

SUBCOMMITTEE NO. 1

Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Lola Smallwood-Cuevas
Senator Rosilicie Ochoa Bogh



Thursday, March 9, 2023
9:30 a.m. or Upon Adjournment of Session
1021 O Street, Room 2100

Consultant: Christopher Francis, Ph.D.

OUTCOMES

Items for Discussion

<u>Item</u>	<u>Department</u>	<u>Page</u>
6610	California State University (CSU)	2
	Issue 1A: State of CSU: Core Operations	4
	Held Open	
	Issue 1B: State of CSU: Resident Enrollment	14
	Held Open	
	Issue 1C: State of CSU: Student Housing Updates	22
	Held Open	
	Issue 2: Shift in Capital Support Funding	26
	Held Open	
	Issue 3: Status Update on Previous Budget Act Investments (Oversight)	29
	This was an oversight item, no action was needed	

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

6610 CALIFORNIA STATE UNIVERSITY (CSU)**Overview**

The California State University (CSU) is comprised of 23 campuses. Its 23 campuses enroll more than 468,000 students. All campuses offer undergraduate and graduate instruction for professional and occupational goals and liberal education programs. For undergraduate programs, each campus requires a basic program of general education regardless of the major selected by the student. In addition to master's-level graduate programs, the CSU offers doctoral-level programs in education, nursing practice, physical therapy, and audiology. The CSU also offers some doctoral degrees jointly with the University of California and with private institutions. In 2021-22, the CSU awarded more than 132,000 degrees.

The university is governed by the Board of Trustees, which includes the following 25 members: five ex officio members, 16 members appointed by the Governor to eight-year terms, three members appointed by the Governor to two-year terms (two student representatives, one voting and one non-voting, and one faculty representative), and one alumni representative appointed to a two-year term by the CSU Alumni Council. The Trustees appoint the Chancellor and the campus presidents. The Trustees, the Chancellor, and the presidents develop systemwide policy. The systemwide Academic Senate, made up of elected faculty representatives from the campuses, recommend academic policy to the Board of Trustees through the Chancellor.

The CSU's goals include:

- Offering degree programs in academic and applied areas that are responsive to the needs of citizens of this state and providing for regular review of the nature and extent of these programs.
- Providing public services to the people of California.
- Providing services to students enrolled in the university.
- Offering instruction at the doctoral level jointly with the University of California and with private institutions of postsecondary education, or independently in the fields of education, nursing practice, physical therapy, and audiology.

Governor's Budget Plan in 2023-24 for CSU. The Governor's largest proposal for CSU is \$227 million ongoing General Fund for a five percent unrestricted base increase. Consistent with the compact, CSU is to cover the cost of one percent resident enrollment growth from this base increase. The Governor's Budget Summary specifies that ongoing General Fund support for CSU also increases by \$36 million to cover higher retiree health benefit costs and by \$3 million to cover higher pension costs. The Governor does not propose any new one-time funding for CSU in 2023-24, beyond funding one initiative consistent with last year's budget agreement.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2021-22	2022-23	2023-24	2021-22*	2022-23*	2023-24*
5560	Support	48,971.6	49,439.1	49,439.1	\$12,992,242	\$11,960,780	\$11,878,070
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		48,971.6	49,439.1	49,439.1	\$12,992,242	\$11,960,780	\$11,878,070
FUNDING					2021-22*	2022-23*	2023-24*
0001	General Fund				\$5,517,732	\$5,005,794	\$4,922,584
0895	Federal Funds - Not In State Treasury				1,575,568	1,654,918	1,654,918
0948	California State University Trust Fund				5,897,442	5,298,068	5,298,068
3290	Road Maintenance and Rehabilitation Account, State Transportation Fund				1,500	2,000	2,500
TOTALS, EXPENDITURES, ALL FUNDS					\$12,992,242	\$11,960,780	\$11,878,070

Issue 1A: State of CSU: Core Operations

Staff notes that Issue 1 contains three parts. The subcommittee will hear a status update from Interim Chancellor Koester, discuss implementation updates and existing challenges for a variety of programs, and the Governor's proposals related to core operations, resident enrollment, and student housing. These major themes are grouped together given their impacts across the CSU system.

Panel

- Jolene Koester, Interim Chancellor, California State University
- Ryan Storm, California State University
- Jennifer Louie, Department of Finance
- Lisa Qing, Legislative Analyst's Office

Governor's Budget

Base Budget Increase. The Governor's budget proposes an increase of \$227.3 million General Fund ongoing for operating costs, representing a five-percent base increase in ongoing General Fund resources that is consistent with the Governor's multi-year compact with CSU. Consistent with the compact, CSU is to cover the cost of one percent resident enrollment growth from this base increase.

CSU Board of Trustees Budget Request

The CSU requests \$513 million General Fund in 2023-24 and ongoing to support core operations, a \$286 million above the Governor's proposed base budget increase. Within its operating budget request, CSU proposes using its compact funding for the following purposes:

CSU Proposed Uses with Governor's Proposed Base Increase	
Purpose	General Fund Amount (\$ in millions)
Compensation pool increases	\$92
Health care premium increases	51
Enrollment growth (Discussed in Issue 2)	35
Graduation Initiative 2025	30
Liability and property insurance premium increases	14
Operations and maintenance of new facilities	6
Total	\$227

The CSU also proposes using the additional \$286 million General Fund for the following purposes:

CSU Requested Funding Above Governor's Proposal	
Purpose	General Fund Amount (\$ in millions)
Compensation pool increases	\$168
Academic Facilities and Infrastructure	50
Graduation Initiative 2025	25
Inflation related to non-personnel costs	23.03
Basic Needs	20

Total above Governor's proposal	\$286
*Reflects CSU's employer contributions on behalf of active employees	

Background

CSU Has Several Core Operating Costs. CSU spends the majority of its ongoing core funds (about 75 percent in 2020-21) on employee compensation, including salaries, employee health benefits, and pensions. CSU has about 45,000 Full-Time Equivalent (FTE) employees. Of these employees, about 45 percent are faculty, about 45 percent are staff, and the remaining 10 percent are managers and executives. Beyond employee compensation, CSU spends its core funds on other annual costs, such as paying debt service on its system-wide bonds, supporting student financial aid programs, and covering other operating expenses and equipment (OE&E). Each year, campuses typically face pressure to increase employee salaries at least at the pace of inflation, with certain other operating costs (such as health care, pension, and utility costs) also tending to rise over time. Though operational spending grows in most years, CSU has pursued certain actions to contain this growth. For example, CSU has pursued certain procurement practices and energy efficiency projects with the aim of slowing associated cost increases.

State Contributions to Base Budget (2013-2020). Since 2013, following the Great Recession, the state provided CSU annual base increases ranging from \$125 million ongoing in 2013 to \$323 million ongoing General Fund in 2019. However, in 2020, the impact of the COVID-19 pandemic and the associated economic downturn led the state to reduce state support at CSU. While the 2020 budget provided a base increase of \$199 million General Fund ongoing to CSU, the budget also included a \$498 million reduction, this resulted in a net reduction of \$299 million ongoing or 7.4 percent. The budget bill specified that this reduction would be restored if federal funding was provided to the state by October 2020. However, this did not occur. The 2020 budget included intent language that CSU use reserves to mitigate cuts, and that the cuts do not have a disproportionate impact on low-income students, students from underrepresented minority groups and other disadvantaged groups.

The 2020 budget also required CSU to report on level of cuts by campus, a description of the stakeholder consultation process used to make the cuts an explanation of how those actions were decided, and a description of how the CSU's decisions minimize harm to the enrollment of and services provided to students eligible for Pell Grants, students from underrepresented minority groups, and other disadvantaged students. In November 2020, the CSU submitted the report to the Legislature, and noted that after consultation sessions with campus presidents and stakeholders, it was decided that the reduction would be allocated to campuses based on two methodologies: (1) a pro-rata across-the-board reduction based on 2019-20 campus operating budgets, and (2) a campus reduction based on the number of students that were not Pell Grant eligible in 2018-19, this resulted in each campus base budget being reduced by \$793 for every non-Pell grant eligible student enrolled at the campus. Each methodology was applied to half of the budget shortfall. Campus reductions ranged from \$5.6 million to \$28.9 million.

CSU utilized a number of one-time sources to temporarily support the \$299 million funding drop for 2020-21, including the use of designated balances and reserves, the federal CARES Act funding (described below), a slowdown in hiring and a halt on travel. The Chancellor's Office surveyed campuses in August 2020 and January 2021 and found that campuses planned to use over \$200 million or about half of their unrestricted reserves in the 2020 to help address the budget shortfall. However,

based on data released at the end of 2020-21, unrestricted reserve levels were up from one year before. This is due to the availability of three rounds of federal assistance. The impact of these reductions varied by campus, for example, prior to the COVID-19 pandemic, San Francisco State already had operating budget challenges due to declining enrollment, whereas other campuses have been able to avoid layoff notices by implementing budget savings strategies.

Recent Contributions to Base Budget (2021-2022). The 2021 Budget Act provided an increase of \$299 million ongoing General Fund to backfill a reduction made in the 2020-21 Budget Act. Additionally, the budget approved an increase of \$185.9 million ongoing General Fund to reflect a five percent base increase. CSU used the funds primarily to restore budget cuts, expand course offerings and student supports related to Graduation Initiative 2025, and cover employee compensation cost increases. The 2021 Budget Act also included a net increase of \$50 million for adjustments specifically to CSU retiree health benefit and pension costs. The Budget Act of 2022 provided \$211.1 million General Fund in 2022-23 and ongoing for a five percent base increase to support CSU operations. This base increase was consistent with a compact between the Governor and CSU that focus on shared priorities benefitting students.

Graduation Initiative 2025. Historically, CSU's four-year graduation rate for incoming freshmen was below 20 percent and the two-year graduation rate for transfer students was below 30 percent. To address its low graduation rates, CSU launched the Graduation Initiative 2025 and set a systemwide goal to increase the four-year graduation for first time freshman at 40 percent, and the two-year transfer graduation rate at 45 percent by 2025.

Over the last five years, the state has made significant investments in the CSU Graduation Initiative 2025, totaling \$390 million General Fund ongoing and \$42.5 million General Fund one-time (see chart below). Because of these investments, CSU states that it has achieved all-time highs in four- and six-year graduation rates for first-time students and two- and four-year rates for transfer students and is on track to meet the GI 2025 goals.

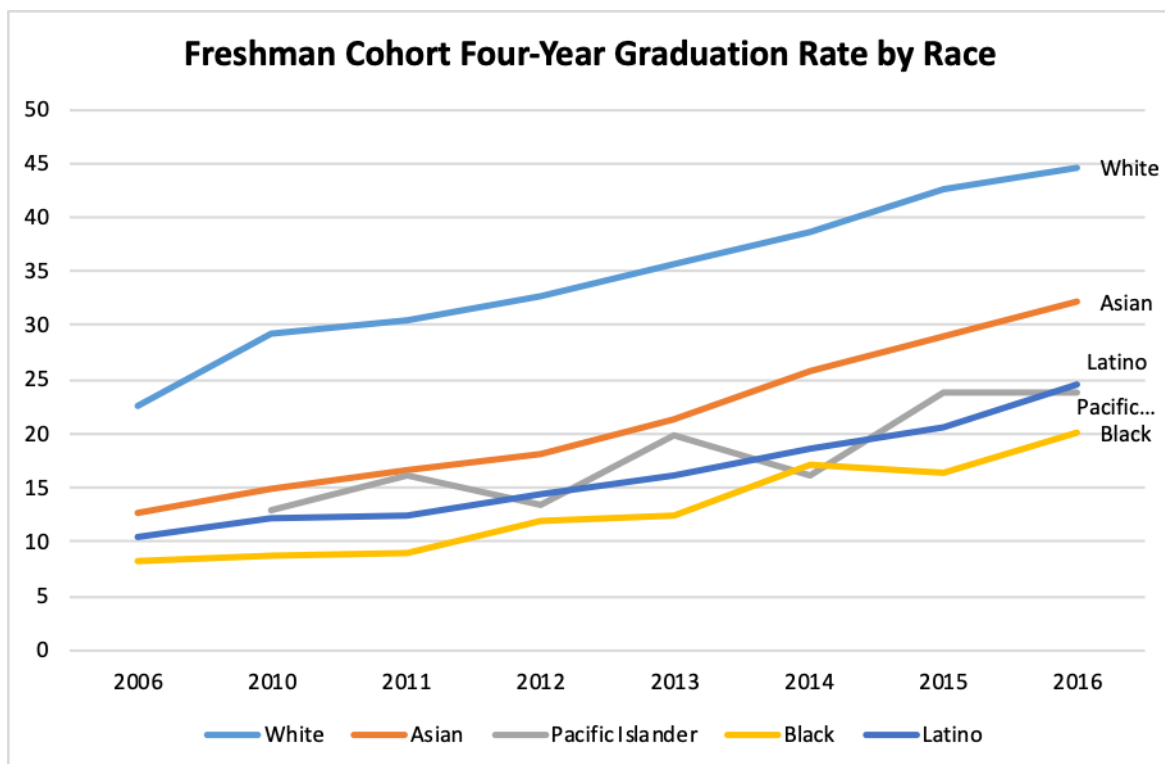
Figure: Graduation Initiative 2025 General Fund Support

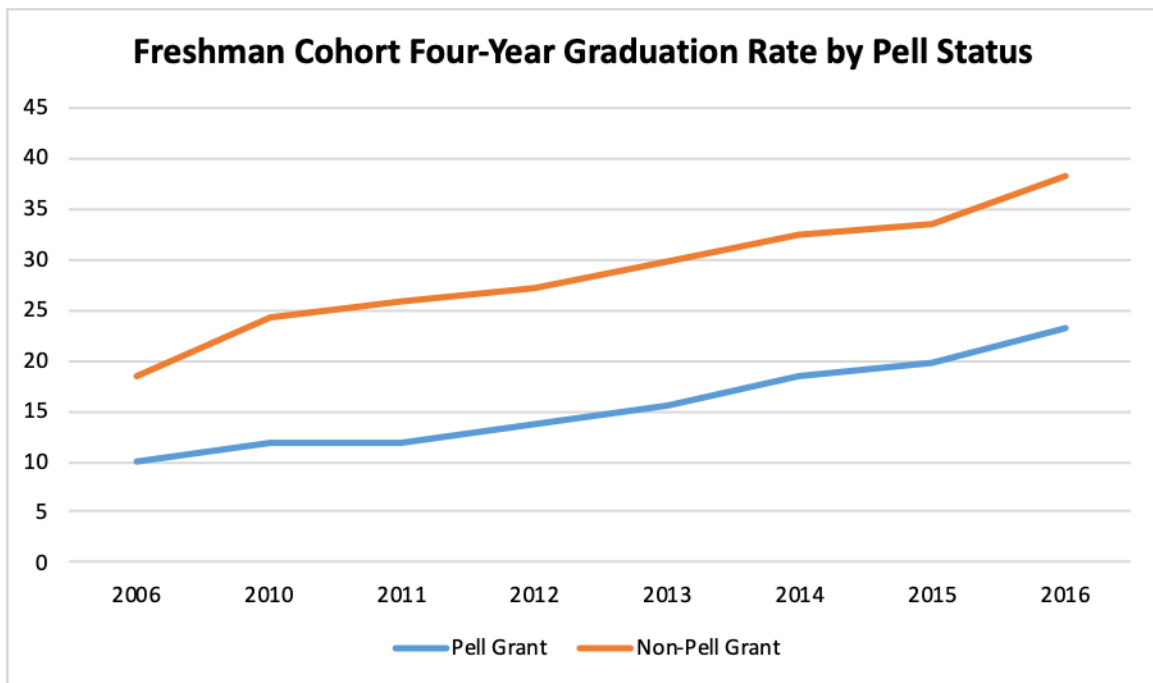
Budget Year	Ongoing Funding (\$ in millions)	One-Time Funding (\$ in millions)
2017-18	75	12.5
2018-19	75	0
2019-20	45	30
2020-21	0	0
2021-22	150	0
2022-23	45	0
TOTAL (2017-18 to 2022-23)	390	42.5
2023-24 (Requested)	55 (30 within compact + additional 25)	0

Currently, the systemwide four-year graduation rate is 33 percent for first time students and the two-year graduation rate is 44 percent for transfer students. Despite the increases in graduation rates for first-time and transfer students, the initiative has struggled to meet its goals to close equity gaps for underrepresented students. As shown in the table from CSU and graphs below, four-year graduation

rates across various student groups have increased overtime, however, there has not been significant systemwide changes in closing the achievement gap. The CSU noted in 2020 that systemwide, the gap between Pell-recipient students and their peers narrowed one percentage point from 10.2 to 9.2. In 2021, the gap has increased back to 10.2. The CSU also slightly narrowed the equity gap for students who identify as Black, Native American or Latinx from 11.1 percentage points to 10.5 percentage points in 2020. This number has now increased to 12.4 percentage points.

			2016	2017	2018	2019	2020	2021	2025 GOAL
GRADUATION RATES	First-Time Students	4-Year	21%	23%	25%	27%	31%	33%	40%
		6-Year	59%	59%	61%	62%	62%	63%	70%
	Transfer Students	2-Year	33%	35%	38%	40%	44%	44%	45%
		4-Year	74%	75%	77%	77%	79%	80%	85%
EQUITY GAPS (in percentage points)	Underserved Students of Color		12.0	12.2	10.5	11.1	10.5	12.4	0.0
	Pell Grant Recipients		10.0	10.6	9.5	10.2	9.2	10.2	0.0





The CSU convened an advisory committee in 2021 to address these remaining gaps with a specific focus on the following:

- Implement universal adoption of strategies with demonstrated efficacy in improving student retention and graduation;
- Establish campus-based metrics that would assist with accountability and allocation of Graduation Initiative 2025 legislative funding;
- Determine viable strategies to more aggressively close equity gaps, with targeted campus-by-campus analysis and adaptation; and
- Disseminate and review progress reports for the system and campuses to guide future areas of focus.

The committee submitted a report in July 2021 with a set of recommendations and strategic imperatives to address equity gaps and the CSU subsequently adopted five recommendations:

- (1) Reengage and reenroll underserved students such as students of color, Pell Grant recipients, and first-generation students
- (2) Expand credit opportunities with summer/intersession
- (3) Ensure “equitable access” to digital degree planners that help students navigate the registration process, select core courses, and stay on track for timely graduation
- (4) Eliminate administrative barriers to graduation such as fee assessments, registration holds, and cumbersome processes.
- (5) Promote “equitable learning practices” and reduce non-passing (D-F-Withdraw) rates and providing opportunities for additional learning when needed

To launch each of these five efforts, the CSU has annually reallocated and reshuffled existing resources to begin more focused work in each area. Within its system wide request, CSU indicates that it will support these five recommendations with its base budget increase.

Labor and Employee Relations at CSU. About 90 percent of CSU's employees are represented by a union. The largest unions are the California Faculty Association, which comprises about half of CSU's salary pool, and the California State University Employees Union, which represents support staff and comprises about one-quarter of CSU's salary pool. Whereas the Legislature ratifies collective bargaining agreements for most represented state employees, state law authorizes the CSU Board of Trustees to ratify collective bargaining agreements for CSU's employees. These collective bargaining agreements determine salary increases for represented employees. The agreements also often indirectly drive salary increases for the remaining 10 percent of CSU employees (primarily consisting of managers and executives) who are not represented by a union.

On December 20, 2021, CSU and the California Faculty Association (CFA) reached a tentative agreement on a successor contract. The agreement covers the 29,000 instructional faculty, coaches, librarians and counselors across the 23 CSU campuses and, upon ratification by the CSU Board of Trustees and CFA membership, will run through June 30, 2024. The agreement calls for faculty to receive the following: 1) A one-time payment of \$3,500, prorated by each faculty member's 2020-21 time-base, 2) a four percent general salary increase (GSI), retroactive to July 1, 2021, 3) up to a four percent GSI, effective July 1, 2022, dependent on the state budget allocation to the CSU, 4) a 2.65 percent service salary increase (SSI) during fiscal years 2021-22 and 2023-24 for all eligible faculty, including coaches, counselors and librarians and 5) a 2.65 percent post-promotion increase (PPI) during fiscal year 2022-23 for eligible faculty, including coaches, counselors and librarians. Separately, in December 2021, the CSU also initiated a faculty employee salary study, with results to be released in the Spring 2023.

Additionally, the 2021 Budget Act provided \$2 million one-time General Fund to the CSU Chancellor's Office, in consultation with the Department of Finance's Office of State Audits and Evaluations, to support a study on CSU non-faculty salary structure, salary inversion and to provide any recommendations for alternative salary models. The CSU was directed report to the Department of Finance and the Legislature by April 30, 2022 on the findings and recommendations. Moreover, budget bill language stated the intent of the Legislature that the recommendations and transitional and ongoing cost information from the evaluation will be incorporated into the CSU annual budget request. In July and August of 2021, CSUEU (CSEA SEIU 2579) and the Teamsters served on the CSU Request for Proposal Committee to select an independent research firm to perform the Salary Study, ultimately selecting Mercer due to their experience, capacity, and ability to work on labor- management partnerships. Mercer began work in November 2021. In December 2021, Mercer conducted extensive focus groups to develop their recommendations, receiving input from over 5,000 employees in the staff bargaining units. The study was completed in Spring 2022 and Mercer determined that the CSU's wage structure issues can be addressed through a \$288 million ongoing budget augmentation. The amounts needed to implement the studies' recommendations were not covered with CSU's base increase in 2022-23 and is not part of CSU's request or proposed use of funds for 2023-24. Most recently, CSUEU and CSU re-opened bargaining over wages as permitted by the current MOU. Overall, CSU indicates that additional, ongoing funding beyond the amount requested in their plan is require to implement any cost-creating recommendations of either study.

CSU Financial Aid. According to CSU, 81 percent of all students receive financial aid and 60.5 percent of all enrolled undergraduate students receive non-loan aid to cover the full cost of tuition. Since 2011-12, tuition rates have remained relatively constant with an increase of \$270 in 2017-18 to support the first year of funding dedicated to Graduation Initiative 2025. The CSU systemwide tuition is \$5,742 per year for a resident undergraduate student. In addition to the systemwide tuition, each campus also

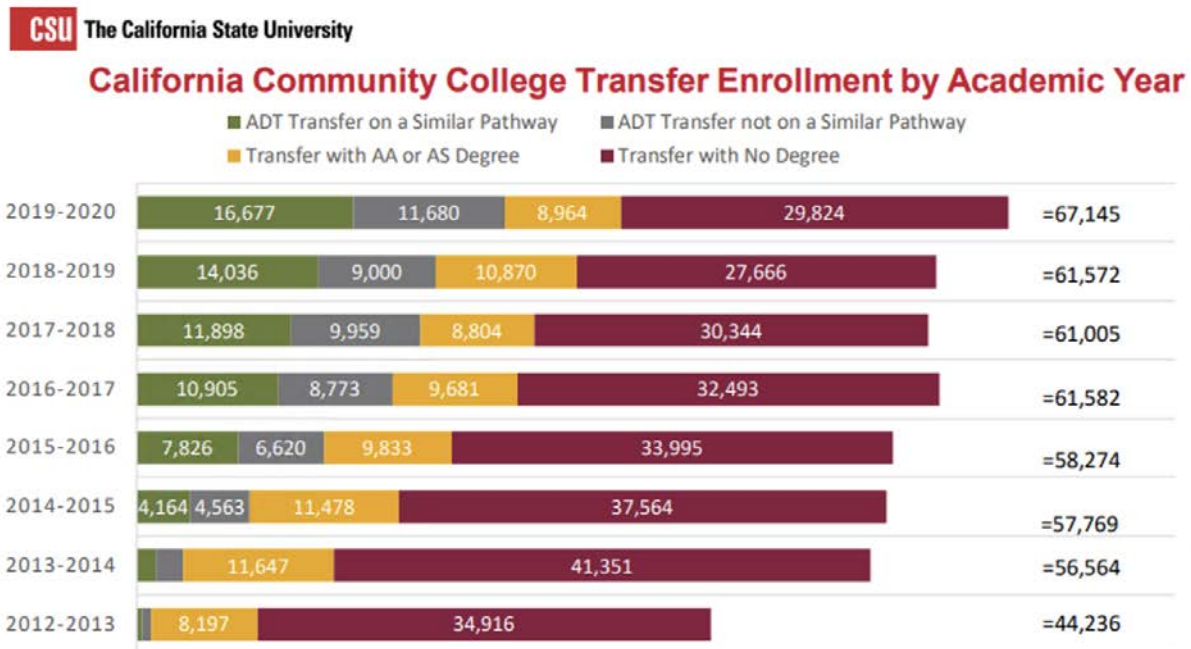
charges mandatory campus-based fees, which on average is \$1,697. The CSU tuition and fee average is \$7,439.

The CSU currently provides nearly \$945 million of institutional aid, which includes \$701 million for the State University Grant (SUG) program. According to CSU, over 140,000 students received a SUG award in 2020-21. An additional \$821 million from the state Cal Grant program and over \$1 billion from the federal Pell Grant program help CSU undergraduate students cover tuition, fees, and some personal expenses. These CSU, state, and federal financial aid programs help defray the cost of attendance for the lowest-income students and keep CSU student debt well below the national average. In 2020-21, CSU baccalaureate degree recipients have lower average debt (\$17,966) than other students in California (\$21,125) compared to the 2019-20 national average (\$28,950).

CSU Transfer and Associate Degree for Transfer (ADT). There are currently multiple paths a student may take to transfer to a CSU, such as through an ADT, associate degree, or transfer after earning a few credits, or earning enough credits to reach junior standing and transfer. Navigating the numerous transfer pathways, including the different admission requirements, general education and major requirements, which vary across systems and campuses, often created confusion and barriers for a students' academic success. In an effort to create clearer pathways from California Community Colleges (CCC) to CSU, SB 440 (Padilla), Chapter 428, Statutes of 2010, and SB 1440 (Padilla), Chapter 20, Statutes of 2013, established the ADT at the CCC.

A CCC student earns an ADT after completing 60 transferable coursework, including a minimum of 18 units in a major or area of emphasis and either 39 or 42 units of general education. Existing law requires the CSU to guarantee admission with junior status to CCC students who earns an ADT and has at least 2.0 GPA. Junior status means that a student can complete their bachelor's degree within two years of transferring. CSU is also required to grant ADT students priority admission over all other community college transfer students. While a student is guaranteed admission, some CSU campuses and programs are impacted and cannot offer a slot to every eligible applicant. Statute specifies that the ADT does not guarantee admission for a specific major or campus. CSU is instead required to grant student priority admission to their local CSU campus, and a program or major that is similar to their CCC major and area of concentration. The determination of which ADT programs are "similar" is left to the discretion of CSU campuses. Moreover, statute requires CSU to redirect students who complete ADTs but are denied admission to the campus they applied to another CSU campus with available capacity. Statute also requires CSU to annually report by December 1st the number of students admitted with an ADT, the proportion of ADT students who graduate from CSU within two or three years, number of ADT student who were redirected, and enrolled.

On January 26, 2021, the CSU Board of Trustees Committee on Education heard an update on the ADT. The Board agenda item notes that there are currently 40 ADT pathways and all community colleges (except Calbright College) offers an ADT program. CSU notes that when reviewing the major preferences of students transferring from a CCC to a CSU, these pathways account for 90 percent of their preferred majors. The CSU notes that the top CSU majors of ADT transfer students are psychology with almost 3,000 students, followed by business administration, sociology and criminal justice. As shown on the display below, in 2019-20, more than 28,000 new transfer students enrolled at the CSU having first earned an ADT, this is about five percentage points over the prior academic year. Since 2012, students transferring with an ADT grew from three percent to about 42 percent. While the number of ADTs and transfer students have grown over the last several years, about 41.2 percent of new ADT transfers were enrolled in a pathway not similar to their ADT.



CSU also notes that 55 percent of ADT students who transferred into a similar pathway in fall of 2018 were able to graduate in two years. This compares to about 47 percent of ADT students enrolled in a not similar pathway and 40 percent of students who had no degree or an AA degree.

While the number of students who have transferred over the decade increased, the Campaign for College Opportunity's recent report, *10 Years After Historic Transfer Reform – How Far Have We Come and Where Do We Need to Go?*, noted that share of ADT transfers on a similar path upon enrollment varies greatly across the CSU campuses. For example, just 11 percent of Pomona's, 12 percent of San Luis Obispo's and 13 percent of Humboldt's new transfer students were enrolled in a similar pathway compared to 43 percent of Fullerton's, 29 percent of San Diego's and 30 percent of Long Beach's new transfer students. A majority of CSU campuses have less than 25 percent of their transfer students on an ADT similar pathway.

Legislative Analyst's Office (LAO) Comments and Recommendations

LAO Assessment: *Unrestricted Base Increase Lacks Transparency and Accountability.* The Governor's proposed unrestricted base increase for CSU lacks transparency, as the funds are not designated for particular purposes. CSU has added some transparency to the Governor's proposal by providing a spending plan, thereby allowing the Legislature to consider whether the funds would likely be used in ways that align with its priorities. Unlike with other types of augmentations, however, no statutory language requires CSU to spend the base increase consistent with its initial plan. As a result, the Legislature does not have assurance that the funds will be spent in ways that advance the outcomes it desires. While some amount of spending discretion can be appropriate when the state has put in place accountability systems with clear fiscal incentives for performance (such as the Student Centered Funding Formula for community colleges), the state has not put these conditions in place for CSU. Despite the performance expectations included in the Governor's compact, no clear mechanism exists to increase or decrease CSU's funding in response to its outcomes.

LAO Assessment: *Amount of Governor's Proposed Base Increase Is Arbitrary.* The amount of the proposed 2023-24 base increase was determined in an agreement made between the Governor and CSU, without being codified by the Legislature. At the time of the initial agreement, the Governor did not provide clear justification for the proposed amount based on CSU's identified operating costs. Moreover, since the initial agreement was made last year, new information has become available on CSU's cost increases as well as the state budget condition. The LAO believes these factors warrant revisiting the amount of General Fund augmentation proposed for CSU in 2023-24.

LAO Assessment: *Proposed General Fund Augmentation Does Not Fully Cover CSU's Projected Cost Increases.* Under the Governor's proposed General Fund augmentation of \$227 million, some of CSU's projected operating cost increases would not be covered in 2023-24. For example, CSU's associated spending plan for the proposed base increase does not include funding for projected cost increases due to inflation on OE&E. CSU's spending plan also does not provide any funding for projects to address the system's large and growing capital renewal needs. Under the multiyear compact, CSU would likely continue to have unaddressed costs in the out-years and the Governor's proposed General Fund increases would fall short of covering CSU's projected operating cost increases every year through 2026-27.

LAO Assessment: *CSU Is Likely to Face Heightened Salary Cost Pressures.* Notably, CSU's spending plan for the proposed \$227 million base increase in 2023-24 accommodates a less than two percent increase to its compensation pool. CSU, however, faces significant upward pressure on employee compensation. Over the past year, both inflation and wage growth (across the nation and in California) were at their highest levels in several decades. Furthermore, inflation and broad-based wage growth are expected to exceed two percent in 2023. Two employee compensation studies are also likely to contribute to salary cost pressures at CSU. The Budget Act of 2021 provided funding for a staff salary structure study, which was submitted to the Legislature in spring 2022. The study found wage stagnation at CSU relative to other higher education and general industry employers, with CSU salaries falling 12 percent below the market median on average. (The study did not examine differences in employee benefits.) In addition to the staff salary study, CSU has initiated a study focused on faculty salaries. It expects the findings of the faculty salary study to be available in spring 2023, in time to inform the Legislature's final budget deliberations.

LAO Recommendation: *Link CSU's General Fund Augmentation to Spending Priorities.* Rather than give CSU an unrestricted base increase, the LAO recommends that the Legislature determine which of CSU's potential operating cost increases it wishes to support in 2023-24 and then provide associated funding designated for those particular purposes. For example, with the same total ongoing funding increase that the Governor proposes for CSU (\$227 million), the Legislature could fund a three percent increase in CSU's employee compensation pool (\$157 million), projected employee health benefit increases (\$51 million), and some capital renewal projects (\$20 million). The Legislature also could provide more or less than the Governor's proposed amount, depending on its priorities and the state's budget capacity. For example, if the Legislature wishes to support additional employee compensation increases, CSU estimates every one percent increase in the compensation pool would cost \$52 million.

LAO Recommendation: *Consider Expanding Budget Capacity at CSU Through Tuition Increases.* Given that the Governor's proposed General Fund increases fall short of covering CSU's projected operating cost increases every year of the compact period, the Legislature could consider supporting tuition increases at CSU. Pursuing tuition increases in 2023-24 would require CSU to take quick action over the next few months, including calling a special meeting of the Board of Trustees in the first half of May. Pursuing tuition increases in 2024-25 would allow greater time for student consultation and public notification. CSU recently indicated that it does not intend to pursue a tuition

increase in 2023-24 and has not yet made a determination for 2024-25. CSU estimates that a 5 percent increase in systemwide tuition charges for all students would generate \$83 million in net tuition revenue, as well as \$42 million in additional funding for institutional financial aid. If the tuition increase were applied to the incoming student cohort only (similar to the model recently adopted by UC), additional revenue would be significantly lower in the first year but increase over the next several years. Under both models, students who receive tuition coverage through either the state's Cal Grant program or CSU's institutional financial aid program would not face higher costs. The state, however, would see higher Cal Grant costs. The LAO estimates that Cal Grant costs would increase by approximately \$30 million ongoing if a five percent tuition increase were applied to all students, or by a smaller but growing amount if the tuition increase were applied to the incoming cohort only.

Suggested Questions

Base Increase and Cost Pressures

- Please walk the committee through its planned uses with the proposed base increase.
- Are the compensation costs associated with the implementation of a salary step study recommendations for non-faculty staff and a CFA agreement from December 2021 covered by the Governor's proposed base increase? If not, how much of those agreements will be covered by the base increase?
- Are inflationary costs covered by this base increase? If not, what is the estimated shortfall due to inflation?
- Please provide an update on bargaining units. When are the next contracts up and what are the cost increases associated with each unit's current contract?

Graduation Initiative 2025

- What is CSU doing to close equity gaps as part of its GI 2025? How will decline in enrollment impact GI 2025 goals? Are there any remaining, unfunded actions that CSU hopes to take before 2025 to hit its goals?
- The total amount requested by CSU in 2023-24 for GI 2025 is less than the amount that would be covered in the Governor's base budget increase. If only a base budget increase, and no additional amount above this base increase, is included in the final budget agreement, then how does this impact CSU's plan to implement its initiatives?
- The Budget Act of 2022 included \$35 million General Fund ongoing for CSU's Graduation Initiative 2025. How were these funds allocated and used by the campuses?

Staff Recommendation. Hold Open.

Issue 1B: State of CSU: Resident Enrollment**Panel**

- Jolene Koester, Interim Chancellor, California State University
- Ryan Storm, California State University
- Nathan Evans, California State University
- Jennifer Louie, Department of Finance
- Lisa Qing, Legislative Analyst's Office

Governor's Budget Proposals

Enrollment Funding in 2023-24. As part of the multiyear compact established between the Governor and CSU, CSU is to cover the cost of one percent resident enrollment growth (3,434 FTE students) in 2023-24 from the \$227.3 million base increase proposed in the Governor's budget.

Enrollment Growth Expectation beyond 2023-24. The Governor also expects CSU to continue increasing resident undergraduate enrollment by one percent annually through 2026-27 (the last year of the compact). The compact does not specify the number of students CSU is to enroll each year, but it sets forth that CSU is to add approximately 14,000 FTE students in total over the next four years. Rather than provide designated funding for this enrollment growth, the Governor expects CSU to cover the associated cost from within its base increase each year.

Background

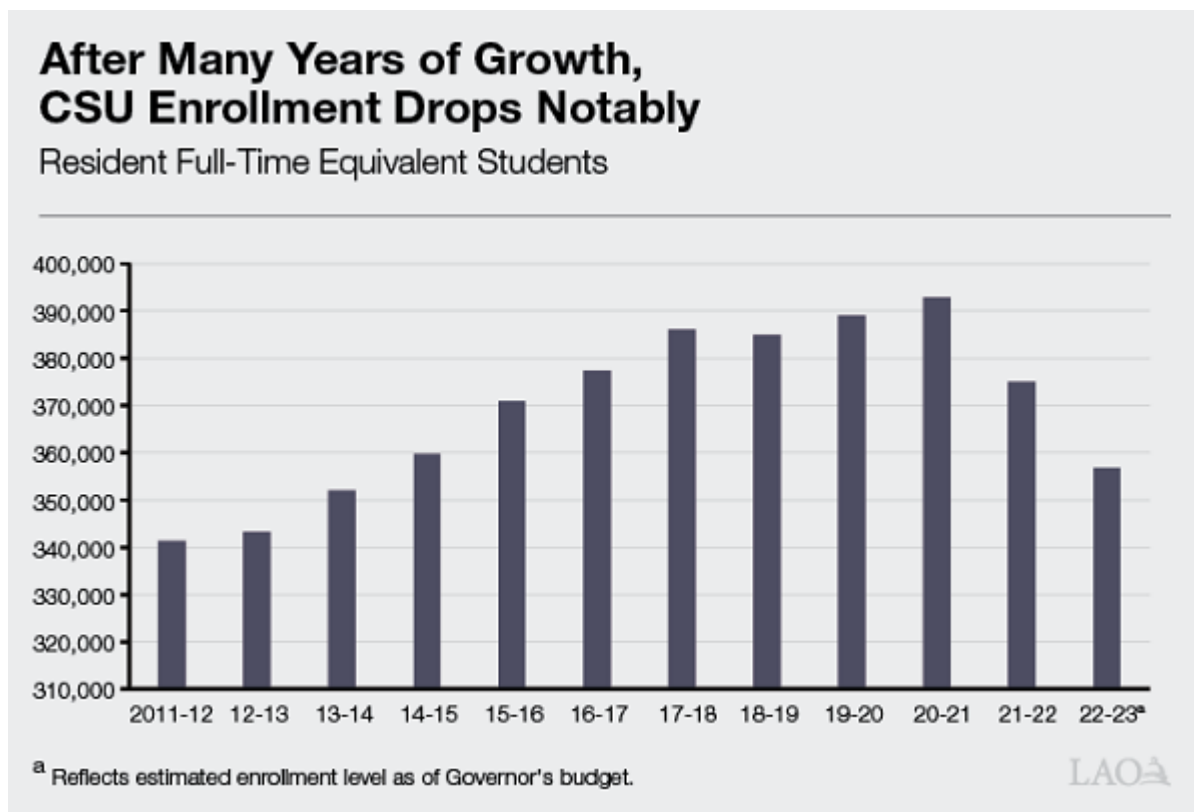
Most CSU Students Are Resident Undergraduates. About 85 percent of CSU's students are resident undergraduates. Undergraduates may enter CSU either as freshmen or as transfer students. Historically, roughly half of CSU's incoming class each year has consisted of freshmen, and the other half has consisted of transfer students. In addition to resident undergraduates, CSU also enrolls resident postbaccalaureate and graduate students (comprising about 10 percent of its students) as well as nonresident students (comprising about 5 percent of its students).

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 historically applied to all resident students, but in recent years the state has applied them to resident undergraduates only. In addition, whereas the state historically set growth expectations for the budget year, some recent budgets have set an expectation for the following year. This approach of setting expectations one year in advance gives campuses more time to plan for growth, particularly since campuses make most of their admissions decisions for any given year before the budget is enacted in June.

State Typically Funds Enrollment Growth According to Per-Student Formula. Typically, the state supports enrollment growth at CSU by providing a General Fund augmentation based on the number of additional students CSU is to enroll. The per-student funding rate is derived using a "marginal cost" formula. This formula estimates the cost of the additional faculty, support services, and other resources required to serve each additional student. It then shares those costs between state General Fund and anticipated tuition revenue.

Last Year's Budget Provided Enrollment Growth Funding for 2022-23. The Budget Act of 2021 included legislative intent to provide ongoing resources in 2022-23 to enroll 9,434 new resident undergraduates in 2022-23 and noted \$81 million ongoing General Fund for this purpose. The Budget Act of 2022 upheld this agreement by providing \$81 million General Fund in 2022-23 and ongoing for CSU to grow resident undergraduate enrollment by 9,434 FTE students from 2021–22 to 2022–23. The funding level was calculated at the 2021-22 marginal cost per student of \$13,087, with a state share of \$8,586. (The state used the 2021-22 rate because it had originally signaled its enrollment growth expectation that year, providing CSU more time to plan for growth.) Should CSU not meet the enrollment target, provisional language in the Budget Act of 2022 directed the Administration to reduce the enrollment growth funding in proportion to the shortfall.

CSU Enrollment Continues to Decline in 2022-23. As the figure from the LAO below shows, CSU enrollment increased over much of the past decade, growing at an average annual rate of 1.6 percent from 2011-12 through 2020-21. CSU enrollment peaked in 2020-21 at 392,793 resident FTE students. In the past two years, enrollment has decreased notably. In 2021-22, enrollment decreased by 17,820 resident FTE students (4.5 percent) from the previous year. Though 2022-23 enrollment data are not yet finalized, preliminary estimates show enrollment decreasing by an additional 18,125 resident FTE students (4.8 percent)—bringing enrollment down to 356,848 resident FTE students.



Increase in New Freshmen Is Offset by Larger Drop in New Transfer Students. In fall 2022, the number of new resident freshmen enrolling at CSU increased 8.6 percent over the previous year. This rebound brings the number of new freshmen closer to pre-pandemic levels. However, the increase in new freshmen was more than offset by a 12 percent decrease in incoming transfer students. The steep decrease in transfer students is linked to community college enrollment declines, which accelerated at the start of the pandemic.

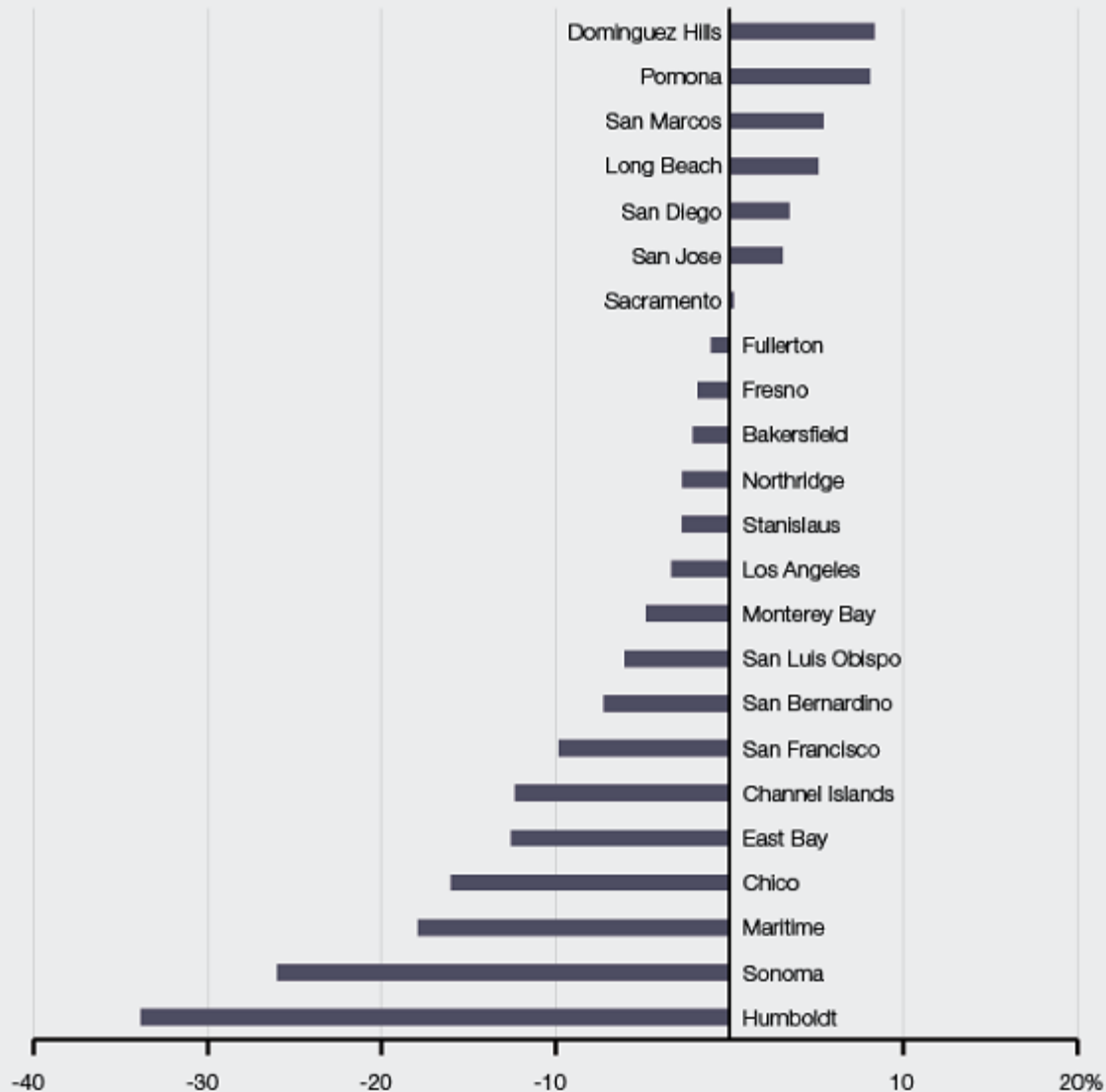
Despite the enrollment decreases and associated provisional language directing the Administration to reduce the enrollment growth funding in proportion to the shortfall, the Administration is not proposing to make any associated funding reduction.

Continuing Student Enrollment Is Also Down. Continuing resident undergraduates declined by 5.1 percent from fall 2021 to fall 2022. Several factors are contributing to the enrollment decline among continuing students. First, CSU enrolled a smaller-than-usual incoming cohort in fall 2021, translating to fewer continuing students in fall 2022. Second, retention rates have generally decreased over the past couple of years. The percent of freshmen who return in their second year, for example, decreased from 85 percent for the fall 2019 incoming cohort to 82 percent for the fall 2021 incoming cohort. Third, average unit load among continuing undergraduates has also decreased over the past couple of years, from 13.3 units in fall 2020 to 12.9 units in fall 2022. The reduction in unit load is leading FTE students to decrease even faster than the headcounts shown in the figure.

Recent Enrollment Trends Have Varied Among Campuses. As the figure from the LAO below shows, enrollment trends varied widely among campuses over the past five years. From 2017-18 through 2021-22, the cumulative change in resident FTE students ranged from an 8.3 percent increase (at Dominguez Hills) to a 34 percent decrease (at Humboldt). In general, the campuses experiencing the most growth were concentrated in Southern California and the campuses experiencing the steepest declines were concentrated in Northern California. While campus-level data are not yet available for 2022-23, nearly all campuses (except San Diego, Humboldt, and San Bernardino) saw a decline in resident student headcount in the fall 2022 term.

Enrollment Trends Vary Among Campuses

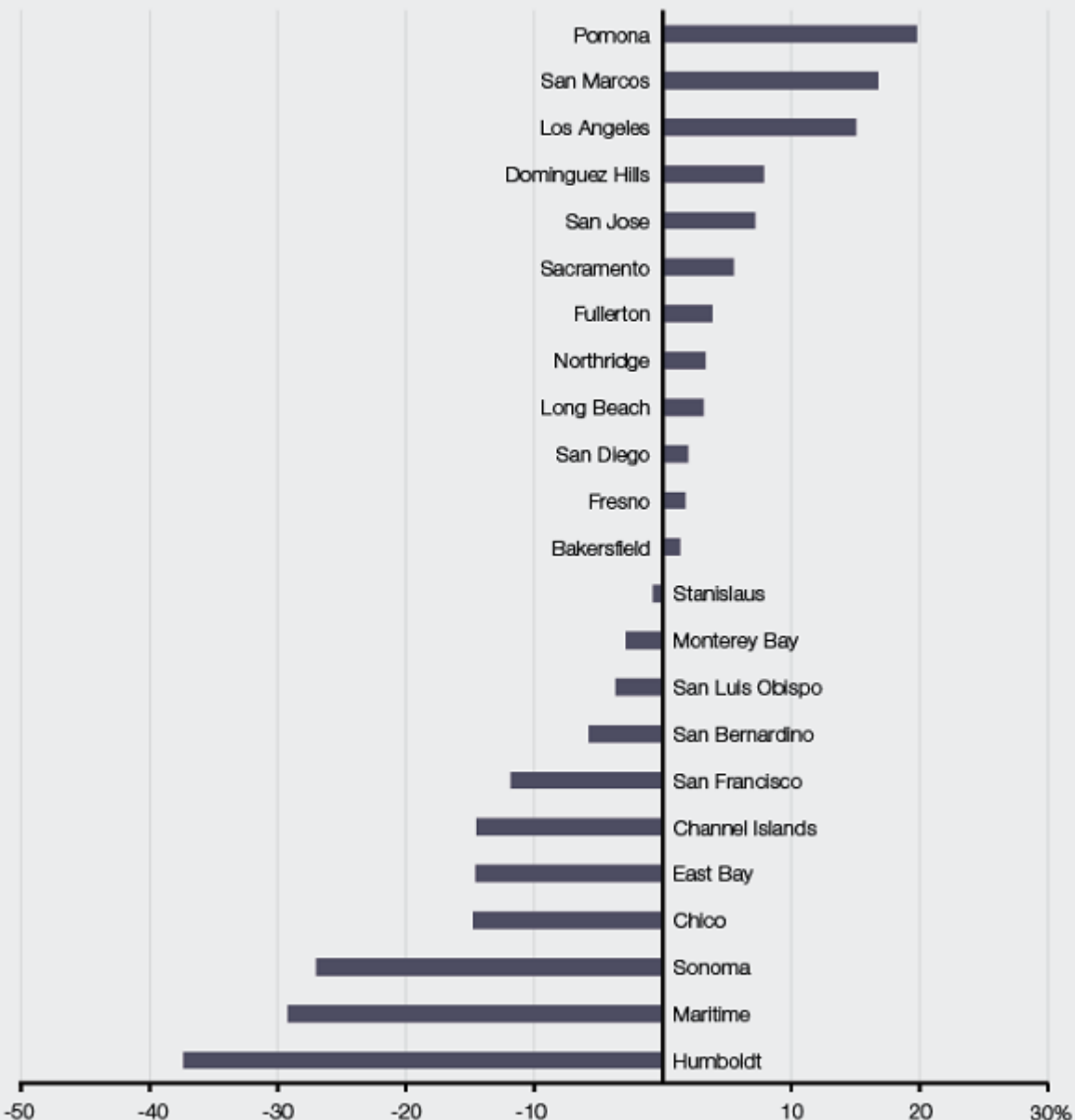
Cumulative Percent Change in Resident Full-Time Equivalent Students, 2017-18 to 2021-22



Some Campuses Are Below Their Enrollment Target. Over the years, CSU has tracked a running total of systemwide enrollment growth expectations, which it refers to as its enrollment target. It also tracks enrollment targets for each campus, reflecting that campus's share of the system's enrollment target and associated funding. In any given year, there is some variation between a campus's actual enrollment level and its enrollment target. This is because campuses cannot perfectly predict yield rates, retention rates, and other aspects of student behavior. In 2021-22, the figure from LAO shows, about half of campuses were above their target, while the other half were below. Seven campuses were more than 10 percent below their enrollment target.

Some Campuses Are Above Target, While Others Are Below

Actual Resident Full-Time Equivalent Students Relative to Target, 2021-22



CSU Intends to Recover Enrollment Over Multiyear Period. In its fall 2022 compact progress report, CSU calculated its baseline 2022-23 enrollment target by adding the *Budget Act of 2022* expectation (an additional 9,434 resident undergraduate FTE students) to the previous systemwide enrollment target it had been tracking over time. To set the enrollment target for 2023-24, it further added 3,434 resident

undergraduate FTE students to this level. (Consistent with the compact, CSU assumes no growth in resident postbaccalaureate or graduate students.) As the below figure shows, this approach leads to an enrollment target of 387,114 resident FTE students in 2023-24, growing to 397,623 resident FTE students by 2026-27. Because of CSU's current-year enrollment declines, it would need to grow faster than one percent annually (as originally proposed in the compact) to reach these targets. CSU is planning to grow enrollment by two percent in 2023-24, followed by an additional three percent annually in the out-years. Under this plan, CSU effectively would catch up to its enrollment target by the last year of the compact.

Figure: Under CSU's Plan, Enrollment Would Recover Over Multiyear Period (*Resident Full-Time Equivalent Students*)

	2022-23	2023-24	2024-25	2025-26	2026-27
Compact Expectations for Enrollment Growth					
Enrollment target under compact	383,680 (Baseline)	387,114	390,582	394,085	397,623
Annual percentage growth under compact		1%	1%	1%	1%
CSU Plan to Meet Growth Target					
CSU's planned enrollment level	356,848 ^a	364,140	375,064	386,316	397,906
Annual planned percentage growth		2%	3%	3%	3%
CSU's planned enrollment relative to compact target	-7%	-6%	-4%	-2%	— ^b
^a Reflects CSU's estimated enrollment level as of Governor's budget.					
^b In 2026-27, CSU plans to slightly exceed the enrollment target under the compact (0.1 percent higher).					

CSU Would Set Aside Funds From Its 2023-24 Base Increase for Enrollment Growth. Under CSU's spending plan for the Governor's proposed \$227.3 million General Fund base increase (discussed in Issue 1), \$35 million would be used for enrollment growth. CSU indicates it would allocate these funds to campuses that are at or above their target in 2022-23, with the specific allocations to be determined after 2022-23 enrollment data are finalized. (CSU also anticipates generating \$16 million in tuition revenue from enrollment growth and allocating these funds in the same way.)

In 2024-25, CSU Plans to Begin Reallocating Enrollment Funding Among Campuses. For many years, CSU has allowed campuses that miss their enrollment target to keep the associated funding. As part of its efforts to attain systemwide enrollment growth, CSU recently developed a plan to begin reallocating enrollment funding from campuses below their target. In 2024-25, if a campus is 10 percent or more below its enrollment target in the previous year, CSU will reallocate five percent of the campus's target and the associated funding to campuses at or above their target. CSU will reallocate another five percent in 2025-26 for campuses seven percent or more below their target in the previous year, as well as another five percent in 2026-27 for campuses five percent or more below their target in the previous year. This plan is intended to incentivize all campuses to grow, while potentially also adding capacity at the highest-demand campuses.

LAO Comments and Recommendations

LAO Assessment: 2022-23 Enrollment Growth Funds Are Not Serving Intended Purpose. The \$81 million ongoing General Fund provided in 2022-23 was intended to support costs associated with adding students, such as hiring more faculty and staff. Based on fall term data, most CSU campuses are likely to experience enrollment declines in 2022-23, such that they are not expected to incur these additional costs. By allowing CSU to retain the enrollment growth funding, the Governor is effectively allowing it to use the funding for purposes other than the original intent.

LAO Assessment: Some Early Signs Suggest Enrollment Challenges Are Likely to Persist Into 2023-24. While the 2023-24 admissions cycle remains in its early stages, several early indicators suggest that growth could be challenging.

- ***High School Graduates.*** The number of high school graduates in California is projected to be roughly flat in 2022-23 compared to the previous year. As a result, we do not expect to see demographically driven growth in the incoming freshmen class for fall 2023.
- ***New Applicants.*** As of January 2023, CSU reports a modest (3.1 percent) increase in freshmen applicants for fall 2023 compared to the previous year. However, this is offset by a larger (11 percent) decrease in transfer applicants, reflecting the continued impact of community enrollment declines on CSU's transfer pipeline.
- ***Continuing Cohorts.*** In the past couple of years, CSU has enrolled smaller cohorts of new students. New resident student headcount decreased by 6.8 percent compared to the previous year in fall 2021, and then decreased an additional 1.6 percent in fall 2022. These smaller cohorts will remain at CSU in 2023-24, leading to smaller cohorts of continuing students.

LAO Assessment: Legislature Has More Time to Influence 2024-25 Enrollment. As CSU is already in the midst of making 2023-24 enrollment decisions, the Legislature has less ability to influence its enrollment level in the budget year. The Legislature could, however, send an early signal to campuses about its enrollment expectations for 2024-25. In setting an enrollment target for 2024-25, it would likely want to consider the trends described above. The number of high school graduates next year is projected to increase by 0.6 percent, allowing for some demographically driven growth among new students in 2024-25. However, the smaller incoming cohorts from the past couple of years will still be enrolled, potentially leading continuing student enrollment to remain low. At this time, other factors such as application volume, retention rates, and average unit load are uncertain for 2024-25.

LAO Assessment: CSU Is Taking Certain Actions to Increase Enrollment. While various factors are likely to create enrollment challenges in the coming years, CSU is also taking certain actions that could offset those effects. For example, if CSU continues to remove stricter admissions criteria from previously impacted campuses or programs, yield rates might increase as more students get into their campus of choice. In addition, given the incentives created under CSU's new enrollment reallocation plan, campuses might pursue additional recruitment and retention strategies. The potential reallocation of unused enrollment slots to higher-demand campuses might also expand the number of students served systemwide in the out-years.

LAO Assessment: Under CSU's Plan, Enrollment Would Remain Below Previously Funded Levels in 2023-24 and 2024-25. The rates of enrollment growth under CSU's plan (two percent to three percent annually) are relatively high compared to historical averages. For comparison, CSU grew at an average annual rate of 1.6 percent during the decade of growth preceding the pandemic. Nonetheless, even if CSU were to achieve the planned growth, its enrollment level would remain below the previously funded level (that is, the 2022-23 enrollment target of 383,680 resident FTE students) in both 2023-24

and 2024-25. This suggests CSU could support its planned enrollment levels in these years within existing resources.

LAO Recommendations: *Consider Reducing 2022-23 Enrollment Growth Funds as Budget Solution.* The LAO recommends that the Legislature plan for the risk of a larger budget problem by developing a larger set of potential budget solutions than the Governor has proposed. Given the 2022-23 enrollment growth funds provided to CSU are not serving their intended purpose, the Legislature could consider adding these funds (\$81 million) to the set of potential budget solutions. Removing these funds also would align with the provisional language enacted in the Budget Act of 2022.

LAO Recommendations: *Recommend Setting 2023-24 Enrollment Target in Budget Act.* The LAO recommends that the Legislature specify the total number of students it expects CSU to enroll in 2023-24 in the Budget Act of 2023. This would enhance accountability by providing a clear goal against which CSU's actual enrollment level can be measured. In deciding upon a target, the Legislature could use CSU's planned enrollment level of 364,140 resident FTE students as a starting point. It could choose to increase or decrease this target based on the factors described above. As long as the target remains below the previously funded level (383,680 resident FTE students), we do not recommend providing any new enrollment growth funding.

LAO Recommendations: *Recommend Also Signaling Enrollment Growth Intentions for 2024-25.* Given the timing of the admissions cycle, the LAO recommends that the Legislature also signal any intent for additional enrollment growth in 2024-25 in the Budget Act of 2023. The augmentation, if warranted, could be provided in the 2024-25 budget to align the timing of the funding with the arrival of the students.

Suggested Questions

- Why has enrollment sharply declined in 2022?
- The Governor's budget provides base funding for 2023-24 with the expectation of one percent enrollment growth to be funded out of that base increase. In light of the continued enrollment declines, is CSU confident that it will reach this target? Why or why not?
- Where is CSU enrollment in relation to the 2022 Budget Act: "Of the funds appropriated in this item, \$81,000,000 shall be for resident undergraduate enrollment growth of 9,434 additional full-time equivalent students from 2021–22 to 2022–23." If CSU is going to fall short, then by how much will it fall short?
- Please describe CSU's enrollment plan for the next few years. Is CSU confident that it will hit their targets?

Staff Recommendation. Hold Open.

Issue 1C: State of CSU: Student Housing Updates**Panel**

- Jolene Koester, Interim Chancellor, California State University
- Vi San Juan, California State University
- Chris Ferguson, Department of Finance
- Lisa Qing, Legislative Analyst's Office

Background

California's housing crisis threatens the state's higher education goals of increasing access and improving affordability. For most students, housing costs are higher than tuition. Despite a significant recent student housing building boom at both the University of California (UC) and California State University (CSU), many campuses report waiting lists for on-campus housing, and students struggle to find affordable and safe off-campus options. Campus housing programs, which suffered losses during the COVID-19 pandemic, are struggling to fund new construction or renovation projects that keep student costs down and address local government and neighborhood concerns.

The need for more student housing on or around campuses is clear:

- Homelessness is prevalent across California's three higher education segments, with 1 in 20 students at UC, 1 in 10 students at CSU, and 1 in 5 students at California Community Colleges (CCC) reporting experiencing homelessness at some point during the academic year. Even more students experience some form of housing insecurity. For example, 16 percent of UC students in 2020 reported sleeping in nontraditional housing arrangements (such as a hotel, transitional housing, or outdoor location) because they lacked permanent housing.
- Affordable, on-campus housing is a benefit to students. A report to the CSU Board of Trustees in July 2020 noted that research across college campuses nationally and within the CSU suggest that students living on campus have higher grade point averages and lower academic probation rates, higher retention and graduation rates, and shorter time to graduation than their off-campus peers.
- Insufficient student housing can hinder campuses' ability to increase enrollment and serve more Californians. Both UC Davis and UC Santa Cruz, for example, have agreements with local governments that limit increased enrollment unless housing is added to accommodate that growth. CSU Humboldt has launched a plan to become a polytechnic university and more than double its student body in the next decade, but campus officials note that on-campus housing must be built before dramatically increasing enrollment. The local housing market cannot accommodate thousands of new students.

Historically, student housing has rarely been a discussion point for the education subcommittee, as the state does not traditionally support housing costs and has left campuses and the systems to develop and support their own housing programs, supported by student rent. Given the state's housing crisis, however, that is changing. In urban areas, local market rental rates – among the highest in the country - are forcing students to pack into apartments or homes, and in rural areas, many campuses do not have enough local housing to accommodate current or future enrollment levels.

Higher Education Student Housing Grant Program, and Capacity Expansion Grant Program (2021). SB 169 (Committee on Budget and Fiscal Review), Chapter 262, Statutes of 2021, created two new programs to support affordable student housing at the UC, CSU and CCC, and campus expansion projects at UC and CSU. SB 169 appropriated \$500 million one-time General Fund in 2021-22 for student housing projects and included legislative intent to provide \$750 million in 2022-23 and \$750 million in 2023-24 for this purpose. These appropriations have the following proportions by segment: 50 percent to CCC, 30 percent to CSU, and 20 percent to UC. The law created a process for campuses to propose housing projects by October 2021 for inclusion in the subsequent budget act. The law also created the campus expansion program with legislative intent language to provide funding for this program in the future. Of the total \$2 billion one-time General Fund for the Higher Education Student Housing Grant program in 2021-22, \$25 million was specifically available for CCC planning grants for student housing.

On March 1, 2022, DOF provided the Joint Legislative Budget Committee a list of projects proposed to be funded with the 2021-22 appropriation and documented their overall application process to the Legislature in budget subcommittee hearings. DOF's proposed list of projects totaled \$488 million for the first round of funding. DOF received 115 applications for the first round of funding, consisting of 73 planning grant applications and 42 construction grant applications. The applications in total requested \$3 billion in grant funding, surpassing both the \$500 million designated for the first round and the \$2 billion designated for all three funding rounds combined. Short- and long-term solutions through the Budget Act of 2022 remedied this oversubscription problem.

Higher Education Student Housing Actions (2022). To address oversubscription issues with the grant program, the Budget Act of 2022 included an additional \$2 billion General Fund for student housing projects across the UC, CSU, and CCC. This augmentation raised the total amount of student housing funding over fiscal years 2021-22 to 2024-25 from \$2 billion to \$4 billion General Fund. Of the additional amount included in the new budget agreement, \$200 million was scored to 2021-22, \$900 million is scored to 2023-24, and \$900 million is scored to 2024-25. Moreover, the budget agreement made the following changes to student housing in trailer bills AB 183 (Committee on Budget), Chapter 54, Statutes of 2022 and AB 190 (Committee on Budget), Chapter 572, Statutes of 2022:

- Approved all UC, CSU, and CCC student housing construction grant projects deemed eligible by the Department of Finance (DOF) from the first round of applications submitted as part of the October 2021 application process. This change is in AB 183 and documented in the next section.
- Appropriated roughly \$1.4 billion General Fund to the Higher Education Student Housing Grant Program to cover the costs of these projects as well as CCC planning grants selected by the DOF in the first year of the Program. This change is also in AB 183 and documented in the next section.
- Changed subsequent rounds of the student housing grant program's application process, including the administrator of the program to allow the higher education segments to nominate projects, incorporating the Legislative Analyst Office's recommendations to address cost overruns, project requirements to have contingency plans, a notification process, and reporting requirements for all projects funded in the first application round and any submitted project proposals in subsequent rounds. This change is in AB 183.
- Established a new California Student Housing Revolving Loan Fund to provide zero-interest loans to qualifying campuses of the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC) for construction of affordable

student, faculty, and staff housing. States that the fund will receive \$1.8 billion in 2023-24 and 2024-25 and creates a process for the California School Finance Authority and the California Educational Facilities Authority to create and receive applications from campuses, and distribute funds. This change is in AB 190.

The state made its first round of student housing grants on July 1, 2022. Roughly \$1.4 billion General Fund to the Higher Education Student Housing Grant Program to cover the costs of these projects as well as CCC planning grants selected by the DOF in the first year of the Program. Projects that DOF determined as eligible were fully funded in their requested amounts while ineligible projects went unfunded. The table below details the CSU campuses that received construction grant awards in the Budget Act of 2022.

Table 1: CSU Affordable Student Housing Construction Grant Awards (\$ in thousands)

	Funding			Beds	
Campus	State	Nonstate		Affordable	Standard
California State University					
San Francisco	\$116,300	\$62,691		750	—
San Marcos	91,000	49,023		390	210
Fullerton	88,900	47,997		390	210
Long Beach	53,300	28,700		403	—
Dominguez Hills	48,750	26,250		238	127
Northridge	37,500	20,248		200	—
Fresno	31,050	16,718		175	—
Humboldt	27,107	14,603		138	—
San Diego ^a	4,554	—		—	—
Subtotals	(\$498,461)	(\$266,230)		(2,684)	(547)

a Reflects one intersegmental project. The budget appropriates half of the project's grant funding to Imperial Valley College and half to CSU San Diego. For display purposes, this table reflects the project's nonstate funds and beds only in the Imperial Valley College row.

CSU Implementation Updates. Grant program guidelines direct the campuses to build funds into the submitted project bids for project contingency, to identify the non-grant fund sources and their respective balances that would be available to cover costs overruns, and to cover any costs above those identified in their application using the non-state funds. To date, CSU has experienced cost overruns for a variety of reasons. For example, CSU states that the unprecedented rise in inflation drove construction costs beyond initial projections. CSU also described rising costs due to contractors attempts to mitigate risk and uncertainty in the supply chain. Because of these two factors, CSU now projects a 14 percent increase (about \$108 million) above initial projections for the projects funded in Table 1.

CSU reported various ways that campuses have considered to address this shortfall. First, campuses requested to fund the budget shortfalls using housing reserves or increasing the amount of CSU debt financing. Additionally, campuses have considered reducing the number of standard rate beds (higher rate than the affordable bed rate). Through this method, the delivery of affordable beds would be prioritized to the extent the financial models can support the reduction in standard bed spaces. A third way is to reduce the square footage of the proposed projects and project amenities. Despite these

strategies to reduce the \$108 million shortfall, CSU stated that \$12 million in state grant funds would assist campuses with the budget shortfall.

CSU Grant Proposals for 2023-24. Table 2 shows the statutory allotments per segment remaining for the Higher Education Student Housing Grant Program. According to updated estimates, \$157 million General Fund in grant funding remains available for CSU.

Table 2: Total and Remaining Affordable Student Housing Construction Grant Awards (\$ in millions)

	Grant Awards				Statutory Allotments	
	Planning ^a	Construction ^a	Total		Total ^b	Remainder
CCC	\$17	\$547	\$564		\$1,109	\$545
CSU	0.3	498	499		655	157
UC	0.3	389	389		437	48
Totals	\$18	\$1,434	\$1,452^c		\$2,202	\$750

^a Awards for intersegmental projects are distributed to each affected segment.

^b As calculated by Department of Finance—first subtracting the planning grant funds, then splitting the construction grant funds 50 percent to CCC, 30 percent to CSU, and 20 percent to UC.

^c Funded from appropriations in 2021-22 (\$700 million) and 2022-23 (\$752 million).

CSU submitted grant application information on February 1, 2023 to the Department of Finance, the LAO, and the budget committees of the Legislature with information for three projects with an associated request of \$149.3 million General Fund (see table below). Though the total project cost is estimated to be \$429.9 million, CSU expects to cover 65 percent of the costs with non-state funding. In addition, a separate letter sent to the Assembly and Senate requested \$7.7 million for construction cost escalation assuming the three projects submitted for 23-24 are approved. If the CSU requests are approved, then there would be no remaining funding from the funds targeted for CSU.

Table 3: CSU Proposed Projects with remaining statutory allotment in Higher Education Student Housing Grant program

Rank	Campus	Total Bed	State Funded Affordable Beds	Standard Beds	Estimated Total Project Amount (\$ in millions)	CSU Funding (\$ in millions)	State Grant Funding Requested (\$ in millions)	Percent of Total Project Amount Covered by Grant Funds (%)
1	Sacramento	285	285	0	\$67.1	\$25.7	\$41.3	65%
2	San José	1007	517	490	333.8	244.7	89.1	27
3	Stanislaus	120	75	45	29	10.1	18.8	65
TOTALS		1412	877	535	429.9	280.5	149.2	35

Governor's Budget

Governor's Budget Delays Timing for Two Student Housing Funding Programs. The Governor's budget proposes to change timing of funding for both student housing grants and the housing revolving loan fund.

As part of a previously adopted multi-year agreement, the state planned to provide \$750 million in 2023-24 for the third year of the Higher Education Student Housing Grant Program. The Governor now proposes to reduce this funding to \$500 million in 2023-24 and shifts \$250 million to 2024-25.

In addition, the Budget Act of 2022 included a total of \$1.8 billion General Fund over two years (\$900 million in 2023-24 and \$900 million in 2024-25) for a new revolving loan program focused on housing. The Governor's budget now proposes delaying all funding in 2023-24, with \$650 million shifted to 2024-25 and \$1.15 billion shifted to 2025-26.

Suggested Questions

- Please provide a brief update on the status of each housing project that was funded in 2022 Budget Act. Have there been any overall issues with costs, deadlines, anything else?
- Please describe the CSU's process for selecting projects with 23-24 grants. How many projects were submitted by campuses?
- How would the Governor's proposed funding delay affect this process and number of projects selected? Are there any shovel-ready projects that could be at risk due to the potential delay?
- Does CSU have any feedback on the revolving loan fund program language? Is there anything for the Legislature to consider about program structure before the program begins?

Staff Recommendation. Hold Open.

Issue 2: Shift in Capital Support Funding

Panel

- Jennifer Louie, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Ryan Storm, California State University
- Vi San Juan, California State University

Governor's Budget.

The Governor's budget proposes shifting \$404.8 million appropriated for the upfront support of various capital projects on CSU campuses to CSU-issued bonds. The Governor's budget includes \$27 million General Fund ongoing to support the underlying debt service on those bonds.

Background

State Funds Academic Facilities and Infrastructure at CSU. Traditionally, the state has funded CSU's academic facilities, including classrooms, laboratories, and faculty offices. It has also funded certain campus infrastructure, such as central plants, utility distribution systems, and pedestrian pathways. In addition to these state-supported assets, CSU has self-supporting facilities, including student housing, parking structures, certain athletic facilities, and student unions. These types of facilities typically generate their own fee revenue, which covers associated capital and operating costs.

CSU Has Identified Many Capital Outlay Priorities. Under state law, CSU is to submit a capital outlay plan to the Legislature annually by November 30, identifying the projects proposed for each campus

over the next five years. CSU's most recent five-year plan identifies \$29.6 billion in projects proposed for 2023-24 through 2027-28, subject to available funding. The total amount consists of \$22.7 billion in academic facilities and infrastructure projects as well as \$6.9 billion in self-supporting projects. Of the total amount, more than 70 percent is for improvements to existing facilities. This includes projects to address fire and life safety concerns, seismic risks, capital renewal (including the deferred maintenance backlog), and other programmatic issues. Less than 30 percent is for projects to add new space to support campus growth.

Two Main Ways to Fund CSU Capital Projects Are Cash and Debt Financing. One way the state may fund capital projects is by providing one-time General Fund to CSU to pay for the project upfront in cash. The state commonly uses this approach to fund deferred maintenance projects, for example. A second way is by supporting the debt financing of capital projects. Under this approach, CSU borrows money for the projects by issuing university bonds, then repays the associated debt using its core funds. (State law authorizes CSU to use its main General Fund appropriation for this purpose.) CSU commonly uses this approach for larger projects, such as projects to renovate, replace, or construct an entire facility. Debt financing decreases the up-front cost of these projects by spreading the cost out over many years. However, it increases the total project cost because CSU must pay interest on the borrowed amount.

State Investment Significant General Fund Support for CSU Projects in 2022-23. The Budget Act of 2022 included numerous capital investments across CSU campuses. The following proposals, totaling \$404.8 million in upfront support, were included in that agreement:

Governor Proposes Changing How Six CSU Capital Projects Are Funded			
Campus	Project	2022-23 One-Time General Fund in 2022 Budget Act (\$ in million)	Ongoing Estimated Annual Debt Service Proposed in Governor's Budget (\$ in million)
Bakersfield	New Energy Innovation Center	\$83.0	\$5.5
San Diego (Brawley center)	New STEM building	80.0	5.3
San Bernardino (Palm Desert center)	New student services building	79.0	5.3
Chico, Fresno, Pomona, San Luis Obispo	University farms facilities and equipment	75.0	5.0
Fullerton	New Engineering and Computer Science Innovation Hub	67.5	4.5
San Luis Obispo	Swanton Pacific Ranch rebuilding	20.3	1.4
Totals		\$404.8	\$27.0

In their November 2022 economic outlook for California, the LAO assessed that the Legislature would face a budget problem of \$24 billion in 2023-24. The budget problem is mainly attributable to lower revenue estimates compared to budget act projections between 2021-22 through 2023-24. Typically,

revenue losses are offset by lower spending in certain areas, which could be aided by pauses or delays in recent appropriations that have not yet been distributed. These projections led to the proposed shifts in capital support funding in the Governor's January budget.

LAO Assessment and Recommendations

LAO Assessment: Shifting Projects to Debt Financing Can Be a Reasonable Budget Solution. Changes in the state's budget condition have made it more difficult to pay for large capital projects up front in cash. Given that facilities are typically used over many years, debt financing can be a reasonable alternative that spreads a facility's costs across its useful life. In converting projects from cash to debt financing, the state can achieve near-term savings. The state also maintains the flexibility to accelerate debt payments in the future, if it has a large surplus in any given year.

LAO Assessment: Debt Financing Would Increase Overall Project Costs. Although the Governor proposes to use a reasonable alternative financing option for these six CSU capital projects, his proposal also contributes to the state's out-year operating deficits. Moreover, it results in higher total project costs due to the associated interest payments. Under the Governor's proposal, we estimate the state would spend roughly \$810 million on the six projects—twice as much as originally budgeted—assuming the debt is repaid over 30 years at the proposed funding level of \$27 million annually. (Depending on interest rates, actual debt service might be higher or lower than the proposed level.) Given the significantly higher cost, we think it would be reasonable to hold these projects to a more stringent standard before approving them for debt financing.

LAO Assessment: Projects Likely Do Not Address Highest Capital Outlay Priorities at CSU. Some of the capital projects identified in CSU's five-year plan are critical and urgent. Those projects often address deficiencies with existing facilities and infrastructure that could otherwise present life safety concerns or disrupt campus operations. In contrast, most of the projects that would be debt financed under the Governor's proposal do not address these types of deficiencies with existing space. Moreover, four of the six projects primarily would add new space. Adding new space increases ongoing operations and maintenance costs, and it creates future capital renewal costs as building components eventually age.

LAO Assessment: Projects Affected by Proposal Are in Early Stages. Based on information provided by CSU, the six projects to be converted to debt financing are in planning and design stages. One project at the San Bernardino campus began preliminary plans in July 2022 and has spent \$3.3 million to date. The remaining five projects are scheduled to begin preliminary plans in the coming months, with small amounts (less than \$36,000 total) spent on these projects to date. To minimize project delays and the associated construction cost escalation, CSU is exploring options for these projects to move forward as budget deliberations over their funding continue. For example, campuses might use reserves to fund these projects over the next few months, or CSU might issue short-term debt if authorized by the Board of Trustees. (Under the latter approach, CSU would be responsible for the debt service if the state were to withdraw its support for the projects.)

LAO Recommendation: Revisit Whether to Move Forward With Each Project. Given that the Governor's proposal to debt finance the six projects significantly increases their total costs, the LAO recommends that the Legislature revisit whether each project is justified under the new circumstances. In making this determination, it could consider the following criteria:

- Whether the project is among the most pressing of CSU's capital needs, including projects that address critical life safety issues and minimize the risk of disruptions to existing campus operations.
- Whether justification for any new facilities has been provided based on factors such as unmet enrollment demand and overutilization of existing facilities.
- Whether the campuses constructing new facilities have a plan for covering any associated operating cost increases, as well as a plan to keep the facility in good condition across its life.

If the Legislature finds that a given project meets these criteria, it could approve the Governor's proposal to debt finance that project. On the other hand, if the Legislature finds that a given project does not meet these criteria, it could consider withdrawing state support for that project at this time. CSU could consider including any affected projects in one of its future five-year capital plans, with the Legislature reconsidering funding those projects at that time.

Suggested Questions

- Please provide a brief update on the status of each project. How much state funding has been spent so far on these projects?
- Will the Governor's proposed change in funding structure impact any project timelines?
- What is the timeline for CSU in financing the capital outlay projects?
- Please provide the total cost associated with each project under this proposal, including financing costs
- Is the proposal that the state is committing to \$27 million per year for 30 years, or is it ongoing forever? Will that amount ever change?

Staff Recommendation. Hold Open.

Issue 3: Status Update on Previous Budget Act Investments (Oversight)

Panel

- Dilcie Perez, California State University
- Vi San Juan, California State University

Background

The subcommittee has requested status updates for the following investments included in The Budget Act of 2022:

- **Foster Youth Supportive Services at CSU.** The Budget Act of 2022, through AB 183, required that support services for foster youth and former foster youth at CSU campuses have a full-time designated staff program director or coordinator with experience relevant to working with foster youth and former foster youth, campus office and meeting space, a range of student supports to address academic and nonacademic needs and opportunities for peer mentors. The budget also provides an increase of \$12 million General Fund in 2022-23 and ongoing for foster students' support throughout CSU campuses.

- **Basic Needs at CSU.** The Budget Act of 2022 included \$10 million General Fund in 2022-23 and ongoing for CSU basic needs.
- **Deferred Maintenance and Energy Efficiency at CSU.** The Budget Act of 2022 appropriated \$125 million General Fund in 2022-23 to support deferred maintenance and energy efficiency projects at CSU.

Oversight Questions

- For all mentioned above:
 - To date, what steps has CSU taken to implement these initiatives?
 - What data, if any, has CSU collected about it? Does CSU have any participation data for these initiatives?
 - What challenges, if any, has CSU encountered as it implements these initiatives?

Staff Recommendation. This is an oversight item. No action is needed at this time.