Care Act, green jobs, workforce development, the underground economy and low-wage industries. This program was cut from $6 million to $2 million in 2008, and was restored to full on a one time bases in 2014-15. The Governor does not include them in his budget.

Further, staff has learned that UC provides financial aid to some nonresident students. UC reports that it provided $32 million in institutional financial aid to nonresidents in 2013-14. This is resources that could go to resident Californians. UC contends that it is seeking increased enrollment of nonresident students in large part due to the increased revenue nonresidents bring; it is puzzling that UC would turn around and offer financial aid to these students that reduces the revenue they produce.

Staff Recommendation. Conform to Senate's UC and CSU Plan, Issue 13.

Issue 8: CSU Budget Package

Panel

- **Christian Osmena, Department of Finance**
- **Jason Constantouros, Legislative Analyst's Office**
- **Ryan Storm, California State University**

Governor's Budget. The Governor's May Revise includes an additional $38 million General Fund above the Governor's January budget proposal of $119.5 million, totaling $157.5 million.

Background. The Subcommittee discussed the CSU budget at its March 12th hearing. Concerns related to funding for CSU include the thousands of eligible California students are being turned away. The chart below indicates the number of qualified undergraduate applicants admitted and denied for CSU.

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

Note: The numbers indicate undergraduate student headcount

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

Additionally, on April 23rd the subcommittee also discussed concerns regarding CSU's graduation rates and time-to-degree. Specifically, just 18 percent of all first-time freshmen at the CSU receive a bachelor's degree within four years. Just over half receive a bachelor's degree within six years. Even after 10 years, only 58 percent of the students who had entered the CSU system as full-time freshman in 2002 had graduated.

Moreover, only 11 percent of low income students in the freshman entering class of 2010 graduated in four years, compared with 22 percent of non low-income students. Six year graduation rates of the freshman entering class of 2008 shows that 46 percent for low-income students graduate in 6 years compared to 57 percent for non-low income students.

CSU's four year graduation rate has slightly increased from 15.7 percent for the 2007 cohort to about 18 percent for the 2010 cohort. Additionally about 53 percent of the 2007 cohort graduated within six years.

Many factors contribute to increased time to degree, including reduced course supply, lack of student supports, such as counselors and advisors, and need for employment.

Staff Comments. There are significant indications that the Governor's proposal does not allow CSU to address enrollment and completion concerns. CSU is clearly failing to meet its Master Plan obligation of allowing admission to the top one-third of graduating California high school students. In addition, only 18 percent of its students graduate in four years, while just over 50 percent graduate in six years.

Staff notes that a Graduation Incentive Grant program as proposed in Senate Bill 15 (Block, De León), could assist CSU undergraduate students with financial need graduate in a timely manner. Specifically, under the proposed Graduation Incentive Grant to be awarded beginning in the 2015-16 academic year, students must meet certain unit benchmarks in order to receive grants, which will not only help alleviate the need for students to work, but also help them graduate in a timely manner.

Under the Governor's proposed budget, CSU is expected, though not required, to support 4,000 new students (headcount) as well as enroll 1,500 more transfer students by Spring of 2016. Additionally, the Administration expects the CSU to improve student success at all campuses as described in the CSU Chancellor's Graduation Initiative. However, given the budgetary constraints of the Governor's budget, CSU has stated that they would not be able to fully fund their adopted CSU budget. Below is a chart outlining the CSU's adopted budget compared to how the CSU proposes to spend the Governor's proposal.

	CSU adopted Budget	CSU's Proposed use of Governor's January Proposal	CSU's Proposed use of Governor's May Revision
Student Success and Completion Initiative	$38 million	$0	$23 million
Infrastructure	$39 million	$0	$10 million
Enrollment	$103.2 million (for 3% growth = 10,400 FTES)	$34.2 million (for 1% growth = 3,500 FTES)	$59.7 million (for 1.75% growth = 6,000 FTES)
Mandatory Costs	$23.1 million	$23.1 million	$23.1 million
Employee compensation pool	$65.5 million	$65.5 million	$65.5 million

Staff Recommendation. Conform to Senate's UC and CSU Plan, Issue 13.

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Issue 9: CSU Capital Outlay Trailer Bill Language

Panel

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

Governor's Proposal. The May Revision proposes trailer bill language to align capital outlay program reporting requirements with the CSU's capital outlay approval timelines and practices. The TBL also specifies that CSU may use its General Fund support appropriation for 2014-15 and 2015-16 to fund capital outlay projects approved at CSU Board meetings in January 2015 and November 2014.

Background. As discussed in the Subcommittee's March 12th hearing, the 2014 budget shifted general obligation and lease-revenue bond debt-service payments into CSU's main appropriation. Moving forward, the state no longer would adjust CSU's budget for changes in debt-service costs. Instead, the state would provide annual, unallocated base increases and the university would be responsible for funding all maintenance and debt-service from within its main appropriation.

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

In November 2014, CSU Board of Trustees set aside $10 million annually from CSU's operating budget for debt service and $130 million in projects. In January 2015, CSU approved various capital outlay projects that increased estimated amount from $130 million to approximately $150-$160 million. However, due to the lateness of the Trustees' action, DOF was not able to provide preliminary approval of the projects by the statutory deadline in February.

Current law requires CSU to submit, on September 1 of each year, a report to the Department of Finance and to the budget committees in each house of the Legislature and budget subcommittees that consider appropriations for CSU's budget, detailing the scope of each capital outlay project or expenditure and how it will be funded.

CSU is unable to meet this statutory reporting requirement, as a final list of projects and corresponding fund source as approved by CSU's Board of Trustees is not available until after the annual November Board meeting.

In order to address this inconsistency, the Trailer Bill amendment would allow CSU to submit a report on September 1 of each year that provides a preliminary list of projects to be funded and the funding source that will be used to fund those projects. The CSU would then submit a report on December 1 of each year, after the Trustees of CSU conduct their annual meeting in November, which provides a final list of projects to be funded, and the funding source that will be used to fund those projects. The Trailer Bill amendment also clarifies that the reports must include any projects for which CSU pledges moneys pursuant to subdivision (a) of Section 89770.

Education Code Section 89772 will also be amended to provide authorization for the use of Statewide Revenue Bonds to fund the capital expenditures and capital outlay projects approved by the Trustees of CSU in January 2015 and November 2014, for fiscal years 2014-15 and 2015-16, respectively. This provides the approval that would have occurred through the current process outlined in statute if CSU had been able to comply with those requirements.

Staff Recommendation: Approve as proposed.

Issue 10: CSU Capital Outlay Reappropriation of Funds

Panel

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

Governor's Proposal. A Spring Finance Letter requests to reappropriate the following projects and phases from the 2012 and 2013 Budget Act:

- CSU Pomona – Administration Building Replacement Facility- The spring letter requests a reappropriation of an unencumbered balance of $75 million to complete the working drawings and construction phases of this facility. The project was originally appropriated in 2013-14 for preliminary plans, working drawings, and construction. This project will provide a replace facility for approximately two-thirds of the existing Classroom, Laboratories and Administration (CLA) building complex, which poses as a major health and life safety challenge for the campus. The deficiencies of the current building includes 1)seismic, 2)exterior building systems, 3) bio-organic growth, 4) mechanical and electrical, and 5) life safety and accessibility codes.

  Due to delays in the project design phase, the project was reappropriated in 2014-15 to June 30, 2016. The project design phase required a prolonged period to resolve design issues related to the relocation of the facility from the originally identified site.

- CSU Los Angeles – Administration Building Seismic Upgrade. The Spring letter requests a reappropriation of $5.6 million to complete the working drawings and construction of the seismic upgrade. The project was originally appropriated in 2012-13 for preliminary plans, working drawings, and construction, and included provisional language providing encumbrance availability until June 30, 2017. The project has experienced some unexpected delays in completing the schematic designs as the CSU seismic review board required an extensive analysis to determine an appropriate and code complaint solution for seismic strengthening. A reappropriation is requested for an extension of the encumbrance period to June 30, 2018 to proceed with working drawings and construction.

Staff recommendation. Approve as proposed.

Issue 11: Eligibility Study

Panel:

- Legislative Analyst's Office
- Ryan Storm, California State University

Background.
The state has historically set enrollment targets in UC and CSU budgets, reflecting the state's expectations for access to the public universities. These expectations are based on the eligibility policies included in the state's Master Plan for Higher Education. Specifically, the Master Plan requires UC and CSU to admit freshmen students from among the top 12.5 percent and 33 percent, respectively, of the state's high school graduates. The state typically took into account a number of factors when setting enrollment targets. One main consideration was changes in the college-age population. The state also routinely considered college participation rates and freshman eligibility studies. Freshman eligibility studies were designed to determine if UC and CSU were drawing from less or more than their Master Plan eligibility pools. These studies were conducted by the California Postsecondary Education Commission (CPEC), which the state closed down in 2011.

The last study conducted was published in 2007.

Staff Comments.
In a report this year on UC and CSU budgetary practices, the LAO recommended that the Legislature revive the eligibility study. An updated study could help the state as it determines enrollment targets in the future.

Staff Recommendation. Conform to Senate's UC and CSU Plan, Issue 13.

Issue 12 California Dream Loan Funding

Panel:

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

California Dream Loan Program. Chapter 754, Statutes of 2014, established the California Dream Loan Program (CDLP) which extends loans to students who meet requirements established by AB 540 (Firebaugh), Chapter 814, Statutes of 2001, and have financial need. The bill authorizes any campus of the UC and CSU to participate, and requires participating campus to annually contribute discretionary funds in their CDLP revolving fund that is at least equal to all of campus' CDLP fund. The purpose of this fund is to award loans and revolving loan repayments. The participating campus will administer the CDLP and will receive administrative cost allowance that cannot exceed five percent of the campus' total CDLP funds awarded. Specifically, the campus will award loan funds to students, provide entrance and exit counseling, service loans, collect loan repayment, among others.

Additionally, existing law prohibits the loan amount from exceeding the students financial need, caps the loan amount at $4,000 in a single academic year and $20,000 from one institution, and requires the interest rates for loans as well as the eligibility for forbearance or deferment to be the same as those set by the William D. Ford Federal Direct Loan Program.

Under CDLP, the California Student Aid Commission is authorized to access any information to certify that students meet requirements specified under the bill, such as the student applied for financial aid through the Dream Act, or is enrolled in a program eligible for participation in the Cal Grant.

Existing law included intent language to provide funding to campuses based on the on the number of eligible students attending the campus who applied for financial aid under the Dream Act.

Staff Recommendation. Conform to Senate's UC and CSU Plan, Issue 13.

Issue 13: Senate Plan for UC and CSU.

Background.

In December 2014, Senator De León and Senator Block introduced a funding and policy plan that focused on access, affordability, and completion in for UC and CSU. Specifically, this plan prioritizes enrollment growth at both UC and CSU, support services, course offerings, and financial aid under the Cal Grant Competitive Grant program and for students attending private, non-profit colleges and universities. Likewise, the plan before the subcommittee establishes the Graduation Incentive Grant to be awarded beginning in the 2015-16 academic year to matriculated undergraduate students with financial need at CSU.

Over the course of the spring, this subcommittee has heard issues related to the plan proposed by Senators De León and Block.

The proposed plan allocates both on-going and one-time GF monies in the 2015-16 fiscal year and takes action on Issues 5, 6, 7, 8, 11, and 12 in today's agenda.

The plan is attached.

Staff Recommendation: Approve Senate Budget Plan for UC and CSU.

Issue 14:	**State Authorization and Student Complaint Process Regulations Trailer Bill Language**

Panel:

- Christian Osmena, Department of Finance
- Paul Golazewski, Legislative Analyst's Office
- Bureau of Private Postsecondary Education

Governor's Proposal. The Governor's May Revision proposes trailer bill language to comply with federal regulations that require independent institutions of higher education to receive state authorization to operate in California, including requirements to develop a student complaint process, in order to receive federal student aid.

Background. In 2010, the federal government adopted state authorization regulations that require states to authorize by name, higher education institutions operating in their state and to have a student complaint process/pathway.

By July 1, 2015 independent institutions of higher education must demonstrate that they have in place a process for their students to file a complaint with a state official or agency that would review and appropriately act on complaints concerning the institution and ensure it is resolved in some form. If an institution cannot identify a state complaint process that meets the requirements of the regulations, the US Department of Education would not consider the institution to be legally authorized by the state. Additionally, the state must authorize an institution by name to operate educational programs beyond secondary education. If an institution is not legally authorized, it risks losing federal student financial aid, including access to Pell Grants, student loans, work-study, and other Title IV programs.

Independent institutions of higher education that are exempt from oversight by the Bureau of Private Postsecondary Education currently are not clearly subject to a state complaint process. The proposed trailer bill language would authorize the bureau to contract with an institution for the purpose of resolving complaints. The trailer bill affirms that the state establishes by name independent institutions of higher education through various processes, such as approval of their articles of incorporation, qualification of participation in the Cal Grant program, and licensure of particular academic programs. It also requires disclosure notices and written materials to inform students of the available complaint process.

Staff Recommendations. Adopt placeholder trailer bill language to more clearly define the BPPE oversight role for independent institutions and student complaints.

Issue 15: UC- California Health Benefit Review Program Trailer Bill Language

Panel

- **Christian Osmena, Department of Finance**
- **Paul Golaszewski, Legislative Analyst's Office**
- **California Health Benefit Review Program**

Governor's Proposal. The Governor's May Revision includes trailer bill language to authorize the California Health Benefit Review Program through June 30, 2016.

Background. The Subcommittee heard this issue on March 12th. The California Health Benefits Review Program (CHBRP) was established under AB 1996 (Thomson), Chapter 795, Statutes of 2002, which requested UC to assess legislation that propose a mandated benefit or service (referred to as "mandate bills") and prepare a timely written analysis within 60 days with relevant data on the medical, economic, and public health impacts of proposed health plan and health insurance benefit mandate legislation.

Current law requires health plans, except specialized health plans, and health insurers, for fiscal years 2010-11 to 2014-15, to be assessed an annual fee to fund CHBRP, this amount is to not to exceed $2 million. CHBRP is administered in UCOP and has staff that supports a task force of faculty from six UC campuses (Berkeley, Davis, Irvine, Los Angeles, San Diego, and San Francisco) and three private universities (Loma Linda University, the University of Southern California, and Stanford University) to complete each analysis. CHBRP is set to sunset on December 31, 2015. The Governor's proposed budget provides $2 million for CHBRP.

Staff Comments

Given the new post-Affordable Care Act environment, there is need for in-depth, independent review of proposed legislation beyond mandate bills. And while there is ongoing value to having independent evaluation, to be most valuable to stakeholders and policymakers, the process has to be nimble and responsive to the legislative calendar.

Staff Recommendation. Adopt placeholder trailer bill language to extend the program by 2 years until July 1, 2017, make various changes to the types of reports and analysis it provides to the legislature and refine as necessary to provide the legislature with timely information.

Issue 16: California State Library

Panel

- Matthew Saha, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Greg Lucas, California State Library

Governor's Proposal. The Governor's May Revise proposals to increase library funding by $4.2 million General Fund. Specifically, the proposals would provide: (1) $2 million increased funding for adult literacy programs, (2) $1.7 million increased funding for the California Broadband Project, and (3) $521,000 and two positions to improve historical preservation efforts.

BACKGROUND

The 2014 Budget Act included $3.3 million General Fund for the State Library to create a new program to increase Internet speeds at local libraries. Of this amount, $1 million was provided on a one-time basis for grants to local libraries to purchase networking equipment (such as routers). The remainder was provided on an ongoing basis to cover a portion of the annual contract costs associated with local libraries accessing a statewide, high-speed Internet network.

Additionally, the 2014 Budget Act provided a one-time increase of $3 million General Fund to support adult literacy programs run by libraries ($1 million) and to support activities associated with the California Library Services Act, which create library networks that act together on lending policies, bulk purchases and joint training programs ($2 million).

The May Revise

The May Revise provides $1.5 million General Fund on a one-time basis for grants to public libraries that require additional equipment, network upgrades, or modifications to physical sites, or some combination of these items, to support broadband Internet access. These funds would increase the number of public libraries that can participate in the Broadband Project. An additional $225,000 General Fund is provided for administrative costs related to the project.

The May Revise also provides an increase of $2 million General Fund ongoing for the Literacy and English Acquisition Services Program (Program). The program allocates funds to public libraries to support instruction in basic literacy for adults.

In addition, the May Revise proposes $521,000 General Fund, including $181,000 ongoing for 2 new positions and $340,000 on a one-time basis for digital scanning equipment. The request would allow the Library to make critical improvements to better preserve historical materials in its possession.

Staff Comments.

Unfortunately, since 2000 state support for local libraries and their programs have decreased from $85 million to about $7 million.

Regarding the literacy program funding, the Administration notes that this request complements the proposed Adult Education Block Grant program, which would allocate funds to consortia of school districts and community college districts in regions across the state to implement regional plans for adult education, including instruction in basic literacy. The public libraries would be expected to participate in the development of regional plans for adult education.

Regarding the technology funding, staff notes that administrative costs would support the Califa Library Group, which is contracting with the State Library to provide administrative and fiscal services for the Broadband Project. The technology grant funding is a critical issue to allow local libraries the ability to enjoy faster Internet speeds offered by the project. Library officials believe local technology needs could be at least $13 million.

Regarding the Library Services Act, as noted above last year the Governor provided an additional one time funding of $2 million. However, additional funding for this program was not included in the Governor's proposal.

Regarding the preservation funding, the State Librarian notes that a large backlogs exist of both print and photographic digitization and preservation both because of a lack of capacity and projects from other parts of the library being added to the responsibilities assigned by the section that currently houses the book preservation team. Included in the budget change proposal are one-time costs for faster-speed, higher quality print and photographic equipment for digitization, a key factor in the success of any long-term preservation plan

Additionally, the State Library also provides federal grants for libraries for the Career Online High School library literacy program. This grant program provides literacy coaches and resources to adults looking to earn an accredited high school diploma and prepare for workforce entry. Career Online High School is being used on a very small scale in several major library systems in California including San Diego, Sacramento, and Los Angeles. The goal is to bring non-traditional and/or adult learners back into the educational system and prepare them for jobs in growing sectors of the economy. Students graduate with the tools to take the next step in their careers or career-education.

Staff recommendation: 1) Approve May Revision Proposal to increase Literacy and English Acquisition Services Program by $2 million, 2) Approve an additional $2.5 million one-time to the Statewide Broadband Services Connection Grants above the Governor's May Revision Proposal, 3) Increase funding for the California Library Services Act Loaning and Lending by $4 million ongoing, 4) Approve May Revision proposal of $521,000 and two positions to improve historical preservation efforts, and 5)

Provide $1 million ongoing to support the Career Online High School Literacy program, and adopt placeholder trailer bill language and budget bill language as necessary.

Senate Budget Plan

UC and CSU On-going Funding

(Dollars in Millions)

Item	Proposal	Cost	Comments
		2015-16	
1	Graduation Incentive Grants for CSU students	50	Issue 8 of Agenda and adopt placeholder TBL
2	Maintain Cal Grant awards for students at nonprofit colleges at current level [a]	11	Issue 6 of the Agenda and adopt placeholder TBL
3	Increase the number of competitive Cal Grants awards from 22,500 to 30,000 [b]	18	Issue 6 of the Agenda and adopt placeholder TBL
4	Fund enrollment growth at CSU [c]	74	Issue 8 of the Agenda. 10,000 slots at CSU and adopt placeholder BBL
5	Fund enrollment growth for CA Students at UC [d]	24	Issue 7 of the Agenda 2,400 slots for CA Students at UC.
6	Expand academic quality, including student support services and course offerings at UC	32	Issue 7 of the Agenda
7	Expand student support services and course offerings at CSU	75	Issue 8 of the Agenda and adopt placeholder BBL
8	Fund UC Labor Centers	4	Issue 7 of the Agenda
9	Fund Dream Loan Prgm for UC CSU	5	Issue 12 of the Agenda - each segment receive $2.5 million
	Total	**293**	
	Funding Source	**Funds**	
10	Realize savings from Middle Class Scholarship [e]	104	Repurpose MCS program funds to support Senate Plan. Current recipients maintain award and adopt placeholder TBL
11	Require UC to increase nonresident supplemental tuition from 8% to 12%.	24	Of the 12% increase, UC allowed to keep 8% for their priorities related to academic quality. Direct UC to use the remaining 4% and associated revenue ($24 million) to enroll additional CA students, which equals 2,400 slots.
12	Adopt additional funding for CSU in Governor's May Revision	38	Issue 8 of the Agenda
13	Increase state General Fund support above Governor's May Revision	95	
14	Redirect financial aid received by nonresident students at UC	32	Issue 7 of the Agenda
	Total	**293**	

Senate Budget Plan

UC and CSU On-going Funding

(Dollars in Millions)

	Note: Does not include the Governor's January proposals for UC/CSU ($119.5m each) or the May Revise proposal for UC to provide $96 million under Proposition 2 for its unfunded pension liability (see additional UC/CSU actions below).
	a Upon full implementation in 2018-19, $38 million.
	b Upon full implementation in 2018-19, $48 million.
	c Assume CSU's calculation of state funding rate ($7,405)
	d Assume UC's calculation of state funding rate ($10,000)
	e Grandfathers in current recipients
	Issue 7 of Agenda - University of CA - Additional Actions
	Adopt Governor's May Revise Proposal to provide $96 million under Proposition 2 to UC for its unfunded pension liability, contingent upon UC adopting a pension program for new employees by July 1, 2016 that allows a new employee to elect a defined benefit plan that includes a cap on pensionable compensation consistent with the Public Employeees' Pension Reform Act (PEPRA) or a full defined contribution plan, as specified. Adopt Governor's May Revise proposal to remove Provision 2 of Item 6440-001-0001.
	Adopt Governor's January Proposal to provide a 4% base increase to UC ($119.5m) contingent on the following: (1) UC increasing their non-resident supplemental tuition by 12% over the 2014-15 FY level in 2015-16 FY and (2) increase CA student enrollment by at least 2,400 slots by utilizing at least $24 m of the revenue generated from the 12% non-resident tuition increase.
	Supplemental Report Language: Direct staff to work with the Legislative Analyst regarding their recommendation to adopt supplemental support language for each operational and academic initiative mentioned in Issue 7 of the agenda.
	Issue 8 of Agenda - CSU - Additional Action
	Adopt Governor's January Proposal to provide a 4% base increase to CSU ($119.5m)
	Center for CA Studies: Reinstate the line item in the Budget Bill for the Center for CA Studies, CSU Sacramento and adopt a new schedule to properly display how the funds are used.

Senate Budget Plan

UC and CSU – One-time Funding

(Dollars in Millions)

Item		Cost	Comments	Action
1	Governor's January Innovation Award Proposal for CSU	-25	Issue 5 of the Agenda	Reject Governor's January funding and TBL proposal. Redirect $24 million for deferred maintenance funding for CSU.
2	Eligibility Study	1	Issue 11 of the agenda.	Adopt placeholder TBL to require CSU to administer a freshman eligibility study to determine the percentages of high school graduates eligible for admission to UC and CSU. Funding could be used for the following: a contract for a statistical analysis; administrative oversight. It is the intent of the Legislature for the study to be conducted as efficiently as possible.