

SUBCOMMITTEE NO. 1

Agenda

Senator John Laird, Chair
Senator Sasha Renée Pérez
Senator Rosilicie Ochoa Bogh



Thursday, March 6, 2025
9:30 a.m. or Upon Adjournment of Session
1021 O Street- Room 2100

Consultant: Diego Emilio J. Lopez

Items for Discussion

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Public Comment

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DISCUSSION ITEMS

6440 UNIVERSITY OF CALIFORNIA (UC)
6610 CALIFORNIA STATE UNIVERSITY (CSU)

Issue 1: UC and CSU System Updates

Panel

- Michael V. Drake, President, University of California
- Mildred García, Chancellor, California State University
- Gabriela Chavez, Department of Finance
- Devin Mitchel, Department of Finance
- Jennifer Pacella, Legislative Analyst’s Office

Available for additional questions or details:
 Seija Virtanen, University of California
 Ryan Storm, California State University

Background. The Governor’s proposed budget for 2025-26 includes a total of \$10 billion in ongoing General Fund support for the University of California (UC) and California State University (CSU) – approximately \$4.6 billion for the UC and \$5.4 billion for the CSU.

Figure 1:

Total General Fund Support for Higher Education Declines Somewhat in 2025-26
 Ongoing General Fund (Dollars in Millions)

	2023-24 Revised	2024-25 Revised	2025-26 Proposed	Change From 2024-25	
				Amount	Percent
CCC	\$7,955	\$9,689	\$9,722	\$33	0.3%
CSU	5,391	5,526	5,403	-122	-2.2
UC	4,717	4,858	4,587	-272	-5.6
CSAC	2,468	2,729	2,730	1	—
Totals	\$20,532	\$22,802	\$22,442	-\$360	-1.6%

Note: Amounts reflect Governor’s new proposals, as well as reductions applied pursuant to Control Section 4.05 and Control Section 4.12 of the 2024-25 Budget Act. The CCC amounts consist of Proposition 98 General Fund and non-Proposition 98 General Fund. In 2023-24, CCC received \$788 million in Proposition 98 Reserve funds on top of the amount shown. All other amounts are non-Proposition 98 General Fund.
 CSAC = California Student Aid Commission.

Source: Legislative Analyst’s Office (LAO)

As shown in Figure 1, the proposed General Fund investments for the UC and CSU are 5.6 percent and 2.2 percent, respectively, lower than the revised 2024-25 funding levels. These amounts reflect the Governor’s new proposals, as well as reductions applied pursuant to the 2024 Budget Act.

State Operations Reductions. The 2024 Budget Act assumed a reduction of state operations expenditures by the Department of Finance through two unallocated reductions across most state departments. These included:

- A reduction of \$1.5 billion (\$760 million General Fund) through the permanent and ongoing reduction of 10,000 vacant positions and associated funding.
- A reduction of \$2.2 billion in 2024-25 and \$2.8 billion in 2025-26 and ongoing of General Fund operating expenditures, representing a 7.95 percent state operations reduction broadly across state government.

In total, the 2024 Budget Act assumed that state operations costs would be reduced by \$3.7 billion (\$3 billion General Fund) through these unallocated reductions.

The Governor's budget assumes that the Administration achieves significantly lower General Fund savings. Specifically:

- A \$620 million (\$230 million General Fund) reduction through the permanent elimination of 6,500 vacant positions.
- A \$1.5 billion (\$820 million General Fund) in 2024-25 and \$2 billion (\$1.2 billion General Fund) in 2025-26 and ongoing reduction to state operations expenditures.

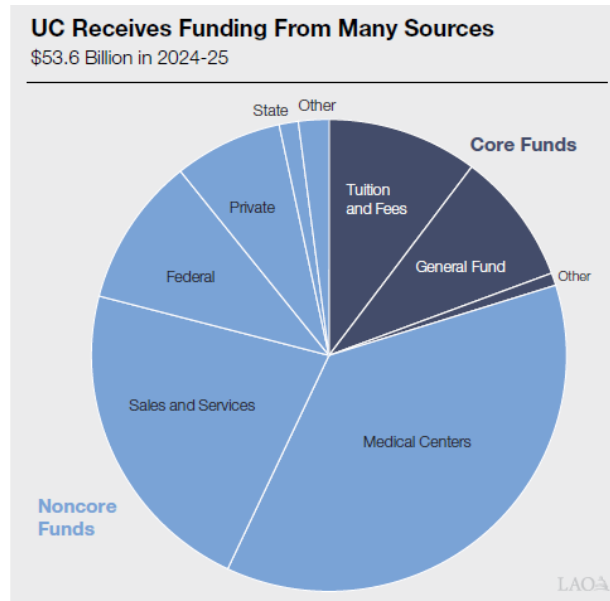
In total, the Governor's budget assumes that state operations costs are reduced by \$2.1 billion (\$1 billion General Fund) in 2024-25 and \$2.6 billion (\$1.4 billion General Fund) in 2025-26 and ongoing. The Governor's proposed budget assumes one half of the General Fund state operations savings assumed in the 2024 Budget Act.

The 2024 Budget Act included intent language to reduce funding to the UC and CSU in 2025-26. The Governor's budget maintains those base reductions to the CSU (\$375 million) and UC (\$397 million) in 2025-26 and ongoing. These reductions are pursuant to Control Section 4.05 of the *2024-25 Budget Act*. This budget control section, which applied broadly across state government, authorizes reductions of up to 7.95 percent in state operations.

Staff Comments. The Administration did not equally apply the 7.95 percent reductions to state operations across all state departments. For example, according to the Administration, the California Department of Corrections and Rehabilitation (CDCR), which oversees the state's correctional facilities and rehabilitation programs, is proposed to receive a 1.88 percent (\$253 million) reduction of its ongoing state operations expenditures in 2024-25 and a 1.29 percent (\$172 million) reduction in 2025-26. These reductions to CDCR should be taken in the context of the UC and CSU being proposed to receive the full 7.95 percent reduction to their state operations. Furthermore, the combined reductions to the CSU and UC, totaling \$772 million, account for 55 percent of the assumed \$1.4 billion in state operations General Fund reductions in 2025-26. The subcommittee may wish to ask the Administration why the state's Higher Education system is bearing the disproportional brunt of these reductions, while other departments, like the state's correctional system, are seeing lower budgetary impacts.

UC Core Funds. Of the three public higher education segments, UC has the largest budget, with total funding greater than the CSU and California Community Colleges (CCC) combined. As Figure 2 below shows, UC receives funding from many different sources. The state generally focuses its budget decision around UC’s “core funds” – the approximately 20 percents of UC’s budget that supports undergraduate and graduate education and certain state-supported research and outreach programs.

Figure 2:



Source: Legislative Analyst’s Office

Core funds at UC primarily consist of student tuition and fee revenues and state General Fund. A small portion comes from lottery funds, a share of patent royalty income, and overhead funds associated with federal and state research grants. In total, core funds at UC are about \$10.8 billion in 2025-26, with \$5.7 billion generated from revenue from tuition and fees and \$4.6 billion from state General Fund investments. As Figure 3 shows, if student tuition and fees revenue are taken into account, the UC is expected to see a \$30 million reduction in 2025-26, as compared to 2024-25.

Figure 3:

At UC, State Funding Reduction Is Mostly Offset by More Tuition Revenue
Ongoing Core Funding (Dollars in Millions)

	2023-24 Actual	2024-25 Revised	2025-26 Proposed	Change from 2024-25	
				Amount	Percent
Ongoing Core Funds					
Tuition and fees ^a	\$5,268	\$5,498	\$5,740	\$241	4.4%
General Fund ^b	4,717	4,858	4,587	-272	-5.6
Lottery	65	59	59	—	—
Other core funds ^c	409	401	401	—	—
Totals	\$10,459	\$10,817	\$10,787	-\$30	-0.3%
FTE students ^d	293,483	299,486	300,111	625	0.2%
Ongoing core funding per student	\$35,638	\$36,119	\$35,942	-\$177	-0.5%

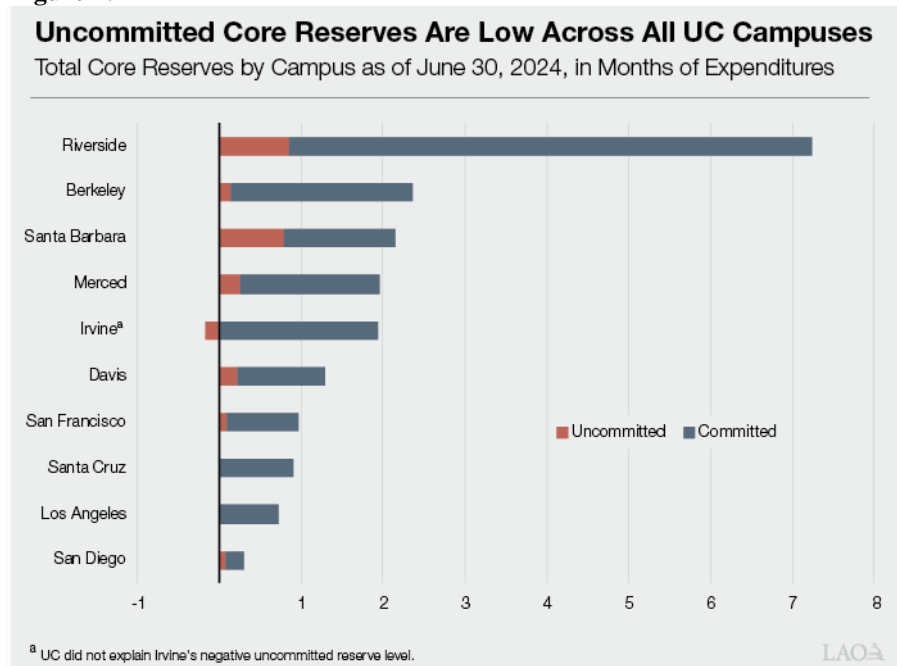
^a Includes funds that UC uses for tuition discounts and waivers.
^b Reflects reductions pursuant to Control Section 4.05 of the 2024-25 Budget Act. Specifically, the 2024-25 amounts reflects a \$125 million General Fund reduction, and the 2025-26 amount reflects a \$397 million General Fund reduction.
^c Includes a portion of overhead funding on federal and state grants and a portion of patent royalty income.
^d FTE is 30 credits for an undergraduate and 24 credits for a graduate student. Student counts include residents and nonresident students.
 FTE = full-time equivalent.

Source: Legislative Analyst’s Office

UC Tuition Stability Plan. In 2021, the Board of Regents approved a new tuition policy. Under this policy, tuition is raised annually for new undergraduates and all graduate students, while tuition remains flat for continuing undergraduates (for up to six academic years). Tuition increases generally are based on a three-year rolling average of the annual change in the California Consumer Price Index, with an annual cap of 5 percent (unless modified by the Board of Regents). As a result of the new tuition policy, tuition and fee revenue has been growing more quickly at UC over the past few years. The first year of tuition increases under this policy was 2022-23. In 2024-25, UC estimates it is generating \$191 million in additional net tuition revenue. Whereas previous tuition increases generally were precipitated by reductions in state General Fund support, UC’s new policy was largely driven by a desire to expand its overall budget capacity.

UC System Reserves. In the absence of a systemwide reserves policy, UC allows its ten campuses to determine their own reserve levels. Campus policies vary but typically aim for uncommitted core reserves worth one to three months of core expenditures. As the figure below shows, total core reserves ranged from less than one month of expenditures at the San Diego campus to over seven months of expenditures at the Riverside campus. Uncommitted reserves for economic uncertainties, however, equated to less than one month of expenditures at all campuses.

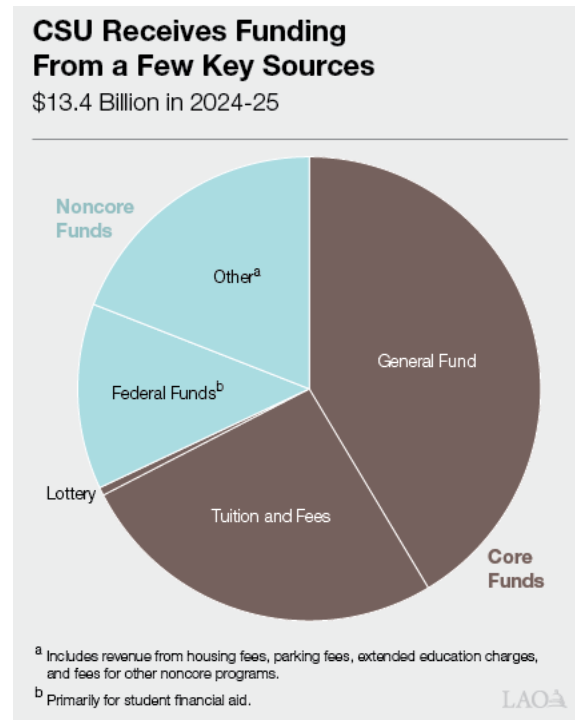
Figure 4:



Source: Legislative Analyst’s Office

CSU Core Funds. As Figure 5 below shows, CSU receives funding from various sources. The state generally focuses its budget decisions around CSU’s “core funds,” or the portion of its budget supporting its academic mission.

Figure 5:



Source: Legislative Analyst’s Office

Core funds at CSU primarily consist of state General Fund and student tuition revenue, with a very small share coming from state lottery revenue. In total, core funds at the CSU amount to \$9.1 billion in 2025-26, with \$3.7 billion generated from tuition and fees revenues and \$3.7 billion from state General Fund investments.

Figure 6:

CSU’s 2025-26 Core Funds Increase Comes From Tuition Revenue
(Dollars in Millions, Except Funding Per Student)

	2023-24 Actual	2024-25 Revised	2025-26 Proposed	Change From 2024-25	
				Amount	Percent
Ongoing Core Funds					
General Fund ^a	\$5,391	\$5,526	\$5,403	-\$122	-2.2%
Tuition and fees ^b	3,267	3,477	3,665	188	5.4
Lottery	83	76	76	— ^c	— ^c
Totals	\$8,741	\$9,078	\$9,144	\$66	0.7%
FTE students ^d	391,268	401,300	407,936	6,636	1.7%
Funding per student	\$22,339	\$22,622	\$22,416	-\$206	-0.9

^aIncludes funding for pensions and retiree health benefits.
^bIncludes funds used for student financial aid.
^cLess than \$500,000 or 0.5 percent.
^dReflects total combined resident and nonresident enrollment. The 2025-26 number incorporates CSU’s planned resident enrollment growth.
FTE = full-time equivalent.

Source: Legislative Analyst’s Office

As Figure 6 shows, if student tuition and fees revenue are taken into account, the CSU is expected to see a \$66 million reduction in 2025-26, as compared to 2024-25.

CSU Tuition Increases. CSU's tuition levels have long been lower than its peers nationally. In 2023-24, CSU's resident undergraduate tuition and fees were approximately \$2,171 (22 percent) lower than the national average of comparable public institutions. Until recently, CSU has not had a tuition policy guiding its annual tuition levels. A CSU work group focused on fiscal sustainability, however, recently identified a significant gap between the system's costs and its revenues. One of the work group's recommendations was that CSU adopt a tuition policy that provides for gradual and predictable increases. The CSU Board of Trustees adopted such a tuition plan in September 2023. Under the plan, tuition increases by 6 percent annually for all students, beginning in 2024-25 and extending through 2028-29.

CSU estimates it will collect an additional \$188 million in student tuition revenue in 2025-26. Most of this increase is due to the planned rise in CSU's tuition charges. Tuition charges are set at \$6,450 for resident undergraduate students in 2025-26, reflecting a \$366 increase from 2024-25. CSU estimates generating an additional associated \$164 million. CSU plans to use \$55 million (33 percent) of this additional revenue to provide larger tuition awards through its SUG program. (In addition, the California Student Aid Commission budget includes \$37 million ongoing General Fund to pay for higher associated Cal Grant costs for CSU students in 2025-26. Many CSU students with financial need receive full tuition coverage under the Cal Grant program.) CSU expects to generate \$24 million in new tuition revenue from planned enrollment growth in 2025-26.

Staff Comments. It is important to note that while tuition and fees revenues at both the UC and CSU represent a large portion of core funds, looking towards these revenues as offsets or solutions for state General Fund investments could affect the affordability of the state's public higher education system.

Governor’s Compact with CSU and UC. In May 2022, the Administration announced a compact with UC and CSU to provide 5 percent annual base General Fund increases from 2022-23 through 2026-27. The universities are expected to accommodate one percent annual resident undergraduate enrollment growth within their base increases over the remainder of the compact period (2023-24 through 2026-27), along with other compact expectations. The compact is not codified, and state budget plans have not strictly adhered to it.

Figure 7:

Deferral Plans Contain Steep General Fund Increases for CSU and UC in 2026-27
Reflects Multiyear Assumptions of Deferral Plans, General Fund (Dollars in Millions)

	2025-26 Year 4 ^a	2026-27 Year 5 ^a	2027-28
CSU			
Ongoing Changes			
Base reduction	-\$375	—	—
Two-year deferral of year 4 base increase ^b	—	—	\$252
Anticipated year 5 base increase	—	\$265	—
One-Time Back Payments			
Base costs	—	\$252	\$252
One-Time Adjustments^c	\$75	—	-\$252
Totals	\$5,403	\$5,921	\$6,173
Change from previous year	-2.2%	9.6%	4.3%
UC			
Ongoing Changes			
Base reduction	-\$397	—	—
Deferral of year 4 base increase ^b	—	—	\$241
Deferral of year 4 nonresident replacement funding ^b	—	—	31
Anticipated year 5 base increase	—	\$254	—
Anticipated year 5 nonresident replacement funding	—	30	—
One-Time Back Payments			
Base costs	—	\$241	\$241
Nonresident replacement costs	—	31	31
One-Time Adjustments^c	\$125	—	-\$272
Totals	\$4,587	\$5,142	\$5,413
Change from previous year	-5.6%	12.1%	5.3%

^aIn 2025-26, the Governor will be entering year 4 of his compact with the CSU Chancellor and UC President. The fifth and final year of this compact is 2026-27. A new governor will take office in 2027-28.

^bUnder the deferral plans, the year 4 base increases and UC nonresident replacement funding are deferred from 2025-26 to 2027-28. In 2026-27, one-time back payments are provided for 2025-26 costs. In 2027-28, one-time back payments are provided for 2026-27 costs, while at the same time the deferred base increase is funded.

^cIn 2025-26, reflects the restoration of one-time reductions applied in 2024-25. In 2027-28, reflects removal of prior-year, one-time back payments.

Source: Legislative Analyst’s Office

Compact Deferrals. Consistent with the 2024 Budget Act, ongoing General Fund augmentations of about 5 percent for CSU and UC are deferred from 2025-26 until 2027-28. Specifically, the plan defers augmentations of \$252 million for CSU and \$241 million for UC. (As part of the Governor’s five-year compacts, the Governor indicated intent to provide CSU and UC with 5 percent annual base increases from 2022-23 through 2026-27 as a way to offer them more predictable funding levels.) At UC, the budget also defers \$31 million in additional funding for the nonresident replacement plan. For the past three years, the state has been providing UC with funding to replace nonresident students at three high-demand campuses (Berkeley, Los Angeles, and San Diego) with resident undergraduate students. The fourth year of this funding, as with UC’s base increase, is deferred two years (from 2025-26 until 2027-28). Under the deferral arrangement, one-time back payments would be provided to CSU and UC in 2026-27 (for 2025-26 costs) and 2027-28 (for 2026-27 costs).

Governor's Compact Expectations. In exchange for receiving more predictable funding levels, the Governor wanted CSU and UC to meet certain expectations. The compacts, for example, include expectations that CSU and UC increase resident enrollment (including in high-demand areas), close equity gaps, and improve workforce preparation. Although the budget plan does not include a base General Fund increase for CSU and UC in 2025-26, the Administration continues to expect the segments to meet compact goals. (The compacts remain uncodified, and no statutory repercussions are set forth if the segments do not meet one or more compact goals.)

Staff Recommendation. Hold Open.

Issue 2: Higher Education Student Housing Grant Program

Panel

- Gabriela Chavez, Department of Finance
- Devin Mitchel, Department of Finance
- Jennifer Pacella, Legislative Analyst’s Office
- Seija Virtanen, University of California
- Paul Gannoes, California State University

Background. The 2021, 2022 and 2023 Budget Acts created the Higher Education Student Housing Grant Program and authorized 35 projects: five UC projects, 11 CSU projects, 16 CCC projects, three joint UC/CCC projects, and one joint CSU/CCC project, totaling about \$2.2 billion in state funding. Projects were required to provide “affordable” beds for students, which was defined as rents not exceeding 30 percent of 50 percent of a campus’s area median income. (This is a measure used in various federal and state affordable housing programs to gauge housing affordability for low-income residents.) While the program was originally conceived with one-time General Fund, the 2023 Budget Act shifted the program to bond financing.

The figure below provides a list of CSU projects funded by the Higher Education Student Housing Grant Program.

Figure 8:

Project Name	Project Cost		Funding by Source				Bed Count & Rent For Low-Income Students		Standard Bed Count & Associated Rent		Building Square Footage (GSF)		Construction Completion Date	
	Proposed	Updated	Proposed		Updated		Proposed	Updated	Proposed	Updated	Proposed	Updated	Proposed	Updated
			CSU	HESHGP	CSU	HESHGP								
CSU Dominguez Hills Student Housing, Phase 4	\$ 75,000,000	\$ 97,000,000	CSU: \$ 26,250,000 HESHGP: \$ 48,750,000	CSU: \$ 46,750,000 HESHGP: \$ 50,250,000	238 beds \$700.00	238 beds \$695.00	116 beds N/A	50 beds N/A	84,600	63,000	Apr-25	Apr-26		
Fresno State New Affordable Student Housing	\$ 47,768,000	\$ 58,750,000	CSU: \$ 16,718,000 HESHGP: \$ 31,050,000	CSU: \$ 25,000,000 HESHGP: \$ 33,750,000	225 beds \$700.00	225 beds \$733.00	N/A beds N/A	N/A beds N/A	88,750	82,838	Jun-25	Jul-26		
Cal State Fullerton Student Housing, Phase 5	\$ 136,897,000	\$ 157,948,000	CSU: \$ 47,997,000 HESHGP: \$ 88,900,000	CSU: \$ 69,048,000 HESHGP: \$ 88,900,000	390 beds \$933.00	390 beds \$1,128.00	202 beds N/A	120 beds \$1,988.00	200,000	154,710	Jul-24	Aug-26		
Cal Poly Humboldt 8th Street Arcata Student Housing	\$ 41,703,000	\$ 221,698,000	CSU: \$ 14,603,000 HESHGP: \$ 27,107,000	CSU: \$ 194,591,000 HESHGP: \$ 27,107,000	138 beds \$630.00	138 beds \$630.00	N/A beds N/A	796 beds \$780.00	70,256	303,000	Jun-24	Dec-25		
Cal State Long Beach Hillside North Student Housing	\$ 82,000,000	\$ 126,647,000	CSU: \$ 28,700,000 HESHGP: \$ 53,300,000	CSU: \$ 73,347,000 HESHGP: \$ 53,300,000	403 beds \$700.00	412 beds \$797.00	N/A beds N/A	N/A beds N/A	97,351	108,100	Dec-24	Jul-26		
CSU Northridge Student Housing Buildings #22 & #23	\$ 57,748,000	\$ 72,905,000	CSU: \$ 20,248,000 HESHGP: \$ 37,500,000	CSU: \$ 35,405,000 HESHGP: \$ 37,500,000	200 beds \$700.00	198 beds \$700.00	N/A beds N/A	N/A beds \$866.00	61,704	61,704	May-24	May-25		
Sacramento State Student Housing, Phase 3	\$ 67,055,000	\$ 69,970,000	CSU: \$ 25,715,000 HESHGP: \$ 41,340,000	CSU: \$ 28,630,000 HESHGP: \$ 41,340,000	285 beds \$894.00	285 beds \$987.11	N/A beds N/A	40 beds \$1,060.00	97,470	98,316	Apr-27	Jul-26		
San Diego State Calexico Off-Campus Center Housing	\$ 13,630,000	\$ 17,028,000	CSU: \$ 4,780,000 HESHGP: \$ 8,850,000	CSU: \$ 7,920,000 HESHGP: \$ 9,108,000	78 beds \$618.00	80 beds \$677.00	N/A beds N/A	N/A beds N/A	16,000	11,934	Mar-25	Jul-26		
San Francisco State West Campus Green Affordable Housing and Student Health Center	\$ 178,991,000	\$ 178,991,000	CSU: \$ 62,691,000 HESHGP: \$ 116,300,000	CSU: \$ 62,691,000 HESHGP: \$ 116,300,000	750 beds \$845.00	730 beds \$990.00	N/A beds N/A	N/A beds N/A	180,000	172,010	Jul-24	Jul-24		
San José State Spartan Village on the Paseo	\$ 333,816,000	\$ 166,065,000	CSU: \$ 244,716,000 HESHGP: \$ 89,100,000	CSU: \$ 76,965,000 HESHGP: \$ 89,100,000	517 beds \$970.00	517 beds \$1,045.00	490 beds N/A	140 beds \$1,098.00	452,360	232,431	Jun-27	Jun-25		
CSU San Marcos University Village Housing and Dining	\$ 140,023,000	\$ 126,300,000	CSU: \$ 49,023,000 HESHGP: \$ 91,000,000	CSU: \$ 34,000,000 HESHGP: \$ 92,300,000	390 beds \$832.00	390 beds \$1,022.00	210 beds N/A	150 beds \$1,105.00	224,681	139,612	Jun-24	Aug-26		
Stanislaus State Residence Life Village IV	\$ 29,005,000	\$ 31,005,000	CSU: \$ 10,155,000 HESHGP: \$ 18,850,000	CSU: \$ 10,155,000 HESHGP: \$ 20,850,000	75 beds \$703.00	78 beds \$776.00	45 beds 877	42 beds \$1,047.00	45,707	45,707	May-24	Jun-27		
Totals	\$ 1,203,636,000	\$ 1,324,307,000	Totals \$ 1,203,643,000	Totals \$ 1,324,307,000										

Source: CSU Higher Education Student Housing Grant Program Report – July 2024

Figure 9 below, provides a list of all current student housing projects at the UC. Of those projects, the following are funded through the Higher Education Student Housing Grant Program.

- UC Berkeley - People’s Park Student Housing (also known as Housing #2)
- UC Irvine - Mesa Court Housing Expansion
- UC Los Angeles - Gayley Towers Redevelopment
- UC San Diego - Pepper Canyon West
- UC Santa Cruz - Kresge College Non-Academic Phase 2 – State Subsidized Beds
- UC Merced/Merced Community College - Promise Housing
- UC Riverside/Riverside Community College - North District Phase 2

The Pepper Canyon West project at the UC San Diego campus went into operation as of Fall 2024.

Figure 9:

ACTIVE PROJECTS WITH REGENTS FULL APPROVAL OR/AND PRELIMINARY PLANS APPROVAL				
Campus	Project Name	Approx NEW Beds	Planned First Fall Operation	Project Anticipated Primarily for
Berkeley	People's Park	1113	Fall 2027	Undergrad
Berkeley	2200 Bancroft Housing / Housing Project #3	1500	Fall 2028	Undergrad
Davis	Aggie Square Phase ¹	103	Fall 2025	Undergrad & Graduate
Davis	Segundo Infill Student Housing	493	Fall 2027	Undergrad
Irvine	Mesa Court Residence Hall	400	Fall 2025	Undergrad
Irvine	East Campus Student Apartments Phase 5	600	Fall 2027	Undergrad
Los Angeles	Gayley Tower Redevelopment	445	Fall 2026	Undergrad
Merced	UC Merced/Merced College Promise Housing ²	292	Fall 2026	Undergrad
Riverside	North District Phase 2 ³	1242	Fall 2025	Undergrad
San Diego	Ridge Walk North Living Neighborhood ⁴	1966	Fall 2025	Undergrad
San Diego	Pepper Canyon East Phase 1	941	Fall 2029	Undergrad
Santa Barbara	San Benito Apartments	2225	Fall 2027	Undergrad
Santa Cruz	Kresge College Non Academic Phase 2	440	Fall 2025	Undergrad
Santa Cruz	Student Housing West-Hagar Phase 1 ⁴	120	Fall 2025	Family
Santa Cruz	Student Housing West-Heller Phase 2/3	2744	Fall 2028	Undergrad
Santa Cruz	Delaware Addition	400	Fall 2026	Undergrad
TOTAL		15,024		

Source: University of California

Staff Recommendation. Informational item.

Issue 3: Underground Scholars and Project Rebound Update**Panel**

- Gabriela Chavez, Department of Finance
- Devin Mitchel, Department of Finance
- Jennifer Pacella, Legislative Analyst's Office
- Eric Heng, University of California
- Ray Murillo, California State University

Background.

Underground Scholars. The Underground Scholars Initiative was started in the Spring of 2013 by formerly incarcerated and system-impacted students at UC Berkeley as the Underground Scholars Initiative (USI), a student organization. In 2014, USI received funding from the University of California Berkeley through a fee referendum voted on by students. That funding made it possible for USI to rent office space and hire staff and five formerly incarcerated students to work for the initiative. In 2016, the state provided UC Berkeley with a one-time allocation of \$500,000 to establish the Underground Scholars program.

The 2022 Budget Act provided \$4 million ongoing to the UC to establish and sustain Underground Scholars programs as a centralized location on all undergraduate-serving campuses for incarcerated, formerly incarcerated and carceral system-impacted students.

Project Rebound. In 1952, John Irwin (1929-2010) robbed a gas station and served a five-year sentence for armed robbery in Soledad Prison. During his time in prison, he earned 24 college credits through a university extension program. After his release from prison, Irwin earned a B.A. from UCLA, a Ph.D. from UC Berkeley, and then served as a Professor of Sociology and Criminology at San Francisco State University for 27 years, during which he became known internationally as an expert on the U.S. prison system.

Project Rebound was created in 1967 by Irwin as a way to matriculate people into San Francisco State University directly from the criminal justice system. Supported for many years by San Francisco State University's Associated Students, Inc., the program supported hundreds of formerly incarcerated students obtain Bachelor's and Master's degrees. In 2019, following a three-year, philanthropically funded expansion effort (2016- 19), California made an ongoing investment of \$3.3 million ongoing General Fund in the CSU Project Rebound Consortium to grow and further expand the program across the state.

The 2022 Budget Act provided an increase of \$8.8 million and ongoing to expand the Project Rebound program, growing the state's ongoing investment to \$11.3 million annually. The CSU Project Rebound Consortium is now a state and grant-funded network of programs operating at fifteen CSU campuses in Bakersfield, East Bay, Fresno, Fullerton, Humboldt, Long Beach, Los Angeles, Northridge, Pomona, Sacramento, San Bernardino, San Diego, San Francisco, San Marcos, and Stanislaus.

Staff Recommendation. Informational Item.

6610 CALIFORNIA STATE UNIVERSITY (CSU)**Issue 4: CSU Enrollment****Panel**

- Devin Mitchell, Department of Finance
- Natalie Gonzalez, Legislative Analyst's Office
- April Grommo, California State University

Background.

Most CSU Students Are California Residents. Approximately 95 percent of students at CSU are California residents, with the remainder of students coming from other states or countries. The share of resident students has hovered at about 95 percent over the past ten years. Of resident students, approximately 90 percent are undergraduates and 10 percent are postbaccalaureate and graduate students. Though the share of resident students is high systemwide, some variation exists among campuses. In 2023-24, the CSU Stanislaus student body had the highest share of resident students (99 percent), whereas CSU San Luis Obispo had the lowest share (84 percent).

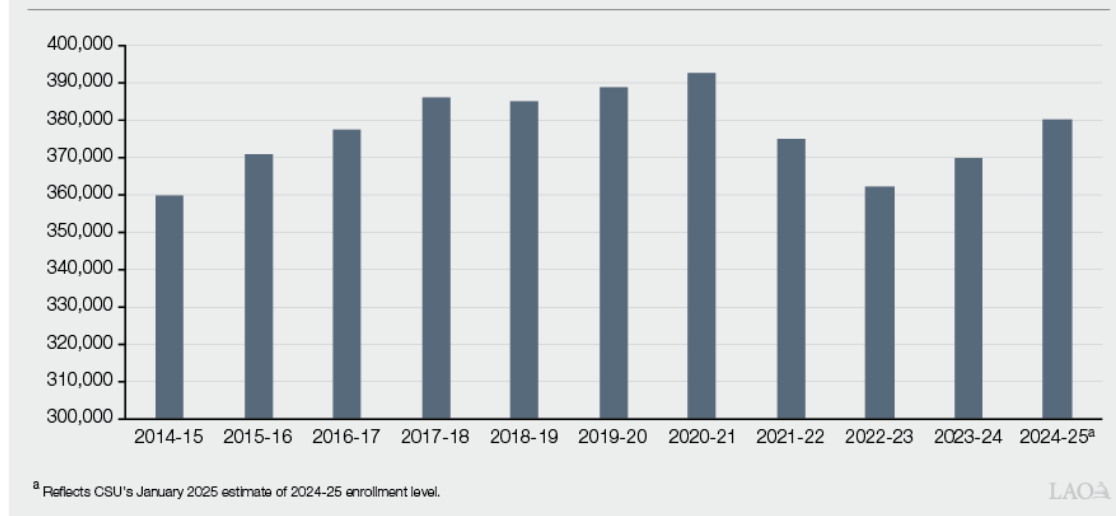
State Budget Typically Sets Enrollment Growth Expectations for CSU. In most years, the state sets enrollment growth expectations for CSU in the annual budget act. These growth expectations apply to resident students. In some years, the state sets expectations for total CSU resident enrollment. In other years, its sets expectations only for resident undergraduates, with no expectation for resident graduate students. CSU tracks a running total of these growth expectations, which it commonly refers to as its enrollment target. CSU's enrollment target in 2024-25 is 390,598 resident Full Time Equivalent (FTE) students. CSU does not track this target separately for undergraduates and graduate students.

Historically, the state set an enrollment expectation for CSU in the budget year (for example, setting a 2016-17 enrollment expectation in the 2016-17 Budget Act). More recently, the state has set enrollment expectations for CSU in the budget year and budget year plus one. This change has reflected an effort by the state to better align its enrollment expectations with CSU's admissions cycle. As CSU has already made many of its admission decisions for the coming academic year by the time the Legislature enacts the annual budget in June, setting budget-year expectations can be too late to have a notable impact on CSU behavior. In contrast, setting an expectation for budget year plus one allows the state to have more influence over CSU actions for the next academic year. Setting enrollment expectations for budget year plus one, in turn, gives CSU campuses more time to adjust their enrollment management practices to meet any new enrollment expectations set for them.

CSU's Enrollment Is Rebounding From Pandemic Declines. As Figure 10 shows, CSU's total resident enrollment was generally trending upward from 2014-15 through 2020-21. CSU then experienced notable declines in its resident enrollment in 2021-22 and 2022-23. In 2022-23, CSU enrolled approximately 30,000 fewer resident FTE students than a couple of years earlier. CSU resident enrollment has been rebounding these past two years, though estimated resident enrollment in 2024-25 remains nearly 13,000 FTE students below CSU's 2020-21 peak.

Figure 10:**Over Past Decade, CSU Enrollment Has Seen Ups and Downs**

Enrollment for Resident Full-Time Equivalent Students

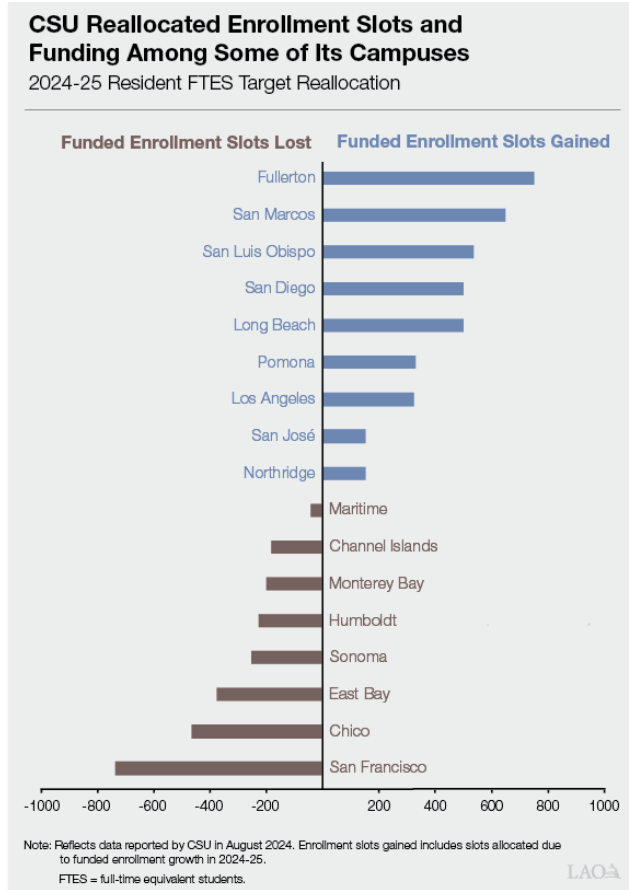


Source: Legislative Analyst's Office

CSU Reports Exceeding Its 2024-25 State Enrollment Expectation. Despite its enrollment being below its 2020-21 peak, CSU reports that it is exceeding the state enrollment expectation set for it in the 2024-25 Budget Act. The 2024-25 Budget Act directed CSU to increase resident undergraduate enrollment by 6,338 FTE students, bringing its resident undergraduate enrollment level to 339,946 FTE students. This growth expectation is relative to CSU's actual enrollment level in 2023-24. CSU reports that it exceeded the 2024-25 state budget expectation—growing by 9,326 FTE students, for total resident undergraduate FTE students of 342,935 resident undergraduate FTE students. When combined with postbaccalaureate and graduate enrollment, CSU estimates enrolling a total of 380,073 resident FTE students in 2024-25—an increase of 10,166 students (2.7 percent) from the previous year.

CSU Began Implementing an Enrollment Reallocation Plan in 2024-25. CSU allocates its systemwide enrollment target and associated funding among its campuses. For the past several years, certain CSU campuses have been enrolling fewer students than their enrollment targets while other campuses have been enrolling students in excess of their targets. In response, CSU recently developed an enrollment reallocation plan. The plan entails CSU gradually shifting slots and associated funding away from those campuses notably below their targets to those campuses notably above their targets. Specifically, beginning in 2024-25, CSU shifted a portion of funded slots away from eight campuses below their enrollment targets in 2023-24 to nine campuses above their enrollment targets. Figure 11 shows how many funded enrollment slots were moved away from those campuses. It also shows the nine campuses that gained funded slots under the plan. CSU intends to continue implementing this plan in 2025-26.

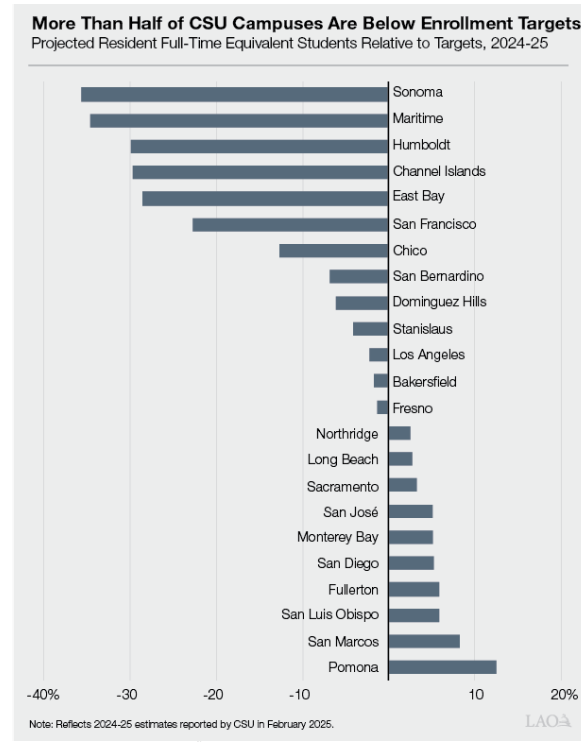
Figure 11:



Source: Legislative Analyst's Office

Despite Recent Enrollment Increases, Most Campuses Remain Below CSU’s Enrollment Targets. Whether a campus meets its enrollment target depends on several key factors, including the number of students who apply, admission rates, yield rates, retention rates, and other aspects of student and campus behavior. As Figure 12 shows, 13 campuses are projected to be below their enrollment targets set by CSU for 2024-25. Six of these campuses would need to increase enrollment by more than 20 percent to reach their 2024-25 targets.

Figure 12:



Source: Legislative Analyst’s Office

Number of “Impacted” Programs Is Decreasing. Historically, some CSU campuses and academic programs have been designated as impacted, meaning they have more student demand than enrollment slots. To manage student demand, impacted campuses and programs adopt stricter admissions criteria than the minimum systemwide eligibility requirements. Campuses may apply the stricter admissions criteria to applicants outside their local service area and/or applicants within specific high-demand programs. Currently, five CSU campuses (Fullerton, Long Beach, San Diego, San José, and San Luis Obispo) are impacted in all undergraduate programs. Other campuses tend to have at least a few programs impacted in 2024-25. For example, many campuses are impacted in their Biological Sciences, Engineering, and Nursing programs. Though some programs remain impacted, eight campuses saw a decrease in the number of impacted programs in 2024-25 compared to 2023-24.

2025-26 and 2026-27 Enrollment Expectations. The 2024-25 Budget Act set a resident undergraduate enrollment expectation for CSU in 2025-26 (following recent state practice of setting expectations for budget year plus one). The 2025-26 budget plan maintains that expectation and adds an expectation for 2026-27. Specifically, the budget plan sets forth that CSU is to grow its resident undergraduate enrollment by 10,161 FTE students, for a total associated level of 350,107 FTE students in 2025-26. It also sets forth that CSU is to grow by another 10,161 FTE students in 2026-27, for a total level of 360,268 FTE students. Though the budget plan does not contain any enrollment growth funding for CSU in 2025-26, it maintains provisional language permitting the Director of Finance to reduce CSU funding for each student below

the expected 2025-26 level. The provisional language indicates the reduction would be taken at the 2025-26 state marginal cost rate of \$10,983.

CSU’s Enrollment Reallocation Plan Is Realigning Funding with Actual Students Served. Though a majority of CSU campuses are currently below their enrollment targets, some campuses are exceeding their enrollment targets. In 2024-25, CSU began addressing this situation by reallocating existing enrollment slots from campuses under their 2023-24 targets to those exceeding their 2023-24 targets. Effectively, this reallocation moved funding internally within the CSU system to help support more enrollment growth at growing campuses. Specifically, CSU moved funds from eight campuses below target to nine campuses above target. Seven out of the eight campuses furthest from meeting enrollment demand are located in Northern California, whereas eight out of the nine campuses with unmet enrollment demand are located in Southern California. If these nine campuses continue to see enrollment demand in the next couple of years, but do not receive additional funding to support enrollment growth, they likely will have to turn away more students.

Under Budget Plan, No Funding Is Earmarked for Enrollment Growth. As discussed in the “Core Operations” section, the state budget plan reduces General Fund support for CSU by a net of \$122 million. No funding is provided to cover the marginal cost of new resident enrollment. CSU has expressed concern about continuing to increase its systemwide resident enrollment moving forward in the absence of additional state funding.

Staff Recommendation. Hold Open

Issue 5: Capitol Fellows Program**Panel**

- Devin Mitchell, Department of Finance
- Natalie Gonzalez, Legislative Analyst's Office
- Leonor Ehling, Center for California Studies, Sacramento State

Proposal. The Governor's budget includes a \$1.3 million ongoing General Fund augmentation for the Capital Fellows program, bringing funding for the program up to \$5.2 million. The augmentation is to provide a 50 percent salary increase for Fellows, bringing their monthly salary to \$4,888 (\$58,656 annualized). The Center shared that this request originally was tied to a new federal requirement, which has since been vacated. (Specifically, a federal regulation would have increased the salary threshold to be classified as salaried employees. Had the salary for Fellows not risen to the minimum level for salaried employees, Fellows would have become eligible for overtime, which is not the intent of the program.) Despite that federal requirement being rescinded, the Center indicates a salary increase is still warranted to help Fellows afford rising living costs as well as keep the fellowship program competitive with comparable programs in the state and country.

Background. Apart from CSU's main state General Fund appropriation, the state separately funds CSU's Center for California Studies (the Center). The Center was founded in 1982. It is overseen by CSU Sacramento in concert with the CSU Chancellor's Office. In 2024-25, the Center received \$5.6 million ongoing General Fund support. The Center has 12 authorized positions.

The core objective of the Capital Fellows program is to train young professionals for a career in public service within state government. The program consists of four fellowship opportunities: Assembly, Senate, Executive, and Judicial. Fellowships are structured similarly regardless of the branch of government. Each fellowship provides both experiential learning opportunities as well as career development and mentorship. Fellows work 10 months in the judicial branch, 10.5 months in the executive branch, and 11 months in the Assembly and Senate.

To apply for the program, one must be at least 20 years old and have earned a bachelor's degree. In addition, applicants must have a college grade point average of 2.5 or higher, an interest in state government and public policy, and be authorized to work in the United States. The majority of Fellows are coming straight out of an undergraduate program, though some have at least a few years of prior work experience. (Among its 2024-25 cohort, the Center reports only 1.5 percent of Fellows held a master's degree.) In fall 2024, the Center received 1,061 applications from 590 unique applicants for the 2025-26 fellowship year. (Some candidates apply to more than one fellowship program.)

Housing Costs in Sacramento Are Rising. Apart from the Judicial Fellows, all other Fellows are required to relocate to Sacramento (unless already living in the area). The Center has expressed concern that the current salary for Fellows is insufficient to cover housing and other living costs in Sacramento. From 2019 through 2023, the median gross rent in Sacramento County increased at an average annual rate of 7.5 percent. In 2023, the median gross rent in Sacramento County was \$1,702. Though Fellows may be able to find less expensive rent and share housing, spending \$1,000 per month on rent and utilities would equate to 31 percent of their paycheck. A household commonly is considered cost-burdened if they spend more than 30 percent of their income on housing costs.

Salaries Are Not Adjusted for Inflation. Salaries for Fellows are not adjusted annually for increases in cost of living. Every time the Center wants to increase salaries, regardless of the amount, it must submit a new budget request to the state. The Center last raised salaries just a couple of years ago. In 2022-23, the Center raised Fellows salaries by 9.75 percent, up to the current level of \$3,253 per month. If adjusted annually based on the California Consumer Price Index (CA CPI), that monthly salary rate would be \$3,447 in 2024-25.

Candidates Have Expressed Concern Regarding Salary Amount. The Center shared with us that it does not have a problem with receiving applications, but it does face challenges in getting candidates to accept offers. The Center cites that one reason candidates decline offers is due to the salary amount. Some candidates have also expressed concern regarding the salary amount during the application process and have asked if there are other opportunities for employment during their time in the fellowship. However, the Center shared that it is difficult for fellows to work another job given the rigor and full-time work required by the program.

Staff Recommendation. Hold Open.

6440 UNIVERSITY OF CALIFORNIA (UC)**Issue 6: UC Enrollment****Panel**

- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office
- Seija Virtanen, University of California

Background.

UC Enrolls a Mix of California Resident and Nonresident Students. In 2023-24, of the nearly 293,500 FTE students UC enrolled, 82 percent were California residents and 18 percent were nonresidents. Compared to the two other segments, UC enrolls a notably larger share of nonresident students. (In 2023-24, nonresidents comprised 5.5 percent of CSU FTE students and an estimated 3 percent of CCC FTE students.) Within UC, nonresident students are more common in graduate programs. In 2023-24, one-third of UC graduate students are classified as nonresidents, compared to 15 percent of UC undergraduates.

UC Enrolls a Mix of Freshmen and Transfer Students. Besides aiming to enroll a mix of resident and nonresident students, UC tries to have each new incoming undergraduate class have a certain share of freshmen and transfer students. Specifically, UC aims to enroll one resident transfer student for every two resident freshmen. In fall 2024, UC estimates that it will nearly achieve this goal.

State Typically Sets Resident Enrollment Targets and Provides Associated Funding. Over the past two decades, the state's typical enrollment approach for UC has been to set systemwide resident enrollment targets. These targets typically have applied to total resident enrollment, giving UC flexibility to determine the mix of undergraduate and graduate students. If the total systemwide target has included growth (sometimes the state leaves the target flat), the state typically has provided associated General Fund augmentations. Augmentations have been calculated using an agreed-upon per-student funding rate derived from the "marginal cost" formula. This formula estimates the cost to enroll each additional student and shares the cost between the state General Fund and student tuition revenue. In 2024-25, the total marginal cost per student is \$21,455, with a state share of \$11,930.

Recently, State Has Made Two Modifications to Its Enrollment Growth Approach. One modification is that the state has been setting enrollment growth targets only for undergraduates. Another modification is that the state generally has been trying to better align its targets with UC's admissions cycle by setting enrollment targets for budget year plus one. UC completes its admissions cycle for the coming fall term before the state enacts the annual budget each June. Setting an enrollment growth target for budget year plus one allows the state to influence UC's planning for the next admissions cycle prior to UC making its admission decisions.

State Continues Nonresident Enrollment Reduction Plan. Another important change in recent years is that the state has acted to limit the number of nonresident undergraduates at UC, with the intent to make more slots available for resident undergraduates at high-demand campuses. Specifically, the state has directed UC to reduce nonresident undergraduate enrollment at the Berkeley, Los Angeles, and San Diego campuses by a total of 902 FTE students annually and increase resident undergraduate enrollment by the

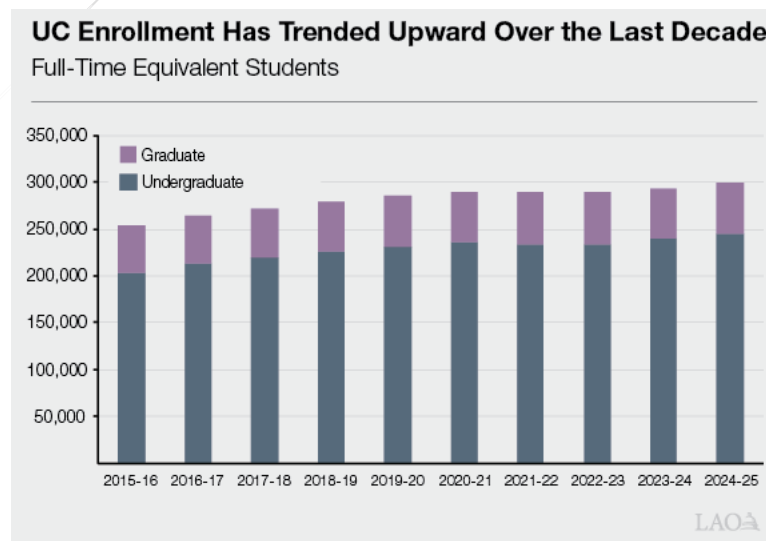
same amount. To help the campuses achieve this goal, the state has provided UC with ongoing General Fund support primarily to backfill the lost nonresident supplemental tuition revenue. The nonresident enrollment reduction plan began in 2022-23 and was intended to extend through 2026-27. By 2026-27, UC campuses are to have nonresident students comprise no more than 18 percent of their total undergraduate enrollment. (The 18 percent cap applies to all UC campuses, but only the Berkeley, Los Angeles, and San Diego campuses currently are above that cap.)

Last Year’s Budget Act Included Enrollment Growth Expectations for the Next Few Years. Specifically, the 2024-25 Budget Act set an expectation that UC grow by 2,927 resident undergraduate FTE students in 2024-25, another 2,947 FTE students in 2025-26, and another 2,968 FTE students in 2026-27. These amounts reflect annual growth of 1.4 percent. (These amounts include the additional 902 resident undergraduate FTE students resulting from the nonresident replacement plan.) The state’s intent was that UC would fund this new growth from base General Fund augmentations provided in each of those years. Under this growth plan, UC resident undergraduate enrollment would reach 212,503 in 2026-27.

UC Has Graduate Growth Plans. Unlike for UC undergraduates, the state has not been setting enrollment targets for UC graduate students. The Governor and UC, however, have compact goals relating to graduate enrollment. Specifically, UC set a plan to increase enrollment in its state-supported graduate programs by a total of 2,500 students (resident and nonresident students combined) over four years. UC originally intended to add this enrollment in even increments (625 FTE students per year) beginning in 2023-24 and extending through 2026-27. Though not earmarked in the state budget act, graduate enrollment growth is supported by state funding and tuition revenue, among other sources.

UC Enrollment Has Grown Over the Past Decade. As Figure 13 shows, UC enrollment has increased every year but one (2022-23) over the past decade. Total enrollment has grown by approximately 46,000 students (18 percent). As enrollment has increased, the share of undergraduates has grown slightly (from 80 percent to 82 percent of overall enrollment), as the share of graduate students has declined slightly (from 20 percent to 18 percent). Undergraduate enrollment growth has varied somewhat across UC campuses. Over the past decade, UC Santa Cruz has experienced the least amount of growth. UC San Diego has added the greatest number of undergraduates, and UC Merced has grown at the fastest rate.

Figure 13:



Source: Legislative Analyst’s Office

UC Expects to Exceed Its Resident Undergraduate Enrollment Target in 2024-25. Based on data from the summer and fall 2024 terms, UC estimates that its resident undergraduate enrollment is 3,270 FTE students above the 2024-25 Budget Act target. This growth is more than double the state’s enrollment expectation that year. Rather than reaching a resident undergraduate enrollment level of 206,588 FTE students, UC anticipates growing to 209,858 FTE students. This level of growth even exceeds the 2024-25 Budget Act enrollment target set for UC in 2025-26 (by a few hundred students). UC is planning to apply the excess growth in 2024-25 toward its 2025-26 enrollment target.

Growth in New Transfer Students More Than Offsets Decline in New Freshmen. Figure 14 shows UC’s cohort of new incoming students (headcount) grew slightly in fall 2024 over fall 2023. Reversing a three-year trend, new transfer enrollment increased for the first time since fall 2020. The number of new resident freshmen declined year over year, breaking a pattern of annual growth for this group that began in fall 2020.

Figure 14:

Growth of New Transfer Students More Than Offsets Decline in New Freshmen
New Undergraduate Headcount, Fall Term

	Fall 2023	Fall 2024	Change From Fall 2023	
			Amount	Percent
Freshmen				
Resident	42,108	41,950	-158	-0.4%
Nonresident domestic	4,616	4,262	-354	-7.7
Nonresident international	4,245	4,409	164	3.9
Subtotals	(50,969)	(50,621)	(-348)	(-0.7%)
Transfer/Other^a				
Resident	17,899	18,694	795	4.4%
Nonresident domestic	396	366	-30	-7.6
Nonresident international	1,489	1,621	132	8.9
Subtotals	(19,784)	(20,681)	(897)	(4.5%)
Totals	70,753	71,302	549	0.8%

^aIncludes CCC and other transfer students.

Source: Legislative Analyst’s Office

UC Expects to Meet Its Nonresident Enrollment Reduction Goals in 2024-25. Compared to 2023-24, nonresident undergraduate enrollment declined at the Berkeley campus by 782 FTE students and at the Los Angeles campus by 294 FTE students. Together, these two campuses exceeded the combined state reduction target of 902 FTE students. UC San Diego increased its nonresident undergraduate enrollment by 83 FTE students, but it grew its resident undergraduate enrollment at an even greater pace. All three campuses reduced nonresident undergraduate enrollment as a share of their total undergraduate enrollment. The Berkeley campus made the most progress (reducing its nonresident share by 2.2 percentage points), whereas the San Diego campus made the least progress (reducing its nonresident share by 0.4 percentage points). All three campuses have a nonresident share that is below 20 percent in 2024-25.

UC Does Not Plan to Meet Graduate Growth Target. Unlike for undergraduate enrollment, graduate enrollment growth targets were not included in the 2024-25 Budget Act. Nonetheless, UC has been tracking its graduate enrollment relative to its compact goals. UC does not expect to meet the overall 2,500 graduate enrollment growth target identified in the compact. UC notes that the baseline from which that target was set reflected an unusual high point in 2021-22. Though it did not realize at the time, UC has since learned that graduate enrollment in 2021-22 was particularly high given a relatively large number

of graduate students deferred enrollment in 2020-21 due to issues relating to the pandemic. While UC believes graduate enrollment will not grow by 2,500 graduate students by 2026-27, it indicated to us that campuses will continue to expand enrollment in graduate programs, with a particular emphasis on enrollment in programs that meet state workforce needs in the science, technology, engineering, mathematics and health sciences areas.

Enrollment Expectations for 2025-26 and 2026-27

Budget Plan Continues Resident Undergraduate Enrollment Expectations, but Does Not Provide Funding. The 2024-25 Budget Act set a resident undergraduate enrollment expectation for UC in 2025-26 and 2026-27. The 2025-26 budget plan maintains these expectations. Specifically, the budget plan sets forth that UC is to grow its resident undergraduate enrollment by 2,947 FTE students in 2025-26, and another 2,968 FTE students in 2026-27, for a total level of 212,503 FTE students that year. The budget plan does not contain any enrollment growth funding for UC in 2025-26. However, it maintains provisional language permitting the Director of the Department of Finance (DOF) to reduce UC funding for each student below the expected 2025-26 level. The provisional language indicates the reduction would be taken at the 2025-26 state marginal cost rate of \$11,640 per student.

Budget Plan Also Maintains Nonresident Enrollment Reduction Expectations, but Defers Funding. The budget plan also maintains the expectation that UC continue to reduce nonresident undergraduate enrollment by a total of 902 FTE students at the Berkeley, Los Angeles, and San Diego campuses in 2025-26, replacing those students with residents. (The additional resident students are included in the targets mentioned above.) As with the base funding deferral, the budget plan defers \$31 million ongoing General Fund that otherwise would have been provided in 2025-26 to continue implementing the nonresident enrollment reduction plan to 2027-28. The Governor proposes provisional budget language stipulating that if the actual reduction in nonresident undergraduate enrollment in 2025-26 is fewer than 902 FTE students, then the Director of DOF is not obligated to provide the deferred payment.

Staff Recommendation. Hold Open.