

SUBCOMMITTEE NO. 1

Agenda

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



Thursday, April 27, 2023
9:30 a.m. or Upon Adjournment of Session
1021 O Street, Room 2100

Consultant: Christopher Francis, Ph.D.

OUTCOMES

Issues 1A-1D, 2, and 4 were held open per staff recommendation

Issue 3 was an oversight item and required no further action

Items for Discussion

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Public Comment

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6440 UNIVERSITY OF CALIFORNIA (UC)**Overview**

The University of California (UC) provides instruction in undergraduate, graduate professional, and graduate academic programs through the doctoral degree level; research; continuing education for adult learners; and public service.

The UC was founded in 1868 as a public, state-supported land-grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by the Regents of the UC. The Board of Regents includes the following 26 members: seven ex officio members, 18 members appointed by the Governor with the approval of the Senate for 12-year terms, and one student appointed by the Board. The Governor is President of the Regents.

The 1960 Master Plan for Higher Education designates UC as the primary state-supported academic agency for research. The UC also serves students at all levels of higher education in California and serves as the public segment primarily responsible for awarding doctoral degrees 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 that offer undergraduate, graduate, and professional education. The San Francisco campus is devoted exclusively to the health sciences. The university operates five teaching hospitals and administers more than 800 research centers, institutes, laboratories, and programs. It also oversees one United States Department of Energy laboratory and partners with private industry to manage two other Department of Energy laboratories.

Its ten campuses enroll nearly 290,000 students and the UC extension centers register an additional 500,000 participants in continuing education programs. In 2020-21, the UC awarded more than 84,000 degrees, including roughly 63,000 undergraduate degrees.

The Regents appoint a university president, who is typically responsible for overall policy development, planning, and resource allocation. The ten UC chancellors are responsible for management of the individual campuses. The Regents have delegated authority to the Academic Senate, including responsibility for policies on admissions and academic programs.

Issue 1A: State of UC: General Updates and Core Operations

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

Panel

- Dr. Michael V. Drake, President, University of California
- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office

Available for additional questions or details: Seija Virtanen, University of California
Jack Zwald, Department of Finance
Jennifer Pacella, Legislative Analyst's Office

Governor's Budget

Base Budget Increase. The Governor's budget proposes an increase of \$216 million General Fund ongoing for operating costs, representing a five-percent base increase in ongoing General Fund resources that is consistent with the Governor's multi-year compact with UC. Consistent with the compact, UC is to cover the cost of one percent resident enrollment growth from this base increase.

UC Board of Regents' Approved Budget and Proposal

Overall, the UC Board of Regents' approved budget identifies \$406 million in 2023-24 operating cost increases that UC identified in its fall 2022 budget plan. UC is planning for faculty and other non-represented staff salary increases. In addition, it already has 2023-24 contracts in place for its represented employee groups, with most groups receiving salary increases in the range of three percent to five percent. UC's employer contribution rate for UC Retirement Plan also is set to increase by one percentage point, with the total employer rate rising from 15.4 percent to 16.4 percent in 2023-24. UC projects a four percent increase in its health care costs for active employees and retirees. UC also projects cost increases for OE&E and debt service. In total, the operating cost increases are expected to exceed UC's available core fund increases by approximately \$40 million. UC indicates it would respond to any operating shortfall through operational savings and redirections of existing resources.

UC Proposed Changes for Core Operations, 2023-24 (dollars in millions)	
Core Operations, Cost Increases	
Faculty compensation	\$97.4
Retirement contributions	72.7
Nonrepresented staff compensation	69.0
Operating expenses and equipment	55.4
Faculty merit program	37.1
Represented staff compensation	37.0
Health benefits for active employees	24.3
Health benefits for retirees	6.8
Debt service ^a	6.0
Total Cost Increases	\$405.7

Funding Sources to Cover Cost Increases (dollars in millions)	
General Fund	\$252.0 ^b
Tuition and fee revenue	60.4 ^c
Alternative fund sources	54.6 ^d
Total Funding Increases	\$367
Operating Shortfall	-\$40.8^e
^a Reflects debt service on certain academic buildings. ^b Reflects Governor's proposed 5 percent base increase, \$30 million for nonresident enrollment reductions, and \$6.5 million in higher debt-service costs. ^c Reflects revenue from tuition and fee rate increases net of institutional student financial aid and after accounting for the loss of nonresident supplemental tuition resulting from the nonresident enrollment reduction plan. ^d Consists of \$30 million in investment earnings, \$13.8 million in procurement savings, and \$10.8 million in additional tuition revenue from nonresident enrollment growth. ^e Reflects estimated shortfall. Assumes enrollment growth below the existing state-funded level generates no new state costs.	

The UC Board of Regents' approved budget includes a request for \$252 million state General Fund in 2023-24 and ongoing to support core operations:

UC Request for State General Fund	
Purpose	Ongoing General Fund Amount (dollars in millions)
Five percent base increase	\$218.3
Backfill associated with conversion of 900 Non-resident slots to resident slots (<i>Covered in Issue 1B- Residential Enrollment</i>)	27.9
Aid for 900 eligible undergrads	4
Doctor of Dental Surgery Advocacy, Science, Public Interest and Research (DDS-ASPIRE) program	1.8
Total	252

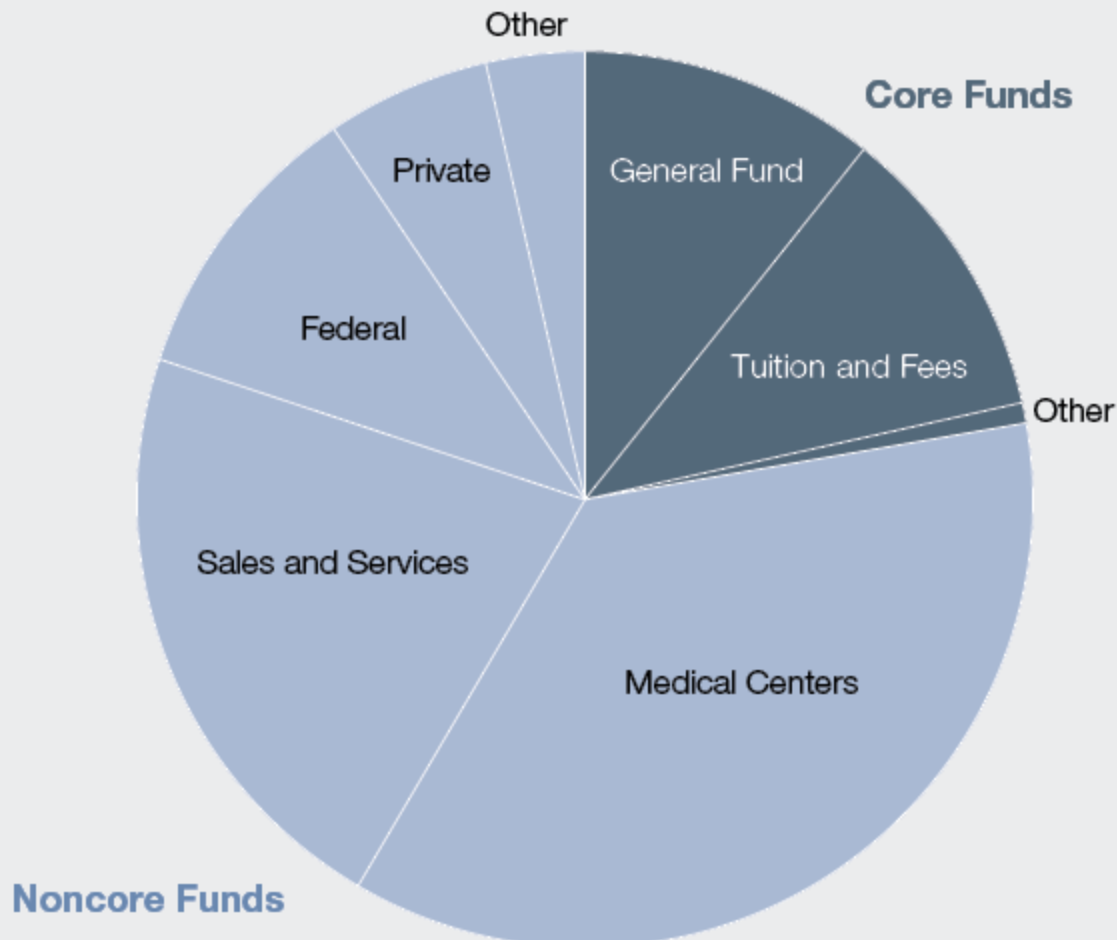
Background

UC Budget Is \$46.9 Billion in 2022-23. Though having the lowest level of state support, the fewest campuses, and the least student enrollment, UC has the largest budget of the three public highest education segments—with total funding greater than the CSU and CCC budgets combined. As Figure 1 shows, UC receives funding from a diverse array of sources. The state generally focuses its budget decisions around UC's "core funds," or the portion of UC's budget supporting undergraduate and graduate education and certain state-supported research and outreach programs. Core funds at UC primarily consist of state General Fund and student tuition revenue. A small portion comes from other sources, such as overhead funds associated with federal and state research grants. Between 2021-22 and 2022-23, ongoing core funds per student increased 6 percent at UC.

Figure 1

UC Receives Funding From Many Sources

\$46.9 Billion in 2022-23



Ongoing Core Funding Increases by \$450 Million (4.6 Percent) Under Governor's Budget. As Figure 2 shows, more than half of the increase comes from the General Fund, with a smaller increase from student tuition and fee revenue. Specifically, ongoing General Fund increases by \$256 million (5.9 percent), whereas tuition and fee revenue increases by \$194 million (3.8 percent). In 2023-24, tuition revenue is expected to grow both due to increases in tuition charges for certain students and enrollment growth.

UC Generates Additional Revenue From Tuition Increases. In July 2021, the Board of Regents adopted a new tuition policy. Under the policy, tuition is increased annually for new undergraduates and all graduate students, while remaining flat for continuing undergraduates. Tuition increases generally are based on a three-year rolling average annual change in the California Consumer Price Index, with a cap of five percent. The first year of tuition increases under the new policy was 2022-23. In 2023-24, tuition and systemwide fee rates are set at \$13,752 for new undergraduate students and \$13,104 for continuing

undergraduate students, reflecting a \$648 (4.9 percent) increase for new students. In 2023-24, UC estimates generating an additional \$147 million in revenue from tuition increases. It plans to use \$58 million of this additional revenue for institutional student financial aid. (In addition, the California Student Aid Commission budget includes \$46 million in higher associated Cal Grant costs for UC students in 2023-24. This Cal Grant cost increase is entirely offset by Cal Grant reductions associated with overall caseload.)

UC Has Considerable Flexibility in Managing Its Operating Costs. UC has more control than most state agencies over its operating costs. Of UC's core-funded compensation, about 78 percent is associated with employees who are not represented by a labor union. The Board of Regents directly sets salaries and benefits for these employees. UC negotiates salaries and benefits with its represented employee groups. As with CSU, the Legislature does not ratify UC's collective bargaining agreements. UC also has more control than other state agencies in that it operates its own retirement system—the UC Retirement Plan (UCRP).

UC's Largest Operating Cost Is Compensation. As with most state agencies, UC spends the majority of its ongoing core funds (about 68 percent in 2021-22) on employee compensation, including salaries, employee health benefits, retiree health benefits, and pensions. Beyond employee compensation, UC faces other annual costs, such as paying debt service on its systemwide bonds, supporting student financial aid programs, and covering other operating expenses and equipment (OE&E). Each year, campuses typically face pressure to increase employee salaries at least at the pace of inflation. Certain other operating costs, including health care and utility costs, also tend to rise over time in step with sector-specific cost trends. In addition, UC is responsible for setting its pension contribution rates, and it expects to increase these rates over the next several years, primarily as a result of weaker-than-expected stock market performance. Though operational spending grows in most years, UC has pursued certain actions to contain this growth. For example, over the past several years, UC has achieved operational savings through changing certain procurement practices.

UC Covers Its Operating Cost Increases From Three Main Sources. In most years, the state provides additional ongoing General Fund support to cover some of UC's operating cost increases. Since 2013-14, the state has provided UC with General Fund base increases in all years but one. (In 2020-21, the state reduced General Fund base support due to a projected shortfall, but it restored funding the following year.) UC sometimes supplements General Fund increases with additional systemwide tuition and fee revenue. Though it raised systemwide tuition rates only once between 2013-14 and 2020-21 (in 2017-18), UC is in the midst of implementing its new tuition policy that raises systemwide tuition rates for certain students annually. Thirdly, UC relies on various alternative fund sources to help cover some of its operating cost increases. In particular, UC relies on nonresident supplemental tuition revenue and investment earnings to increase its budget capacity. In recent years, UC also has been estimating the amount of operational savings it achieves through changing certain procurement practices and other efficiencies. It has identified these freed-up funds as an additional alternative source of support for core operations.

Share of Costs Covered by General Fund Has Been Increasing. As the state has provided UC with regular General Fund base increases and tuition charges have remained flat most years over the past decade, the General Fund has been comprising a growing share of UC's core funds. Whereas we estimate the General Fund comprised 43 percent of UC's ongoing core funds ten years ago, it comprises 46 percent today. Despite this increase, ongoing General Fund support per student has not kept pace with inflation since 2017-18. Though ongoing General Fund support per student in 2022-23 was 22 percent higher than in 2017-18 (rising from \$12,471 to \$15,151) in unadjusted terms, it was 3.8 percent lower when adjusted for inflation.

Campuses Have Largely Spent Federal Relief Funds. Between March 2020 and March 2021, the federal government enacted three pieces of legislation providing COVID-19 relief funds to higher education institutions. All associated funding was deposited into the Higher Education Emergency Relief Fund (HEERF) and made directly available to campuses. UC campuses received a total of \$1.4 billion in HEERF funds. Of this amount, UC campuses were required to spend at least \$605 million on student financial aid. Any remaining funds were available for a broad range of institutional expenses associated with COVID-19. As of November 2022, UC campuses had spent \$1.3 billion (94 percent) of the total relief funds they received. Aside from student financial aid, the largest categories of expenses were replacement of lost revenue, salaries and benefits, and information technology. Under current federal guidance, campuses have until June 30, 2023 to spend the remaining \$88 million in relief funds. It is expected that campuses will be able to expend the remaining funds by this date.

Ratification of Agreements for Academic Student Employee Compensation Adds Costs to UC. A recent December 2022 agreement will add onto UC's employee compensation costs. UC announced a tentative agreement with United Auto Workers, which represents Academic Students Employees such as Teaching Assistants and Graduate Students Researchers, to provide minimum salary scales, multi-year pay increases, paid dependent access to University health care, and enhanced paid family leave. If approved, the contracts will be effective through May 31, 2025. New costs to fund academic researchers and postdocs are expected to be in the tens of millions of dollars. Though the Governor's 2023 January budget proposes a five percent base increase for UC, this amount does not account for updated cost pressures stemming from the new UC-UAW agreement.

Legislative Analyst's Office (LAO) Comments and Recommendations

LAO Assessment: Unrestricted Base Increase Lacks Transparency and Accountability. The Governor's proposed unrestricted base increase for UC lacks transparency, as the funds are not designated for particular purposes. Compounding this uncertainty, the Board of Regents does not adopt a corresponding spending plan until after final state budget enactment. Though UC's fall 2022 budget request provides some indication of how UC could use the proposed funds, no statutory language requires UC to spend the base increase consistent with that preliminary plan. For all these reasons, the Legislature does not have assurance that the proposed augmentation will be spent in ways that are aligned with its priorities. Furthermore, the state has not put in place a funding formula or accountability system for UC that is akin to the one in place for CCC, which provides fiscal incentives to achieve certain outcomes. (Under the CCC Student Centered Funding Formula, community colleges effectively earn funds by achieving certain enrollment and performance outcomes.) Though the Governor's compact describes some performance expectations, no clear mechanism exists to increase or decrease UC's funding in response to its outcomes.

LAO Assessment: Amount of Governor's Proposed Base Increase Is Arbitrary. The five percent annual base increases proposed in the Governor's compact are not tied to projections of UC's operating costs. Since the initial agreement was made last year, new information has become available on UC's cost increases as well as the state's budget condition. Each year of the compact moving forward, new information will continue to emerge. Typically, the Legislature desires to use the most recent and accurate information available to guide its budget decisions instead of relying on arbitrary increases previously proposed by the administration.

LAO Assessment: Proposed General Fund Augmentation Does Not Fully Cover UC's Projected Cost Increases.

LAO Recommendation: Build Base Increase Around Identified Operating Cost Increases. The LAO recommends the Legislature to decide the level of base increase to provide UC by considering the

operating cost increases it wants to support in 2023-24. Given the state's projected budget deficit, the LAO recommends considering the proposed five percent base increase an upper bound. With the General Fund augmentation that the Governor proposes, together with additional revenue from tuition increases and alternative fund sources, UC could cover most of its projected cost increases. However, it would need to find some savings. For example, it might consider revisiting its projected OE&E spending. UC included \$55 million for projected OE&E cost increases in its spending plan, which is about \$15 million more than our estimate of UC's budget shortfall. Further downward spending adjustments would become more difficult for UC, as those reductions could begin to affect salary increases for non-represented employees. Though smaller salary increases likely are unpalatable, UC does not appear to be having special difficulty attracting and retaining most of its faculty and staff. For example, UC faculty salaries on average are higher than most public universities engaging in a similar level of research. In addition, faculty separations have remained about the same over the last ten years. Finally, given UC's sizable and growing capital renewal needs, the Legislature could consider reallocating some proposed funding for this purpose.

Suggested Questions

- What challenges within the UC system do you perceive to be the biggest?
- Please discuss UC's planned uses with the proposed base increase. Overall, what will UC fund with the \$216 million if this base amount is not increased in the final budget agreement?
- In your view, is the amount included in the Governor's budget enough to cover the ongoing cost pressures at your campuses such as inflation and the cost of graduate student agreements?
- How much in new revenue will the 2023-24 tuition increase net, and how does UC plan to use this funding?
- The UC Regents' budget indicates that the system is operating at a \$40 million deficit. Please explain the implications of this deficit at each campus and what guidance the UC President gave campuses to accommodate this potential shortfall.

On the UC-UAW agreement,

- Please provide an estimated cost to implement the December 2022 agreement.
- How does UC plan to cover the costs of this agreement? Is this a systemwide plan or are you leaving the decisions to the campuses?
- What funding sources, other than state General Fund support, are UC considering to cover this agreement?
- What guidance has the UC President given campuses so far? What is UCOP's plan, in the coming weeks and months, to communicate guidelines on how to accommodate this agreement?
- Have campuses already done any of the following activities -increasing class sizes, cutting course offerings, reducing appointment lengths or eliminating appointments, reducing graduate slots, shrinking research groups-to accommodate the agreement? Are any campuses planning to do any of those activities?
- How does this agreement affect the UC's ability to reach the goal of adding 2,500 graduate students as expected in the compact?

Staff Recommendation. Hold Open.

Issue 1B: Resident Enrollment at UC**Panel**

- Dr. Michael V. Drake, President, University of California
- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office

Available for additional questions or details: Seija Virtanen, University of California
Jack Zwald, Department of Finance
Jennifer Pacella, Legislative Analyst's Office

Governor's Budget

Enrollment Funding in 2023-24. As part of the multiyear compact established between the Governor and UC, UC is to cover the cost of one percent resident enrollment growth (2,000 FTE students) in 2023-24 from the \$216 million base increase proposed in the Governor's budget.

Enrollment Growth Expectation beyond 2023-24. The Governor also expects UC to continue increasing resident undergraduate enrollment by one percent annually through 2026-27 (the last year of the compact).

UC Nonresident Enrollment Reduction Plan. Whereas the Governor's budget does not earmark funding to meet the resident undergraduate or graduate enrollment targets mentioned above, it includes \$30 million ongoing General Fund to continue reducing nonresident enrollment at the Berkeley, Los Angeles, and San Diego campuses by a total of 902 FTE students in 2023-24. The \$30 million is intended to replace lost nonresident supplemental tuition revenue as well as lost base tuition revenue that supports financial aid for resident students. The Governor's budget proposes to retain provisional language that would reduce this appropriation proportionally were UC to fall short of the reduction target.

Governor Also Set Forth Graduate Enrollment Targets Under Compact. In addition to resident undergraduate enrollment targets, the compact specifies that UC is to grow graduate student enrollment (resident and nonresident enrollment combined) by a total of about 2,500 students over the same time period. To meet this goal, UC plans to increase total graduate enrollment by 625 FTE students in 2023-24. Over the remaining years of the compact, UC plans to continue growing total graduate enrollment by 625 FTE students annually—reaching the cumulative goal of 2,500 additional graduate students by 2026-27. UC is to cover the cost of this enrollment growth also from within its five percent annual base augmentations.

Background

State Typically Sets Enrollment Targets and Provides Associated Funding. Over the past two decades, the state's typical enrollment approach for UC has been to set systemwide resident enrollment targets. These targets typically have applied to overall resident enrollment, giving UC flexibility to determine the mix of additional undergraduate and graduate students. If the overall systemwide target has reflected growth (sometimes the state leaves the target flat), the state typically has provided associated General Fund augmentations. Augmentations have been determined using an agreed-upon per-student funding rate derived from the "marginal cost" formula. This formula estimates the cost to enroll each additional student and shares the cost between state General Fund and anticipated tuition revenue.

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

State Recently Adopted a Nonresident Enrollment Reduction Plan for UC. The 2021 Budget Act, through AB 132, created a nonresident reduction plan at UC Berkeley, UCLA and UC San Diego. AB 132 specified legislative intent that UC limit the share of nonresident students at every campus to no more than 18 percent of the campus undergraduate enrollment. The law also specified legislative intent UC to gradually make progress towards achieving this policy at UC Berkeley, UCLA, and UCSD. The budget agreement noted that the state will provide \$31 million ongoing General Fund in 2022-23, \$61 million ongoing General Fund in 2023-24, and \$92 million in 2024-25 to reduce nonresident enrollment to 18 percent of the undergraduate student body, replacing about 900 nonresident students with California students annually. The 18 percent cap applies to all UC campuses, but only those three campuses currently are notably above the cap. The planned reductions are spread evenly over each year of the phase-down period. The 2022 Budget Act agreement subsequently provided UC with \$30 million General Fund to backfill for the loss of associated nonresident tuition revenue. If UC does not meet the reduction target, provisional language directs the administration to reduce UC’s appropriation proportional to any shortfall.

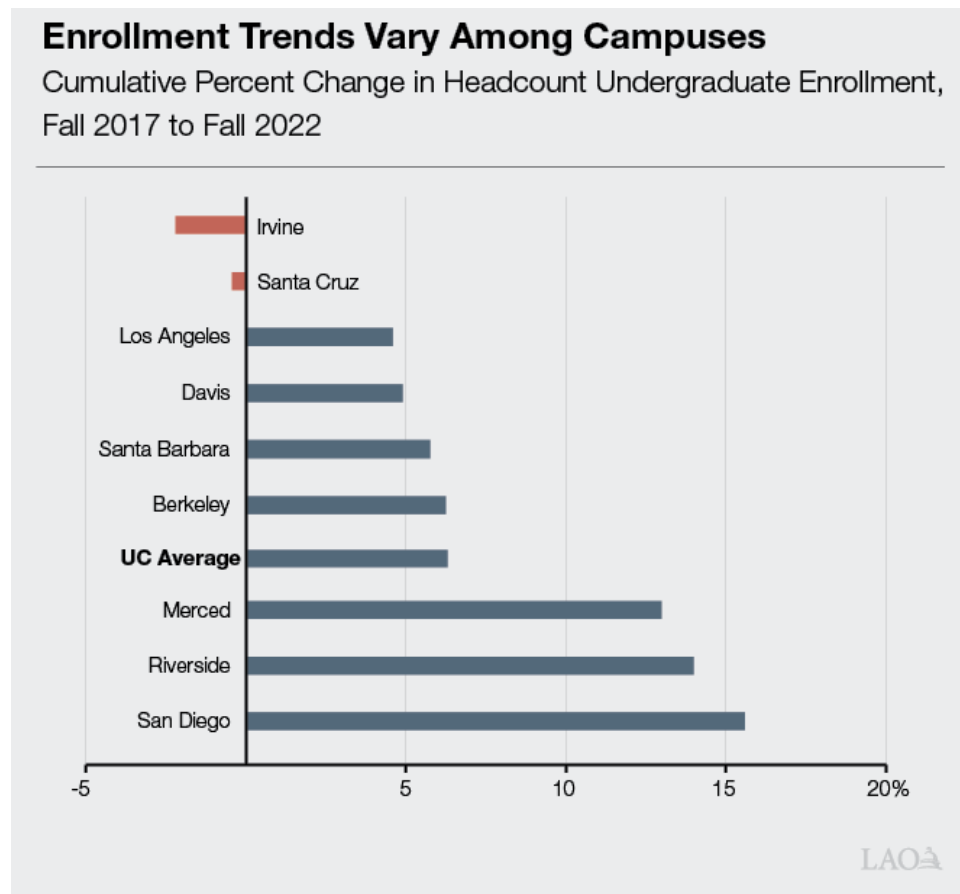
UC Is Likely to Meet 2022-23 Nonresident Undergraduate Enrollment Target. Compared to the fall 2021 term, nonresident undergraduate headcount in the fall 2022 term declined at the Berkeley, Los Angeles, and San Diego campuses by a total of 992 students. This reduction equates to 913 FTE students, which exceeds the state reduction target of 902 FTE students. Though UC exceeded the overall reduction target for the fall term, one campus reduced nonresident undergraduate enrollment only slightly. Specifically, the smallest decline occurred at the Berkeley campus (88 students), with the Los Angeles campus declining by 406 students and the San Diego campus declining by 498 students. Of the three campuses, Berkeley has the highest percentage of nonresident undergraduate enrollment (23.7 percent of total undergraduate enrollment in fall 2022). Given the Berkeley campus experienced the smallest decline in fall 2022, it will need even greater reductions over the next several years to meet the 18 percent campus cap by 2026-27. As intended, the three campuses increased their resident undergraduate enrollment in fall 2022—growing by a combined 1,711 students, more than backfilling for the reduction in nonresident undergraduates.

State Set Resident Enrollment Target for 2023-24. Specifically, the state set an expectation in the 2022 Budget Act that UC grow by a total of 7,632 resident undergraduate FTE students in 2023-24 above the 2021-22 level. This amount consists of three components. First, it includes 4,730 additional students to be funded at a state marginal cost rate of \$10,886. The budget act provided \$51.5 million to fund this group of students. Second, it includes another 2,000 students (reflecting roughly one percent additional growth). UC is to cover the cost of these students from the base increase it receives in 2023-24. Third, it includes 902 additional resident students due to the planned replacement of nonresident students. The cost to cover these students is to be provided through the nonresident reduction plan.

State Funded UC for Prior “Over-Target” Enrollment. In addition to the new enrollment targets set for UC, the 2022 Budget Act funded UC for students it had enrolled over previous state targets. Specifically, the budget act provided \$16 million for 1,500 undergraduate FTE students UC enrolled over target from 2018-19 through 2021-22.

Recent Enrollment Trends Have Varied Among Campuses. As the below figure from the LAO shows, enrollment trends varied widely among campuses over the past five years. From fall 2017 to fall 2022, the

cumulative change in undergraduate students ranged from a 16 percent increase at the San Diego campus to a 2.2 percent decrease at the Irvine campus. While final 2022-23 campus-level data is not yet available, roughly half of campuses (Davis, Irvine, Santa Cruz, and San Diego) saw a decline in student headcount in the fall 2022 term.



UC Expects Resident Undergraduate Enrollment in 2022-23 to Decline Slightly. Though 2022-23 enrollment data has not yet been finalized, UC has made initial systemwide estimates based on enrollment levels in the summer and fall of 2022. UC estimates 2022-23 resident undergraduate enrollment will be 195,597 students—263 students (0.1 percent) below the level in 2021-22. As the below figure from LAO shows, UC is expecting enrollment in fall through spring terms to be up slightly, but more than offset by the enrollment drop it experienced in the summer 2022 term. The drop in summer 2022 enrollment could reflect a strong labor market, together with fewer online courses offerings compared to summer 2021. (Enrollment spiked in summer 2020 in the midst of the pandemic, likely because students had more opportunities to study online and fewer summer employment opportunities. Summer enrollment since then has declined.)

UC Enrollment Drop in 2022-23 Attributable to Decline in Summer Enrollment

Resident Undergraduate Full-Time Equivalent Students

	2020-21 Actual	2021-22 Actual	2022-23 Estimated	Change From 2021-22	
				Amount	Percent
Fall through spring	177,643	176,636	177,947	1,311	0.7%
Summer ^a	22,432	19,224	17,650	-1,574	-8.2
Totals	200,075	195,860	195,597	-263	-0.1%

^aSummer term is treated as the first term of a fiscal year. For example, summer 2022 is counted toward 2022-23.

2023-24 Resident Undergraduate Enrollment Target Will Most Likely Not Be Met. UC has revised its resident undergraduate enrollment plans to account for the slight drop in 2022-23 systemwide enrollment as well as the expectation that it will not meet its budget act enrollment target for 2023-24. UC expects to grow by 4,197 FTE resident undergraduate students (2.1 percent) in 2023-24, short of the 7,632 FTE student target. (The 4,197 FTE students is a point-in-time estimate from UC, which will be refined in the coming months.) UC effectively plans to speed up growth in subsequent years—growing at 1.6 percent rather than 1 percent each year. Under this modified plan, UC would reach the ultimate compact enrollment target by 2026-27.

Some Key Factors Underlie Systemwide Undergraduate Trends. Freshman enrollment the past three years at UC has been more volatile than normal—growing 1.6 percent in fall 2020, growing 11 percent in fall 2021, and falling 6.1 percent in fall 2022. UC attributes the large increase in fall 2021 to the elimination of standardized testing requirements, coupled with the suspension of the statewide eligibility index due to COVID-19-related grading policies. (The statewide eligibility index is a formula used by UC to determine which students are in the top 9 percent of California high school graduates.) Both of these factors, in turn, contributed to a large increase in applications. Compared to these trends, transfer enrollment is on a clearer trajectory of decline, with a decline of 1.1 percent in fall 2021, followed by a decline of 9.1 percent in fall 2022. These declines reflect the lagged effect of declines in community college enrollment the past couple of years. Regarding continuing students, retention rates are down slightly (about 1 percentage point), as is average credit load (by less than 0.5 units per term).

Graduate Enrollment Has Followed a Similar Trend as Undergraduate Enrollment. Similar to undergraduate enrollment, graduate enrollment significantly increased in fall 2021, then leveled off in fall 2022. Specifically, total graduate enrollment grew by nearly 5,000 students (7.5 percent) in fall 2021, then dropped by approximately 230 students (0.3 percent) in fall 2022. Since fall 2020, enrollment in UC's master-degree programs has grown the most (29 percent), followed by professional programs (11 percent). Enrollment in doctoral programs has remained about flat (down 0.2 percent). (In fall 2022, doctoral programs comprised 45 percent of UC's total graduate enrollment, professional programs comprised 41 percent, and master-degree programs comprised 14 percent.)

UC Enrollment Plan Intends to Recover Enrollment Over Multiyear Period. The top portion of the modified enrollment plan below shows the original compact enrollment targets for UC, as modified by the 2022 Budget Act (which funded higher growth in 2023-24). Under the compact, UC would not receive additional funds for enrollment growth over the period, but instead it would need to accommodate the higher costs from within its five percent annual base augmentations.

UC Has a Modified Enrollment Plan

Resident Undergraduate Full-Time Equivalent Students

	2021-22 Actual	2022-23 Estimated	2023-24 Projected	2024-25 Projected	2025-26 Projected	2026-27 Projected	Cumulative Growth ^a
Compact Expectations for Enrollment Growth^b							
Enrollment target under compact	195,861 (baseline)	—	203,493	205,493	207,493	209,493	13,632

Change over prior year	—	—	7,632	2,000	2,000	2,000	—
Annual percent change	—	—	3.9%	1.0%	1.0%	1.0%	—
UC Plan to Meet Growth Target^c							
Enrollment target under UC Plan	195,861 (baseline)	195,597	199,794	203,027	206,260	209,493	13,632
Change over prior year	—	-264	4,197	3,233	3,233	3,233	—
Annual percent change	—	-0.1%	2.1%	1.6%	1.6%	1.6%	—
^a Reflects total growth from 2021-22 through 2026-27. ^b Reflects compact as modified by the 2022-23 Budget Act. Change in 2023-24 is compared to 2021-22 level. ^c Reflects projected enrollment growth in 2023-24 as identified by UC. From 2024-25 through 2026-27, remaining planned growth is evenly distributed.							

LAO Comments and Recommendations

LAO Assessment: Legislature Has More Time to Influence 2024-25 Enrollment Levels. As UC already is making its 2023-24 enrollment decisions, the Legislature has less ability to influence its enrollment level that year. The Legislature could, however, send an early signal to campuses about its enrollment expectations for 2024-25. In setting an enrollment target for 2024-25, the Legislature likely would want to consider certain demographic, academic, and economic factors. The number of high school graduates next year, for instance, is projected to increase by 0.6 percent, potentially spurring some demographically driven growth among new students in 2024-25. At this time, other factors such as application volume, retention rates, average unit load, and the job market are uncertain for 2024-25.

LAO Assessment: Setting Funded Enrollment Level Is Helpful Budget Practice. Over the past few years, the state has set an enrollment growth target for UC (for example, 2,000 additional resident undergraduates), without specifying the associated total funded enrollment level (for example, a total of 202,000 resident undergraduates). Such an approach can lead to confusion and unintended consequences. This is particularly the case when the baseline level of enrollment comes in notably lower or higher than expected. Take, for example, a stylized case in which the Legislature at the time of budget enactment believes 2022-23 enrollment will be 200,000 and provides UC enrollment growth funding to serve an additional 2,000 students in 2023-24. If the Legislature has not specified its expectation that UC enroll a total of 202,000 students in 2023-24, disagreements might arise. As enrollment data is finalized, if total 2022-23 enrollment is 198,000 students, then UC might still expect to receive funding if it grows back to 200,000 in 2023-24. The Legislature, however, might have expected UC to grow beyond its previously funded level of 200,000 students. These types of situations can be avoided if the state sets expectations regarding both enrollment growth targets and resulting funded enrollment levels.

LAO Recommendations: *Consider Adding a Budget Solution Related to Lower-Than-Expected Enrollment.* The LAO recommends the Legislature to plan for the risk of a larger budget problem by developing a larger set of potential budget solutions than the Governor has proposed. Given UC expects enrollment growth in 2023-24 to be below the level funded in the 2022 Budget Act, the Legislature may wish to consider adding an associated budget solution. Specifically, the Legislature could reduce 2023-24 funding by \$15.6 million to align with UC's planned 2023-24 enrollment level. (The \$15.6 million in savings is based on a \$10,886 state marginal cost rate for the estimated 1,429 student shortfall.) If the Legislature wanted to go further in aligning UC's funding with enrollment, it also could adjust UC's funding in 2022-23. Specifically, it could reduce UC enrollment growth funding by \$51.5 million in 2022-23, as UC does not plan to enroll any of the additional associated students this year.

LAO Recommendations: *Set Resident Undergraduate Enrollment Target in 2024-25.* To help influence UC's future enrollment decisions, the LAO recommends the Legislature to set a resident undergraduate enrollment target for 2024-25. Based on the factors discussed earlier, the Legislature could consider any number of options, ranging from holding enrollment flat to funding moderate growth. Regardless of the exact growth target, the LAO recommends the Legislature to also specify an expected enrollment *level* for 2024-25. Such an approach clarifies legislative intent, thereby improving transparency, and enhances accountability. Lastly, though the LAO recommends setting enrollment targets for UC one year in advance, the LAO recommends providing associated enrollment growth funding the same year the additional students enroll. This is because the bulk of the costs incurred to educate new students begins the year those students enroll, rather than a full year earlier.

LAO Recommendations: *Approve Continued Implementation of Nonresident Reduction Plan.* The LAO recommends the Legislature to approve the Governor's proposed \$30 million to continue implementing the state's nonresident undergraduate enrollment reduction plan for UC. The proposal is consistent with state law and recent state budget actions. The nonresident enrollment reduction plan continues to serve the state's objective of freeing up slots for resident undergraduates at high-demand campuses.

LAO Recommendations: *Seek Better Information on How UC Will Cover Cost of Graduate Enrollment Growth.* If the Legislature has specific workforce priorities that entail graduate enrollment growth, it could set a target for 2024-25. That said, the Legislature could continue its current approach of not setting a graduate enrollment target if it has no specific graduate student-related priorities. Regardless of which of these options it takes, the LAO recommends that the Legislature ask UC to provide further documentation on how it intends to cover the associated cost of enrolling additional graduate students. As graduate academic students do not tend to cover their full associated education costs, enrolling more graduate students could worsen UC's projected operating shortfall.

Suggested Questions

- Is UC confident it can hit goals associated with adding 2,500 graduate students systemwide during the term of the compact agreement?
- The compact report includes information about UC's progress in hitting its nonresident enrollment plan per the Budget Act of 2021. Please explain where UC is in hitting these goals.
- What is the Administration's and UC's response to the LAO's recommended budget solutions associated with UC's lower than expected enrollment?
- UC has noted that some of its recent FTES decline is due to students taking fewer units, and does not necessarily indicate a decline in the number of students on campus. Can UC please elaborate on this?

Staff Recommendation. Hold Open.

Issue 1C: Student Housing at UC**Panel**

- Dr. Michael V. Drake, President, University of California
- Michelle Nguyen, Department of Finance
- Jennifer Pacella, Legislative Analyst's Office

Available for additional questions or details: Seija Virtanen, University of California
Ian Klein, Legislative Analyst's Office

Governor's Budget

Governor Proposes to Delay Some Student Housing Grant Funding. In response to a projected state budget deficit, the Governor proposes various budget solutions to achieve near-term General Fund savings. One set of budget solutions involves delaying certain funding to later years. Within higher education, one of the Governor's largest proposed funding delays is to move \$250 million in student housing grant funds from 2023-24 to 2024-25. Delaying this amount would leave \$500 million (of the originally intended \$750 million) available for new housing projects in 2023-24. The specific impact of the delay on each of the segments would depend upon how much, if any, grant funding they receive in 2023-24. (Under statute, of total grant funding, 50 percent is for CCC, 30 percent is for CSU, and 20 percent is for UC.)

Governor Also Proposes to Delay Revolving Loan Funds. The Governor also proposes to delay the launch of the California Student Housing Revolving Loan Program by one year—pushing back the start from 2023-24 to 2024-25. Additionally, rather than providing program funds of \$900 million the first year and another \$900 million the following year, the Governor proposes providing \$650 million the first year (2024-25) and \$1.15 billion the next year (2025-26).

Background

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

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

- Homelessness is prevalent across California's three higher education segments, with 1 in 20 students at UC, 1 in 10 students at CSU, and 1 in 5 students at California Community Colleges (CCC) reporting experiencing homelessness at some point during the academic year. Even more students experience some form of housing insecurity. For example, 16 percent of UC students in 2020 reported sleeping in nontraditional housing arrangements (such as a hotel, transitional housing, or outdoor location) because they lacked permanent housing.
- Affordable, on-campus housing is a benefit to students. A report to the CSU Board of Trustees in July 2020 noted that research across college campuses nationally and within the CSU suggest that

students living on campus have higher grade point averages and lower academic probation rates, higher retention and graduation rates, and shorter time to graduation than their off-campus peers.

- Insufficient student housing can hinder campuses' ability to increase enrollment and serve more Californians. Both UC Davis and UC Santa Cruz, for example, have agreements with local governments that limit increased enrollment unless housing is added to accommodate that growth. CSU Humboldt has launched a plan to become a polytechnic university and more than double its student body in the next decade, but campus officials note that on-campus housing must be built before dramatically increasing enrollment. The local housing market cannot accommodate thousands of new students.

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

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

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

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

- Approved all UC, CSU, and CCC student housing construction grant projects deemed eligible by the Department of Finance (DOF) from the first round of applications submitted as part of the October 2021 application process. This change is in AB 183 and documented in the next section.
- Appropriated roughly \$1.4 billion General Fund to the Higher Education Student Housing Grant Program to cover the costs of these projects as well as CCC planning grants selected by the DOF in the first year of the Program. This change is also in AB 183 and documented in the next section.
- Changed subsequent rounds of the student housing grant program's application process, including the administrator of the program to allow the higher education segments to nominate projects, incorporating the Legislative Analyst Office's recommendations to address cost overruns, project requirements to have contingency plans, a notification process, and reporting requirements for all projects funded in the first application round and any submitted project proposals in subsequent rounds. This change is in AB 183.
- Established a new California Student Housing Revolving Loan Fund to provide zero-interest loans to qualifying campuses of the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC) for construction of affordable student, faculty, and staff housing. States that the fund will receive \$1.8 billion in 2023-24 and 2024-25 and creates a process for the California School Finance Authority and the California Educational Facilities Authority to create and receive applications from campuses, and distribute funds. This change is in AB 190.

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

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

2022-23 Awards Specified in Budget Act of 2022 (In Thousands)

Campus	Funding		Beds	
	State	Non-state	Affordable	Standard
University of California				
San Diego	\$100,000	\$235,500	1,100	208
Berkeley	100,000	212,014	310	803
Santa Cruz	89,000	—	320	—
Irvine	65,000	700	300	—
Los Angeles	35,000	28,557	358	—
Subtotals	(\$389,000)	(\$476,771)	(2,388)	(1,011)

UC Implementation Updates. Generally, grant program guidelines direct the campuses to build funds into the submitted project bids for project contingency, to identify the non-grant fund sources and their respective balances that would be available to cover costs overruns, and to cover any costs above those identified in their application using the non-state funds. While these problems were encountered by the CSU in their projects, UC experienced other delays for select projects. Below is a table containing status updates for the projects funded in the 2022 Budget Act agreement.

Campus	Status Update from UC

San Diego	<p>The San Diego's Pepper Canyon West Student Housing project requires redesign resulting from conflicting direction issued by the Division of the State Architect. The redesign will increase the project cost and delay the project.</p> <p>Once the budget augmentation is determined, the campus will seek Regental approval to update the project's scope and budget as well as the funding plan to include the State funding from the Higher Education Student Housing Grant Program.</p>
Berkeley	Housing Project #2, which includes the State grant funded People's Park Student Housing project, is under CEQA litigation and the project is on hold.
Santa Cruz	In November 2022, the Regents approved an amendment to the Kresge College Non-Academic project to: (1) expand the scope; and (2) increase the budget to include the State funding from the Higher Education Student Housing Grant Program, as well as, additional external financing, campus funds, and reserves.
Irvine	In January 2023, the Board's Finance and Capital Strategies Committee discussed the Irvine campus's Mesa Court Residence Hall Expansion project. Regents' approval of the project's budget, scope, external financing, and design following action pursuant to CEQA will be sought in the Board's March 2023 meeting.
Los Angeles	Regents' approval of the Gayley Tower's Redevelopment project's preliminary plans funding will be sought in the Board's March 2023 meeting.

Nevertheless, they report that their funded projects are on track for construction within the next 18 months.

UC Proposals for 2023-24. Table 2 shows the statutory allotments per segment remaining for the Higher Education Student Housing Grant Program and Table 3 displays UC's request for 2023-24. According to updated estimates, \$48 million General Fund in grant funding remains available for UC. UC's requested \$573 million General Fund to support six eligible projects—an amount that exceeds UC's remaining allotment. Of these six projects, two are intersegmental and include collaboration with community college campuses.

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

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

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

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

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

Table 3: UC Proposed Projects for Higher Education Student Housing Grant program

Rank	Campuses and Project Name	Total Beds	State Funded Affordable Beds	Stand ard Beds	Estimated Total Project Costs (\$ in thousands)	Funds from other sources (\$ in millions)	State Grant Funding Requested (\$ in millions)	Percent of Total Project Amounte d Covered by Grant Funds (%)
1	UC Riverside & Riverside Community College District [1,2]	1,553	654	899	\$312	\$261	\$51	16%
2	UC Merced & Merced Community College District Promise Housing Project [1]	478	478		100	50	50	50
3	San Diego-[4]	2,444	1,474	970	683	533	150	22
4	Merced	496	496		97.5		97.5	100
5	Davis	400	400		93	0.8	92.2	99
6	Merced-Graduate Student Housing [3]	236	236		58.7		58.7	100

Notes: *According to UC, priority was based on State Cost per Bed & location diversity

[1] The application is for UC State funds. Non-State include CCC State funds.

[2] This project has an optimized portofolio for the state beds where the average cost is \$192,400 per state bed, allowing the project to maximize the number of state beds for \$51M of UC State Housing Grant funding.

[3] If there are not enough low-income graduate students to fill the beds, a bed would be offered to a low income undergraduate student.

[4] Based on a \$150M grant. Any different amount would result in a prorated number of beneficiaries.

LAO Assessment and Recommendations

LAO Assessment: Proposed Housing Projects Are in Early Phases. Most of the CSU and UC housing projects submitted for possible 2023-24 funding are in early planning phases. Though the CCC housing projects had not yet been submitted at the time of the LAO's student housing publication, the LAO believes that the CCC are also in early planning phases. Even the projects the state funded as part of the first round generally remain in early planning phases. Moreover, if all future project phases go smoothly, most projects still take one or two years of planning and design work before entering the construction phase. Some projects take longer to reach the construction phase, as environmental issues, litigation, and the need to redesign, among other issues that are not fully within campuses' control, can arise during project development. Construction, in turn, can last a couple of years. Given these timing issues, delaying or removing funding for the segments' housing project proposals would have no near-term impact on students. (Delaying project funding, however, likely would contribute to construction cost escalation, as construction costs tend to increase over time.)

LAO Assessment: Results of First-Round Grants Are Not Yet Available. No housing units receiving Higher Education Student Housing Grant funds have yet been completed. The program, however, is intended to reduce housing charges from what they otherwise would have been for those students eventually offered one of the newly constructed housing units. Data is not yet available on the impact of reduced housing charges on college affordability and student housing insecurity. Data also is not yet available on how state housing grant funds are affecting the overall housing supply on and off campus. Delaying additional housing funds would provide time for the state to assess the impact of the first round of grant funding.

LAO Assessment: Need for State Subsidy Remains Unclear. Prior to the state creating the Higher Education Student Housing Grant program, nearly all campus housing projects were self-supporting. Moreover, even without state support, construction of student housing generally outpaced enrollment growth over the past several years. Furthermore, campuses interested in expanding their housing capacity have ways to reduce project costs without state support. The most common way campuses contain their student housing costs are by redesigning facilities. For example, a project originally designed to contain more expensive apartments with individual kitchens and bathrooms might be redesigned to be a more traditional residential hall with common bathrooms and no kitchens.

LAO Assessment: Other Programs Might Be More Effective Way of Promoting College Affordability and Housing Security. Whereas the first-round Higher Education Student Housing Grant program is expected to provide affordable housing to fewer than 7,400 students, the state has hundreds of thousands of low-income students enrolled across the segments. Using the state's ongoing financial aid programs to assist with nontuition costs potentially could benefit many more students much more quickly than the housing grant program. Moreover, using the segments' rapid rehousing programs might be a more targeted approach to helping those students who need immediate housing assistance. Compared to the one-time funding for the student housing grants, these kinds of programs rely on ongoing funds. The state, however, already has notably augmented ongoing funding for these programs in recent years. For example, the MCS program—just one of several ongoing financial aid programs expanded in recent years—is benefitting an estimated 217,000 more students in 2022-23 compared to 2021-22.

LAO Recommendation: Could Expand Budget Solutions List by Removing Student Housing Funds. Given all these considerations, together with the state's budget condition, the Legislature could expand its budget solutions list by removing all \$750 million in scheduled Higher Education Student Housing Grants funds. Relative to the Governor's budget, this option provides an additional \$500 million in General Fund savings in 2023-24, while also providing an additional \$250 million in savings in

2024-25. As projects are in early phases and campuses have options for building student housing without state support, removing these grant funds could be one of the relatively less disruptive ways to achieve state budget solutions. These same basic points also can be made with the California Student Housing Revolving Loan Program. Rather than delaying funding, the Legislature could remove the \$1.8 billion proposed for this program over 2024-25 and 2025-26. Together, the two housing programs could generate as much as \$2.6 billion in additional General Fund savings over the 2023-24 through 2025-26 period.

LAO Recommendation: *Could Prioritize Academic Facilities When One-Time Funds Are Available.* If the state were to have one-time funds available, it could prioritize renovating existing academic facilities. Many of the segments' academic facilities are decades old. Some of these facilities have building components that have reached the end of their useful life. Because funding has not kept pace with emerging capital renewal needs, the segments have large and growing backlogs of academic facility projects. The latest estimates show systemwide capital renewal backlogs (also known as deferred maintenance) of roughly \$700 million at CCC, \$6.5 billion at CSU, and \$7.3 billion at UC. Unlike self-supporting facilities, academic facilities traditionally have relied primarily on state funding and do not have ready access to alternate means of funding. After the Legislature has ensured the segments' existing academic facilities are kept in good condition, it could consider facility expansions—either of academic or nonacademic space, as it deems warranted.

LAO Recommendation: *Could Prioritize Revolving Loans Over Grants.* Were the Legislature to desire to provide one-time funds for student housing, the revolving loan program likely yields greater benefits. Under the loan program, campuses generally cover a much higher share of total project costs compared to the grant program. That is, under the grant program, the state is funding a relatively high share of costs (100 percent of costs for some projects), whereas campuses would be covering 100 percent of costs for all housing projects under the loan program (except for the financing costs, which would be free of charge). Moreover, the benefit of zero-cost financing might be sufficient to make many on-campus housing projects financially viable. CSU and UC already have expressed interest in participating in the program, and the LAO understands at least some community colleges are interested. Particularly as interest rates rise within the bond market, more campuses likely would turn to the revolving loan program as an attractive financing option. Furthermore, as campuses repay their loans, the state would be able to use the replenished account to issue new loans, likely allowing the state to support more affordable beds over time. The revolving loan program has the added benefit of being somewhat more flexible than the grant program, without a set split among the three segments. With this flexibility, the administering entities might be able to direct the financing benefit to those housing projects that are most likely to yield the greatest benefits regardless of segment.

LAO Recommendation: *Could Prioritize University Projects Over Community College Projects.* Were the Legislature to desire to provide one-time grant funds for housing projects in 2023-24, it could consider prioritizing university projects. The university project proposals were submitted on time. CSU and UC have much more experience developing, financing, and operating student housing programs than CCC. For these reasons, university projects have a greater probability of being successfully implemented. In addition, more CSU and especially UC students live away from home compared to CCC students, likely making on-campus housing a more attractive option for university students. Were the Legislature to provide grant funds in 2023-24, it could proceed with a subset of the highest-payoff university projects submitted. The Legislature could prioritize among university project proposals consistent with the statutory prioritization criteria, which include unmet housing demand and the state cost per bed, among other factors. Based upon these criteria, the university projects with the greatest payoffs are those at CSU Sacramento (\$41 million), CSU San Jose (\$89 million), and UC San Diego (\$150 million). Together, these projects are requesting a total of \$280 million in state grant funding (less than the \$500 million available

under the Governor's budget). (Approving the UC San Diego project, however, would put UC above its statutory program funding cap.)

Suggested Questions

- Please discuss any overall issues with costs and timelines with projects funded in last year's budget agreement.
- Please describe the UC's process for selecting projects with 23-24 grants.
- Given the small amount of funding available, for UC in 23-24, how would UC treat projects that are not selected (i.e. will UC use non-state funds to fund projects unfunded by the state)?
- How would UCOP propose to use this funding if only \$48 million, or less, were available in 2023-24?
- How would the Governor's proposed funding delay affect this process and number of projects selected? Are there any shovel-ready projects that could be at risk due to the potential delay?
- Does UC have any feedback on the revolving loan fund program language? Is there anything for the Legislature to consider about program structure before the program begins?

Staff Recommendation. Hold Open.

Issue 1D: Pathways to UCLA Proposals

Panel

- Dr. Michael V. Drake, President, University of California
- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office

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

Jack Zwald, Department of Finance

Jennifer Pacella, Legislative Analyst's Office

Governor's Budget

Governor Proposes to Require UCLA to Participate in Certain Transfer Programs. The administration proposes to place certain new requirements on the UCLA campus with the goal of facilitating community college students' ability to transfer to the campus. Specifically, by 2025-26, the campus would need to (1) enact and maintain policies to participate in the Transfer Admission Guarantee (TAG) program as well as (2) create and maintain pathways for students transferring with an Associate Degree for Transfer (ADT). By March 31, 2024, the campus would need to submit a report to the Director of Finance indicating its commitment to meeting these requirements.

Governor Links Requirement With Campus's Base Funding. The Governor does not provide a General Fund augmentation to UC for meeting the new transfer requirements at the Los Angeles campus, but he proposes trailer bill language making \$20 million of that campus's core funding for the 2023-24 fiscal year contingent on it meeting the new requirements. Based upon the UC Office of the President's determination, if the campus does not meet the new requirements, UC is to redirect the \$20 million to the other nine UC campuses using its regular campus allocation model.

Background

Simplifying the Transfer Process Has Been a Longstanding Legislative Priority. The Legislature has enacted many policies over the years intended to simplify the transfer process, reduce excess course units (which often arise as a result of transferring from community colleges to universities), and reduce students' time-to-degree. Toward these ends, the Legislature has directed the segments to take steps toward streamlining their lower-division course requirements. Most recently, the Student Transfer Achievement Reform Act of 2021 requires UC, CSU, and CCC to develop a single lower-division general education set of courses that would meet all three segments' academic standards. (The new set of courses would apply only to *general education*, not *major preparation*. As a result, important differences still would remain among UC and CSU in terms of their transfer admission requirements.) The 2022-23 Budget Act provided \$65 million one-time Proposition 98 General Fund to help the community colleges in implementing the most recent round of transfer reforms.

UC Has Goal to Enroll One Transfer Student for Every Two Freshmen. For many decades, UC has aimed to achieve a certain mix of upper-division and lower-division students. Specifically, UC aims to have 60 percent of undergraduate instruction at the upper-division level and 40 percent at the lower-division level. To this end, UC aims to enroll one transfer student to every two freshmen. Over the past 15 years, UC generally has been making progress toward this goal, with its freshman-to-transfer ratio declining from 2.5 in 2008-09 to 2.1 in 2021-22.

Transfer Students Must Meet Certain Academic Criteria to Be Eligible for UC Admission. Community college students generally must complete certain UC-transferable, lower-division courses with a minimum grade point average (GPA) of 2.4. If a campus has more transfer applicants than slots, it uses UC's comprehensive review policy to select students for admissions. (This process is very similar to the process used when a campus has more freshman applicants than slots.) Under comprehensive review, when reviewing an applicant, campuses may consider courses, grades, honors classes, completion of special projects, and academic accomplishments in light of the student's life experiences, among other factors. Eligible transfer students who are not accepted to their campus(es) of choice are redirected to the UC Merced or UC Riverside campus.

Transfer Students Have Additional Options for Being Admitted to UC. One longstanding option is the TAG program. Students choosing the TAG option submit a supplemental TAG application to their UC campus of choice. As long as they meet the course and GPA requirements, they are guaranteed admission into their campus of choice. Six UC campuses participate in the TAG program, with three campuses (Berkeley, Los Angeles, and San Diego) not participating. A more recent admission option is UC Transfer Pathways. Under this option, students complete a specific set of courses in their major of choice. Pathways are offered in 20 of UC's most popular majors. All nine general UC campuses participate in this program, though campus GPA requirements vary.

UC and CSU Transfer Pathways Are Different. UC Transfer Pathways do not have complete overlap with CSU's transfer pathways. Many students transferring to CSU take a different pathway, which involves obtaining an Associate Degree for Transfer (ADT). The ADT was developed collaboratively between the CCC and CSU. Under the ADT process, students complete 60 units of lower-division, major-specific coursework at community colleges, then transfer and complete 60 units of upper-division coursework at a CSU campus. The ADT is specifically designed to enable students to graduate with a bachelor's degree from a CSU campus in a coordinated 120-unit, four-year academic program. The ADT is offered in many academic subject areas.

Compact Contains Certain UC Transfer Expectations. The Governor's expects UC to meet a 2:1 freshman-to-transfer ratio. UC's first compact progress report (released in November 2022) identified

several strategies it plans to use to achieve this goal. These strategies include expanding the number of UC Transfer Pathways and expanding support programs for transfer students from underrepresented groups.

Legislative Analyst's Office Assessment and Recommendations

LAO Assessment: *UCLA Does Relatively Well on Enrolling and Graduating Transfer Students.* In 2022-23, UCLA expects to enroll approximately 3,300 new transfer students—more than any other UC campus. (UC San Diego expects to enroll the next largest group of new transfer students, approximately 2,700.) Even more importantly, UCLA has the lowest ratio of freshmen to transfer students. The UCLA ratio is 1.53—much better than the systemwide target rate of two freshmen to one transfer student, as well as notably lower than any other campus. (UC Davis has the next best ratio, 1.90.) Furthermore, transfer students at UCLA graduate at higher rates than the system overall. At UCLA, 74 percent of transfer students graduate within two years, increasing to 91 percent graduating within three years—compared to 63 percent and 85 percent, respectively, systemwide.

LAO Assessment: *No Compelling Justification for Singling Out UCLA.* UCLA is one of four campuses (together with Davis, Irvine, and San Diego) that already meets the compact goal of having a freshman-to-transfer ratio of 2.0 or below. Together with its relatively good transfer and graduation rates, the campus does not show evidence of requiring special rules to promote better transfer access or outcomes. Moreover, UCLA is not anomalous in its participation in transfer programs. Two other UC campuses do not participate in the TAG program, and no UC campus currently participates in the ADT program. UC Transfer Pathways, for which all nine UC general campuses participate, effectively are UC's alternatives to CSU's ADT pathways.

LAO Assessment: *Governor's Approach Sets Very Poor Policy Precedence.* The Governor proposes linking base funding to a very narrow set of outcomes at a single campus. Such an approach is particularly myopic. It also is of questionable design in terms of promoting appropriate incentives. The Governor's approach focuses solely on inputs (participating in certain transfer programs) rather than outcomes, which is counter to the basic notion of performance-based budgeting. Moreover, the Governor's approach violates the basic tenet of fairness in that it potentially punishes a single campus for not doing certain things, while other campuses acting in the same ways would experience no state repercussions.

LAO Recommendation: *Reject Proposal and Consider More Holistic Approach.* For all the reasons discussed above, the LAO recommends that the Legislature reject this proposal. The LAO recommends the Legislature consider whether it would like to require all UC campuses to participate in the TAG and ADT programs. If the Legislature is interested in pursuing these new requirements, the LAO encourages it to coordinate with UC on how best to navigate the associated transitions. In the case of both the TAG and ADT programs, affected UC campuses would need to make important changes to their admission requirements. The LAO also recommends the Legislature to have a broader conversation regarding whether it would like to develop a performance-based budgeting model for UC. If the Legislature is interested in linking funding to performance, the LAO recommends that it focus on a set of key expectations and apply the model to all UC campuses. As with the funding model the state uses for CCC, the Legislature could consider having both access and outcome components embedded in the model, along with further incentives to serve underrepresented students.

Suggested Questions:

- What is UC's position on these proposals? Are there any implementation challenges that UC envisions and if so what would they be?

- Why was UCLA selected for these initiatives? Is the intent to expand to other campuses? How many students are expected to be enrolled at UCLA due to these changes?
- What is the problem at UC/ UCLA that the Administration is trying to solve?
- If this proposal is intended to be a pilot, by when does the Administration propose that UC Berkeley and UC San Diego be required to enact TAG policies as well?
- What impact, if any, might enactment of TAG policies at UCLA have on the pipeline of STEM graduates?

Staff Recommendation. Hold Open.

Issue 2: Delayed Capital Outlay Support

Panel

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

Available for additional questions or details: Jack Zwald, Department of Finance
Jennifer Pacella, Legislative Analyst's Office

Governor's Budget

The Governor's budget delays support for three projects in the 2022 Budget Act as follows:

1. A delay for \$200 million (\$100 million in 2022-23 and \$100 million in 2023-24) of the support for the construction of an Institute for Immunology and Immunotherapy at UCLA to fiscal year 2024-25;
2. A delay for \$83 million to support the UC Berkeley Clean Energy Campus project currently planned for fiscal year 2023-24 to 2024-25; and,
3. A delay for \$83 million to support campus expansion projects at UC Riverside and UC Merced currently planned for fiscal year 2023-24 to 2024-25.

Background

State Funds Academic Facilities and Infrastructure at UC. Traditionally, the state has funded UC's academic facilities, including classrooms, laboratories, and faculty offices. It has also funded certain campus infrastructure, such as central plants, utility distribution systems, and pedestrian pathways. In addition to these state-supported assets, UC has self-supporting facilities, including student housing, parking structures, certain athletic facilities, and student unions. These types of facilities generate their own fee revenue, which covers associated capital and operating costs. The UC system also operates several medical centers, which provide clinical care for patients, train medical school students and residents in clinical environments, and support the university's health science research. Most medical center funding comes from clinical revenues, primarily generated from Medi-Cal, Medicare, and private insurance.

UC Has Identified Many Capital Projects. Under state law, UC is to submit a capital outlay plan to the Legislature annually by November 30 that identifies the projects proposed for each campus over the next five years. UC's most recent plan (*Capital Financing Plan 2022-2028*) covers the current year (2022-23) and the next five years (through 2027-28). This plan identifies \$23.2 billion in projects proposed for this period, subject to available funding. The total amount consists of \$10.2 billion in academic facilities and infrastructure projects, \$6.6 billion in self-supporting projects, and \$6.4 billion in medical center projects.

State Funds UC Capital Projects in Two Ways. The main way the state funds UC's academic facilities and infrastructure is through supporting debt-service payments. As of 2013-14, state law allows UC to sell university bonds to finance its academic facilities. UC uses the proceeds to cover the cost of projects, then repays the bonds over time (typically 30 years). UC may use its main General Fund appropriation in the annual state budget act, along with other available funds, to make these payments. In state law, UC may use up to 15 percent of its main General Fund appropriation for debt service on state-approved capital projects. This debt-financing approach is particularly common for larger projects, such as projects to renovate, replace, or construct an entire facility. A second way the state funds UC's capital projects is by providing cash up front. Particularly when the state has a budget surplus, it can use this approach to fund deferred maintenance, seismic safety, and energy efficiency projects—projects that tend to be narrower in scope and lower in cost relative to entire renovations or new facilities.

Last Year, the State Funded Many UC Capital Projects With Up-Front Cash. In 2022-23, the state had a significant budget surplus. In addition, the state appropriations limit (SAL) constrained how the state could use the budget surplus. One way the state addressed its SAL requirements was by spending the surplus on purposes, such as capital outlay, that could be excluded from the limit. Specifically, the *2022-23 Budget Act* provided \$366 million one-time General Fund to UC for four specific capital projects, along with \$125 million one-time General Fund for deferred maintenance, seismic safety, and energy efficiency projects across the system.

In their November 2022 economic outlook for California, the LAO assessed that the Legislature would face a budget problem of \$24 billion in 2023-24. The budget problem is mainly attributable to lower revenue estimates compared to budget act projections between 2021-22 through 2023-24. Typically, revenue losses are offset by lower spending in certain areas, which could be aided by pauses or delays in recent appropriations that have not yet been distributed. These projections led to the proposed delays in capital support funding in the Governor's January budget.

Governor Proposes to Change Funding Schedule for Four UC Capital Projects (In Millions)	2022-23	2023-24	2024-25	Totals
Original Funding Schedule				
UC Los Angeles, Institute for Immunology and Immunotherapy	\$200.0	\$200.0	\$100.0	\$500.0
UC Berkeley, Clean Energy Campus Project	83.0	83.0	83.0	249.0
UC Riverside, campus expansion	51.5	51.5	51.5	154.5
UC Merced, campus expansion	31.5	31.5	31.5	94.5
Totals	\$366.0	\$366.0	\$266.0	\$998.0
Modified Funding Schedule				

UC Los Angeles, Institute for Immunology and Immunotherapy	\$100.0	\$100.0	\$300.0	\$500.0
UC Berkeley, Clean Energy Campus Project	83.0	—	166.0	249.0
UC Riverside, campus expansion	51.5	—	103.0	154.5
UC Merced, campus expansion	31.5	—	63.0	94.5
Totals	\$266.0	\$100.0	\$632.0	\$998.0
Difference	-\$100.0	-\$266.0	\$366.0	—

LAO Assessment and Recommendations

LAO Assessment: *Projects Generally Do Not Address UC's Highest Capital Outlay Priorities.* Some of the capital projects identified in UC's *Capital Financing Plan 2022-28* are critical and urgent. Those projects address deficiencies with existing facilities and infrastructure that could otherwise present life safety concerns or disrupt campus operations. In contrast, most the projects identified for delays under the Governor's proposal do not address these types of deficiencies with existing space. Three of the four projects add new space. Moreover, adding new space increases ongoing operations and maintenance costs, and it creates future capital renewal costs as building components age. To date, UC has not provided documentation identifying how those additional costs would be covered for these new projects.

LAO Assessment: *Little Information Is Available on the Institute for Immunology and Immunotherapy (Institute).* Based on information provided by UC, the four projects identified for delays are in early project phases. Of the four projects, the proposed Institute is in the earliest phase. According to UC, the Institute would be an independent research institute funded through a public-private partnership and classified for federal tax purposes as a California nonprofit public benefit corporation. UCLA and the Institute founders are currently negotiating the terms of the public-private partnership. To date, UC has spent no state (or nonstate) funds on the project. Additionally, standard project information on the scope, schedule, cost, ownership, and operations of the proposed facility have not yet been provided to the state. Without this information, the Legislature is unable to assess the project and compare it with other budget priorities. Moreover, unlike the other new projects the state funded in 2022-23, UC did not add this facility to its *Capital Financing Plan 2022-28*. While UC did identify capacity constraints for the UCLA health facilities, the Institute was not mentioned as a project to alleviate those capacity constraints.

LAO Assessment: *Merced Campus Expansion Project Does Not Serve Immediate Need.* UC Merced plans to add an academic facility that would provide new classrooms, faculty offices, and research space. The project remains in an early planning phase, with no state or nonstate funds spent on the project to date. The project also lacks justification at this time, as UC Merced very likely does not have the enrollment demand over the next several years to support an expansion project. UC Merced has indicated that it likely will need additional academic facility space once its enrollment reaches 12,500 students. If UC Merced continued growing at the same pace over the next five years as it has over the past five years, its enrollment would reach 10,377 students by 2027-28, still far below the level needed to justify the expansion project.

LAO Assessment: *Riverside Campus Expansion Project Has Stronger Justification.* UC Riverside plans to add an Undergraduate Teaching and Learning Facility that would provide up to 78,000 assignable square feet for general assignment classrooms, specialized teaching spaces, and teaching assistant preparation spaces. UC estimates the project would add approximately 900 classroom seats.

In UC's *Capital Financial Plan 2021-27*, UC Riverside listed this project as its top funding priority. UC Riverside has justification for the additional space. In UC's most recent utilization report (using data from fall 2018), UC Riverside was using its existing classroom space at 104 percent of legislative standards and its laboratory space at 121 percent of legislative standards. Moreover, since fall 2018, total campus enrollment (headcount) has increased approximately 2,900 students (12 percent). The project is expected to address some of the campus's existing space shortages. Though no state (or nonstate) funds have been spent on the project to date, the campus expects to encumber \$6.8 million over the next several months for preliminary plans.

LAO Assessment: *Many Key Details Missing for Berkeley Clean Energy Campus Project.* UC's *Capital Financial Plan 2021-27* included a \$360 million state-eligible energy project for the Berkeley campus that was not yet funded. UC's *Capital Financial Plan 2022-28* includes the \$249 million the state authorized for the project last year, but it also identifies \$700 million in state-eligible project costs not yet funded. In response to our questions, UC clarified that the project likely will entail many phases, with the total cost currently estimated at \$700 million. Given the plan, it appears UC would be requesting substantial additional state funding for the project in the out-years. It is not clear how much energy savings the campus will generate from the various phases that could offset project costs. If the campus is choosing to go beyond state clean-energy requirements, it also raises the issue of which entity should pay for those associated costs. Furthermore, supporting such a costly project at one campus likely will create significant cost pressure for similar projects at other UC campuses, and do so at a time the state is facing projected budget deficits.

LAO Assessment: *Delays Could Result in Higher Overall Project Costs.* If the Legislature wanted to delay funding for any of the four projects, the overall cost of those projects likely will increase due to construction cost escalation. Construction costs in California were an estimated 9.3 percent higher in December 2022 than December 2021. This rate of increase was historically high, but some amount of construction cost escalation is expected most years, including over the next couple of years. The four affected UC capital projects are in different parts of the state, such that the exact effect of funding delays on each project's costs very likely will vary. For example, construction cost escalation last year was 10.4 percent in Los Angeles compared to 8.4 percent in San Francisco. (This most recent variance differs from the trends over the past several decades, in which construction cost escalation tends to be somewhat higher in San Francisco than Los Angeles.)

LAO Assessment: *Proposed Funding Is Not Linked to Project Milestones.* Typically, the state tries to keep General Fund authorizations linked to the progress of capital projects. This approach substantially reduces programmatic and fiscal risks to the state, as important discoveries can be made in early project phases that notably affect both design and constructions costs. Linking funding to sequential project phases also facilitates legislative oversight throughout the life of a project. Under the Governor's funding delay proposals, funding for the four UC projects is not connected to key phases. Importantly, most of the four projects likely retain substantially more funding than needed to cover the cost of reaching key milestones (such as completing working drawings or the design phase) in 2023-24.

LAO Recommendation: *Add Institute to Budget Solutions List.* Given the deterioration in the state's budget condition, together with projected out-year deficits, the LAO recommends the Legislature to expand its budget solutions list by removing funding for the Institute. Specifically, the LAO recommends the Legislature remove the entire \$500 million General Fund scheduled to be provided for the Institute from 2022-23 through 2024-25. Given the lack of information about the project, the benefit of any smaller amount of funding for the project remains unclear. Were more information to become available about the project in future years and the project were to show stronger justification relative to UC's other pressing capital needs, the Legislature could reconsider the project at that time, funds permitting.

LAO Recommendation: *Add UC Merced Campus Expansion to Budget Solutions List.* The LAO recommend the Legislature to further expand its budget solutions list by removing funding for the UC Merced expansion project given its lack of justification at this time. Specifically, the LAO recommends removing the entire \$94.5 million General Fund scheduled for the project from 2022-23 through 2024-25, as any smaller amount likely would be insufficient to cover proposed project costs. Were enrollment at UC Merced to grow substantially over the next several years and the campus's existing space to reach and exceed legislative utilization standards, the campus could resubmit the project to the Legislature for funding consideration at that time.

LAO Recommendation: *Sweep 2022-23 Funds for These Two Projects If Proceeding With Them.* Neither the Institute nor the UC Merced project have demonstrated they will use their first round of funding in 2022-23. Were the Legislature to decide to maintain authorization for these projects, the LAO recommends the Legislature to sweep the associated 2022-23 funding (and 2023-24 funding, as the Governor proposes). Leaving large amounts of funding with projects that are not ready to use the funding raises risks and opportunity costs for the state. The state could minimize these risks and mitigate opportunity costs by better aligning funding with project phases. That is, the Legislature could provide the first allotment of funding in 2024-25 (or thereafter) when the projects have demonstrated they could spend it.

LAO Recommendation: *Consider Financing UC Riverside Project With University Bonds.* If the Legislature were to conclude that the UC Riverside campus expansion project is one of UC's most pressing capital needs, it could consider debt-financing the project, with UC selling university bonds. Most capital projects of this scale are debt-financed, with costs effectively spread over many years consistent with a facility's useful life. Using such an approach, the state would save a total of \$154.5 million General Fund from 2022-23 through 2024-25. Moving forward, it could provide UC with additional General Fund to cover the associated debt service, or, as it does with most similar UC capital projects, it could have UC cover the cost from within its base budget. The LAO estimates annual debt service on the project would be approximately \$10 million. Debt-financing a project raises overall costs substantially due to interest payments, with total project costs likely to at least double. A small portion of this increased cost, however, might be offset by proceeding with the budget in the budget year and avoiding some potential cost escalation that would otherwise occur were the project delayed.

LAO Recommendation: *Gather More Information About the Berkeley Clean Energy Campus Project.* Before deciding what approach to take with the Berkeley project, the LAO recommends the Legislature to request UC to provide more information about the project. Specifically, the LAO recommends the Legislature to request a full financial plan for the project that, at a minimum, identifies the total state cost, total nonstate cost, annual cost by fund source by year, projected energy savings, and projected climate-related benefits. If the Legislature concludes that UC has a sound, comprehensive financial plan for the project, it then could decide how best to finance the state share. Given the scale of the project, the Legislature could consider having UC sell university bonds. As mentioned above, this is the typical approach used for projects of this scale.

Suggested Questions

- Please provide a brief update on the status of each project. How much state funding has been spent so far on these projects? How will the Governor's proposed change in funding structure impact any project timelines?
- Why did the Administration choose the UCLA Institute as the only one of these projects to receive funding in the budget year?

Staff Recommendation. Hold Open.

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

- Seija Virtanen, University of California

Background

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

- **UC Climate Initiatives.** The 2022 Budget Act appropriated \$185 million General Fund in 2022-23 for climate initiatives. Of this amount, \$100 million supported grants for applied climate research and projects proposed by the UC Innovation and Entrepreneurship centers and \$85 million specified campus-based climate initiatives as follows: \$47 million for Riverside, \$20 million for Santa Cruz, and \$18 million for Merced.
- **Foster Youth Supportive Services at UC.** The 2022 Budget Act agreement included trailer bill legislation in AB 183 (Committee on Budget), Chapter 54, Statutes of 2022 for foster youth supportive services. AB 183 required that support services for foster youth and former foster youth at UC campuses have a full-time designated staff program director or coordinator with experience relevant to working with foster youth and former foster youth, campus office and meeting space, a range of student supports to address academic and nonacademic needs and opportunities for peer mentors. The budget agreement also provided an increase of \$6 million General Fund in 2022-23 and ongoing for foster students' support throughout UC campuses.
- **Underground Scholars Initiative Statewide Expansion.** The 2022 Budget Act agreement included \$4 million General Fund in 2022-23 and ongoing to support and expand the Underground Scholars program, which support justice-involved students.

Oversight Questions

For all mentioned above:

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

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

6120 CALIFORNIA STATE LIBRARY

The California State Library, established in 1850, collects, preserves, generates, and disseminates information. The Library administers programs funded by state and federal funds to support local public libraries and statewide library programs. The State Librarian is appointed by the Governor.

The California Library Services Board (the state board) consists of 13 members; 9 members are appointed by the Governor, 2 members are appointed by the Senate Rules Committee, and 2 members are appointed by the Speaker of the Assembly. Members serve four-year terms. The state board determines policy for and authorizes allocation of funds for the California Library Services Act. The state board also functions as the State Advisory Council on Libraries for the federal Library Services and Technology Act. The State Librarian serves as chief executive officer of the state board.

The current State Librarian is Greg Lucas. Greg Lucas was appointed California's 25th State Librarian by Governor Jerry Brown on March 25, 2014. Prior to his appointment, Greg was the Capitol Bureau Chief for the San Francisco Chronicle where he covered politics and policy at the State Capitol for nearly 20 years.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2021-22	2022-23	2023-24	2021-22*	2022-23*	2023-24*
5310	State Library Services	110.1	140.1	146.1	\$28,631	\$44,526	\$33,049
5312	Library Development Services	20.8	30.0	30.0	129,201	176,368	545,293
5314	Information Technology Services	9.6	12.8	12.8	3,274	3,756	3,599
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		140.5	182.9	188.9	\$161,106	\$224,650	\$581,941

Issue 4: Governor's Proposals for State Library

Panel

- Jennifer Louie, Department of Finance
- Ian Klein, Legislative Analyst's Office
- Greg Lucas, California State Librarian

Available for additional questions or details: Jack Zwald, Department of Finance

Overview

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2021-22	2022-23	2023-24	2021-22*	2022-23*	2023-24*
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TOTALS, POSITIONS AND EXPENDITURES (All Programs)		140.5	182.9	188.9	\$161,106	\$224,650	\$581,941

State Library Oversees Both State-Level and Local Initiatives. The State Library's main state-level functions are (1) serving as the central library for state government; (2) collecting, preserving, and publicizing state literature and historical items; and (3) providing specialized research services to the Legislature and the Governor. In addition, the State Library passes through state and federal funds to local libraries for specified purposes and provides related oversight and technical assistance. These local assistance programs fund literacy initiatives, internet services, and resource sharing, among other activities.

Public Libraries Are Run and Funded Primarily by Local Governments. In California, local public libraries can be operated by counties, cities, special districts, or joint powers authorities. Usually the local government operator designates a central library to coordinate activities among all the library branches within a jurisdiction. Currently, 185 library jurisdictions with 1,130 sites (including central libraries and their branches) are operating in California. Local libraries provide a diverse set of services that are influenced by the characteristics of their communities. Most libraries, however, consider providing patrons with access to books, media, and other informational material as a core part of their mission. Around 95 percent of local library funding comes from local governments and the remaining 5 percent comes from state and federal sources.

Governor's Budget Proposals

The Governor's budget includes the following proposals for the State Library:

1. ***Delaying Support for Local Library Infrastructure.*** The Budget Act of 2021 provided \$439 million General Fund one-time to support local library infrastructure projects. The Budget Act of 2022 provided an additional \$50 million and assumed an additional \$100 million in 2023-24 to support local library infrastructure projects. The Governor's budget proposes delaying the \$100 million to the 2024-25 (\$33 million), 2025-26 (\$33 million), and 2026-27 (\$34 million) fiscal years.
2. ***Support for Law Library.*** The Governor's budget proposes an increase of \$462,000 General Fund ongoing to support and expand the Witkin State Law Library and its personnel. The Witkin State Law Library contains primary and secondary sources in American law, federal and state appellate court opinions, session laws, codes and statutes, federal agency decisions, and attorney general opinions. Its staff provide research support to state agencies and the general public. In 2021-22, about one-third of its clients were from state agencies and two-thirds were from the general public. Among state agencies, the Department of Justice makes considerably more law library requests than any other agency. In addition to handling research requests, law library staff are responsible for curating library materials, among other responsibilities. For the past four years, the law library has had a steady staffing level of seven permanent, full-time positions.

The California State Law Library Special Fund is intended to cover the operating expenses of the Witkin State Law Library. The state created this special fund in 1992. The special fund receives a specified amount of certain filing fees charged for civil appellate cases. Statute sets both the total civil filing charges (the bulk of which is retained by the judicial branch) as well as the specific amount that is to be deposited into the Law Library Special Fund. Currently, \$65 of certain civil filing fees are deposited into the Law Library Special Fund. This fee amount has been flat since 1999. The Legislature has a practice of reauthorizing the amount of certain civil appellate filing fees deposited into the Law Library Special Fund periodically. The next reauthorization is

expected to occur in 2025. The last time the Legislature increased the relevant civil appellate filing fees was in 2012.

The four positions consist of a Senior Librarian, who would serve as the main point of contact for state agencies and assist with coordinating digitization projects; two Librarians, who would serve in traditional legal research capacities; and a Library Technical Assistant II, who would perform paraprofessional tasks such as book acquisition, catalog classification, physical upkeep of library material, and book inventory. One of the Librarian positions, as well as the Library Technical Assistant II position, currently are supported by the Law Library Special Fund (costing a combined \$221,000). The administration's proposed augmentations are intended to address higher workload and continued increases in the law library's operating costs.

With the law library's fee amount held flat for so long, the State Library reports that it has used some of its ongoing General Fund support to help cover the Witkin State Law Library's operating costs since at least 2007. In each of 2021-22 and 2022-23, the State Library used nearly \$600,000 of its ongoing General Fund support for the law library's operating costs. In 2022-23, the state also provided \$80,000 one-time General Fund directly in the annual budget act for the law library. Provisional budget language indicated that this one-time funding was broadly "for support of the State Law Library."

3. **California History Room.** The Governor's budget proposes an increase of \$597,000 General Fund, of which \$357,000 is ongoing, to expand the California History Room Special Collections and provide personnel support. The special collections of the State Library's California History Room document the life and experiences of Californians throughout history. These special collections are differentiated from general collections by their rarity, value, and research potential. Many of the items in the California History Room's special collections are one-of-a-kind materials such as letters, drafts of speeches, literary manuscripts, meeting minutes, diaries, scrapbooks, and film recordings. In addition to special collections materials, the California History Room maintains separate print collections of books and periodicals that circulate to both state employees and the general public.

The increase in ongoing support would fund three additional permanent, full-time positions. One new position would be for a Senior Librarian, who would perform outreach and relationship-building with currently underserved and underrepresented groups. The remaining two positions would be for Librarians, who would be responsible for handling requests for research assistance, providing orientations to special collections, and delivering custom presentations on specific historical topics.

4. **Internal Audit.** The Governor's budget proposes an increase of \$168,000 General Fund ongoing to support a State Library Audit Program. State law sets forth that state agencies with ongoing budgets of \$50 million or more should consider establishing an ongoing audit program. The State Library budget exceeded the \$50 million ongoing General Fund threshold for the first time in 2022-23 (reaching \$51 million). Over the past five years, the State Library's ongoing General Fund support has increased \$20 million (66 percent). In addition to increases in ongoing General Fund support, the state provided the State Library with considerable one-time funding in 2021-22 and 2022-23. Most notably, the state provided the State Library \$439 million one-time General Fund in 2021-22 and \$50 million in 2022-23 for local library infrastructure grants.

The State Library reports that this will support a Senior Management Auditor who would be tasked with strengthening processes and internal controls, analyzing audit reports, verifying proper reporting, and providing consultation in the administration of local assistance grant programs, among various other related responsibilities. The State Library indicates that the primary rationale for the new auditor position is the significant growth in the State Library's local assistance programs and funding over the past few years.

LAO Assessment and Recommendations for Proposals 2-4

Support for Law Library Proposal

Assessment: *Workload Has Increased for Law Library, but Remains in Line With Job Expectations.*

The number of hours law library staff spend on research has been increasing—rising from 578 hours in 2017-18 to 2,393 hours in 2021-22. The increase is linked to more research requests, with research hours spent per request holding relatively stable over this period, averaging 1.25 hours per request. Though projected hours spent on research for 2022-23 (assuming the second half of the year looks similar to the first half) could fall slightly from the 2021-22 level, hours spent on research still are likely to remain elevated compared to earlier years of the period. The State Library attributes at least some of the increase in law library research activity to the state's expansion of telework, as remote work can separate state employees from traditional print resources previously maintained within their own agencies. Though hours spent on research have increased, the average share of time each Librarian spends on research remains below 40 percent—the target the State Library specifies in its Librarian job duty statement.

Assessment: *No Clear Justification for Replacing Special Fund Support With General Fund Support.*

After hovering at about \$300,000 for the past few years, the administration projects that revenue in the State Law Library Special Fund will increase to \$391,000 (30 percent) in 2023-24. Moreover, the amount of civil appellate filing fees deposited into this fund are up for reauthorization in 2025. Were the allocation for the law library to be increased, sufficient additional revenue could be generated to address the library's rising operating costs. Finally, the state's projected General Fund operating deficits further call into question the timing of such a proposal. In other areas of the budget, the administration effectively has counter proposals intended to provide General Fund relief. In those cases, rather than having ongoing General Fund replace existing special fund support, special fund revenue is used instead of General Fund.

Recommendations: *Reject Proposal.* Given the law library's workload levels remain in line with job expectations and the administration has not provided clear justification for using ongoing General Fund support in place of existing special fund support, the LAO recommends the Legislature reject the proposed General Fund augmentations. As the state is likely to reauthorize the amount of civil appellate filing fees deposited into the State Law Library Fund in 2025, the Legislature could consider increasing the amount at that time. The law library has not had an increase in its set-aside rate in more than two decades, despite continuing to experience increases in its staffing costs. This budgetary approach is consistent with statutory intent to fund the law library using special fund revenue. Such an approach also helps improve the state's budget condition by mitigating the law library's reliance on General Fund support.

California History Room Proposal

Assessment: *California History Room's Special Collections Have Some Shortcomings.* Preserving historical assets is a core function of the State Library. Approximately 75 percent of the current California History Room materials, however, represent the experiences of Anglo settlers. The State Library indicates it has relatively few items in the California History Room's special collections focused on underrepresented and marginalized communities. Moreover, the State Library indicates that the relatively

few items in the special collections that document the history of marginalized groups are not organized in a way that makes them easy to find.

Assessment: *Workload for California History Room Librarians Has Been Fluctuating Notably.* The State Library uses an online management system called “Ask-A-Librarian” for patrons to submit library requests. This system allows California History Room staff to identify when a request comes in, as well as track the number of hours a librarian spends on a request. (When staff are responding to these requests, they tend to pause other tasks such as processing and cataloging new collections.) Associated workload for the California History Room has been fluctuating. Though Ask-A-Librarian workload increased notably from 2020-21 to 2021-22, it tapered off considerably during the first half of 2022-23. If this trend continues through the second half of 2022-23, associated workload will fall not only short of the original projections used to justify the request for additional personnel but also will fall to its lowest level in five years.

Assessment: *Other Funding Sources Exist for Special Collections Acquisitions.* Over the last three fiscal years, the State Library has spent a total of \$247,000 in federal funding to support ongoing subscriptions to various high-use periodicals and recurring print titles at the California History Room. Additionally, the State Library works with the California State Library Foundation, an independent philanthropic partner, to acquire rare and unique historical material for the California History Room’s collections. These materials (including items like photographs and manuscripts) are not available through mainstream vendors or publishers. Over the past three calendar years, the California State Library Foundation has spent a total of \$19,000 for this purpose.

Recommendation: *Reject Proposal and Revisit When State Budget Condition Improves.* Given the state’s projected budget deficits over the next few years, the LAO recommends the Legislature reject the proposed ongoing and one-time augmentations the Governor proposes for the California History Room at this time. When the state budget condition is better, the Legislature could consider improvements to the California History Room’s special collections, including by potentially funding a Senior Librarian to work on expanding certain outreach aimed at including more collections material from underrepresented groups. The Legislature also can continue monitoring Librarian workload. Though existing workload data do not show clear justification for additional Librarian positions, the Legislature could revisit the issue in future years. Finally, when the state budget condition improves, the Legislature could consider providing one-time funds for purchasing more material for the special collections. In the meantime, the California History Room could continue relying on federal funds and philanthropic funds for such purchases.

Internal Audit Proposal

State Library Has Not Made a Particularly Strong Case for New Position. Though a new auditor position might improve the State Library’s oversight of local assistance programs, it is not clear that an auditor position is needed at this time. The State Library is only \$1 million over the \$50 million threshold at which an agency is “to consider” establishing an ongoing audit program. Of this amount, less than \$25 million is associated with ongoing General Fund-supported local assistance programs. Moreover, were the State Library’s existing eight staff with audit-related responsibilities to lack capacity to fulfill related ongoing audit work, the State Library might consider redesignating one of its other existing staff. The State Library has seen a significant increase in its staff over the past five years. Most recently, the *2021 Budget Act* funded 20 additional positions and the *2022-23 Budget Act* funded a further 17.5 new positions. These positions generally were intended to help the State Library implement various new and expanded state and local assistance programs. Furthermore, it is unclear the extent to which a new ongoing auditor position could be helpful with overseeing recent one-time initiatives. The largest of these initiatives (the

\$439 million for local library infrastructure grants) requires grant funds to be used by June 30, 2024, such that a new auditor might be in place only a few months before the funds expire. Though some auditing work might exist even after these local assistance funds expire, such work does not justify a new ongoing position.

Legislature Could Consider Two Options. Given the factors just mentioned, one option is for the Legislature to reject this proposal. Under this option, the State Library would continue relying on its existing staff to ensure internal controls are met. To date, the State Library has not identified instances of fraud or mismanagement of public resources. Moreover, many of its one-time initiatives will expire shortly, calling into question the need for an ongoing position. A second option for the Legislature to consider is converting the requested position from permanent to limited term. Though the State Library potentially has opportunities within its recently expanded staffing level to perform more auditing and oversight, the Legislature could consider a limited-term position that would be particularly focused on ensuring that the local library infrastructure grants are used in accordance with state intent.

Suggested Questions

- Does an oversubscription problem exist for the Library Infrastructure Grant Program? In addition to the funds included, what are the libraries additional and outstanding infrastructure needs?
- What would be the impact of the Governor's proposed delay on the grant program?
- Are there additional challenges or changes that the Legislature should consider regarding the current version of the grant program?

Staff Recommendation. Hold open all proposals.