Senate Budget and Fiscal Review— Scott Wiener, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Scott Wilk

Thursday, March 14, 2024
9:30 a.m. or Upon Adjournment of Session
1020 O Street- Room 2100

Consultants: Christopher Francis, Ph.D. and Elisa Wynne

Items for Discussion

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
- Chris Ferguson, 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

Governor's Budget

UC and CSU Compact Deferrals. The Governor's budget proposes one-time deferrals of $227.8 million of $240.2 million for UC and CSU respectively, representing a five-percent resource adjustment that is consistent with the Governor's multi-year compact with both segments. According to the Administration, the deferrals would maintain ongoing UC and CSU General Fund at 2023-24 levels and enable both segments to pursue various interim financing to support the planned 2024-25 Compact support. The Administration also expects both segments to plan for a repayment of the one-time deferrals and ongoing General Fund to be included in its base budget in 2025-26.

CSU Base Funding Increase in 2025-26. Due to this deferral, the Governor intends to "double up" funding in 2025-26, such that CSU would receive an ongoing 10 percent base increase of $494 million that year. (This consists of $240 million to support the higher level of prior-year ongoing spending, along with $254 million for a new five percent base increase.) In addition, the Governor intends to provide CSU with a one-time back payment of $240 million in 2025-26 to compensate for the forgone funds in 2024-25.

UC Base Funding Increase in 2025-26. The Governor intends to also "double up" funding in 2025-26 for UC, such that UC would receive a base increase to support the higher level of prior-year ongoing spending ($228 million), along with a new five percent base increase ($241 million)—for a total increase of $469 million in ongoing General Fund support that year. In addition, the Governor intends to provide UC with a one-time back payment of $228 million in 2025-26 to compensate for the foregone funds in 2024-25.

CSU Board of Trustees' State General Fund Request

CSU State General Fund Request, 2024-25	
Purpose	**General Fund amount ($ in millions)**
Five percent base increase	240.2
Compensation pool increases	57
Debt Service on Academic Facilities and Infrastructure	15
Graduation Initiative 2025	30

Inflation related to non-personnel costs	28.5
Basic Needs	4
Title IX and Discrimination, harassment, and retaliation programs	8
State and Federal Native American Graves Protection and Repatriation Act Compliance	2
Total	**384.7**

UC Board of Regents' State General Fund Request

UC State General Fund Request, 2024-25	
Purpose	**General Fund amount ($ in millions)**
Five percent base increase	235.2
Backfill associated with conversion of 900 Non-resident slots to resident slots (*Covered in Issue 4- UC Enrollment*)	29.1
Aid for 902 eligible undergrads	4.2
Health Equity Investments	4.3
Total	**272.8**

Background

Governor's Compact with UC and CSU

Compacts. The 2022 Budget Act included funding associated with multi-year compacts with the University of California (UC) and California State University (CSU) and a multi-year roadmap with the California Community Colleges that focus on shared priorities benefitting students. Under these compacts, starting in 2022-23, CSU and UC will receive five percent annual base increases over each of the next five fiscal years to support operating costs. Whereas the 2022 Budget Act includes enrollment growth funding on top of the base increases in 2022-23, 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).

Budget Acts of 2022 and 2023. Consistent with the Governor's compact, the Budget Acts of 2022 and 2023 each included five percent base increases for UC and CSU. Specifically, the budget agreements provided the following:

Table 3: State General Fund Support for UC and CSU under first two years of Governor's compact

Segment	2022 Budget Act Agreement	2023 Budget Act Agreement
UC	$200.5 million General Fund in 2022-23 and ongoing	$215.5 million General Fund in 2023-24 and ongoing
CSU	$211.1 million General Fund in 2022-23 and ongoing	$227.3 million General Fund in 2023-24 and ongoing

Core Operating Costs and Planned Spending Starting in 2024-25

UC Has Several Core Operating Costs. As with most state agencies, UC spends the majority of its ongoing core funds (about 70 percent in 2020-21) on employee compensation, including salaries, employee health benefits, retiree health benefits, and pensions. Beyond employee compensation, UC 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, UC has pursued certain actions to contain this growth. For example, UC has pursued new procurement practices and energy efficiency projects with the aim of slowing associated cost increases. Table 1 documents the UC's planned spending increases for 2024-25. Supporting $653 million in new spending in 2024-25 would be: UC's planned uses of an anticipated increase in tuition and fee revenue, stemming from higher tuition charges as well as anticipated enrollment growth, a 2024-25 base increase, and other funds such as investment returns, increased nonresident supplemental tuition from campuses still below 18 percent nonresident enrollment and the UC's request for additional state General Fund above the compact.

Table 1: UC Planned Spending Increases for 2024-25

UC Planned Spending Increases, 2024-25	
Purpose	**General Fund amount ($ in millions)**
Retirement contributions	105
Student financial aid increases	92
Represented employee salary increases	90
Faculty general salary increases	89
Non-represented staff salary increases	75
Enrollment growth	58
Health benefits for active employees	46
Operating expenses and equipment	45
Faculty merit program	39
Health benefits for retirees	11
Other	4
Total	**654**

CSU Has Several Core Operating Costs. Similarly to UC, 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. 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. Table 2 documents the CSU's planned spending increases for 2024-25. CSU's planned use of reserves, combined with an anticipated increase in tuition revenue, planned use of a 2024-25 base increase, and their request for additional state General Fund above the compact, would support $557.3 million in new spending in 2024-25.

Table 2: CSU Planned Spending Increases for 2024-25

CSU Planned Spending Increases, 2024-25	
Purpose	**General Fund amount ($ in millions)**
Employee compensation pool increases	221
Health care premium increases	78
Student financial aid increases	58
Enrollment growth	55
Graduation Initiative	30
Student basic needs and mental health program expansions	7
Liability and property insurance premium increases	23
Operations and maintenance of new facilities	12.5
Debt Service on Academic Facilities & Infrastructure	25
Title IX and Discrimination, Harassment and Retaliation program improvements	16
State California Native American Graves Protection and Repatriation Act of 2001 and federal Native American Graves Protection and Repatriation Act of 1990 compliance improvements	4.2
Inflation on Non-Personnel Costs	28.5
Total	**557.3**

CSU Labor Updates

Most CSU Employees Are Represented by a Labor Union. The largest union is the California Faculty Association (CFA), which accounts for half of CSU's overall salary base. CFA represents professors, lecturers, counselors, librarians, and coaches. The second largest union, accounting for nearly 25 percent of CSU's overall salary base, is the California State University Employees Union (CSUEU). CSUEU represents support staff in various roles, including administrative support, technology, operations, and health services. The remaining six unions (representing student services staff, skilled trades workers, and graduate students, among others) together comprise 10 percent of CSU's overall salary base. Managers and executive staff, who comprise about 15 percent of CSU's salary base, are not represented by a union.

Most Employee Salary Levels Are Determined Through Collective Bargaining. 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 guide salary increases for CSU's non-represented employees. Over the past decade, CSU employees have received salary increases in all years except 2020-21, when the state reduced General Fund support for CSU in response to a projected budget shortfall due to the COVID-19 pandemic.

CSU Has Negotiated Salary Increases for 2023-24. As Table 3 shows, CSU has negotiated agreements with all of its unions to provide a 5 percent general salary increase in 2023-24. As of this writing, three of these agreements are tentative (pending ratification by the Board of Trustees and union membership) and the remaining have been ratified. As is its typical practice, CSU also is providing a comparable (5 percent) salary increase to its non-represented employees in 2023-24.

Table 3: General Salary Increases by Employee Group Between 2023-24 and 2025-26

Employee Group	General Salary Increases		
	2023-24	2024-25[a]	2025-26[a]
California Faculty Association[b,c]	5%	5%	Open
California State University Employees Union	5	5	—[d]
Academic Professionals of California[b]	5	Open	Open
Teamsters 2010[b]	5	—[d]	—[d]
United Auto Workers	5	5	Open
Statewide University Police Association	5	5	5%
Union of American Physicians and Dentists	5	Open	Open
International Union of Operating Engineers	5	Open	Open

[a]Increases are contingent upon the state providing a specified amount of support to CSU.
[b]Tentative agreements pending ratification by the CSU Board of Trustees and union membership.
[c]Agreement also includes 2.65 percent service salary increases for faculty below certain salary levels, along with increases in the minimum salary for certain faculty positions, in 2023-24 and 2024-25.
[d]In lieu of General Salary Increases, CSU and these unions have agreed to implement a salary step structure under which employees receive regular salary increases based on their length of service.

CSU Also Has Some Contingent Salary Agreements in Place for 2024-25. As Table 3 shows, CSU also has agreements extending into 2024-25 with five unions. Three of these agreements already have been ratified and two are tentative. Several of these agreements provide a five percent general salary increase, contingent upon the state providing a specified amount of support to CSU in 2024-25. For example, the 5 percent increase for employees represented by CFA is contingent upon the state not reducing ongoing base funding to CSU relative to the 2023 Budget Act level, whereas the salary increase for employees represented by CSUEU is contingent upon the state providing a $227 million base augmentation to CSU. As of this writing, 2024-25 compensation increases have not yet been determined for three smaller unions, as well as non-represented employees. CSU estimates the cost of every one percent increase in its compensation pool for all employee groups in 2024-25 would be $55 million ongoing.

UC Labor Updates

UC's Largest Operating Cost Is Employee Compensation. Like many other state agencies, the largest component of UC's budget is employee salaries and benefits (comprising 69 percent of its core expenditures in 2022-23). UC has more control than most state agencies, however, over its compensation costs, partly because most of its employees (approximately 80 percent) are not represented by a labor union. The Board of Regents directly sets salaries and benefits for these employees. UC collectively bargains salaries and benefits for its represented employee groups, negotiating with eight labor unions. As with CSU, the Legislature does not ratify UC's collective bargaining agreements.

Recent Developments. In December 2022, UC and employees represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) Local 5810 reached new three-year agreements on new labor contracts. UAW represents represents UC Postdoctoral Scholars, Academic Researchers, Academic Student Employees (Teaching Assistants/Readers/Tutors), and Graduate Student Researchers. The agree provides provide minimum salary scales, multi-year pay increases, paid dependent access to University health care, and enhanced paid family leave. If approved, the contracts will be effective through May 31, 2025. New costs to fund academic researchers and postdocs are expected to be in the tens of millions of dollars. Table 4 documents the systemwide bargaining units and the expiration dates for their current contracts.

Table 4: UC Systemwide Contract Expiration Dates as of October 2023

Systemwide Bargaining Unit	Expiration Date
LX – Professional Librarians (UC-AFT)	3/31/2024
DX – Student Health Physicians & Dentists (UAPD)	6/30/2024
EX – Patient Care Technical (AFSCME)	7/31/2024
SX – Service (AFSCME)	10/31/2024
HX – Residual Health Care Professionals (UPTE)	9/30/2024
RX – Research Support Professionals (UPTE)	10/31/2024
TX – Technical (UPTE)	10/31/2024
BX – Academic Student Employees (UAW Local 2865)	5/31/2025
BR – Graduate Student Researchers (UAW Local 2865)	5/31/2025
NX – Registered Nurses (CNA)	10/31/2025
CX – Clerical & Allied Services (Teamsters Local 2010)	3/31/2026
IX – Non Senate Instructional (UC-AFT)	6/30/2026
PA – Police Officers (FUPOA)	6/30/2026
PX – Post Doctorial Scholars (UAW Local 5810)	9/30/2027
RA - Academic Researcher (UAW Local 5810)	9/30/2027

<u>Legislative Analyst's Office Comments and Recommendations</u>

Deferring State Payments Is Poor Fiscal Practice. The LAO has previously advised against payment deferrals, as paying bills late is poor fiscal practice and ultimately can affect the state's credit rating, resiliency, and overall fiscal health. State payment deferrals also can add borrowing costs to the affected government entities—costs the state does not cover. In addition, state payment deferrals transfer risk to the affected government entities, as the state sometimes decides to increase the size of payment deferrals the next year rather than eliminate them. The Governor's proposed funding delays for UC and CSU have even greater risk than the deferrals the state has done to date. Whereas the state typically has used deferrals to protect existing programs from deeper cuts, the Governor is proposing that UC and CSU expand their programs, despite the multiyear deficits facing the state. Under the Governor's approach, UC and CSU would enter 2025-26 with higher ongoing spending and lower reserves. Rather than increasing university costs, the state historically has contained those costs during such times.

<u>LAO Recommendation:</u>* *Hold UC and CSU Funding Flat, Revisit Available Funding Next Year. As discussed in the LAO's overview of the Governor's budget, the Governor's budget runs the risk of understating the degree of fiscal pressure facing the state in the future. The state faces significant operating deficits in the coming years, including a $37 billion deficit in 2025-26 under the Administration's projections. The Legislature likely will face more difficult choices next year, with lower reserves and fewer options to reduce one-time spending. Given the difficulty entailed in cutting other ongoing state programs to make room for more higher education spending, there is no guarantee the state would be able to provide UC and CSU with the $1.5 billion the Governor proposes in 2025-26. To mitigate these challenges, the LAO recommends the Legislature to hold university funding and associated spending expectations flat in 2024-25 rather than relying on revenue that is not currently available to support that spending. Such an approach would be consistent with the state's traditional approach of containing rather than increasing university costs when facing multiyear budget deficits.

<u>LAO Recommendation:</u>* *Pull Back Additional One-Time Funding From Prior Budgets. Though the Governor's package of proposed higher education spending reductions appears a reasonable starting point, the LAO recommends the Legislature to pull back additional unspent one-time funding from prior budgets. The LAO has been working with the segments identify the amount of one-time funding that remains unencumbered. Additional one-time savings likely could be achieved by removing funds for certain capital projects that remain in early planning phases and removing funds for certain new initiatives that remain in early implementation phases. Based upon our initial review, the LAO estimates that the Legislature could achieve at least hundreds of millions of dollars in additional higher education savings. The LAO suggests that the Legislature might want to take early action to maximize the savings it could achieve in these areas. Maximizing one-time spending reductions allows the Legislature to minimize the use of other budget tools—like reserves—that likely will be needed in future years.

<u>Suggested Questions</u>

- **<u>UC and CSU:</u>** Does UC and CSU have interim financing options finalized for 2024-25, or what other short-term solutions are you exploring to cover the delayed funding?

- **<u>Administration:</u>** Is the Administration concerned that UC and CSU will not reach the 2024-25 compact goals because of difficulties in operationalizing the deferrals? If the segments have trouble achieving its 2024-25 compact targets because of the deferrals, then how will the Administration's address these difficulties?

- **<u>UC and CSU:</u>** Please provide an update on recent labor agreements or upcoming discussions with groups. Do you have enough funding to cover these agreements? How do you plan to cover the costs of these agreements? Has there been guidance from the UC Office of the President or CSU Chancellor's Office to the campuses that identifies ways to address these cost pressures?

- **<u>Administration, UC, and CSU:</u>** Over the last two years, UC and CSU experienced increased costs due to labor agreements. How does the Administration expect the UC and CSU to cover these cost pressures given this deferral proposal? How does UC and CSU expect to cover these cost pressures?

- **Administration, UC, and CSU:** Under the Governor's January budget proposal, what is the total new ongoing and one-time state-supported base funding that will need to be provided to UC and CSU in 2025-26? UC and CSU- What would happen if this amount is not provided in 2025-26?

Staff Recommendation. Hold Open

Issue 2: Higher Education Student Housing

Panel
- Alex Anaya Velazquez, Department of Finance
- Jennifer Pacella, Legislative Analyst's Office
- Seija Virtanen, University of California
- Paul Gannoe, California State University

Available for additional questions or details: Michelle Nguyen, Department of Finance
Ryan Storm, California State University

Governor's Budget

California Student Housing Revolving Loan Fund. The budget proposes suspending funding for the program. This action would pull $300 million General Fund in annual support between 2024-25 and 2028-29 fiscal years and revert $194 million General Fund in 2023-24.

Background

Revolving Loan Fund Program (Program). The Budget Act of 2023 included $200 million General Fund in 2023-24 and $300 million in each of the 2024-25 to 2028-29 fiscal years for the Program. The California School Finance Authority (CSFA) and the California Educational Facilities Authority (CEFA) administers the Program, which provides zero-interest loans to qualifying University of California (UC), California State University (CSU), and California Community College (CCC) applicants for campus-based affordable student, faculty, and staff housing. In its September 2023 meeting, the CEFA stated its intent to enter an interagency agreement with CSFA to "utilize its staff and consultants to assist CEFA with various aspects of the Program, including, but not limited to, policy development, underwriting criteria, regulation development, financial model development, form development, a loan tracking system, and evaluating applications and projects." CSFA and CEFA also solicitied input from UC, CSU, and other organizations to finalize regulations, technical assistance, and marketing outreach, maximize the financing structures, and with a goal of posting applications by January 2024.

Higher Education Student Housing Grant Program. The Budget Act of 2023 shifted the prior and planned limited-term General Fund support for UC, CSU, and California Community College (CCC) affordable student housing grants to UC-, CSU-, and locally issued bonds respectively. Of note for this subcommittee hearing are the following components of the 2023 Budget Act agreement:

- Shifting $437 million in current and planned General Fund support for UC affordable housing student grants to UC-issued bonds. To support the projects, the budget agreement included an $50.7 million General Fund in 2023-24 and ongoing.

- Shifting $655 million in current and planned General Fund support for CSU affordable housing student grants to CSU-issued bonds. To support the projects, the budget agreement included an $52 million General Fund in 2023-24 and ongoing.

- Naming the UC, CSU, and CCC campuses that received funding in 2023-24.

- Shifting the support of three CCC and UC intersegmental projects from CCC to UC. This shift facilitated UC issuance of revenue bonds for the CCC portions of three intersegmental UC-CCC affordable housing projects selected in the Higher Education Student Housing Grant Program. The three intersegmental projects covered through UC revenue bonds the split in the number of beds for low-income students between the participating campuses contained in the Higher Education Student Housing Grant Program applications approved by the state and further defined in the subsequent operating agreements between each UC campus and the CCC district partnership.

Campus awardees were named in the 2022 and 2023 Budget Acts (see Table 5 and Table 6) and the program authority for UC and CSU is now exhausted. The upcoming 2024-25 fiscal year is the final year of funding for the grant program and the program authority remains for only CCC projects—at roughly $80 million General Fund.

UC Student Housing Projects

Table 5: State-Approved UC Student Housing Construction Projects

	Project Costs *Non-Proposition 98 General Fund (Dollars in Millions)*		**Estimated Annual Debt Service** *Non-Proposition 98 General Fund (Dollars in Millions)*	**Current Phase**	**Beds**	
	State	**Nonstate**			**Affordable**	**Standard**
UC Projects Approved in 2022-23						
San Diego	$100.0	$265.0	6.8	Construction	1,100	210
Berkeley	100.0	264.8	6.8	Construction	310	790
Santa Cruz	89.0	106.4	6.1	Preliminary Plans	320	120
Irvine	65.0	15.6	4.4	Construction	300	—

Los Angeles	35.0	28.6	2.4	Construction and Working Drawings	358	84
Subtotals	($389.0)	($680.4)			(2,388)	(1,204)
UC/CCC Intersegmental Projects Approved in 2023-24						
Riverside	$126.0	$186.0	8.9	Construction	652	897
Santa Cruz	111.8	69.9	8.1	Construction	376	248
Merced	100.0	—	7.1	Preliminary Plans	488	—
Subtotals	($337.8)	($255.9)			(1,516)	(1,145)
Grand Totals	**$726.8**	**$936.3**	**$50.7**		**3,904**	**2,349**

CSU Student Housing Projects

Table 6: State-Approved CSU Student Housing Construction Projects

	Project Costs *Non-Proposition 98 General Fund (Dollars in Millions)*		**Estimated Annual Debt Service** *Non-Proposition 98 General Fund (Dollars in Millions)*	**Current Phase**	**Beds**	
	State	**Nonstate**			**Affordable**	**Standard**
CSU Projects Approved in 2022-23						
San Francisco	$116.3	$62.7	9.2	Construction	750	—
San Marcos	91.0	29.0	7.2	Construction	390	145
Fullerton	88.9	48.0	7.1	Preliminary Plans	390	110
Long Beach	53.3	28.7	4.2	Working Drawings	424	—
Dominguez Hills	48.8	26.3	3.9	Working Drawings	238	TBD
Northridge	37.5	20.2	3.0	Construction	198	—
Fresno	31.1	16.7	2.5	Preliminary Plans	175	—
Humboldt	27.1	14.6	2.2	Construction	138	—
San Diego-Intersegmental	4.6	2.3	0.4	Preliminary Plans	78	—
Subtotals	($498.5)	($248.5)			(2,781)	(255)

CSU Projects Approved in 2023-24						
San Jose	$89.1	$244.7	7.1	Preliminary Plans	517	490
Sacramento	41.3	25.7	3.3	Preliminary Plans	285	—
Stanislaus	18.9	10.2	1.5	Preliminary Plans	75	45
Project cost overruns	7.5	—	0.6		—	—
Subtotals	($156.8)	($280.6)			(877)	(535)
Grand Totals	**$655.2**	**$529.1**	**$52**		**3,658**	**790**

After State Approval, CSU Changed One Student Housing Projects. In February 2023, CSU submitted a request to the administration and Legislature for a student housing project at the San Jose campus. As originally submitted, and later approved by the state in the 2023-24 budget package, the project entailed constructing a new housing facility on campus. CSU now indicates that the San Jose campus has entered into an agreement to lease an existing commercial property off campus, with the option to purchase the property in fall 2025. CSU indicates the new project would still provide 517 affordable beds—the same as the original project. Moreover, the cost per bed would be lower and the beds would be available two to three years earlier than under the original project.

Legislative Analyst's Office Comments and Recommendations for UC Projects

LAO Recommendation:* *Recommend Pausing Projects for Which UC Has Not Sold Bonds. Based on a data request to UC, two of the student housing projects recently converted to debt financing remain in the preliminary planning phase and have no associated debt. That is, UC has not yet sold bonds for these projects. The projects are estimated to cost a total of $189 million General Fund. The LAO recommends that the Legislature pause these projects and remove the $13.2 million ongoing General Fund from UC's budget. Pausing these projects now not only helps the state address its projected multiyear budget deficits, it also helps reduce cost pressures for decades to come, as it would avoid creating new facilities that would need to be maintained over time.

LAO Recommendation:* *Recommend Aligning Funding for Other UC Capital Outlay Projects With Estimated Debt Service Costs. Whereas the state's typical fiscal practice is to cover actual debt service costs when they become due, the state forward-funded UC for debt service on multiple projects in the 2023 Budget Act. That is, the state provided the funds before UC had issued bonds and knew its actual debt service costs. Because UC has not yet sold bonds for all of the approved projects, it has not needed all the associated state funding. The LAO estimates that UC has at least $50 million in unspent debt service funding in 2023-24. The LAO notes that the state could achieve some one-time savings by aligning the state appropriation for debt service with UC's actual debt service costs. The state could continue to achieve some one-time savings until UC has sold all the bonds. The amount of one-time savings would shrink over the next few years as additional bonds are sold.

Legislative Analyst's Office Comments and Recommendations for CSU Projects

LAO Recommendation:* *Legislature Could Consider Pausing Projects for Which Bonds Have Not Been Issued. To date, CSU has not yet issued bonds for three of the projects approved for debt financing last year. These three projects are student housing projects at the San Jose, Sacramento, and Stanislaus campuses. Whereas the Sacramento and Stanislaus projects remain in preliminary plans, the San Jose campus has already entered into an agreement with the intent to purchase an existing property using bond proceeds. Given the state's projected multiyear budget deficits, the Legislature could consider pausing some or all of these projects and sweeping the associated funding for debt service

<u>LAO Recommendation:</u>* *Recommend Aligning Funding With Estimated Debt Service Costs. Whereas the state provided $100 million ongoing General Fund intended to support the debt service associated with 21 capital outlay projects, including student housing projects, actual debt service costs (even with the higher rates for taxable bonds) are expected to be lower than originally budgeted. The savings will be most substantial in the first two years because not all of the bonds will have been sold. Beginning in the third year, costs might still be slightly lower than the original appropriation depending on interest rates. Based on CSU's most recent estimates, the debt service costs associated with these projects total $25 million in 2023-24, $68 million in 2024-25, and $87 million in 2025-26 and ongoing. Especially in light of the state's budget deficit, the LAO recommends the Legislature reduce the $100 million appropriation to align with actual debt service costs. Based on current estimates, this would yield $75 million in savings in 2023-24, $32 million in 2024-25, and $13 million annually thereafter.

<u>Suggested Questions</u>

- **<u>UC and CSU:</u>** Please provide status updates on projects funded in the Higher Education Student Housing Grant Program. Are there challenges or difficulties that the Legislature should know about?

- **<u>Administration:</u>** Explain the rationale behind suspending the Revolving Loan Program. To date, how much funding has been spent and what activities have occurred?

- **<u>UC and CSU:</u>** What was UC and CSU's involvement in the implementation of the Revolving Loan program to date? Did UC and CSU plan to apply for funding for projects under the Revolving Loan Fund Program? If this program is suspended, then how will UC and CSU cover the costs of these projects?

<u>Staff Recommendation.</u> Hold Open

6610 CALIFORNIA STATE UNIVERSITY (CSU)

Issue 3: CSU Enrollment

Panel

- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Nathan Evans, California State University

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

Governor's Budget

Governor's Budget Maintains Enrollment Expectations Set in Compact. Although the Governor's budget delays the planned base increase under the compact until 2025-26, it makes no changes to the associated enrollment expectations. The Governor's budget expects CSU to increase resident undergraduate enrollment by one percent annually from 2023-24 through 2026-27. The compact does not include an expectation for CSU to increase graduate enrollment.

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.

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, undergraduate and graduate. But, in recent years the state has applied them only to resident undergraduates. 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. In 2023-24, the total marginal cost per student is $14,749, with a state share of $10,070.

CSU Also Offers Self-Supported Courses. Like the other public higher education segments, CSU offers some self-supported courses (also referred to as extended education or professional and continuing education). Self-supported courses generally charge student fees intended to cover the full cost of offering them, without any state subsidy. Self-supported course offerings include an array of academic courses, professional certificate programs, and personal enrichment courses offered throughout the year.

In 2022-23, CSU enrolled 26,334 FTE students in self-supported courses. These students are not counted toward state enrollment targets.

Many Summer Courses Have Been Self-Supported. All CSU campuses offer some academic courses during the summer. Historically, many campuses have chosen to offer summer courses as self-supported, while others have offered them as state-supported. (Of the self-supported FTE enrollment in 2022-23, 52 percent was generated in the summer term.) Each campus sets its own fees for self-supported summer courses. Based on a review of campus websites, these fees are different from, but not consistently higher or lower than, the tuition charged for comparable state-supported courses. Students in both types of summer courses have opportunities to receive financial aid, but those opportunities tend to be greater for students in state-supported courses.

Total CSU CA Resident Funded Enrollment Targets in Compact. The Governor's compact does not specify the number of students CSU should enroll each year, but it sets forth that CSU is to add approximately 14,000 FTE students in total between 2022-23 and 2026-27 by increasing resident undergraduate enrollment by one percent annually. As shown in Table 7 below, this expectation is added to CSU's funded enrollment target, bringing that target from 383,680 resident FTE students in 2022-23 to 397,623 resident FTE students in 2026-27. 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.

Table 7: Governor's Compact Expectations for Resident Enrollment Growth *(Total Resident FTE Students)*

	2022-23	**2023-24**	**2024-25**	**2025-26**	**2026-27**
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 Progress Towards Compact Target. In a status update to the committee, the CSU also projected enrolling more than 368,042 in 2023-24- 1.6 percent higher over 2022-23 levels. Despite this rebound, CSU's estimated enrollment level of 368,042 resident FTE students is 19,072 students (4.9 percent) below its enrollment target of 387,114 FTE for 2023-24. This target reflects the number of students for which CSU has previously received ongoing state support, either directly or from within its base funding.

CSU Progress Towards 2023 Budget Act CA Resident Undergraduate Enrollment Target. The 2023 Budget Act included Legislative intent that CSU grow its resident undergraduate enrollment by 4,057 full-time equivalent (FTE) students and, subsequently, bring its total resident undergraduate enrollment level to 330,080 FTE students in 2023-24 relative to CSU's enrollment level in 2022-23. The increase was intended to be supported the $227.3 million base increase in the 2023 Budget Act. CSU estimates it is enrolling 331,139 resident undergraduate FTE students in 2023-24.

Explaining Recent Enrollment Progress. The CSU's increase in total CA resident FTEs is attributed to the addition of approximately 5,000 annualized full-time enrolled students in summer instruction. CSU explains the increase was due to campuses shifting certain summer courses from self-supported to state-supported. The increase in state-supported students was largely offset by an accompanying decrease in self-supported students. CSU indicates the courses shifted to state-supported were generally academic courses that students took to make progress toward their degree. These include courses taken by continuing students as well as new students participating in summer transition programs. Data is not available on the specific courses that were shifted or the number of FTE students enrolled in those courses.

Despite the record new freshmen increases, transfer declines still exist. CSU estimates that less than 50,000 students transferred to the CSU compared to 62,000 new transfer students in Fall 2020. Similar to transfer student declines in UC (to be discussed later in Issue 4), this decline is attributed to community college enrollment declines, which accelerated at the start of the pandemic.

CSU Intends to Recover Total CA Resident Enrollment Over Multiyear Period. As discussed in the March 9, 2023 Subcommittee No. 1 hearing, because of CSU's enrollment trends in the previous and current academic year, 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 2.4 percent in 2024-25, followed by 2.7 and 2.8 percent annually in 2025-26 and 2026-27 respectively. Under this plan, CSU effectively would catch up to its enrollment target by the last year of the compact. Table 8 displays CSU's plan to reach its overall funded enrollment target. The one percent increase in CSU's enrollment target set forth in the compact equates to 3,468 additional resident undergraduate FTE students in 2024-25. CSU plans to allocate an associated $38 million in new funding to campuses, corresponding to the state share of the marginal cost of adding those students, using reserves due to the base budget deferral covered in Issue 1.

Table 8: 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 Total CA Resident FTES Targets					
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	362,254	368,042	376,794	387,091	397,823
Annual planned percentage growth		1.6%	2.4%	2.7%	2.8%
CSU's planned enrollment relative to compact target	-5.6%	-4.9%	-3.5%	-1.8%	0.1[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).

In 2024-25, CSU Plans to Begin Reallocating Existing 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 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 three percent of the campus's target and the associated funding to campuses at or above their target. CSU plans to repeat this process in 2025-26 and 2026-27. This plan is intended to incentivize all campuses to grow, while potentially also adding capacity at the highest-demand campuses. Currently, eight campuses are more than 10 percent below their enrollment target.

Legislative Analyst's Office Comments and Recommendations

Enrollment Growth in 2023-24 Is Overstated Due to Shift in Summer Courses. When the Legislature sets enrollment growth expectations for CSU in the state budget, it intends for CSU to add more students. The majority of the increase in FTE students that CSU is reporting in 2023-24 is unrelated to adding more students and instead stems from shifting summer courses from self-supported to state-supported. This approach to enrollment growth does not appear to align with legislative intent. Moreover, given the state's projected budget deficits, the state likely cannot afford to begin supporting activities that were previously self-supported. Based on the decline in self-supported enrollment from the previous summer, the LAO estimates that CSU shifted 4,705 resident FTE students from self-supported to state-supported in summer 2023. If not for this shift, we estimate CSU would be enrolling only 363,337 resident FTE students in 2023-24—23,777 students fewer than its funded enrollment target.

LAO Recommendation:* *CSU's Actual Enrollment Level Is Notably Below Its Funded Enrollment Target and Its Target Can Be Held Flat in 2024-25. Given that CSU is notably below its target, it could add many more students before it needs to allocate new funding for enrollment growth, indicating new funding for enrollment growth is unwarranted at this time. New funding is particularly unwarranted if those funds are to come from CSU's reserves, as they likely would under the Governor's budget. It would be more prudent to use those reserves to temporarily cover operating costs that cannot be avoided.

LAO Recommendation:* *If More Budget Solution Is Needed, Consider Aligning CSU Funding With Its Actual Enrollment. One of the first options the state tends to consider when facing budget deficits is aligning funding with actual caseload. This is an approach the state has used across sectors of its budget—from education programs to health and social service programs. Given CSU's funded enrollment target is substantially higher than its actual enrollment level, the Legislature could achieve notable budget savings using this approach. The LAO estimates that the state could achieve $239 million in ongoing General Fund savings if it reset CSU's funded enrollment target at 363,337 FTE students—reflecting its estimated 2023-24 enrollment level, adjusted to remove the estimated number of students shifted from self-supported courses. (It could set the enrollment target at a higher level for less corresponding savings.) Depending on the severity of the state budget condition, the Legislature could apply such a reduction retroactively to 2023-24 or beginning in 2024-25. This option is unlikely to have a direct impact on student access, as the new target would be based on the number of students CSU currently enrolls. It could, however, impact CSU operations, as it would reduce the amount of funding available for its operating costs. Nonetheless, having this option available could help balance the budget, particularly were the state budget condition to deteriorate further over the coming months.

Suggested Questions

- **CSU:** Please provide any updates on CSU's resident undergraduate enrollment growth target for 2023-24. Does it have confidence that it will reach its 2024-25 resident undergraduate enrollment growth target? Which campuses are experiencing the most difficulty with enrollment and what challenges are they experiencing?

- **CSU:** Why did the CSU shift some summer courses from self-supported to state-supported? Is this the first time that CSU shifted self-supported courses to state-support? How many courses were selected for this support shift and why were these courses selected? How many of these students are full-time undergraduates vs part-time undergraduates? Is this practice going to occur in Summer 2024?

- **CSU:** Can you walk the subcommittee through how enrollment funding will shift in 2024-25 under the new systemwide enrollment funding formula?

- **CSU and DOF:** Do you have any comments on the LAO's recommendations? If the recommendation addresses the gap between total funded enrollment level and actual enrollment, without compromising funding for actual enrollment, then how would CSU's general operations be impacted?

Staff Recommendation. Hold Open

6440 UNIVERSITY OF CALIFORNIA (UC)

Issue 4: UC Enrollment

Panel

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

Governor's Budget

Governor Maintains Resident Undergraduate Enrollment Growth Expectations Set in Compact. Consistent with his compact with UC, the Governor expects UC to increase resident undergraduate enrollment by one percent annually through 2026-27. The Administration retains provisional budget language allowing the Director of the Department of Finance to reduce UC funding if a target is not met. Specifically, for each student below the 2024-25 target, UC funding could be reduced at the state marginal cost rate of $11,930. Under the compact, UC is expected to accommodate enrollment growth from within its five percent annual base General Fund increases. The Governor's budget makes no changes to these enrollment expectations although, as highlighted in Issue 1, it delays the planned base General Fund increase until 2025-26.

Resident Undergraduate Enrollment Growth Deferral. The Governor's budget proposes a one-time deferral of $31 million General Fund to offset revenue reductions associated with the replacement of 902 nonresident undergraduate students enrolled at three campuses with an equivalent number of California resident undergraduate students at these campuses in 2024-25. Similar to the compact deferrals fiscal approach, the Administration expects UC to pursue various interim financing to support the planned 2024-25 support and to plan for a repayment of the one-time deferral and $31 million General Fund ongoing to be included in its base budget in 2025-26.

Background

State Typically Sets 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. Until the 2015 Budget Act, these targets applied to overall resident enrollment, giving UC flexibility to determine the mix of additional undergraduate and graduate students. Since the 2015 Budget Act, however, the state has set resident undergraduate enrollment growth targets. If the overall systemwide target has reflected growth (sometimes the state leaves the target flat), the state typically has provided associated General Fund augmentations. Augmentations have been determined 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 state General Fund and anticipated tuition revenue.

Two Important Recent Modifications to State's Enrollment Growth Approach. In recent years, the state has set enrollment growth targets only for undergraduates and has set those targets one year in advance (for example, setting a target in the 2021-22 budget for the 2022-23 academic year). Setting an out-year target allows the state to better influence UC's admission decisions, as campuses typically have already made their admission decisions for the coming academic year before the enactment of the state budget in June.

State Adopted a Nonresident Enrollment Reduction Plan for UC in the 2021 Budget Act. AB 132 (Committee on Budget), Chapter 144, Statutes of 2021 created a nonresident reduction plan at UC Berkeley, UCLA and UC San Diego. AB 132 specified legislative intent that UC limit the share of nonresident students at every campus to no more than 18 percent of the campus undergraduate enrollment. The law also specified legislative intent UC to gradually make progress towards achieving this policy at UC Berkeley, UCLA, and UCSD. The budget agreement noted that the state will provide $31 million ongoing General Fund in 2022-23, $61 million ongoing General Fund in 2023-24, and $92 million in 2024-25 to reduce nonresident enrollment to 18 percent of the undergraduate student body, replacing about 900 nonresident students with California students annually. The 18 percent cap applies to all UC campuses, but only those three campuses currently are notably above the cap. The planned reductions are spread evenly over each year of the phase-down period. The 2022 and 2023 Budget Act agreements subsequently provided UC with funding to backfill for the loss of associated nonresident tuition revenue. If UC does not meet the reduction target, provisional language directs the Administration to reduce UC's appropriation proportional to any shortfall.

UC 2023 Budget Act Enrollment Targets. The Budget Act of 2023 directs UC to increase California resident undergraduate enrollment by 7,800 full-time equivalent (FTE) students over a two-year period—from 2021–22 to 2023–24. This increase includes:

1. The aforementioned replacement of 902 nonresident undergraduate students with California resident students at Berkeley, Los Angeles, and San Diego campuses,
2. Growth of resident undergraduate enrollment by 4,730 students with $51.5 million, and
3. An additional 2,168 resident students using part of its General Fund base augmentation.

Altogether, the state expected UC to enroll 203,661 resident undergraduate FTE students in 2023-24. The 2023 Budget Act included budget bill language expressing the expectation that UC grow by 2,927 resident undergraduate FTE students in 2024-25, 2,947 FTE students in 2025-26, and 2,968 FTE students in 2026-27. These amounts reflect annual growth of 1.4 percent. The state's intent was that UC would fund this new growth from base General Fund augmentations provided in each of the next three years. Table 9 below displays the 2023 Budget Act expectations for UC resident enrollment growth.

Table 9: 2023 Budget Act Expectations for UC Resident Enrollment Growth *(Total Resident FTE Students)*

	2021-22 Actual	2022-23 Estimated	2023-24 Projected	2024-25 Projected	2025-26 Projected	2026-27 Projected	Cumulative Growth[a]
Enrollment target under compact	195,861 (baseline)	197,111	203,661	206,588	209,535	212,503	16,642
Change over prior year	—	1,250	6,550	2,927	2,947	2,968	—
Annual percent change	—	—	3.3%	1.4%	1.4%	1.4%	—

UC Progress towards Enrollment Expectations. A January 2024 status update to the committee indicated that that UC will not reach this target and that UC may be 1400 FTE short. UC will finalize its 2023-24 enrollment counts later this year after it has better data on student unit-taking. Nevertheless, UC believes that it will come closer to hitting the enrollment target and that it will achieve its out year growth targets as well.

According to UC, the Fall 2023 entering class of California residents set a record at 59,915 new students—first-years grew over five percent and transfers were relatively flat.

While the new freshman cohort is estimated to increase for 2023-24, UC indicates that several campuses needed to go further into their waitlists later in the admissions cycle last year, which left a few campuses short of their enrollment targets. Additionally, UC's first-to-second-year retention rate declined for three consecutive years (from 2019 through 2021)—dropping by 0.9 percentage points. UC attributes this decline to challenges students encountered during the COVID-19 pandemic.

Compared to the Fall 2022 term, nonresident undergraduate enrollment in the fall 2023 term declined at the Berkeley, Los Angeles, and San Diego campuses by an estimated 1,138 FTE students. This exceeds the state reduction target of 902 FTE students. As detailed below in Table 10 and in the November 2023 UC compact report, the share of nonresident students at Berkeley, Los Angeles, and San Diego decreased by 0.9 percent, 1.6 percent, and 1.8 percent respectively. UC projects achieving the goals set in its agreement by 2026-27.

Table 10: Change in share of Non-resident Students at UC Berkeley, UCLA, and UC San Diego between 2021-22 and 2026-27. *(Percent Share)*

Campus	2021-22 Non-resident Enrollment Share (%)	2022-23 Non-resident Enrollment Share (%)	2023-24 projected Non-resident Enrollment Share (%)	2024-25 projected Non-resident Enrollment Share (%)	2025-26 Non-resident Enrollment Share (%)	2026-27 Non-resident Enrollment Share (%)
Berkeley	24.4	23.5	22.0	20.6	19.2	18.0

Los Angeles	23.4	21.8	20.4	19.4	18.5	18.0
San Diego	23.6	21.8	20.5	20.1	18.3	18.0
UC Systemwide Total	17.7	17.1	16.4	16.1	15.5	15.3

Legislative Analyst's Office Comments and Recommendations

LAO Recommendation: ***Revert Any Unearned 2023-24 Enrollment Growth Funds.*** After the state enacts the 2024-25 budget, UC will finalize its enrollment counts for 2023-24. If actual enrollment that year falls short of the state target, the LAO recommends the state revert any unearned funds as part of the 2025-26 budget. Existing provisional budget language allows this reduction to occur administratively, without requiring legislative action. (Legislative action would be needed only if the Director of Finance chose not to exercise this authority.) Based on UC's 2023-24 enrollment estimates as of February 2023, $16 million in enrollment growth funding has been unearned.

LAO Recommendation: ***Hold UC's Resident Undergraduate Enrollment Target Flat for 2024-25 and 2025-26.*** Consistent with their recommendation in Issue 1 to hold state funding for UC flat, the LAO recommends holding UC's enrollment target at the current level of 203,661 resident FTE students for 2024-25 and 2025-26. While student demand to attend UC generally is strong, the state budget at this time cannot afford to fund enrollment growth at UC unless it can find spending reductions or revenue increases elsewhere in the budget. Moreover, even without raising UC's enrollment target for 2024-25 or 2025-26, UC still could add some students. At its existing funded level, UC still has some room to grow (by as many as 1,383 FTE students). Furthermore, CSU has considerable room to accommodate undergraduate enrollment growth within its existing funded level.

LAO Recommendation: ***Reserves Are an Option for Keeping the Nonresident Enrollment Reduction Plan on Track.*** Given student demand is so strong at the Berkeley, Los Angeles, and San Diego campuses, the state might want to request that UC use its system reserves for the specific purpose of keeping the nonresident enrollment reduction plan on track. If UC were to continue implementing this plan in 2024-25, as it now expects to do, more than 1,000 slots for resident undergraduate students would become available at UC's highest-demand campuses. Though the associated enrollment costs are ongoing, using system reserves for this specific purpose for a year or two would help relieve substantial enrollment pressures at these campuses. While using reserves for ongoing enrollment costs is not sustainable over many years, the approach might be considered on a temporary basis given the nonresident enrollment reduction plan has been such a high legislative priority.

Suggested Questions

UC previously indicated confidence in reaching an enrollment growth target of 7,800 in 2023–24 over the estimated 2021–22 baseline level. Now, UC indicates difficulty with reaching its target and will fall 1400 FTE short.

- **UC:** What factors are causing UC to fall short of this target?
- **UC:** Does UC have confidence that it will reach its 2024-25 growth target?
- **DOF:** Has DOF considered potential action in response to this?

Staff Recommendation. Hold Open

Issue 5: Governor's Proposals for UC

Panel

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

Governor's Budget Proposals

Medical School Project at UC Merced. Consistent with a Budget Act of 2019 agreement, the budget includes an increase of $14.5 million General Fund in 2024-25 and ongoing to support a Medical School Project at UC Merced.

Institute for Immunology and Immunotherapy at UC Los Angeles (UCLA) Reduction. The Governor's budget proposes to forego a $300 million General Fund investment for a new construction project at UCLA because the project scope shifted to the acquisition and maintenance of an existing facility.

Background

Medical School Project at UC Merced. The Budget Act of 2019 (AB 74 (Ting), Chapter 23, Statutes of 2019) authorized UC to pursue a medical school project at, or near, the Merced campus and included legislative intent to support the debt service for bonds associated with this project.

The medical education program at UC Merced is a collaboration between UC Merced, UCSF, and its regional campus UCSF Fresno to address the profound physician shortage in the San Joaquin Valley by educating, in the Valley, students with strong cultural and family ties to the Valley. The program has multiple phases:

Phase 1

a) San Joaquin Valley Programs In Medical Education (SJV PRIME), a four-year UCSF medical education program that is a tailored track at UCSF School of Medicine for medical students who are committed to improving health for populations, communities, and individuals in California's San Joaquin Valley.
b) Building off SJV PRIME is an eight-year Baccalaureate-MD dual degree program called SJV PRIME+. This iteration of the program provides students a Baccalaureate degree from UC Merced and a Doctor of Medicine from UCSF, creating and expanding infrastructure and capacity at UC Merced and UCSF Fresno. According to UC, the first SJV PRIME+ cohort entered UC Merced in Fall 2023. The initial class size is 12-15 students per year.

Phase 2

The next phase expands the class size from 12-15 to 50 students per year.

Phase 3

Finally, a fully accredited independent medical school at UC Merced will be launched no sooner than 2035 and the UC Merced medical school will house this program.

Implementation Updates for Medical School Project at UC Merced. The UC Regents gave final approval for the final design, California Environmental Quality Act findings, the full budget and financing of the new medical education building at UC Merced on November 15, 2023. The total project cost is $300 million. Of this amount, $243 million is covered by state General Fund, $45 million by gift funds, and $12 million by campus funds. Construction is anticipated to begin in Spring 2024 with completion slated for Fall 2026. UC indicates that a medical education facility will be necessary to receive accreditation as a medical school.

Institute for Immunology and Immunotherapy at University of California, Los Angeles (UCLA). In response to the budget deficit in 2023-24, the 2023 Budget Act agreement modified the funding schedule for an independent research institute funded through a public-private partnership with the nonprofit California Institute for Immunology and Immunotherapy. This institute, originally envisioned as a new construction project, is a long-term research affiliation between UCLA and the Institute for Immunology and Immunotherapy. Under the modified funding schedule, $500 million General Fund is spread across three fiscal years ($100 million in 2022-2023, $100 million in 2023-24, and $300 million in 2024-25). Additionally, private donors pledged $500 million to the project.

Since the adoption of the 2023 Budget Act agreement, the UC Regents approved the affiliation agreement with the Institute for Immunology and Immunotherapy in August 2023 and the project scope shifted to the acquisition and maintenance of the Westside Pavilion in Los Angeles. As of December 2023, UCLA acquired the Westside Pavilion in Los Angeles, the location will be renamed the UCLA Research Park, and will house the California Institute for Immunology and Immunotherapy, the UCLA Center for Quantum Science and Engineering, as well as programs across multiple disciplines. According to UC, the official purchase cost of the Westside Pavilion was $700 million, of which $357 million was covered by seller credits, $200 million by previous State appropriations, and $143 million by UCLA borrowing. UC estimates that the renovation costs for the Westside Pavilion to the UCLA Research Park is $560 million.

Legislative Analyst's Office Comments and Recommendations

LAO Recommendation:* *Recommend Pausing New UC Merced Medical Education Building. The state authorized UC to finance the new medical education building using UC bonds, with the state committing to cover the associated debt service. Based on the most recent estimates, this project has a state cost of $243 million (which the LAO highlights is the most expensive state-supported UC project to date). The Governor is proposing to provide $14.5 million beginning in 2024-25 to cover the associated debt service. While having entered into a construction contract for the project, UC indicates that it has neither drawn commercial paper nor issued a revenue bond for the project. Under the existing project schedule, construction is to begin in Summer 2024 and be completed by Fall 2026, with the building opening to students in Fall 2027. The LAO recommend pausing this project and removing the $14.5 million ongoing General Fund for debt service from UC's budget. The state could revisit the project once its budget condition improves.

LAO Recommendation:* *Recommend Aligning Funding for Other UC Capital Outlay Projects With Estimated Debt Service Costs. Whereas the state's typical fiscal practice is to cover actual debt service costs when they become due, the state forward-funded UC for debt service on multiple projects in the 2023 Budget Act. That is, the state provided the funds before UC had issued bonds and knew its actual debt service costs. Because UC has not yet sold bonds for all of the approved projects, it has not needed all the associated state funding. The LAO estimates that UC has at least $50 million in unspent debt service funding in 2023-24. The LAO notes that the state could achieve some one-time savings by aligning the state appropriation for debt service with UC's actual debt service costs. The state could continue to achieve some one-time savings until UC has sold all the bonds. The amount of one-time savings would shrink over the next few years as additional bonds are sold.

Suggested Questions on California Institute for Immunology and Immunotherapy at UCLA

UC: Do you have an updated project timeline? Do you have an update on the amount of private funding committed to the project so far? Please share details about the terms and agreement.

Staff Recommendation. Hold Open