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

SUBCOMMITTEE NO. 1 Agenda

Senator Richard D. Roth, Chair
Senator Connie M. Leyva
Senator Mike Morrell

Thursday, March 21, 2019
9:30 a.m. or upon adjournment of session
State Capitol - Room 3191

Consultant: Anita Lee

Items for Discussion

Item Department **Page**

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6440 University of California (UC)

The 1960 Master Plan for Higher Education designates the UC as the primary state-supported academic agency for research. In addition, the UC is designated to serve students at all levels of higher education and is the public segment primarily responsible for awarding the doctorate and several professional degrees, including in medicine and law.

There are ten UC campuses: Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz. Nine of these are general campuses and offer undergraduate, graduate, and professional education. The San Francisco campus is devoted exclusively to the health sciences. The UC operates five teaching hospitals in Los Angeles, San Francisco, Sacramento, San Diego, and Orange counties. The UC has more than 800 research centers, institutes, laboratories, and programs in all parts of the state. The UC also provides oversight of one United States Department of Energy laboratory and is in partnerships with private industry to manage two additional Department of Energy laboratories.

The UC is governed by the Board of Regents which, under Article IX, Section 9 of the California Constitution, has "full powers of organization and governance," subject only to very specific areas of legislative control. The article states that "the university shall be entirely independent of all political and sectarian influence and kept free therefrom in the appointment of its Regents and in the administration of its affairs." The Board of Regents consists of 26 members, as defined in Article IX, Section 9, each of whom has a vote (in addition, two faculty members — the chair and vice chair of the Academic Council — sit on the board as non-voting members):

- 18 regents are appointed by the Governor for 12-year terms.
- One is a student appointed by the regents to a one-year term.
- Seven are ex officio members — the Governor, Lieutenant Governor, Speaker of the Assembly, Superintendent of Public Instruction, president and vice president of the Alumni Associations of UC and the UC president.

The Governor is officially the president of the Board of Regents; however, in practice the presiding officer of the regents is the chairman of the board, elected by the board from among its members for a one-year term, beginning each July 1. The regents also appoint its officers of general counsel; chief investment officer; secretary and chief of staff; and the chief compliance and audit officer.

Issue 1: Budget Operations

Panel:
- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Seija Virtanen, University of California

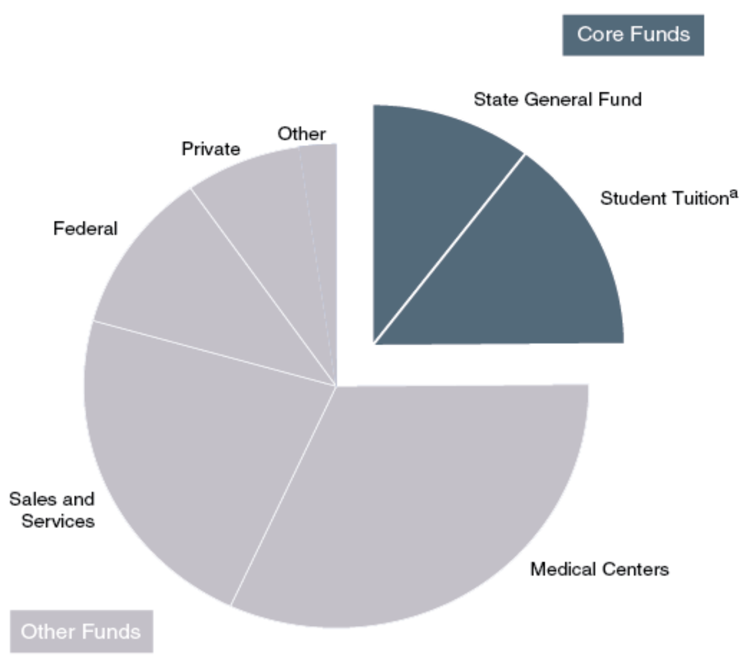
Background

UC's budget is comprised of variety of funds, such as state General Fund, student tuition, medical center revenue from its five medical centers, sales and services such as housing, bookstore and extended education, federal government funds for research and student financial aid, private donations, among others. In 2018-19, UC's estimated budget includes $36.5 billion from all sources, as shown below in the Legislative Analyst's Office (LAO) figure below. For 2019-20, the Administration assumes a 4.7 percent or $1.7 billion increase in total funding for UC. Nearly half of this increase is from UC's five medical centers, reflecting a seven percent increase in hospital revenues over the revised 2018-19 level. The Governor also assumes increases in sales and services (5.3 percent) and privately donated funds (8.4 percent). In 2019-20, core funding will increase by $184 million (2.0 percent)—rising to $9.5 billion. The LAO figures below display changes in UC fund sources from 2018-19 to 2019-20.

Figure 20

UC Relies on Many Fund Sources

Total Funds of $36.5 Billion, 2018-19

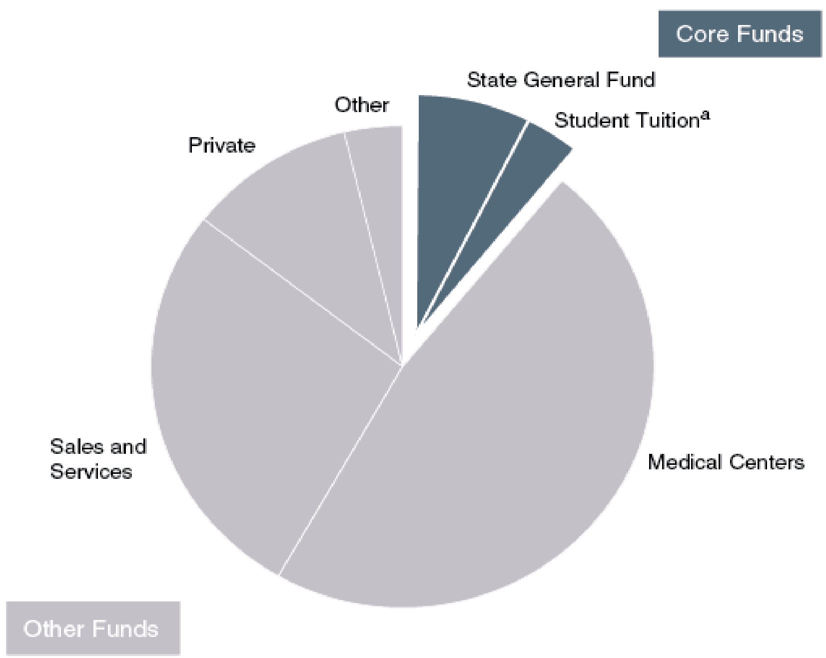


[a] Includes Student Services Fee and a small amount of other core funds (lottery, a portion of overhead on federal research contracts, and a portion of patent royalty income).

Figure 21

Some UC Fund Sources Projected to Grow Notably

Growth of $1.7 Billion, 2018-19 to 2019-20



[a] Includes Student Services Fee and a small amount of other core funds (lottery, a portion of overhead on federal research grants, and a portion of patent royalty income).

LAO

Employee Compensation and Benefits. Salaries and benefits comprise a significant share of UC's budgeted expenditures. In 2017-18, 67 percent of UC's core budget was for salaries and benefits. The remaining share of UC's budget was for equipment and utilities (17 percent) and student financial aid (16 percent).

In 2017-18, UC employed 159,000 full-time equivalent (FTE) faculty and staff, of which 41,000 (26 percent) were supported by core funds. Core funds support faculty, librarians, academic advisors, and other academic employees. Noncore funds generally cover staff, such as medical center employees and dining services staff, who are involved in other aspects of the university's operations. In some cases, UC uses a mix of funds to support employees who oversee both core and noncore functions of the university.

Tenured and tenure-track faculty, academic administrators and certain employees are not represented by a union. Approximately one-third of UC employees who are supported by core funds are represented by a union. There are 13 systemwide bargaining units. Examples of represented employees include lecturers, teaching assistants, librarians, clerical workers, and custodial staff.

State law grants the UC Board of Regents authority to negotiate collective bargaining agreements directly with its employee unions. UC Office of the President (UCOP) represents the board during these negotiations and agreements are ratified by the board. The Board of Regents also grants the UC President authority to determine compensation increases for non-represented employees. The UC

President typically determines compensation increases for tenured and tenure-track faculty after consulting with the Academic Senate.

UC operates its own health benefit programs for current employees and retirees and UCOP negotiates premiums with health care providers. The Board of Regents adopts policies establishing what share of premium costs UC and its employees each pay. On average, UC covers 87 percent of premium costs for active employees. For retirees, the maximum UC share of premium costs is 70 percent.

UC's pension program is known as the UC Retirement Program (UCRP). Like most other state employees, UC pensions are based on employees' salary and years of service upon retiring. The Board of Regents oversees UC's pension program and is responsible for determining benefits, establishing the plan's funding policy, and setting contribution rates. The 2015-16 budget provided UC $436 million in Proposition 2 funds over a three year period to address UCRP's unfunded liability. In order to receive this funding, UC was required to adopt reforms to that limits pensionable compensation to UCRP and make it consistent with the Public Employees' Pension Reform Act of 2013. UC adopted these reforms in 2016. Budget bill language stated that the appropriation did not constitute an obligation on behalf of the state to appropriate any funds in subsequent years for costs of the UCRP.

UC has substantial control over its staffing and compensation costs, and the state is not required to cover compensation decisions made by the Board of Regents. Nonetheless, the Legislature historically has recognized UC's compensation-related cost pressures. Consistent with past practice, the state in recent years has generally provided unrestricted, ongoing General Fund augmentations to help UC cover these costs.

Operational Costs for Equipment and Utilities. In addition to compensation decisions, UC purchases equipment that supports its operations. Academic-related equipment includes laboratory supplies, computers, and library materials. Campuses also have utility costs. Equipment and utility costs that are not related to the UC's academic mission are supported by non-core funds.

2018-19 Budget. The 2018-19 budget provided UC a $92.1 million ongoing General Fund for a base increase and $105 million one-time General Fund for general UC needs. For the one-time funds, the budget bill language stated that it is the intent of the Legislature that UC enroll additional resident undergraduate students and invest in services and programs that improve student outcomes. Staff also notes that UC's budget request includes turning the $105 million in one-time funding provided for the current year into ongoing funding. Staff is working with UC to get a breakdown of how campuses are spending this one-time money, and how funds were used.

Governor's Budget Proposal

Mandatory Cost Increases. The Governor proposes an increase of $120 million General Fund ongoing to address UC's mandatory costs. Budget bill language does not specify the breakdown or specific use of the $120 million increase. Instead, the language simply states, "$119.8 million shall be available to support operational costs."

The chart on the following page describes UC's mandatory costs. The largest component supports utility and equipment cost increases. UC assumes this portion of its budget will grow roughly at the rate of inflation. The next largest component supports negotiated salary increases for represented employees. UC notes that the anticipated cost increase reflects a mix of final contracts and contracts that are still under negotiation. The remaining increase would cover projected cost increases for UC's employee health, pension, and retiree health programs. The increase relating to health benefits is due to an anticipated four percent increase in premium costs, as well as growth in the number of retirees. Pension cost increases are based on projected growth in payroll.

UC Mandatory Operational Cost Increases

Mandatory Costs	Dollars in Millions
Operating expenses and equipment	$41
Salary increases for represented employees	30
Health benefit cost increases	21
Pension benefit cost increases	20
Retiree health cost increases	7
Total	**$119**

UC Budget Request

UC requests an additional $137 million General Fund ongoing to fund non-represented faculty and staff compensation increases. Specifically, $95 million will fund non-represented faculty, such as tenure and tenure-track faculty, of which, $47.5 million will fund an average of three present salary increase, $33 million will fund peer reviewed faculty promotion, and $13.9 million for separate salary program to reduce UC's ladder-rank faculty salary gap with its comparator institutions. The remainder, $42.6 million, will fund merit-based salary adjustments averaging about three present for non-represented staff. As a part of the UC's multi-year budget plan, the UC plans to provide annual merit increases linked to changes to the consumer price index. The Administration chose not to support salary increases for tenured and tenure-track faculty and other non-represented staff because the UC's budget request described compensation increases for these employees as a lower priority.

UC Core Funds. The Administration assumes a $299 million (3.3 percent) increase in ongoing core funding. The LAO chart below displays the year-over-year changes in core funds at the UC. The increase in tuition and fee revenue is based on projected growth in nonresident enrollment coupled with a proposed increase in nonresident supplemental tuition. The Governor ties his General Fund increase to UC holding resident tuition and the Student Services Fee flat in 2019-20. The committee will further discuss UC enrollment, tuition and Student Services Fees later in the agenda.

UC Core Funds
(Dollars in Millions Except Funding Per Student)

	2017-18 Actual	2018-19 Revised	2019-20 Proposed	Change From 2018-19	
				Amount	Percent
State General Fund	$3,367	$3,475	$3,715	$240	6.9%
Student tuition and fee revenue	5,012	5,206	5,269	63	1.2
Lottery	43	27	27	—[a]	-0.1
Other core funds[b]	388	384	381	-3	-0.9

Totals	**$8,811**	**$9,093**	**$9,393**	**$299**	**3.3%**
FTE students[c]	272,104	279,002	279,802	800	0.3%
Funding per student	$32,381	$32,593	$33,569	$977	3.0

[a]Less than $500,000.
[b]Includes a portion of overhead on federal and state grants, a portion of patent royalty income, and Proposition 56 funding designated for graduate medical education.
[c]One FTE represents 30 credit units for an undergraduate and 24 credit units for a graduate student. Includes resident and nonresident students.
FTE = full-time equivalent.

Legislative Analyst's Office Comments

Recommend Considering Recruitment and Retention Issues When Making Compensation Decisions. The LAO encourages the Legislature to consider UC's ability to recruit and retain employees—whether they are represented or non-represented. The Legislature could consider UC's ability to attract top candidates to open positions, retain existing employees, and offer competitive compensation. If UC is able to recruit top candidates and retain tenured and tenure-track faculty but not represented staff, for example, the Legislature might agree with the Governor's proposal to prioritize additional funding for represented employees. Alternatively, the Legislature might wish to target compensation increases toward different groups or provide higher or lower compensation increases. At the time of this analysis, UC was not able to provide data on these key indicators to the LAO.

The LAO notes some data suggest UC is competitive in recruiting faculty. Historically, UC has used compensation data from a group of eight research universities to gauge the competitiveness of its faculty compensation. The group includes four private institutions (Harvard, Massachusetts Institute of Technology, Stanford and Yale) and four public flagship institutions (University of Illinois, University of Michigan, University at Buffalo and University of Virginia). Average salaries for full professors at UC are lower than the average of all eight comparison institutions but above the average of the four public comparison institutions. Salaries for associate and assistant professors compare similarly. The LAO notes that this comparison group reflects a small group of institutions and may not accurately reflect the broader academic market in which UC campuses compete for faculty. The LAO compared average UC faculty salaries to 73 public institutions across the country that conduct a similar level of research as UC, and found that UC professors make higher average salaries than the average across all of these public institutions.

Staff Comments

The Administration notes that UC identified some non-state funds in its budget request that could be used to address salary increases for these non-represented employees. The Legislature may wish to ask what these fund sources are, fund amounts, and how this would impact the UC's overall budget. The Legislature may wish to request additional details from UC regarding how the $105 million from 2018-19 was spent by campuses. For the year to date, revenues are below projections by a total of $2.2 billion, due to January revenues coming in significantly below projections. The LAO and others believe much of the January shortfall was due to timing of payments and expect that some of shortfall may be made up in April payments. The Legislature may wish to wait until update revenue projections are available before committing ongoing General Funds.

Staff Recommendation. Hold Open

Issue 2: Resident and Nonresident Enrollment

Panel

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

Background

Master Plan for Higher Education. The California Master Plan for Higher Education of 1960 set forth each of the three segments' missions and student eligibility policies. For freshman eligibility, UC is to draw from the top 12.5 percent of public high school graduates. For transfer eligibility, UC is to admit students who have completed lower division coursework with at least a 2.4 grade point average. The transfer function is intended both to (1) provide students who do not qualify for freshman admission an opportunity to earn a bachelor's degree, and (2) reduce costs for students seeking a bachelor's degree by allowing them to attend California Community Colleges (CCC) for their lower division coursework. The master plan does not include eligibility criteria for graduate students. Instead, it calls for the universities to consider graduate enrollment in light of workforce needs, such as for college professors and physicians.

A-G Requirements. For freshmen, UC is responsible for setting specific admission criteria intended to reflect their eligibility pool. As a minimum criterion, UC requires high school students to complete a series of college preparatory courses known as the "AG" series. The series includes courses in math, science, English, and other subjects. To qualify for admission, students must complete this series while earning a certain combination of course grades and scores on standardized tests. In 2017-18, local educational agencies determined that approximately 41.4 percent of high school graduates met the AG series requirements. For transfer students, the UC sets general education and pre-major course requirements. Transfer students completing these courses and meeting the master plan's grade point average requirements are eligible for admission.

Redirection Policy. For both freshman and transfer applicants, eligibility guarantees admission to the UC system, but not to a particular campus. When applicants are not admitted to their campus of choice, they are referred to another campus. Currently, UC Merced serves as the referral campus for freshman applicants, whereas both UC Riverside and UC Merced serve as referral campuses for transfer applicants. In fall 2017, 10,700 eligible freshman applicants (14 percent) were referred to Merced. Very few of these students (119 or 1.1 percent) elected to enroll at that campus. Students who do not accept admission at UC may end up attending California State University, a private school, or a community college (then transferring to a four-year school upon completing their lower-division coursework).

Enrollment Targets. The state typically sets enrollment targets for UC in the annual budget act, and typically covers the cost of enrollment growth at UC using a formula that is linked to the marginal cost of instruction. The formula estimates the cost to hire new faculty and teaching assistants, purchase instructional equipment, and cover other ongoing costs to support new students. The total cost is then shared between the state General Fund and student tuition revenue. In 2018-19, the marginal cost of instruction was $18,900 per student, with a state share of $10,000.

Traditionally, the state has set enrollment expectations for the academic year starting a few months after budget enactment. However, this approach does not align well with the timing of UC admission decisions which occurs in early spring, prior to enactment of the state budget in June. This means the state budget is enacted too late to influence UC's admission decisions that year. To have a more significant influence on UC's admission decisions, the 2015-16 budget began setting enrollment expectations for the following academic year. The chart below highlights the state's investment in UC enrollment over the last several years.

Recent Enrollment Budget Actions

	Action
2015-16 Budget	The budget established a UC enrollment target of an additional 5,000 more resident undergraduate students for 2016-17 compared to 2014-15. The budget allocated $25 million General Fund ongoing to support this enrollment growth.
2016-17 Budget	The budget provided UC $18.5 million General Fund ongoing to enroll 2,500 more resident undergraduates in 2017-18 compared to the number enrolled in 2016-17.
2017-18 Budget	The budget directed UC to enroll at least 1,500 more resident undergraduate students in 2018-19 compared to 2017-18. The budget states legislative intent that UC fund this enrollment by redirecting funds from its existing programs, with the goal of reviewing UC's proposed redirections during the 2018-19 budget. The budget also requires UC to admit at least one transfer student for every two entering freshman. The budget also provided UC $5 million General Fund ongoing to enroll 500 more graduate students in 2017-18 compared to 2016-17. The budget bill notes that UC prioritize the enrollment of resident graduate students, and must enroll at least as many residents as nonresidents.
2018-19 Budget	The budget included three enrollment provisions for 2018-19: First, the budget implemented the 2017-18 budget expectation to redirect $15 million funds to support growth of 1,500 resident undergraduate students. Of the $15 million, $8.6 million was redirected from UCOP's line item to the campuses and $6.4 million was redirected from within campuses' budget. Key programs that received budget redirections include: the Presidential Initiatives Fund (supporting the Global Food Initiative Public Service Law Fellowship, Carbon Neutrality Initiative, and UC Mexico Initiative), and the California Program on Access to Care. In addition, several campus-based programs received a lower cost-of-living increase, including the Medical Investigation of Neurodevelopment Disorders. Second, the budget increased UC's resident undergraduate growth expectation in 2018-19 from 1,500 students to 2,000 students. To fund the additional 500 students, the budget provided UC $5 million ongoing General Fund. The budget also requires UC to admit at least one transfer student for every two entering freshman. Third, the budget provided $105 million one-time for general UC needs. The intent of the Legislature was for UC to enroll additional resident undergraduate students, including transfer students, and invest in services and programs that

	improve student outcomes. The language did not specify the number of additional students UC was expected to enroll with the one-time funds. Staff is working with UC to get details on how campuses spent this funding, and how much was spent on enrollment. The budget did not set an enrollment expectation for 2019-20.

Admission and Enrollment of Students from Local Control Funding Formula (LCFF) Plus High Schools. AB 1602 (Committee on Budget), Chapter 24, Statutes of 2016, specified that as a condition of receiving funds in the 2016 Budget Act, UC must approve a plan and timeline, in the 2016-17 academic year, to increase the number of California resident freshman admits who meet admission requirements, at each campus, including students who are enrolled in high schools with seventy-five percent or more unduplicated pupils, and expand services and resources to students who enroll at UC from these schools. The budget also included $20 million one-time General Fund for student outreach and student support services for low-income and underrepresented minority students, including students who were enrolled in high schools with seventy-five percent or more unduplicated pupils.

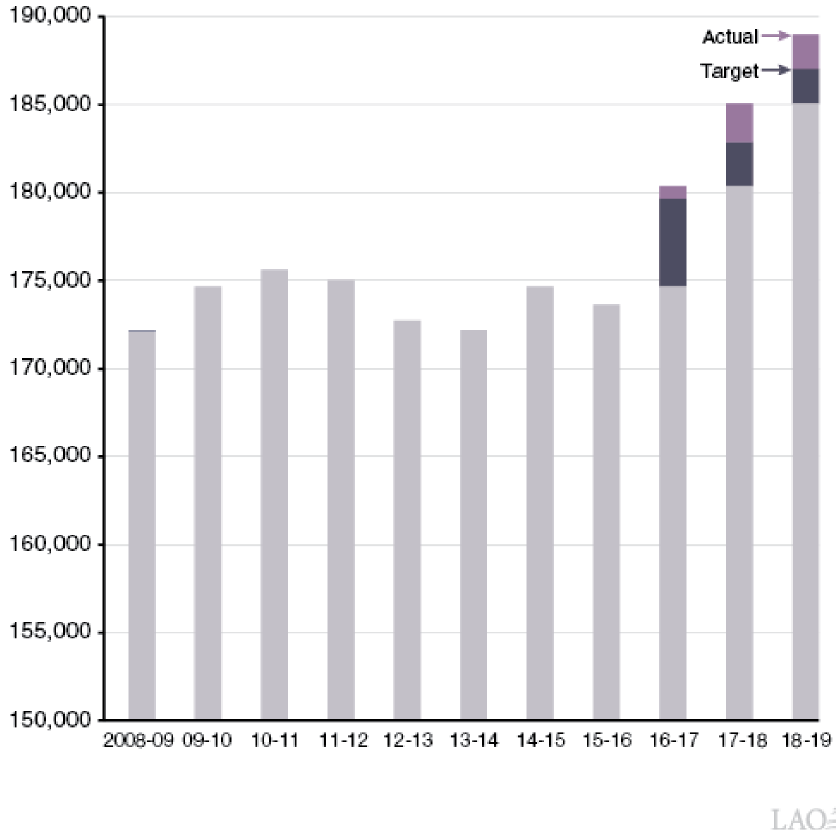
On November 5, 2018, UC submitted their annual report to the Legislature regarding the program. The admit rate for students from LCFF Plus schools went down from 61 percent in 2016 to 56 percent in 2017 to 54 percent in 2018. About 25 percent of the fall 2018 freshman incoming class was from LCFF Plus high schools, which is similar to the fall of 2017 and 2016. In 2018, UC Riverside, Davis and Irvine had the largest number of incoming freshman for LCFF Plus high schools.

Resident Undergraduate Enrollment Increasing. In the last three years, UC has exceeded its enrollment targets set by the state. The state has counted the over-target students as part of UC's enrollment base when setting its growth target for the following year. Though the state has reset the base to reflect the higher-than-expected growth, it has not funded UC directly for the over-target students. In 2018-19, resident undergraduate enrollment was at an all-time high of 189,000 FTE students. The LAO figure on the following page displays changes in resident undergraduate enrollment over the last decade.

Figure 25

UC Enrollment Level Is at All-Time High

Full-Time Equivalent Resident Undergraduate Students



UC Currently Estimates Substantial Enrollment Growth in 2018-19. As of January 2019, UC estimates resident undergraduate enrollment in 2018-19 will grow by 3,900 FTE students. This amount is 1,900 more FTE students than expected or budgeted by the state. According to UC, the additional growth was unplanned and the result of campuses under-predicting the percent of applicants who would accept an admission offer. Enrollment targets for campuses are set by UCOP based on a campuses facility space, financial resources, and the long-range development plan that accounts for the campuses local community. Staff at UC indicate that all campuses, except for Merced, have waitlist; however, for the 2018-19 admission cycle, only Davis and Berkeley offered admission to some students on the waitlist. According to preliminary enrollment data for the fall of 2018-19, campuses overenrolled by approximately 2,004 students, of which San Diego overenrolled by 1,200 students.

Nonresident Enrollment

In 2018, nonresident students comprised 17.18 percent of all undergraduates at UC. This compares to 17.1 percent in 2017, and 16.4 percent in 2016. Over the last decade, nonresident enrollment has substantially increased. In 2010-11, nonresident enrollment was five percent, 2011-12 it was eight percent, and in 2012-13, it was eight percent.

In 2017, when looking at individual campuses, nonresident undergraduate enrollment at Berkeley was 24.5 percent, 22.7 percent at San Diego, 22.4 percent at Los Angeles, and 17 percent at Davis. UC states that the growth in nonresident undergraduate students allowed it to further grow resident enrollment because of the additional revenue they produce. UC charges nonresidents a supplemental charge approximately $28,992 in addition to the $12,570 that all UC undergraduates pay.

Some members of the Legislature were concerned about the growth in nonresident enrollment, and as a result, the 2016-17 budget required UC to adopt a policy to cap the enrollment of nonresident undergraduates. In May 2017, UC adopted a nonresident enrollment policy that capped nonresident enrollment at 18 percent for five UC campuses. At the other four campuses, Berkeley, Irvine, Los Angeles and San Diego, where the proportion of nonresidents exceeds 18 percent, nonresident enrollment will be capped at the proportion that each campus enrolled in the 2017–18 academic year. The policy also stated that campuses wishing to increase nonresident enrollment cannot reduce enrollment of funded resident students to accommodate this growth. The policy also calls for a review by the Regents at least once every four years.

Preliminary data for the fall of 2018 indicates that three campuses, Davis, UCLA and Berkeley, overenrolled the nonresident undergraduate students above their cap. Specifically, Davis overenrolled by 78 nonresident undergraduates, which increased the proportion of nonresident undergraduates from 18 percent to 18.3 percent. UCLA overenrolled by 235 nonresident undergraduates, which increased the proportion from 22.8 percent to 23.6 percent. Berkeley overenrolled by 46 nonresident undergraduates, which increased their proportion from 24.5 percent to 24.7 percent.

UC estimates that total the net revenue generated by these students was $6 million. UCOP notified campuses that the net revenue will be redirected across the UC system to support student basic needs in 2019-20. Staff notes that UC's approved budget for 2019-20 proposes to increase nonresident undergraduate enrollment by 800 students.

In a February 13, 2019 letter to campuses regarding 2019-20 undergraduate enrollment targets, President Napolitano stated that "campuses must continue to comply the Academic Senate's 'Compare Favorably' policy, which requires that admitted students, on average, be at least as qualified as admitted residents, when judged holistically, according to the University's multiple admissions criteria. Campuses are expected to apply the same high standards to nonresidents as they do to residents."

The 2018-19 Budget Act included supplemental reporting language that directed UC to develop a plan to reduce nonresident students to 10 percent of enrollment at every campus by 2030. UC must submit the plan in April 2019. As of writing this agenda, UC has not submitted the report.

<u>Governor's Budget Proposal</u>

Proposes $10 Million Ongoing to Sustain a Portion of 2018-19 Enrollment Growth. According to the Department of Finance, the $10 million General Fund ongoing would support 1,000 FTE students enrolled above the 2018-19 enrollment target. The $10 million is based on a $10,000 per-student state rate using the marginal cost of instruction. UC used $10 million of the $105 million one-time funds from the 2018-2019 budget to fund this enrollment. This proposal would provide ongoing funding to support for this purpose. The language does not specify if this funding is for undergraduate or graduate students.

Does Not Propose Enrollment Targets for Coming Few Years. The Governor does not propose enrollment targets or enrollment growth funding for either 2019-20 or 2020-21.

UC requests the state to support 2,500 more undergraduates in 2019-20, and 1,000 more graduate students. UC is seeking $40.3 million in ongoing General Fund to support this growth; the state marginal cost UC is seeking for each new student is $11,512.

Legislative Analyst's Office Comments

Given the provisional budget language connected to the $105 million in one-time 2018-19 funding is confusing, the Legislature will need to consider how it wants to respond now. The Governor's proposal would fund a little more than half of the 1,900 resident undergraduate students that UC enrolled over explicitly budgeted targets. The Legislature could adopt the Governor's proposal and provide ongoing funding to support these students. Alternatively, the Legislature could decide to fund any higher or lower enrollment level. Funding all of the additional resident undergraduate students UC enrolled in 2018-19 would require an additional $9 million ongoing (based on the 2018-19 marginal cost of instruction rate of $10,000) above the amount included in the Governor's budget.

Recommend Adopting Enrollment Target for 2020-21. To influence UC's future admission decisions, the LAO recommends the Legislature set an enrollment target for the 2020-21 academic year. The target could be to hold enrollment flat or increase it. If the Legislature wishes to grow enrollment, the LAO recommends (1) using the marginal cost formula to derive the associated state cost and (2) covering the cost with ongoing funds.

High School Graduates Projected to Decline Slightly. The Department of Finance projects a 0.8 percent decline in the number of high school graduates in 2018-19 and a 0.4 percent decline in 2019-20. This means that, all other factors staying the same, enrollment demand for freshman slots in 2020-21 would decrease accordingly. This slight decline in high school graduates over the next two years also suggests that enrollment growth at UC could be a lower priority for the Legislature.

Staff Comments

Staff notes that the UC's marginal cost of instruction rate has increased from $10,000 in 2018-19 to, $11,520 in 2019-20, a 15 percent increase. Given the various actions taken by the state in 2018-19, staff notes that it is difficult to understand what the Governor's proposed $10 million ongoing would support. On the one hand, the LAO suggests that funds can be thought of as supporting the additional undergraduate students. On the other hand, UC suggests a portion of the one-time funds also supported growth of graduate students. As the Legislature considers the Governor's proposal, it may wish to get a better understanding how much enrollment grew in 2018-19 and how much of this growth was funded with one-time resources. The subcommittee may wish to ask for a breakdown of UC's enrollment request.

Staff Recommendation. Hold Open

Issue 3: Tuition, Nonresident Supplemental Tuition and Student Services Fees

Panel

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

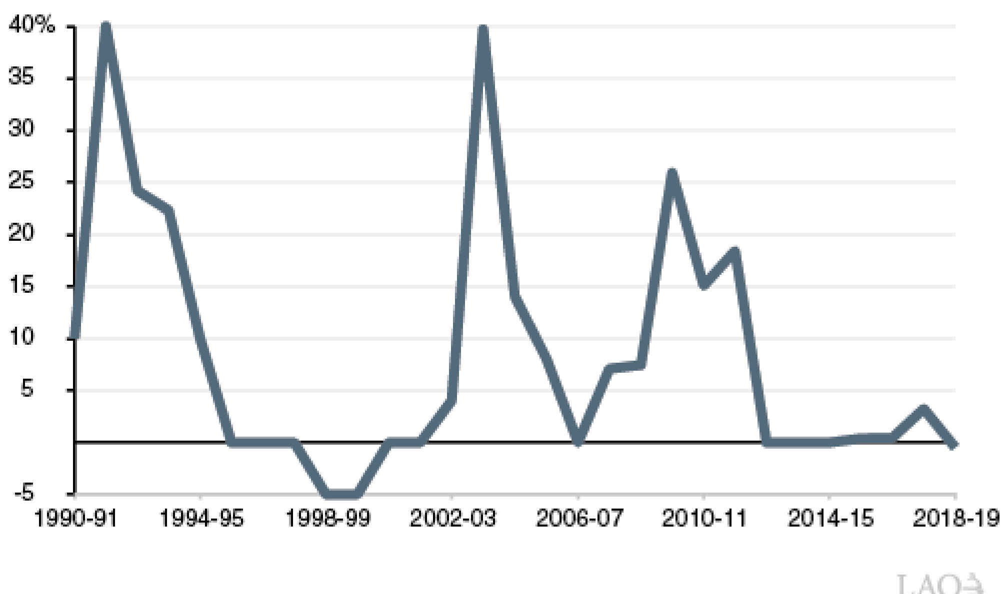
Background

Tuition and fees at UC tend to be volatile, with periods of flat tuition followed by sharp increases. The periods of flat tuition generally correspond to years in which the state experienced economic growth, whereas the periods of steep tuition increases generally correspond to periods when the state experienced a recession. During recessions, the state has often balanced its budget in part by reducing state funding for the segments. UC in turn, increased tuition and fees to make up for the loss of state support. This was the case in the recent recession; between 2004 and 2013, tuition at UC nearly doubled. Given the volatility in state revenues, fluctuations in tuition levels have often been pronounced. The LAO chart below displays tuition levels at UC in the last few decades.

Figure 30

Tuition Levels at UC Tend to Follow the Economic Cycle

Change From Prior Year, Systemwide Tuition and Fees for Resident Undergraduates



Tuition Increase Proposals. In January 2017, the UC Regents voted for a tuition increase of 2.5 percent, or $282, for a total annual tuition of $11,502. Additionally, the UC Regents voted to increase the student services fee by five percent, a $54 increase for a total of $1,128 annually. This generated $48 million in revenue to UC campuses, net of the amount set aside for undergraduate need-based aid. In 2017, the Board of Regents also voted to increase nonresident tuition by five percent, or $1,332.

In January 2018, the UC Regents proposed a tuition increase of $288, a Student Services Fee increase of $58 for resident undergraduate students, and a nonresident supplemental tuition increase of $978. According to the Legislative Analyst's Office, this would have generated approximately $95 million in revenue to UC, net of the set aside for undergraduate need-based aid. The UC used a portion of the $105 million one-time General Fund from the 2018-19 budget to cover the proposed tuition increase. However, it is unclear how campuses spent this funding. For 2018-19, the total systemwide charge for an undergraduate student is $12,570 ($11,442 for tuition and $1,128 for the Student Services Fee).

In November 2018, the Board of Regents approved the UC's 2019-20 budget for current operations. While the Board of Regents did not act on a tuition increase, the budget plan assumed revenue of $63.8 million, which is equivalent to a tuition increase of 2.6 percent ($300) and a Student Services Fee increase of five percent ($54). The Governor's budget summary notes the Administration's expects tuition remain flat.

On March 6, 2019, the UC announced that they will hold in-state undergraduate tuition steady for the 2019-20 academic year. This is the seventh time in eight years that the UC has held tuition flat for residents. Additionally, the March 14th UC Regents agenda item, *Proposed Multi-Year Budget Plan*, proposes keeping the Student Services Fee flat in 2019-20. However, the UC has not made a formal announcement to hold the Student Services Fee flat.

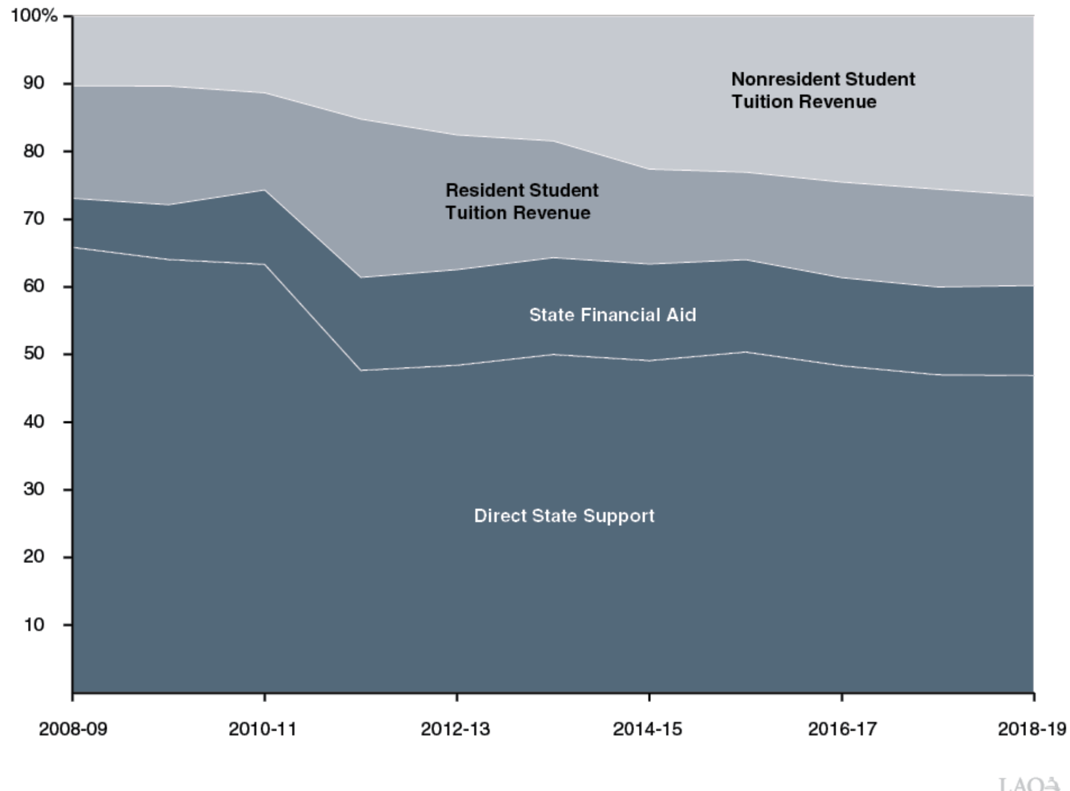
Nonresident Supplemental Tuition (NRST). Nonresident undergraduate students pay NRST in addition to systemwide tuition and fees. In recent years, UC has notably increased both nonresident enrollment and the NRST. In 2018-19, nonresident undergraduate enrollment is 4.8 times the level in 2008-09. By comparison, resident undergraduate enrollment grew by 10 percent over same period. Including both base tuition and the supplemental charge, nonresident tuition is 53 percent higher in 2018-19 compared to the 2008-09 level. For 2018-19, NRST was $28,992 for undergraduate students. For 2019-20, UC proposes to increase NRST by 2.6 percent, approximately $762 ($29,754 total) and increase nonresident enrollment by 800 students, which would generate approximately $53 million in revenue. The Board of Regents was scheduled to vote on this at its March 14th board meeting, however, the board ultimately did not vote. Instead, UCOP and the Board of Regents may revise the plan. The LAO estimates UC would spend $9.2 million for additional instructors, teaching assistants, and other costs to support the additional nonresident students. The remaining $43 million would be available for other ongoing priorities.

As a result of this trend, revenue from NRST makes up a growing share of the UC's core funds. The LAO chart on the following page displays this trend over the last decade.

Figure 32

Revenue From Nonresident Students Is a Growing Share of Core UC Funds

Share of Core Funding From Each Source



Student Services Fee. In addition to tuition, all registered students must pay the Student Services Fee. Revenue from this fee provides funding for student life activities, student services, and capital improvements for student life facilities. This is considered as a mandatory systemwide fee, and eligible students may receive financial aid to cover the fee.

In 2015-16, UC implemented a plan to increase the student services fee by five percent annually through 2019-20. In 2015, the fee was $1,020 per undergraduate student. Half of the revenue generated by the increase (net of aid) is designated for the hiring of direct mental health services providers (discussed later in this agenda) and the remainder is for critical student services. In 2017-18, the Board of Regents approved a five percent increase, which generated $298 million. For 2018-19, the state provided one-time funding, which UC used to cover the proposed increase for that year, and as a result, the fee remained flat at the 2017-18 level. In 2018-19, the Student Services Fee is $1,128, and will generate $306 million. The March 14, 2019 Board of Regents agenda item notes that the UC proposes keeping the student services fee flat in 2019-20. However, UC has not formally announced this.

Chancellors are authorized to determine spending of the of the Student Services Fee income on their campuses. Each campus has a Student Fee Advisory Committee, the membership of which is at least 50 percent students, to advise the chancellor.

Campus-based Fees. In addition to mandatory systemwide fees, students also must pay campus-based fees. These fees help fund campus programs such as student government, the construction, renovation, and repair of sports and recreational facilities, campus health care, wellness, campus climate, financial aid and other programs and activities depending on the campus. Since these are not considered as mandatory systemwide fees, they are not covered by state financial aid. However, eligible students may use institutional or federal financial aid to help cover this fee. Campus-based fees vary across campuses. Generally, students must vote to establish or increase campus-based fees, but these fees also can be set by chancellors (with the concurrence of the Regents) if a fee is necessary to help ensure the safety of students, such as a seismic retrofit of a building. In recent years, a return-to-aid component has been built into newly established campus-based fees. The chart below displays campus-based fees across the system.

Campus	Campus-Based Fee
Berkeley	$1,614
Davis	$1,832
Irvine	$1,130
Los Angeles	$656
Merced	$968
Riverside	$1,257
San Diego	$1,597
Santa Barbara	$1,821
Santa Cruz	$1,390
Average	$1,386

<u>Governor's Budget Proposal</u>

Governor Proposes No Tuition Increase, With State Covering All of Proposed Cost Increases. In the Governor's Budget Summary, the Governor expresses his expectation that UC hold resident undergraduate tuition flat. The Governor proposes to retain budget provisional language adopted in 2018-19 that triggers a reduction in General Fund support if the Board of Regents adopts a tuition increase for 2019-20. The language ties the General Fund reduction to the additional Cal Grant and Middle Class Scholarship costs associated with the tuition increase, thereby making UC's action fiscally neutral to the state. In the Governor's Budget Summary, the Governor also expresses a desire to work with UC to provide fiscal certainty for students and their households moving forward. As noted earlier, on March 6, 2019, the UC announced that they will hold in-state undergraduate tuition steady for the 2019-20 academic year.

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

Increase the State's Reserves. The Governor's proposed reserve level for 2019-20 will likely be enough for the state to cover a budget problem associated with a mild recession. In this scenario, the Legislature likely would not need to reduce university spending and UC likely would not need to initiate steep tuition increases. The proposed reserve level, however, likely would be insufficient to weather a longer, moderate-sized recession. The Legislature could increase reserve levels in 2019-20. One way to build more reserves would be to have non-financially needy UC students bear a portion of any cost increases in the budget year. This would free up some General Fund money that could be redirected to higher reserves.

Factor All Available Resources Into Budget Decisions for UC. UC's budget plan includes $74 million in new revenue attributable to a combination of: (1) investing a portion of the UC available working capital in a new, higher-yield investment portfolio ($30 million), (2) a year-over-year increase in general use philanthropic giving to the UC ($20 million), (3) additional savings resulting from the UC's systemwide procurement and strategic sourcing efforts ($10 million), and (4) continuing to phase out financial aid to nonresident undergraduate students ($14 million).

The LAO encourages the Legislature to account for UC's identified alternative revenues and anticipated operational savings (as well as any nonresident revenue increases that do materialize) and factor all those resources into its budget decisions. These non-state funds could be applied to any UC budget priority.

Staff Comments

According to the UC's 2018 Annual Accountability Report, 56 percent of UC undergraduates do not pay tuition. This is due to the state's robust financial aid system, the Cal Grant, which covers tuition and some living expenses for eligible residents and AB 540 students. AB 540 students are specified non-residents, who have attended high school in California and received a high school diploma or its equivalent, who are exempt from payment of non-resident tuition. In addition to the Cal Grant, eligible students may receive Pell Grants, which are federal grants for low-income students with family incomes typically under $50,000. Lastly, the UC also provides institutional aid to help eligible students cover tuition. The subcommittee will discuss financial aid further at a future hearing.

In addition to tuition, students also have other living expenses. Living expenses such as food and housing, transportation and other personal expenses make up the majority of undergraduate student expenses. The state's financial aid system is primarily focused on covering tuition costs. The stipends associated with the Cal Grant B and the Cal Grant C programs provide some aid for living expenses, $1,672 and $547, respectively. To cover living expenses, many students must work part-time or even full-time jobs. This can have a negative impact on student outcomes and increase their time to earn a degree. Research by the American Council on Education indicates that students working more than 15 hours per week are more likely to drop out of college than those working fewer than 15 hours.

Since the UC Board of Regents did not approve the increase in the NRST, the subcommittee may wish to ask what impact that has on the UC budget, and how the UC plans to proceed.

Staff Recommendation. Hold Open

Issue 4: Degree Attainment and Completion

Panel

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

Background

UC students graduate at higher rates than California State University (CSU) and the California Community College (CCC) students. Of freshman students entering UC in fall 2011, 84 percent graduate within six years. This rate is 25 percentage points higher than at CSU and 36 percentage points higher than at CCC. For the freshman class of fall 1997, 46 percent of students graduated in four years, compared to 68 percent for the fall 2014 cohort. For the fall 2012 freshman class, the six-year graduation was 84.2 percent. Additionally, compared to freshmen, transfer students at UC are less likely to graduate on time. Of transfer students entering in fall 2015, 57 percent graduated within two years.

Graduation Rates Vary Among Campuses and Student Groups. UC's relatively high systemwide graduation rates mask differences among campuses. Berkeley and Los Angeles have six-year graduation rates at or near 90 percent. By contrast, the six-year rate for Merced is 67 percent. In addition, student outcomes vary by race/ethnicity. For example, the difference in six-year graduation rates between Latino and white students ranged between eight and 13 percentage points for freshman cohorts entering from 2001 through 2011. While outcomes also vary by socioeconomic status, the gaps are somewhat smaller. For example, the six-year graduation rate for Pell grant recipients is five percentage points lower than for students who did not receive a Pell grant. The following LAO charts display graduation rates by campus and race/ethnicity.

Figure 26

Graduation Rates Vary Among UC Campuses

Freshman Graduation Rates

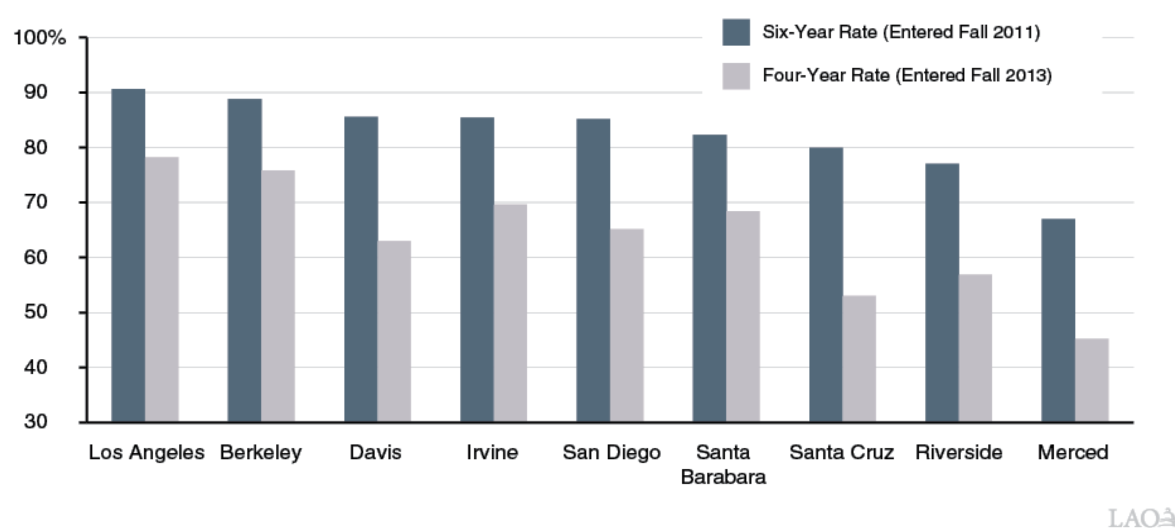
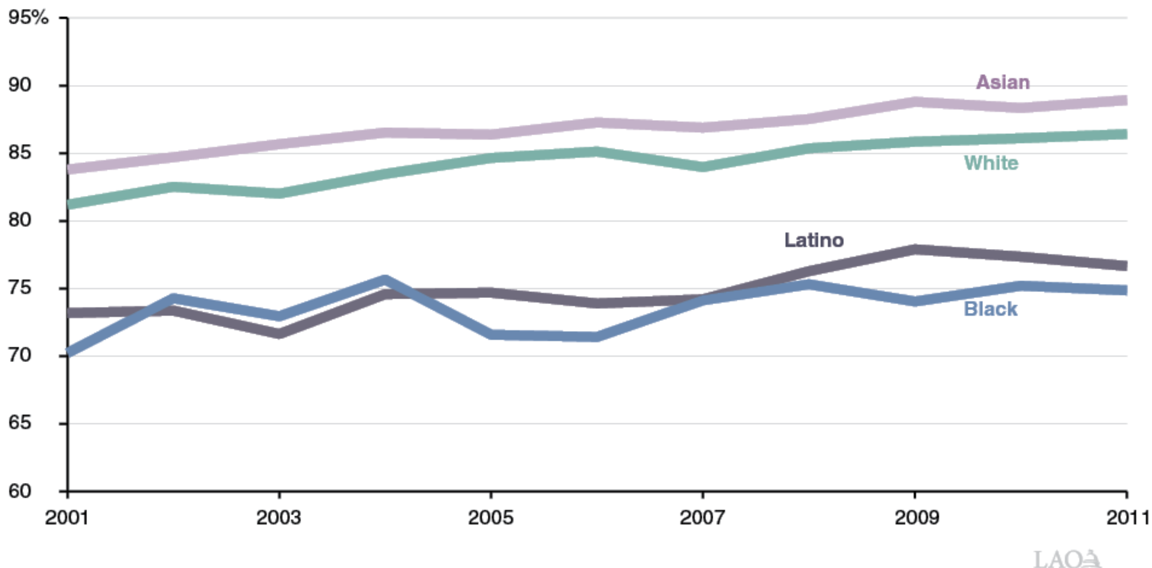


Figure 27

UC Has Persistent Graduation Gaps

Six Year Graduation Rates for First-Time Freshman Cohorts by Race/Ethnicity



UC Recently Adopted Improvement Plan. In November 2018, UC laid out a 12-year undergraduate improvement plan. At the March 14th Board of Regents meeting, UC elaborated on this plan. By 2030, UC hopes to:

1. Achieve a 90 percent overall six-year freshman and four-year transfer graduation rate,
2. Close graduation gaps for Pell Grant recipients, underrepresented students, and first generation students,
3. Close overall graduate degree and doctoral degree attainment gaps for Pell Grant recipients, underrepresented students, first-generation students, and women,
4. Produce 200,000 more degrees, of which 80 percent are undergraduate degrees, and 20 percent is graduate degrees,
5. Invest in faculty and research by growing 280 ladder-rank faculty and 190 clinical faculty FTES each year over the next four years, and
6. Increase faculty diversity through faculty growth

In addition to systemwide graduation targets, each campus also has graduation targets for all freshman, transfer students, Pell Grant recipients, underrepresented students, and first generation students.

Details regarding systemwide and campus graduation improvement plans and multi-year are not finalized. Based on preliminary information provided in the March 14, 2019 Board of Regents agenda, the UC notes that they are proposing annual increase of $60 million for the degree attainment and faculty growth elements of the multi-year framework. The UC notes that the across the entire system, the proposed investments are as follows:

1. Student advising (27 percent),
2. Academic support (20 percent),

3. Online course development (15 percent),
4. New degrees/courses (15 percent),
5. Scholarship and work-study (five percent),
6. Analytical tools (five percent),
7. Degree completion (five percent),
8. Summer bridge (three percent), and
9. Other (five percent).

The March 14th Board of Regents meeting on this item focused on graduate education, faculty, and research portion of the plan.

Governor's Budget Proposal

Provides $50 Million Ongoing to Support UC's Improvement Plan. The Governor indicates the funds are intended to support UC's improvement plan. UC would have flexibility to use the funds, though the Administration suggests activities might include hiring additional faculty, increasing academic counseling services, and addressing facility needs. Specifically, budget bill language for 6440-001-0001 Provision 5.1 states: "$49.9 million shall be available to support efforts to increase degree attainment and student success."

At the time of writing this agenda, UC could not provide specific details as to how campuses would use the ongoing funds included in the Governor's budget.

Legislative Analyst's Office Comments

Proposal Lacks Critical Information. The LAO has several concerns with the Governor's proposal. Specifically:

- **Proposal Lacks Focus.** UC indicates the funds will support its improvement plan, which includes many objectives that go far beyond reducing undergraduate achievement gaps.

- **No Justification for Proposed Amount.** Without clarity on the specific objectives to be addressed, the Legislature cannot determine if $50 million is justified.

- **Proposal Lacks Accountability.** The proposal neither specifies allowable uses of the funds nor establishes performance expectations. Without this information, the Legislature would not have any basis in future years to evaluate whether funding is being used to meet its goals.

If the Legislature decides to provide UC with state funding to improve in one or more areas, the LAO recommends making several enhancements to the Governor's proposal.

- **Direct UC to Focus on a Set of Explicit Goals.** The LAO recommends the Legislature identify a few core objectives. In particular, the Legislature would want to decide whether to focus on undergraduates, graduate students, faculty, or research.

- **Establish Performance Expectations.** After determining its core objectives, the LAO recommends the Legislature establish clear performance goals. For example, were the Legislature to focus on undergraduates, it could establish targets for reducing or eliminating gaps in graduation rates among campuses and student groups.

- **Direct UC to Develop an Expenditure Plan.** After determining a one-time or ongoing funding amount sufficient to accomplish identified goals, the LAO recommends the Legislature direct the UC to develop an associated expenditure plan and present it at spring hearings. In the plan, UC should explain how it would allocate the funds among campuses, how each campus would use its allocation, and how planned activities align with identified objectives.

- **Require Regular Reporting.** The LAO also recommends the Legislature require UC to report on how it uses improvement funds and track the progress it has made toward achieving identified objectives. The Legislature could model its reporting expectations based on the existing reporting requirements for CSU's Graduation Initiative. Alternatively, the state already requires UC to report annually on systemwide graduation rates. As part of this report, UC establishes performance targets for the coming three years. Were the state interested in addressing achievement gaps by campus and race/ethnicity, it could incorporate these expectations into this existing performance report.

Staff Comments

Staff shares similar concerns as the LAO regarding the lack of information or accountability regarding this proposal. As referenced by the LAO, the 2018-19 budget required CSU to report on: (1) the amount each campus spent on the graduation initiative, (2) how funds were spent, (3) how spending was linked to research on best practices, (4) campus data on whether activities achieved its desired effect, (5) each campus' efforts to close the achievement gap for low-income students, historically underrepresented students, and first generation students, and (6) growth in management, faculty and support staff. As currently proposed, there is no such reporting requirement under the Governor's proposal.

While UC provides a broad breakdown of how the system intends to utilize funding, as described in page 20 and 21, there are no details on what each category entails. Additionally, it is unclear if investments are exclusive to support undergraduate students, or if it also includes investments for graduate students and research. Should the Legislature approve this proposal, it may wish to consider prioritizing specific areas of investments.

Staff Recommendation. Hold Open

Issue 5: Extended Education

Panel

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

Background

Extended Education Offers Classes to Adults Outside of Campuses' Regular Academic Programs. All three public higher education segments operate extended education programs. At UC, each of the nine general campuses has its own extended education division called UC Extension. UC Extension primarily serves lifelong learners and working professionals. Students enrolling in UC Extension do not have to meet the same academic standards as students seeking admission to UC's regular academic programs. Extended education classes and programs generally are offered on a first-come, first-served basis. The majority of UC extension programs serve the continuing education needs of working professions, through open-enrollment or through organizational partnerships supported by contracts with public agencies, non-profit organizations and private companies.

Extended Education Is Self-Supporting. Extension programs do not receive state funding. Instead, programs are self-supporting—generally receiving their support from course fees charged to students. In some cases, professional organizations or state agencies offer their employees extended education opportunities and pay the associated course fees for them. Fees vary across programs and campuses, for example, at UC Berkeley Extension; the estimated cost of an accounting certificate is $9,400, whereas at UCLA Extension the cost is estimated to be $8,345. Extension must earn enough money to cover costs and extension divisions tend to be entrepreneurial. Extension staff develop and offer courses largely based on market research that gauges student demand. Extension divisions cover some marketing costs as part of their annual operating budgets. They also maintain reserves to cover special one-time costs associated with developing new courses. In 2016-17, UC Extension expenditures were $282 million.

UC Extension programs generally offer three types of courses:

1. Extension campuses offer a variety of noncredit classes and seminars covering topics ranging from conflict resolution to music appreciation. Extension divisions have considerable latitude to develop these classes.
2. Extended education offers programs that confer professional certificates and awards. UC has developed common academic standards for professional certification programs. For example, these programs must contain at least 120 hours of instruction
3. UC offers a limited number of courses that confer academic credit toward a UC degree. To develop a degree-applicable course, extended education divisions must undergo the same Academic Senate approval process as regular degree programs. These courses tend to be taught by regular UC faculty.

In 2016-17, 52 percent of extension programs were in noncredit courses, 41 percent in professional certification courses, and seven percent in degree applicable courses.

UC Extension Does Not Offer Bachelor's Degrees. Although certain classes can count for credit toward a degree, UC Extension currently does not confer bachelor's degrees. In a limited number of cases, academic departments have partnered with their campus's extension division to offer graduate degrees. In these partnerships, UC Extension provides much of the administrative support, such as marketing the degree and providing student services. UC faculty develop the curriculum and instruct students in these programs.

Student Financial Aid. Since UC Extension programs do not offer formal degree programs, students are not eligible for Title IV federal financial aid through the Free Application for Federal Student Aid. Similarly, institutions must be covered under Title IV for eligible students to receive a Cal Grant. Instead, students must seek other alternatives to finance their education, such as private student loans. Some programs are approved by the US Department of Veterans Affairs, and as a result eligible students may use their educational benefits at UC Extension.

Governor's Budget Proposal

Funds Expansion of UC Extended Education. The *Governor's Budget Summary* notes that millions of Californians have some college experience but have no degree and are not currently enrolled in college. To address the issue, the Governor's proposes $15 million one-time General Fund for UC Extension. The Department of Finance has indicated the funds would support initial planning, curriculum development, outreach, and other start-up costs for the new programs. The Governor expects the new programs would be offered on a fee-basis and self-supporting after initial start-up. The only detail the Governor has on the proposal is a budget bill provision indicating that the funds are "to develop or expand degree and certificate completion programs."

As of writing this agenda, staff has not received additional details regarding the proposal.

Legislative Analyst's Office Comments

Proposal Lacks Explanation of Why Existing Re-Entry Options Are Inadequate. Currently, former students who did not complete a degree program have several options to return to school. An individual could apply for readmission to the school. Depending on how much time has elapsed since the student last attended and the student's academic standing at the time of withdrawal, an institution can decide whether to permit re-enrollment. Another potential option for students is to transfer to another institution.

For example, a student who completed the first two years of college coursework before withdrawing could apply as an upper-division transfer student to CSU or UC. Additionally, some private schools cater to returning students. A student could also enroll in one of CSU's bachelor's degree completion programs. The Administration has not provided data indicating that these existing re-entry options are insufficient to meet students' needs.

Proposal's Objectives Are Not Well Defined. In addition to lacking a clear problem statement, the proposal does not have clear objectives. The Governor's proposal does not specify whether the new UC programs would be for former UC students only or for a larger group of Californians who previously attended other schools. In addition, the Governor's proposal suggests various possible uses of the funds—each of which is centered around a different objective. Under the Governor's proposal, UC could use the funds to create new degree completion programs, add professional certificate programs, or undertake outreach to non-completers. Without clearer objectives, the Legislature would not be able to assess whether the proposal was ultimately effective.

Unclear Why State Funding Needed for Extension Education. As a self-supporting enterprise, UC Extension routinely identifies new courses and programs that are of interest to potential students. It then supports the planning and development of those offerings using existing funding, including its reserves of fee revenue. Given this current practice, UC Extension would not need state General Fund support for the purpose of developing new programs aimed at re-entry students.

Recommend Rejecting Proposal. For the reasons stated above, the LAO recommends the Legislature reject the Governor's proposal. To the extent the Legislature remains interested in further expanding higher education opportunities for re-entry students, the LAO recommends the Legislature direct the Administration and UC to present a more complete analysis next year. At a minimum, such an analysis should include research into which groups of students are interested in returning, why the state's current array of re-entry options for them are inadequate, how UC Extension would fill the unmet need better than CSU or other possible alternatives, and why state General Fund support would be needed to build out program offerings.

Staff Comments

In addition to the concerns and questions raised by the LAO, staff wonders how this relates to the Governor's and the UC's multi-year plan to improve graduation rates. It is unclear why these students do not complete their degrees, and if there are interventions or other services that could help students complete their degree. Additionally, as currently structured, there is limited financial aid available for students. This raises the question of equity and access to courses and programs for low-income students. Should the Governor's proposal be approved, it is unclear what type of Bachelor's degrees they will offer, if programs would qualify under Title IV or if students could receive a Cal Grant or Pell Grant. Additionally, it is unclear how the program would be structured, and if students would have the same academic standards as students seeking readmission to UC's regular academic programs.

Staff Recommendation. Hold Open.

Issue 6: UC Medical Education

Panel

- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Cathryn Nation, MD, Associate Vice President University of California Health
- Angela Gilliard, University of California
- Deborah Deas, MD, MPH, Dean of the University of California Riverside School of Medicine

Background

Graduate Medical Education. Following a four-year medical school education, resident physicians typically spend three to seven years in graduate medical education (GME) or residency training, which is required for medical licensure. This supervised training prepares doctors for independent practice or surgical specialty. In 2018, the state has approximately 900 Accreditation Council for Graduate Medical Education accredited residency programs, which trains nearly 11,000 medical residents and fellows. Roughly, 5,000 medical residents are enrolled in UC-sponsored residency and affiliated family medicine programs.

According to UC, since 1965, Medicare has been the largest single funder of GME. In 1997, Congress capped the number of residency slots for which hospitals could receive Medicare GME funding, and has not increased this cap. According to UC, caps on residency positions prevent the expansion of GME training. State funding for the medical residency training comes mostly from the Song-Brown Program administered by the Office of Statewide Health Planning and Development (OSHPD). The 2017-18 budget included $100 million General Fund over three years to OSHPD to support existing primary care residency slots, create new primary care residency at new and existing residency programs, and teaching health centers. UC states that the average total cost to train a resident is about $150,000 per year. For UC, some state General Fund supports GME, but it is unclear how much. Additionally, faculty salary is also supported by other funds, such as federal funds and hospital revenue.

Proposition 56. In November 2016, voters approved Proposition 56, which increased excise taxes on tobacco products by $2. The measure also prescribes how to distribute the revenues. While the measure specifies that the bulk of the revenue be spent on health care for low-income Californians, the measure specifies $40 million to UC for "the purpose and goal of increasing the number of primary care and emergency physicians trained in California. This goal shall be achieved by providing this funding to the UC to sustain, retain, and expand graduate medical education programs to achieve the goal of increasing the number of primary care and emergency physicians in the State of California based on demonstrated workforce needs." Proposition 56 states funding must be prioritized for medically underserved areas and populations. Additionally, UC must annually review physician shortages by specialty across the state and by regions, and notes that funds may be used to address these shortages. Lastly, Proposition 56 noted that residency programs accredited by federally-recognized organizations and located in California are eligible to apply to receive funding.

The 2017-18 budget provided UC with $50 million in Proposition 56 funds which replaced $50 million General Fund, effectively redirecting General Fund support from UC's base budget for other purposes.

The Governor's 2018-19 budget proposal provided $40 million Proposition 56 funds in place of General Fund support. After negotiations, the final budget package provided UC with $40 million in one-time

General Fund to support GME at UC. This action backfilled funding the Administration proposed to remove from Proposition 56.

UC entered into a memorandum of understanding with Physicians for a Healthy California (PHC), formerly the California Medical Association Foundation, to administer $40 million Proposition 56 grants. PHC worked with a five-member GME Board and a 15-member advisory council to develop a program. The board includes representatives from PHC, California Medical Association, University of California, California Hospital Association, and Service Employees International Union California State Council.

According to information on the PHC website, funding will be disbursed on a per resident basis with $75,000 per resident. The award will be for the duration of the residency program, three or four years, if applicable. For example, a three-year residency program, would receive $225,000 per resident over a three- year period. A residency program can apply for up to a maximum of five residency slots. Additional funding of up to $200,000 is available for new or expanded programs. For new or expanding residency programs, there is a one-time additional amount of up to $200,000 per residency program ($40,000 per new/expanded residency position); existing residency programs are not eligible for this one-time award. Per Proposition 56, funds may cover resident stipends and benefits, supervising physician salaries and benefits, and other direct GME costs. Funding is prioritized for residency programs that serve the medically underserved areas and populations.

For the 2018-19 grant year, PHC received $174 million in requests. Ultimately, 156 resident slots and 73 programs were funded. The chart below displays a breakdown of awards by specialty and resident enrollment.

Specialty	New Residency	Existing Residency	Total Residency Slots	Programs
Family Medicine	29	14	43	28
Internal Medicine	19	14	33	15
Obstetrics and Gynecology	8	11	19	10
Pediatrics	11	22	33	10
Emergency Medicine	15	13	28	10
Total	82	74	156	73

Section 30130.56 of Revenue and Tax Code notes that to provide full public accountability concerning the uses of Proposition 56, the State Auditor is required to conduct at least biennially an independent financial audit of the state and local agencies receiving funds. Additionally, each state agency and department must annually publish on its Internet Web site the amount of funds received and its expenditures. Lastly, the use of funds by UC is subject to oversight by the Tobacco Education and Research Oversight Committee.

Governor's Budget Proposal

The Administration proposes an increase of $40 million General Fund to support graduate medical education, consisting of a $3.5 million base adjustment and a $36.5 million adjustment to end the shift of Proposition 56 funds supporting medical education programs.

Staff Comments

In addition to GME, the state provides support for a variety of health related programs and initiatives.

Programs in Medical Education (PRIME) Program. UC PRIME is a medical education-training program focused on meeting the needs of the state's underserved populations in both rural communities and urban areas. There are six PRIME programs across the state.

1. UC Irvine launched the first program in 2004. This program focuses on the needs of Latino communities. This program has 59 enrolled students.
2. UC Davis admitted their first class of PRIME students in 2007. This program focuses on rural health and telemedicine. This program has 37 enrolled students.
3. UC San Diego admitted their first class of PRIME students in 2007. This program focuses on health equity and reduction in health disparities, and has 51 enrolled students.
4. UC San Francisco (UCSF) and UC Berkeley admitted their first class of PRIME students in 2007, and focuses on urban underserved communities. This program has 75 enrolled students.
5. UCLA launched its program in 2008, in coordination with UC Riverside and the Charles R. Drew University of Medicine and Science (CDU). Building on those partnerships, the UCLA program trains physicians to proactively address the needs of diverse communities by delivering culturally competent care and by developing future leaders for multicultural health delivery systems. This program has 102 enrolled students.
6. UC Davis launched its program in 2011 in partnership with UC Merced and UCSF- Fresno. This program is called the San Joaquin Valley (SJV) PRIME Program and focuses on training the next generation of SJV physicians. In fall 2019, accreditation, finance and other responsibilities will be transitioned from UC Davis to UC San Francisco. This program has 30 students enrolled.

Over the last decade, state funding for the PRIME program has varied. In 2009-10 and 2010-11, the state provided $2 million both years to support the program. In 2015-16, the budget included $1.85 million General Fund to support SJV PRIME.

UC requests $8.8 million ongoing to support currently enrolled students, based on a marginal cost of instruction of $35,000 per student. This will support approximately 246 currently enrolled students, 102 of which are enrolled at UCLA Prime. The UC notes that they have space and infrastructure to increase PRIME enrollment of current levels if annual operating support was provided for this purpose. The Legislature may wish to ask how UC currently supports medical students, how funding for PRIME students is the similar or different, and the $8.8 million would be utilized.

Psychiatry Graduate Medical Education and Telemedicine. The 2018 budget provided UC Riverside (UCR) $15 million one-time General Fund to be spent over five years to support the costs of psychiatry residency slots, including costs to train students and to purchase and operate telemedicine program and equipment. The budget requires UC to report by January 1st each year to the Legislature with information regarding: (1) grant recipients, (2) award amounts, (3) growth in residency positions, (4) employment information on grant-supported residents, and (5) the type of services provided. On December 14, 2018, UC submitted a report to the Legislature. However, because of nature of the report and timing in the budget, outcome data is limited. Instead, the UC described their plans for GME in psychiatry.

UCR notes that funding will support a variety of activities, including: (1) the expansion of core psychiatry and child/adolescent psychiatry GME programs, (2) creation of new programs in addiction medicine, geriatric psychiatry, (3) extension of medical school's tele psychiatry services into community clinics and emergency departments in the region, and (4) deployment of mobile treatment unit to reach uninsured and unserved patient populations. The report notes that these programs will be sustained with newly identified funding sources once this state funding sunsets in June 30, 2023.

UCR proposes spending the $15 million one-time General Fund investment as follows: (1) $4.1 million to support 18 residents and fellows, (2) $7.8 million for faculty and administrative staff, and (3) $3.1 million for non-salary expenses such as program costs, educational debt relief and rent.

The 2018-19 budget also included expenditure authority from the Mental Health Services Fund State Administration (MHFSA) Account of $1 million in 2018-19 for the Office of Statewide Health Planning and Development (OSHPD) to provide scholarships for the UC Primary Care Mental Health Fellowship program. The program will allow primary care physicians in medical shortage areas of California to receive psychiatric training at UC. OSHPD and MHFSA Account are under the jurisdiction of Senate Budget Subcommittee No. 3 on Health and Human Services.

UC Riverside School of Medicine. The 2013 budget through Assembly Bill 94 (Committee on Budget), Chapter 50, Statutes of 2013, provided $15 million General Fund ongoing for the UCR School of Medicine. UCR School of Medicine enrolled its first class of medical students in August 2013. The school received full accreditation in 2017, and graduated its first class in 2017. The state's investment supported planning and start-up costs associated with academic programs, including: (1) academic planning activities, academic program offerings, and faculty recruitment, (2) acquisition of instructional materials and equipment, (3) ongoing operating support for faculty, staff, and other annual operating expenses for the School of Medicine.

AB 94 also required the UC to annually report to the Legislature by April 1 on funding, recruitment, hiring, and outcomes for the School of Medicine. Specifically, the report must include information consistent with the published mission and vision for the School regarding: (1) data on students who have applied, been admitted, or been enrolled, broken out by race, ethnicity, and gender, (2) data on number of full-time faculty, part-time faculty, and administration, broken out by race, ethnicity, and gender, (3) funding and progress of ongoing medical education pipeline programs, including the UCR/UCLA, (4) operating and capital budgets, including detail by funding source, a breakdown of research activities, instruction costs, administration, and executive management, (5) efforts to meet the health care delivery needs of the state and the inland empire region, such as the percentage of clinical placements, graduate medical education slots, and medical school graduates in primary care specialties who are providing service within California's medically underserved areas and populations, and (6) a description of faculty research activities, including information regarding the diversity of doctoral candidates, and identifying activities that focus on high priority research needs with respect to addressing the state's medically underserved areas and populations.

The 2017 and 2018 report to the Legislature is under review by UCOP's for approval, and will be finalized and publically available in the coming weeks. UCOP provided staff with preliminary copies of the reports. The 2018 draft report notes that in 2017-18, the school enrolled 226 medical students in all four years of medical school and 21 Ph.D. students in biomedical sciences. The school also sponsors residency training and fellowship programs with hospitals, with 238 medical residents or fellows in various specialties. For the 2017 class, UC reports that 66 students were enrolled in the new first-year class, of which 45 percent were self-identified as being underrepresented in medicine, 53 percent from socio-economically or educationally disadvantaged backgrounds, and 74 percent of the class had ties to the Inland Southern California region.

The report notes that in May 2017, the school expanded its clinical enterprise, UCR Health, by opening a new 25,000 square-foot multispecialty outpatient clinic in downtown Riverside. Additionally, the school of medicine research building will be built out and completed in late 2018 to provide laboratory and office space for faculty. Additionally, UCR is building a multidisciplinary research building on campus, which will provide laboratory space for medical school faculty. In 2018, UCR completed a minor capital outlay project to replace its student study and lounge space.

Based on UCR's 2018-28 campus capital need plan, the campus notes that $100 million is needed to support a capital outlay project for the School of Medicine Education Building. UCR notes that the goal of the school is to double enrollment to 500 medical students. This requires a new educational facility with classrooms, clinical skills and simulation facilities, and faculty/staff administrative space to teach students and provide student services. According to the UCR capital needs plan, 100 percent of this project is state eligible. Senate Bill 56 (Roth) would appropriate $80 million General Fund in 2020-21 for the construction of a new UCR School of Medicine facility, and provide $25 million ongoing General Fund starting in 2020-21 to support ongoing operational support for the expansion of the school. UCR notes that the upcoming detailed program phase of the facility will refine program and cost estimates. On a conceptual level, UCR notes the facility would have 89,000 gross square feet, of which 25,400 assignable square feet is for instructional space and support, and 21,000 is for specialized medical education, the remainder of which is for student services, administrative support, and a lobby area.

Staff Recommendation. Hold Open.

Issue 7: Basic Needs – Hunger and Homelessness

Panel

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

Background

Previous Budget Actions. The 2017-18 budget provided UC $2.5 million one-time General Fund for UC to create incentive funding grants for campuses to be designated as a "hunger-free campus." Senate Bill 85 (Committee on Budget and Fiscal Review), Chapter 23, Statutes of 2017, required a hunger-free campus to include: (1) a campus employee designated to help ensure that students have the information that they need to enroll in CalFresh also known as Supplemental Nutrition Assistance Program (SNAP), which provides eligible students with up to $192 per month. This does not negatively impact their financial aid packages, (2) an on-campus food pantry or regular food distributions on campus, (3) a meal sharing program that allows students to voluntarily donate their unused meal plan credits and (4) a campus employee designated to work with student volunteers of the meal sharing program. Each campus received $250,000 for this purpose.

The 2018-19 budget provided UC $1.5 million one-time General Fund to support campus efforts to address student hunger and basic needs. Assembly Bill 1809 (Committee on Budget), Chapter 33, Statutes of 2018, required UC to submit a report to the Legislature by February 15, 2019, on campus use of funds, as specified. Additionally, AB 1809 created a working group with representatives of higher education segments, county and state social service providers, legislative staff, CalFresh eligibility workers, and advocates for CalFresh recipients to improve coordination and access to student benefits.

On February 13, 2019, the UC submitted a report that summarized how UC spent the funding between January and June 2018. The report noted that all campuses were designated as a "hunger-free campus." Campuses invested in over 40,000 meal voucher/swipes, and served over 9,000 unique students systemwide. Additionally, campuses enrolled and renewed 10,376 students in CalFresh, which drew in over $12.5 million in federal funds to UC students. Campuses also used funding to expand the availability of Electronic Benefit Transfer capabilities at campus markets and purchased equipment and supplies to support student CalFresh application submissions. All campuses used funding to also increase and improve storage, space and equipment at their food pantries. Campuses hired short-term staff to support programs, and awarded work-study or stipends to students that work in the various campus programs.

UC Global Food Initiative. In 2014, UC President Janet Napolitano launched the UC Global Food Initiative (GFI). Since 2015, UCOP allocated more than $4 million to the campuses ($377,000 per campus) to address the challenges of student food security and advance a multi-year plan to provide emergency assistance, financial and food literacy, life skills training and to establish food security working groups on each campus.

In 2016, the UC Undergraduate Experience Survey (UCUES) and the Graduate Student Well-Being Survey (GSWBS) added questions regarding food and housing. For undergraduate students, 33 percent of the 190,000 sample group responded to the survey. For graduate students, 6,764 or 50 percent of the sample group responded to the survey. Of those who responded, 44 percent of undergraduate students and 26 percent of graduate students reported having experienced food insecurity. The US Department of Agriculture defines very low food security as reduced food intake or disrupted eating patterns at times due to limited resources. Low food security is defined as reduced quality, variety or desirability of diet, with little or no indication of reduced food intake. The limited validated questions on the 2016 survey do not provide adequate information to distinguish between low and very low food security.

The survey found that of the respondents, approximately 54 percent of freshman whose family income was under $50,000 experienced food insecurity, 45 percent of freshman with family incomes between $50,000 and $99,000 experienced food insecurity, 35 percent of freshman with family incomes between $100,000 and $149,000 experienced food insecurity, and 26 percent of freshman with family incomes above $150,000 experienced food insecurity.

UC Housing Initiative. In January 2016, UC President Napolitano announced the UC Student Housing Initiative to add approximately 14,000 new affordable beds by 2020. Since January 2016, approximately 3,600 below-market beds have come online and the UC is on track for meeting its 2020 goal. In July 2017, the UC Board of Regents approved a one-time $27 million allocation to support campus efforts to address housing needs for students, faculty and staff. The funding provided assistance for existing or new housing programs, studies in support of advancing new housing projects, and/or capital improvements. Approximately $3 million was directed to each of the following campuses: Berkeley, Davis, Irvine, Los Angeles, Riverside, San Diego, San Francisco, Santa Barbara and Santa Cruz (a separate funding allocation was previously allocated to Merced). Campus have flexibility on use of funds.

Current data on the student housing challenges are limited at both the state and national level. UC preliminarily assessed housing challenges by including one question on homelessness in its 2016 UCUES and GSWBS. Five percent survey respondents said they had experienced homelessness at some point during their enrollment. However, the question used was not validated to ensure it is an accurate measurement of homelessness and the issue of defining “homelessness” and how to correctly measure housing insecurity is still being addressed nationally. The homelessness question included in both surveys has not been fully validated, as a result, UC notes that the results should be interpreted with caution.

Governor’s Budget Proposal

The Governor’s budget proposes $15 million General Fund ongoing to address student hunger and homelessness. According to the Governor’s budget summary document, this funding will augment the UC's existing efforts to address student hunger and housing needs.

As of writing this agenda, staff has not received additional details regarding how the Administration expects UC to spend these funds, nor has UC provided a spending plan for these funds.

Staff Comments

The UC Board of Regents approved the 2019-20 budget plan that included $15 million ongoing to provide students with additional financial aid to help cover costs other than tuition and fees, including housing, food, and other basic student needs. Based on this information and conversation with the Administration and UC, UC will have broad discretion on how to use the $15 million ongoing General Fund that is included in the Governor’s budget.

The Legislature may wish to take a holistic approach in addressing student basic needs, and consider all proposals and programs that seek to address this. For example, the Cal Grant B Access Award provides eligible students up to $1,672 to address living expenses. The Federal Pell Grant provides up to $6,095 to cover tuition or living expenses. Additionally, UC's institutional financial aid package takes into consideration the total cost of attendance, and provides institutional aid to help cover the total cost of attendance. UC's financial aid package assumes that a student contribute $10,000 a year through work or students loan to their education expenses. CalFresh, known federally as the Supplemental Nutrition Assistance Program or SNAP, provides monthly food benefits to individuals and families with low-income and provides economic benefits to communities. Additionally, the Department of Social Services also provides services and programs that assist families experiencing homelessness. Moreover, the Public Utilities Commission offer discounted utility bill for qualified customers. The Legislature is currently reviewing various legislative proposals that seek to address the total cost-of-attendance at the state's public universities. Additionally, the Governor's 2019-20 budget proposal also includes $7.7 billion to address housing and homelessness across various departments and the subcommittee may wish to consider how this proposal fits into the larger discussion.

As noted earlier, AB 1809 created a working group to improve coordination and access to student benefits. The Legislature may wish to ask for an update regarding this workgroup.

Lastly, the Legislature lacks key information regarding how $15 million ongoing funding will be spent. The subcommittee may wish to ask UC to report back regarding a plan on how funds will be spend, such as how much will be spent on hiring coordinators and direct services, and how much will be spent to address hunger or homelessness. Should the Legislature approve this proposal, the subcommittee may wish to require reporting on outcomes associated with funding, and how services were coordinated with various community and state programs, as well as how many students were served.

Staff Recommendation. Hold Open.

Issue 8: Student Mental Health Services

Panel
- Jack Zwald, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Seija Virtanen, University of California

Background

In 2014, the UC Regents adopted the Long-Term Stability Plan for Tuition and Financial Aid, which included a five percent annual increase in the Student Services Fee from 2015-16 through 2019-20. The Student Services Fee in 2018-19 was $1,128 and will generate $306 million. Approximately 50 percent of this annual increase funds the hiring of direct service mental health providers at campus Health and Counseling centers over this interval. On February 11, 2019, UC Board of Regents received an update on student mental health services. According to the report, systemwide, 96 percent of students were seen within two days for urgent mental health issues at the UC Counseling and Psychological Services (CAPS) Centers, and 99 percent of students were seen within seven days. However, for the fall of 2018, only 74 percent of students were able to seen within two weeks for an initial intake appointment. This is a decline from 80 percent in the fall of 2016.

As discussed earlier in the agenda, in addition to the Student Services Fee, students also pay campus-based fees. These fees help fund programs such as campus health care, wellness, campus climate, financial aid and other programs and activities depending on the campus. Campus-based fees vary across campuses. The chart below displays campus-based fees across the system.

Campus	Campus-Based Fee
Berkeley	$1,614
Davis	$1,832
Irvine	$1,130
Los Angeles	$656
Merced	$968
Riverside	$1,257
San Diego	$1,597
Santa Barbara	$1,821
Santa Cruz	$1,390
Average	$1,386

Health Insurance. All UC students are required to have health insurance. In order to satisfy this requirement, students are automatically enrolled in the UC Student Health Insurance Plan (SHIP). If students have comparable insurance coverage, they may have their UC SHIP enrollment fee waived. Costs to enroll in SHIP vary across campuses. For example for an undergraduate student at UC Riverside, program costs under SHIP for the student only is $591 for the fall term, whereas at UCLA it is $1,280, and at Davis it is $852.

In order to waive SHIP, a student's insurance plan must be a Medi-Cal/Medicaid, Medicare, TRICARE/Military, Covered California or other U.S. federal or state exchange plan, a UC Employee Health plan, or an employer-sponsored group health plan or individual plan. The plan must cover inpatient (hospital) and outpatient care for mental health and substance abuse disorder conditions the same as any other medical condition, as well as doctor office visits for medical, including mental health, and alcohol/drug abuse conditions, among others.

Campus CAPS Centers. Campus CAPS Centers services include short-term counseling for individuals and families, workshops, drop-in consultations, crisis intervention, referrals, brief couples or family counseling, educational outreach. Some campus CAPS Centers also assists students with urgent care and some psychological testing. Services and fees vary among campuses. CAPS Centers do not provide long-term counseling and psychotherapy services; instead, students are referred to off-site community psychiatrists when this care is needed. Staff reviewed of campus CAPS Centers websites, and summarized the campus fees at CAPS Centers and length of services. This is not an exhaustive or comprehensive list of resources.

Campus CAPS Centers

Campus	Fee	Length of Service
Berkeley	Counseling services are provided to students free of charge. When seeking psychiatry service, students with SHIP pay $15 for service.	Information not available.
Davis	Counseling services are available to all registered students at no charge.	Counseling services utilizes a short-term model (4–6 sessions) of therapy.
Irvine	Counseling center services are available to students who have paid registration fees at no charge.	Information not available.
Los Angeles	For registered students with SHIP, CAPS services are pre-paid, and no additional charge is required. For registered students without SHIP, the fee is $15 per therapy session. All registered UCLA students are eligible for a brief assessment at no cost and consultation with a CAPS clinician.	Registered students are eligible to receive up to three sessions of individual psychotherapy per academic year with three additional sessions in the summer.
Merced	All services are free for registered students.	Information not available.
Riverside	Core counseling and psychological services is available at no charge for enrolled students who have paid registration fees.	When clinically indicated, individual sessions beyond the initial eight may be provided and will include UC SHIP insurance and/or a fee for service options.
San Diego	Services are available at no charge to currently enrolled students who have paid	Information not available.

	their registration fees.	
Santa Barbara	University registration fee covers the cost of counseling.	Students are able to receive 4-6 sessions on average before referral to long-term counseling. Student may wait 2-3 weeks between sessions.
Santa Cruz	All currently enrolled undergraduate and graduate students are eligible to utilize CAPS services at no charge.	There is no guarantee of a particular length of service or type of service at CAPS. Counseling services include one or more (up to a handful) sessions per academic year, depending on the situation and availability of services.

The Legislature may wish to ask why there is variation regarding fees and length of services across campus CAPS Centers.

Outcomes. Since this initiative began, UC hired 70.6 FTE counseling positions, which represents 29.4 percent of total counseling FTES. Additionally, 9.7 FTE psychiatry positions have been hired, which represents 29.7 percent of existing psychiatry FTE. In addition, 13 counseling FTE and 0.65 psychiatry FTE remain under recruitment.

UC notes that the International Association recommends a counselor-to-student ratio in the range of 1:1,000 to 1:1,500. For UC, the average ratio system wide is 1:1,168, this is a decrease from 2014, where the ratio was 1:1,735. For the psychiatrist-to-student ratio, UC's system wide average increased from 1:7,322 in 2016 to 1:8,529. The chart on below summarizes the systemwide and campus provider-to-student ratios.

Systemwide Average Provider-to-Student Ratios by Year

Ratio	Year	2015	2016	2017	2018
Counselor: Student	1:	1394	1532	1123	1168
Psychiatrist: Student	1:	9464	7322	8238	8529

Campus-Specific Provider-to-Student Ratios (with Position Vacancy Rates)

	Fall 2018		Vacancy Rates	
Campus Filled	Counseling	Psychiatry	Counseling	Psychiatry
Berkeley	1,006	7,522	2.31%	15.04%
Davis	1,440	10,905	18.46%	0%
Irvine	1,475	7,909	21.04%	24.79%

Merced	1,709	4,497	0%	0%
Riverside	1,945	11,961	32.79%	0%
Los Angeles	965	8,733	2.12%	0%
Santa Barbara	857	7848	9.01%	0%
Santa Cruz	1,295	5,239	27.47%	19.66%
San Diego	1,263	18,944	3.23%	33.33%
San Francisco	649	2,831	0%	0 %
Systemwide Average	1,168	8,529	11.31%	11.85%

UC notes that a number of factors may contribute to the high vacancy rates at certain campuses, including competition with the private sector, campus location, and cost-of-living of the campus area. Moreover, UC also notes that increasing provider-to-student ratio may be attributed to increased student enrollment.

Governor's Budget Proposal

The Governor's budget provides $5.3 million ongoing General Fund to increase mental health resources. The Governor's budget bill language does not provide further detail regarding use of funds. This amount is in-line with the UC's budget request. According to UC's budget documents, this funding will enable campuses to hire additional mental health advisors and other professionals to improve student access to counseling and related services. However, it is unclear the number of professions that will be hired at each campus.

Staff Comments

As noted previously, a portion of the revenue from the Student Services Fee helps fund mental health services for students. Last year, the budget provided $105 million one-time General Fund for UC to address general UC needs. Of this one-time funding, UC used $10 million to buy-out the proposed increase in Student Services Fee. UC requests funding to make this funding ongoing. It is unclear if UC will increase the Student Services Fee in 2019-20; however, UC's adopted budget plan assumes revenue associated with a five percent increase in the Student Services Fee. As the Legislature evaluates the Governor's proposal, it may wish to ask the UC whether or not it will increase this fee should the state approve the Governor's proposal, since students are charged multiple times by the UC, through the Student Success Fee, campus based fees, and through their insurance for mental health services. Additionally, as shown above, some campuses have counselor and psychiatrist vacancy rates above 20 percent. The Legislature may wish to ask if UC or its campuses have a plan to reduce the vacancy rates at these campuses given that the proposal could add new positions for campuses to fill. The Legislature may also wish to request information to better understand how mental health programs are funded overall at UC, such as what the budget and funding source are for CAPS Centers.

Staff Recommendation. Hold Open.

Issue 9: Capital Outlay and Deferred Maintenance

Panel

- Sally Lukenbill, Department of Finance
- Jason Constantouros, Legislative Analyst's Office
- Seija Virtanen, University of California

Background

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

AB 94 (Committee on Budget), Chapter 50, Statutes of 2013, and SB 860 (Committee on Budget and Fiscal Review), Chapter 34, Statutes of 2014, revised this method by authorizing UC and CSU, respectively, to pledge its state support appropriations to issue bonds for state-eligible projects, and as a result, the state no longer issues bonds for university capital outlay projects. The authority provided in AB 94 and SB 860 is limited to the costs to design, construct, or equip academic facilities to address: (1) seismic and life safety needs, (2) enrollment growth, (3) modernization of out-of-date facilities, and (4) renewal of expansion of infrastructure to serve academic programs. SB 860 also included the deferred maintenance for CSU. Most recently, SB 85 (Committee on Budget), Chapter 23, Statutes of 2017, authorized UC to pledge its state support appropriations to issue bonds for deferred maintenance. Additionally, the state allows each university to pay the associated debt service of academic facilities using its state support appropriation. Moving forward, UC is expected to pay off all debt—for both previous state bonds and new university bonds—from its main General Fund appropriation.

UC is required to manage its capital program so that no more than 15 percent of its General Fund support appropriation, less general obligation bond payments and State Public Works rental payments, is used for its capital program. Additionally, the state allows UC to pay the associated debt service of academic facilities using its state support appropriation. By combining capital outlay and support into one UC budget item, the state intended to incentivize UC to weigh the tradeoffs of supporting more operating costs (such as enrollment growth and compensation increases) with funding new capital projects.

In order to use its General Fund support for debt service payments, state law requires UC to receive approval from the DOF on each of the projects, following legislative review. Under the review process, DOF is to submit a preliminary list of approved projects to the Legislature by February 1, with the final list submitted no sooner than April 1 of that year.

Deferred Maintenance. In recent years, the state has tended to provide one-time General Fund to address deferred maintenance projects across many state agencies. From 2014-15 through 2018-19, these statewide initiatives provided UC a total of $145 million. In addition to these one-time funds, the state recently expanded UC's bond authority to include the ability to finance deferred maintenance projects. Since 2017-18, the state has authorized UC to issue $70 million in bond funds for deferred maintenance projects.

UC Currently Studying Maintenance Needs. Over the years, UC deferred undertaking maintenance projects in order to address other operating costs and budget priorities. UC maintains a running list of state-supportable maintenance projects for each campus. As of September 2018, the list of projects totaled $4.4 billion. Although this list currently is the best estimate of the UC's maintenance backlog, UCOP reports that campuses used different definitions and methodologies to identify their projects and estimate associated costs. As a result, UC believes the list does not completely and accurately reflect its maintenance needs. To provide a more detailed and standardized estimate of the condition of its facilities, UC is funding a team of experts to visit each campus and provide an assessment of each facility. The study, which UC anticipates completing by the end of 2020, is funded by $15 million in university bonds, which the state authorized in 2017-18.

<u>Governor's Budget Proposal</u>

Preliminary Approved 2019-20 AB 94 Projects. On February 1, 2019, DOF provided preliminary approved all seven of UC's requested capital outlay projects for 2019-20. The total cost of these projects (including private donations, campus reserves, and other UC funds) is $314 million, with state costs of $213 million. The proposed projects fall into four categories, described below.

- **New Facilities ($140 Million).** The Santa Barbara and Santa Cruz campuses have projects to construct new academic buildings (with classrooms, computer laboratories, and faculty office space). A third project at Irvine would consolidate and expand various student service programs into one building.

- **Deferred Maintenance ($35 Million).** Similar to the previous two fiscal years, UC would use its bonds to fund deferred maintenance projects across the system. At the time of this analysis, UC had not provided a list of the specific projects to be funded. In its proposal, UC indicates that it may use a portion of the $35 million to support a one-time condition assessment of campus utilities and other infrastructure. This study would be separate from the facility assessment described earlier.

- **Renovations ($19 Million).** The Riverside campus proposes renovating existing laboratory space in Pierce Hall, with the goal of modernizing certain spaces and converting some research space into teaching laboratories. The Berkeley campus proposes a project to improve the seismic rating of University Hall, an administrative building.

- **Agriculture and Natural Resources (ANR) ($19 Million).** UC proposes a mix of new space to expand outreach activities, renovations, and abatement projects at four regional ANR research and extension centers located throughout the state. Specifically, the project includes: accessibility modifications, removal and repurposing of unused pesticide wash down facilities, and additional fire life safety at the South Coast, Kearney Agriculture, and Desert Research and Extension Centers and the Elkus Ranch Environmental Education Center. The project also includes the construction of new educational facilities for the South Coast and Desert Research Centers.

UC Proposes Seven Capital Outlay Projects for 2019-20
Dollars in millions

Campus	Project[a]	State Cost in 2019-20[b]	Total Cost Across All Years[c]
Systemwide	Deferred maintenance – This would fund existing deferred maintenance work and condition assessments.	$35.0	$35.0
Santa Barbara	Construction of a new classroom building – This supports the construction of a new facility that will increase general assignment classroom inventory by 32 rooms (35 percent) and 2,290 seats (40 percent).	79.8	97.1
Irvine	Construction of a new Student Wellness and Success Building – This supports the construction of a new student services facility that would provide some state supportable functions such as disability services, which comprise 37 percent of the building.	13.0	69.6
Santa Cruz	Construction of a new Kresge College academic building – This new facility would house academic programs including a lecture hall with 600 seats.	47.2	53.0
Riverside	Renovation of Pierce Hall – This supports the construction phase of the project. The renovation will expand the inventory of class laboratories and modernize research laboratories to address increase in students taking science classes.	13.0	22.8
ANR	Renovation of research and extension centers – This would fund the preliminary plans, working drawings and construction of various ANR facilities throughout the state. A detailed breakdown is described in the following chart.	19.2	19.2
Berkeley	University Hall seismic renovation – This supports the construction phase of the project. The renovation will reinforce the structural components of the building to improve resistance to seismic forces. The projects will also address fire life safety issues and various code deficiencies.	6.1	17.5
Totals		**$213.3**	**$314.2**

[a]At the Santa Cruz project, state funds supported the working drawings phase in 2018-19. All other previous phases for all projects were supported by nonstate funds.
[b]Funded by university bonds. The annual debt service on the bonds is estimated to be $16 million.
[c]Includes state and non-state funds.
ANR = Agriculture and Natural Resources.

Agriculture and Natural Resources Components
Project Costs in 2019-20 (Dollars in Millions)

	South Coast	Desert	Elkus Ranch	Kearney	Total
Construct new building	$7.2	$5.4	—	—	$12.6
Upgrade fire suppression system and roadways	0.4	—	$3.0	—	3.4
Abate hazardous materials	0.3	0.6	—	1	1.9
Improve accessibility	0.3	0.4	—	0.4	1.1
Upgrade water treatment system	—	—	—	0.3	0.3
Totals	**$8.2**	**$6.4**	**$3.0**	**$1.7**	**$19.2**

Deferred Maintenance. In addition to the $35 million preliminary approval for deferred maintenance and condition assessment in the AB 94 process, the Governor's budget proposes $138 million one-time General Fund to address deferred maintenance at UC. The UC's adopted budget only included $100 million to address deferred maintenance. As of this writing, the Administration had not provided a list of projects that would be funded with the proposed appropriation.

Legislative Analyst's Office Comments

Debt Service on Proposed 2019-20 Projects Anticipated to Be Paid in Future Years. UC estimates it would pay $16 million annually in debt service costs from financing the seven projects. According to the UC, it will not begin paying debt service on the projects until 2021-22. The lag is due to the UC's practice of waiting a few years after receiving state approval to issue bonds. The projects' initial costs would be covered through low-interest interim borrowing. UC would repay this initial borrowing with a portion of the bonds' proceeds. After adding the $16 million in costs, UC estimates its total debt service costs would peak at 6.8 percent of its General Fund support in 2023-24. Although the seven projects would not increase UC's debt service costs immediately, the university expects to begin financing several previously approved projects. The financing of those projects would increase UC's debt service costs.

The UC plans to issue bonds in March 2019 to finance several previously approved projects. The bond issuance will increase UC debt service costs. To cover these costs, the UC has requested $15 million in additional state General Fund. The Governor's budget proposal does not include funds for this cost increase. The Legislature may wish to factor this higher cost into its budget decisions for the UC.

LAO Concerns. The LAO has concerns with the proposed new classroom building at Santa Barbara, the new Kresge College academic building at Santa Cruz, and UC's preliminary plan to use UC bonds to fund an infrastructure conditions assessment. The LAO also believes the Legislature could improve upon the Governor's deferred maintenance proposal by adding some transparency and accountability provisions.

Santa Barbara Project. The new building would contain 53,940 asf/95,250 gsf of new lecture hall and small classroom space. According to the campus, the primary purpose of the project is to add more lecture hall space. The campus states that demand for large lectures exceeds capacity, and it currently must use large assembly and event spaces to accommodate demand. The campus intends to redirect instruction from these assembly and event spaces into the new building once it is complete. In so doing, the campus would free up more special-event space for its intended uses (such as musical performances and public lectures).

The LAO's primary concern is that the Santa Barbara project continues UC's traditional approach of delivering instruction in large in-person lectures. Over the past decade, the state has been moving in a different direction—providing UC with ongoing funds to develop and expand its online course offerings. Through online courses, UC can reach a large number of students without the added infrastructure costs. Given the impersonal nature of traditional lectures and the state's current efforts to increase online instruction, the Legislature may deem the Santa Barbara project a lower priority.

Santa Cruz Project. This project would add 25,000 asf/36,000 gsf in space to Kresge College—one of Santa Cruz's ten residential colleges. Specifically, the new building would accommodate two lecture halls (one with 600 seats and one with 150 seats), two classrooms (one with 50 seats and one with 35 seats), and one computer lab (48 seats). The project also would add administrative space, consisting mostly of faculty offices and conference rooms. The LAO has the following concerns:

- **Online Education an Alternative to Large Lecture Space.** The LAO believes online education would mitigate demand for the proposed large lecture spaces. The project's proposed smaller classrooms and computing laboratory, by contrast, is justified given current capacity constraints in the campus's existing space.

- **Administrative Space Shifts Personnel Around Campus.** According to the campus, the project would relocate various academic divisions from existing buildings into the new offices. Vacated buildings resulting from the project either would be demolished or reprogrammed in future projects for student services and housing supported by nonstate funds. In its proposal to the state, the campus argues that relocating these divisions into one building will give Kresge College more of an academic anchor upon which its students can identify. The Legislature may consider shifting personnel around the campus to one central location a relatively low priority.

Concerns With Proposed Infrastructure Conditions Assessment. The UC has not satisfactorily explained why it needs new resources—rather than using existing resources—to assess its utilities and related infrastructure. It also has not explained how it plans to support ongoing infrastructure monitoring after the initial assessment. The LAO also thinks using long-term bond funding for a one-time needs assessment is poor budget practice. They raised these same types of concerns regarding UC's use of bond funds to support its facility condition assessment in 2017-18.) For these reasons, the LAO encourages the Legislature to reject UC's proposal to use bond funds for the infrastructure assessment.

Recommend Adding Transparency and Accountability to Governor's Deferred Maintenance Proposal. The LAO believes that funds for deferred maintenance, as proposed by the Governor, is a prudent use of one-time funds. To promote greater transparency and legislative oversight of these funds, the LAO recommends the Legislature require UC to report at spring hearings on the specific projects it plans to undertake. The LAO recommends DOF to report no later than January 1, 2023 on the status of the various projects that are undertaken.

In addition, the LAO recommends the Legislature require UC to submit a long-term plan for eliminating its backlog once it completes its facility condition assessment (anticipated by December 31, 2020). UC's plan should identify funding sources and propose a multiyear schedule of payments to eliminate its backlog. To prevent the backlog from growing or reemerging in future years, the LAO recommends the Legislature require UC to identify ways to improve existing maintenance practices. UC, for example, could commit to setting aside the necessary level of funds for its scheduled maintenance or the Legislature could earmark a like amount of funds directly in the annual budget act for that purpose.

Staff Comments

Deferred Maintenance. As noted earlier, the UC's adopted budget included $100 million to address deferred maintenance. The Governor's proposed budget provides $138 million General Fund one-time and $35 million through the AB 94 process. This is $73 million more than the amount UC budgeted for in 2019-20. While UC notes that their list of deferred maintenance projects is $4.4 billion, campuses use different definitions and methodologies to identify project and estimate costs. The UC is using $15 million in UC bonds, which was approved by the Department of Finance in 2018, to conduct facilities assessment to create a more complete and accurate list of maintenance needs. Staff shares similar concerns as the LAO with regards to whether UC should use $35 million in bond financing for deferred maintenance or the one-time infrastructure assessment, and why they cannot use existing resources or the current facilities assessment to conduct this evaluation.

Staff also has concerns about lack of transparency and accountability associated with $138 million General Fund for deferred maintenance. In previous years, under Control Section 6.10, before the allocation of funds, the Department of Finance was required to submit a list to the Joint Legislative Budget Committee of deferred maintenance projects associated with each department 30 days prior to the allocation of funds. The Department of Finance is also required to report changes to cost of projects greater than $1 million, and provide comprehensive updates on all projects. On March 7th, the Senate Budget Subcommittee 4 on State Administration and General Government, the subcommittee adopted supplemental reporting language requiring the Department of Finance to notify the chair of the Joint Legislative Budget Committee prior to allocating deferred maintenance funding to the department.

Staff Recommendation. Hold Open.