

SUBCOMMITTEE NO. 1

Agenda

Senator Anthony J. Portantino, Chair
Senator Hannah-Beth Jackson
Senator John M. W. Moorlach



Thursday, March 15, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 3191

Consultant: Anita Lee

Items for Discussion

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Public Comment

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6440 UNIVERSITY OF CALIFORNIA (UC)

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

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

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

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

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

Issue 1: Proposition 56

Panel

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

Background

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

The 2017-18 budget provided UC with \$50 million in Proposition 56 funds replace \$50 million General Fund, effectively redirecting General Fund support from UC's base budget for other purposes. Generally, General Fund for UC is not earmarked for specific purposes.

Governor's Proposal

The Administration's 2018-19 budget proposal continues last year's funding model, and provides \$40 million Proposition 56 funds in place of General Fund support.

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

According to UC, since 1965, Medicare has been the largest single funder of GME. In 1997, Congress capped the number of residency slots for which hospitals could receive Medicare GME funding, and has not increased this cap. According to UC, caps on residency positions prevent the expansion of GME training. State funding for the medical residency training comes mostly from the Song-Brown Program administered by the Office of Statewide Health Planning and Development (OSHPD). The 2017-18 budget included \$100 million General Fund over three years to OSHPD to support existing primary care residency slots, create new primary care residency at new and existing residency programs, and teaching health centers. UC states that the average total cost to train a resident is about

\$150,000 per year. For UC, some state General Fund supports GME, but it is difficult to pinpoint exactly how much. For example, UC notes that some portion of a physician faculty's salary is supported by General Fund; however it is lumped in with other funds such as federal funding, grants and hospital revenue.

Legislative Analyst's Office (LAO) Comments

The LAO's 2017-18 budget analysis notes that the Administration's use of GME funds may not meet the goals of the measure. While the measure does not require Proposition 56 revenues to supplement existing resources for medical education programs, the measure does state those funds are to be used "for the purpose and goal of increasing the number of primary care and emergency physicians training in California." LAO notes that using the Proposition 56 revenues to replace General Fund resources used for GME (at least according to Administration estimates) arguably does not meet this goal.

Staff Comments

The Administration's proposed budget is a continuation of the 2017-18 budget, which replaces General Fund resources with Proposition 56 funds. UC states this will result in a loss of General Fund to support medical schools, and as a result clinical revenue that previously paid for medical resident training was shifted to the medical schools, and Proposition 56 will be used to funds existing medical residents rather than grow the number of medical residents.

Should UC receive both \$50 million General Fund and \$40 million Proposition 56 funds in the 2018-19 budget, UC notes that it will enter into an memorandum of understanding (MOU) with the California Medical Association (CMA) Foundation to administer \$40 million Proposition 56 grants.

The Legislature may wish to consider whether the Administration's budget meets the intent of Proposition 56, or if an alternative approach is warranted. Additionally, should the Legislature wish to backfill General Funds to UC, it may wish to consider where funding will come from. Lastly, the Legislature may wish to consider if an MOU between UC and the CMA Foundation to administer the grant program is appropriate, or if there is another entity that may be better suited for this, and what level of input or oversight the Legislature may have in this process.

The subcommittee may wish to ask:

1. DOF: What is the rationale for replacing General Fund support at UC with Proposition 56 funds? Is this meeting the intent of Proposition 56?
2. UC: What is the rationale of entering into an MOU to administer the funds?
3. UC: How many new GME residency slots would be lost under the Governor's budget proposal?

Staff Recommendation. Hold Open.

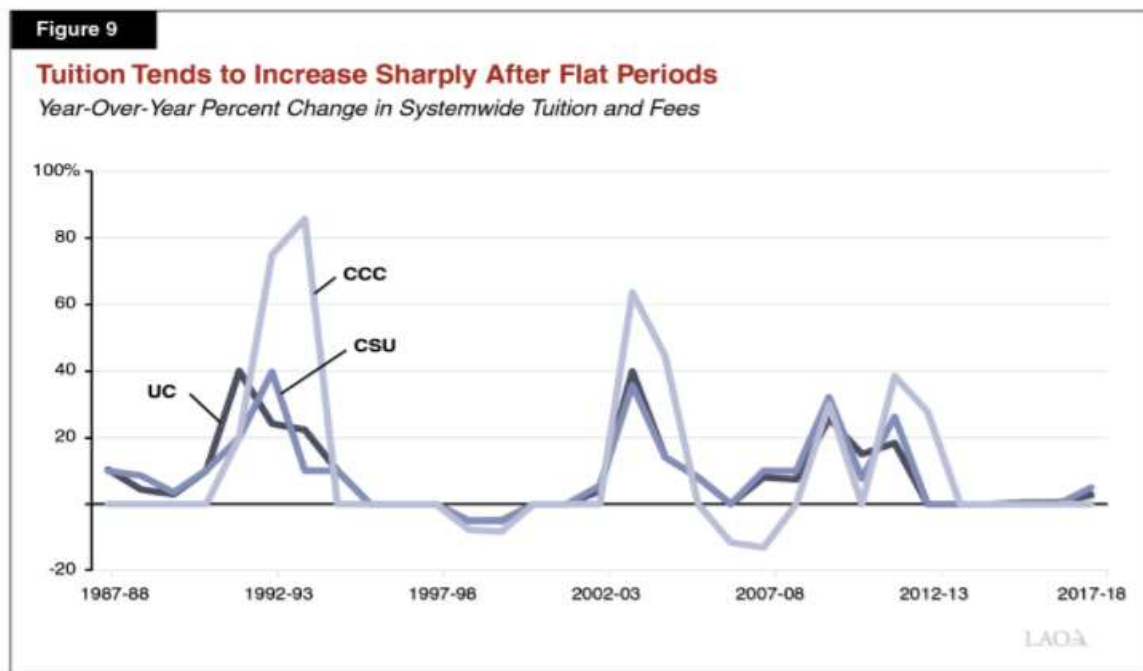
Issue 2: Budget and Tuition

Panel:

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

Background

Tuition and fees at UC and California State University (CSU) tend to be volatile, with periods of flat tuition followed by sharp increases. The periods of flat tuition generally correspond to years in which the state experienced economic growth, whereas the periods of steep tuition increases generally correspond to periods when the state experienced a recession. During recessions, the state has often balanced its budget in part by reducing state funding for the segments. UC and CSU, in turn, increased tuition and fees to make up for the loss of state support. This was the case in the recent recession; between 2004 and 2013, tuition at UC and CSU more than doubled as shown in the display below. However, as the economy recovered, this trend of divestment started to reverse. The passage of Proposition 30 and recent budget acts facilitated a renewed investment in public higher education. Since the passage of Proposition 30 in 2012, the state has funded a multiyear investment plan at UC and CSU. The subcommittee will discuss CSU's tuition increase later in the agenda.



Previous Tuition Increase Proposals. In November 2015, the UC Regents' authorized the UC President to increase student tuition by up to 28 percent over five years. This action led to large public outcry regarding the affordability of higher education. In response, the Administration and the UC developed a multi-year budget framework, released in May 2015. The Administration proposed providing four percent unrestricted General Fund base increases through 2018-19. Regarding tuition, UC committed to hold tuition flat for an additional two years. Moving forward, the Administration

noted that it is reasonable to expect that tuition to increase modestly and predictably at around the rate of inflation beginning in 2017-18. The Governor and the UC President also agreed on several initiatives to reduce the cost structure of the UC. Their framework, which was ultimately adopted by the Board of Regents, requires UC to reevaluate how students' prior academic experiences are recognized as part of UC degree programs, how academic programs are structured, and how instruction is delivered.

In January 2017, the UC Regents voted for a tuition increase of 2.5 percent, or \$282, for a total annual tuition of \$11,502. Additionally, the UC Regents voted to increase the student services fee by five percent, a \$54 increase for a total of \$1,128 annually. This generated \$48 million in revenue to UC campuses, net of the amount set aside for undergraduate need-based aid. According to UC, this funded additional ladder-rank faculty, lecturers, and graduate student teach assistants, improving service delivery in financial aid offices, academic advising, student counseling, and other areas of student support, enhancing graduate student fellowships, technology upgrades to classrooms and lecture halls, and deferred maintenance needs, among others. The regents also voted to increase nonresident tuition by five percent, or \$1,332.

In January 2018, the UC Regents heard an item which proposed a tuition increase of \$288 and a Student Services Fee increase of \$58 for resident undergraduate students, and a nonresident supplemental tuition increase of \$978. This results in a 2.7 percent increase of resident undergraduate students. The Regents are scheduled to vote on the tuition increase at its May 23-24 2018 board meeting. According to the Legislative Analyst's Office, this would generate approximately \$95 million in revenue to UC, net of the set aside for undergraduate need-based aid. Additionally, the California Student Aid Commission (CSAC) estimates that the tuition increase will result in a \$26 million increase for Cal Grants costs.

Recent Budget Acts. The 2017-18 budget conditioned \$50 million on UC meeting certain expectations. The Director of Finance is to determine by May 1, 2018 whether UC has made a good faith effort to meet these expectations. These expectations and their status are described below.

1. ***Senior Management Compensation.*** Adopt a policy that does not provide supplemental retirement payments for any newly hired senior managers. UC Office of the President (UCOP) adopted this policy change in October 2017, and the UC Regents are scheduled to hear and vote on the policy change at their March 2018 meeting.
2. ***Budget Transparency.*** Beginning with 2018-19, report to the legislative education policy and budget committees on (1) all revenues and expenditures, including carryover funds; and (2) UC's systemwide and presidential initiatives, including a full description of each program, the sources of revenue, and explanation of how the programs further the mission of the university. UC has provided greater clarity on the funding amounts and sources supporting its systemwide and presidential initiatives. Whether UC has improved its overall budget documents showing all revenues, expenditures, and carryover funds to the Administration's satisfaction is not yet clear.
3. ***Status Auditor's Recommendations.*** UC must implement the State Auditor's recommendations regarding the UC Office of the President's budget practices, staffing levels, and compensation policies. Of the ten recommendations the Auditor calls upon UC to complete by April 2018, the

Auditor to date deems one as fully implemented and another as partially implemented. UC indicates that it is continuing to work on implementing all of the recommendations.

4. ***Transfer Enrollment.*** UC must enroll at least one entering transfer student for every two entering freshmen for the 2018-19 academic year at every campus except Merced and San Francisco. Some uncertainty exists whether two campuses (Riverside and Santa Cruz) will attain the expected freshman to transfer ratio in time. Riverside and Santa Cruz campuses developed a strategic plan to attain the 2 to 1 ratio.

Both campuses plan to focus on greater outreach to community colleges through increasing CCC campus visits, hosting campus events, offering more transfer focused events, tours and orientations. In addition, Santa Cruz plans to: streamline articulation process; design a new summer session academy for students planning to transfer to UCSC; allow lower division applications; review transfer admission and major preparation policies; among others.

Riverside also plans to develop agreements with CCC Puente Project, hold summer leadership residential program to CCC students participating in the Umoja program, extend application deadlines for winter 2018, develop a Campus Transfer Student Task Force to identify barriers to transfer students; roll over fall admits to the winter term, review lower division transfer admission requirements; expedite decisions made on transfer applications; review admissions policy for major preparation requirements; create Transfer Resource Center, and Transfer Summer Bridge Program, among others.

In an effort to meet the 2 to 1 transfer ratio, UC is also planning systemwide efforts to better streamline transfer process. These efforts include (1) establishing an agreement with the CCC Chancellor's Office to share contact information for students deemed transfer ready, (2) increasing outreach efforts to community college counselors and students, and (3) exploring whether UC could better align its existing transfer pathways with the associate degree for transfer (ADT).

5. ***Activity Based Costing.*** Complete activity based costing pilot program currently underway at the Riverside campus and implement pilots at two more campuses in three departments each. The purpose of activity based costing is to identify program and course level costs of providing instruction and other services to students. UC reports that it is close to completing activity based costing at three campuses. The UC has indicated that it will submit a report summarizing the outcomes by May 1st.

Governor's Budget Proposal

The Administration proposes a \$92 million General Fund (three percent) base increase for UC campuses. The budget does not include an increase for the UCOP, which the budget began line-item budgeting for in 2017-18 at \$349 million.

Though UC has been considering a potential tuition increase, the Administration's budget assumes no tuition increase. The Governor's budget summary notes that any tuition increase at UC must be viewed in the context of reducing the overall cost structure. Specifically, the Governor submitted a letter to the UC Regents on January 24, 2018, noting that the "tuition increase is premature," and "more work is

needed to reduce the university's cost to ensure that students and families have access to an affordable, quality education." The Governor also noted that "state support for the UC system has grown by \$1.2 billion since 2012. Economic expansions do not last forever and the future is uncertain."

UC Budget Request and Adopted Budget

Though UC has not adopted a 2018-19 budget plan, its draft budget prioritizes spending on compensation and enrollment growth. Additionally, UC has identified various other high priorities, including financial aid and mental health services that total \$70 million. After funding all these priorities, \$69 million would remain available for other cost increases. The LAO compiled the chart below that highlights UC's spending priorities, as well as a brief description from the UC Regents item.

Top Priorities^a	Dollars in Millions
Compensation	
Benefit cost increases. This includes \$17.1 million for increased employer contributions to the retirement system from core funds, \$18.9 million for increases in overall core-funded health benefit costs, and \$7.7 million for retiree health care costs.	\$44
Faculty Merit Program. Faculty are generally eligible to be considered every two to three years for a merit increase, which is intended to reward them for excellent teaching and research, as well as fulfillment of their public service mission.	32
Represented staff salary increases. Salary increases for represented employees are governed by collective bargaining agreements with each represented bargaining unit. These agreements represent about a 3.6 percent salary increase.	28
Other Cost Increases	
Operating expenses and equipment. To preserve the quality of the instructional program and support activities, UC must regularly replace, upgrade, or purchase new instructional equipment, library materials, and other non-salary items. The UC must also purchase utilities to provide energy to its facilities. This represents a 2.5 percent increase	\$32
Financial aid	18
Debt service	15
Mental health service. Funding will allow campuses to make progress on their plans to hire additional mental health advisors and other professionals to improve students' access to counseling and related resources	5
Enrollment Growth	
Resident undergraduate (1,500 students)	\$28
Nonresident undergraduate (1,000 students)	19
Graduate (500 students)	9
Total Top Priorities	\$231
Remaining Priorities	
Funds Available^b	\$69
Calls on Available Funds	
Faculty and nonrepresented staff salary increases. For an increase in compensation	\$83

of three percent for non-represented faculty and staff, resulting in a projected net increase in core fund compensation expenditures.	
Academic quality. This funding is unrestricted; however, UC cites four examples of how campuses might use the funds: faculty hiring to reduce the student-to-faculty ratio, faculty start-up costs to help with their research, increase graduate student stipends, and increasing undergraduate instructional support.	50
Deferred maintenance (one time). Current deferred maintenance need is estimated to exceed \$8 billion, over \$3 billion of which is eligible for State support	35
Financial aid. This reflects additional financial aid for the tuition increase and enrollment growth.	27
Enrollment growth (500 resident undergraduates)^c	9
^a Reflects LAO assumptions of UC's top spending priorities based on UC and state budget documents and conversations with UC staff.	
^b Reflects funding implicitly remaining under Governor's budget.	
^c Were UC to add these additional students, \$4 million of this cost would be funded from the tuition revenue those students would pay.	

In addition to the Governor's budget proposal, UC submitted a letter to the subcommittee regarding their 2018-19 budget request. Specifically, UC is requesting an additional \$105 million ongoing, and \$35 million one-time above the Governor's budget. This funding would be for the following purposes:

- **Tuition and Student Services Fee:** \$70 million ongoing. This will "buy out" the proposed tuition increase and fund improvements to ensure student success and timely graduation, and will specifically fund, faculty hiring, academic counseling, student mental health services, graduate student support, and classroom facilities.
- **Enrollment Growth:** \$35 million ongoing. These funds will help address larger class sizes, the student faculty ratio, and increased demand on student services that are consequences of the enrollment growth of 2,600 students above the 7,500 students funded in the 2015-16 and 2016-17 Budget Acts, which is \$25 million.

Additionally, UC requests \$10 million ongoing for 2018-19 enrollment growth. This would fund 500 California resident undergraduates (\$5 million) in 2018-19, in addition to the 1,500 new students that UC plans to fund through redirection and elimination of existing programs and services (discussed in the following issue topic). In addition, UC requests to fund enrollment growth of 500 graduate students (\$5 million).

- **Critical Classroom, Laboratory, and Other Campus Maintenance Needs:** \$35 million one-time. One-time funding to address the most urgent projects on campuses from the UC's backlog of state-supportable maintenance needs. According to UC, the UC's backlog is approximately \$4 billion.

Legislative Analyst's Office Comments

Transfer Ratio. In a December 2017 letter from DOF to UC, the department indicated that it thought UC's plans were reasonable but additional effort was warranted. In particular, DOF noted that UC could do more to align its existing transfer pathways with the ADT. DOF specifically indicated that UC could demonstrate good faith effort in this area by entering into a MOU with the CCC Chancellor's Office by May 1, 2018.

Should UC to fall short of achieving the 2 to 1 transfer ratio in 2018-19, the LAO notes that the Legislature could consider adopting a systemwide target next year instead of campus specific targets. According the LAO, a systemwide approach would give UC greater flexibility to increase transfer enrollment at campuses where the demand is highest. Additionally, the LAO believes UC could continue working on simplifying the transfer process for students, especially by aligning its transfer admissions and lower division requirements with the ADT.

Academic Quality. The LAO has concerns regarding the UC's proposal for \$50 million to fund academic quality programs as campuses have significant discretion on how to spend this funding, the Legislature would have little information over how these funds are actually used. In addition to the proposed \$50 million for academic quality, UC's budget plan includes \$32 million for a 2.5 percent increase for general operations and equipment. These funds would be available for equipment replacement, facility maintenance, and other priorities identified by the university. The Legislature also may wish to address any concerns related to attracting and retaining faculty as part of its compensation increase decisions. The LAO recommends the Legislature consider funds for academic quality initiatives to be a lower priority for 2018-19. The LAO recommends the Legislature specify the use of the funding in the budget act.

Staff Comments

Transfer Ratio Condition. As noted above, the both Riverside and Santa Cruz have developed strategic plans to help meet the goal of 2 to 1 ratio for freshman to transfer student. These plans and activities are approached in five categories: developmental outreach, recruitment, admission and selection, yield, and enrollment.

UC's Information Center notes that for the fall of 2017, Santa Monica College transferred the largest amount of students to UC in fall of 2017 with 1,289 students, followed by De Anza College and Diablo Valley College both at 938 students, and Pasadena City College with 785 students. When looking at specific UC campuses, UC Riverside received the most transfers from Riverside City College (168 students), and Mount San Jacinto College (104 students), followed by Pasadena City College (73 students). UC Santa Cruz received the most transfers from Cabrillo College transfer (124 students), and De Anza College (81 students). UC Irvine received the most transfers from Irvine Valley College (298 students), followed by Orange Coast College (232 students).

Based on information provided by the LAO and UC, UC has made improvements in the transfer ratio from 2016-17 to 2017-18.

- Systemwide: The transfer ratio improved from 2.3 to 2.1 freshman for each transfer student.
- UC Riverside: The transfer ratio improved from 4.5 to 3.2 freshman for each transfer student.
- UC Santa Cruz: The transfer ratio improved from 3.3 to 2.7 freshman for each transfer student.
- UC Irvine: The transfer ratio improved from 2.2 to 2.1 freshman for each transfer student.
- UC Santa Barbara: The transfer ratio improved from 2.4 to 2.0 freshmen for each transfer student.

While these represent improvements over the last year, the UC has communicated that they may not be able to reach the target in 2018-19 for UC Riverside or Santa Cruz. The Administration notes in their letter to UC in December 2017, that since three campuses have not attained the transfer ratios, additional work must be done. However, the Administration has not indicated what the expectations are to be included in the MOU. Budget bill language specifies that DOF must certify that UC Regents demonstrated good faith effort to satisfy this expectation; however, the Legislature may wish to consider what constitutes a good faith effort, and whether UC has demonstrated it.

Tuition and Total Cost of Attendance. According to the LAO, UC tends to have higher tuition and fees compared to other public universities with a similar level of research activity. The national average for tuition is approximately \$11,000, whereas UC currently charges \$12,630. In addition to tuition and fees, other expenses such as housing and food, personal expenses, books and supplies, and transportation make up the total cost of attendance for higher education. The cost of attendance varies across campuses within each system because some expenses, such as housing, vary by location. The cost also varies depending on whether a student lives on campus, off campus not with family, or off campus with family. For each system, students living at home with family have the lowest cost of attendance. The cost of attendance for students living on campus, and off campus not with family, tend to be similar.

California has one of the country's most generous state financial aid programs, which helps many low-income students attend UC. The state's Cal Grant program, which will be discussed in detail at a future subcommittee hearing, guarantees aid to California high school graduates and community college transfer students who meet financial need criteria and academic criteria. In addition, students who do not qualify for high school or community college entitlement awards but meet other eligibility criteria may apply for a limited number of competitive grants. Awards cover full systemwide tuition and fees at the UC and CSU, and up to a fixed dollar amount toward costs at private colleges. The Cal Grant program also offers stipends, known as access awards, for some students to help cover some living expenses, such as the cost of books, supplies, and transportation. A student generally may receive a Cal Grant for a maximum four years of full-time college enrollment or the equivalent. Cal Grant spending is driven by increased tuition and participation. According to UC, 56 percent of resident undergraduates had their tuition and fees fully covered by state and federal grants, and various scholarships, while only 28 percent paid actual "sticker price."

In addition student loan debt is relatively low. According to the LAO, approximately 55 percent of UC students at graduation have loan debt, with the average loan debt of \$20,500 for UC students. Student borrowing at UC is lower than the national average, with 60 percent of students at other four-year public universities graduating with loans, with an average debt load of \$27,300. However, this is

the second year that UC has proposed a tuition increase. As the Legislature reviews the Governor's budget proposal and the UC's budget request, the Legislature may wish to consider the impact this may have on access and affordability of higher education.

The subcommittee may wish to ask:

1. DOF: What other options should UC explore to reduce costs?
2. UC: Please provide an update on the status of the MOU with the Chancellor's Office of the California Community College.
3. UC: Should UC not meet the conditions set in the 2017-18 budget act, how will the loss of \$50 million impact UC and education services?

Staff Recommendation. Hold Open

Issue 3: Admissions and Enrollment – Freshman, Transfer, and Graduate Students

Panel

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

Background

Master Plan for Higher Education. The California Master Plan for Higher Education of 1960 set forth each of the three segments' missions and student eligibility policies. Specifically, the plan calls for UC to be the state's primary public research university and directs it to grant bachelor's, master's, and doctoral degrees, and for CSU to focus on instruction leading to bachelor's and master's degrees. Additionally, the Master Plan sets eligibility policy for students. For freshman eligibility, UC is to draw from the top 12.5 percent of public high school graduates; whereas CSU is to draw from the top 33 percent. For transfer eligibility, UC is to admit students who have completed lower division coursework with at least a 2.4 grade point average; whereas CSU is to admit those having at least a 2.0 grade point average. The transfer function is intended both to (1) provide students who do not qualify for freshman admission an opportunity to earn a bachelor's degree and (2) reduce costs for students seeking a bachelor's degree by allowing them to attend CCC for their lower division coursework. The master plan does not include eligibility criteria for graduate students. Instead, it calls for the universities to consider graduate enrollment in light of workforce needs, such as for college professors and physicians.

A-G Requirements. For freshmen, the university systems are responsible for setting specific admission criteria intended to reflect their respective eligibility pools. As a minimum criterion, both systems require high school students to complete a series of college preparatory courses known as the "AG" series. The series includes courses in math, science, English, and other subjects. To qualify for admission, students must complete this series while earning a certain combination of course grades and scores on standardized tests. In 2014-15, 43 percent of high school graduates completed the AG series with a "C" or better in each course. For transfer students, the university systems set general education and pre-major course requirements. Transfer students completing these courses and meeting the master plan's grade point average requirements are eligible for admission.

Eligibility Study. To gauge whether the universities are drawing from their freshman eligibility pools, the state periodically funds "eligibility studies." These studies examine public high school graduates' transcripts to determine the proportion of students meeting each university system's admission criteria. If the proportion is significantly different from 12.5 percent and 33 percent for UC and CSU, respectively, the universities are expected to adjust their admission policies accordingly. The last eligibility study was conducted in 2007. The 2015-16 budget provided \$1 million for the Office of Planning and Research (OPR) to complete a new eligibility study by December 1, 2016.

The eligibility study was completed in July 2017, and found that for UC, 13.9 percent of public high school graduates met the UC's admission requirements in 2015, with 11.2 percent of graduates eligible through the statewide or local criteria and an additional 2.7 percent of graduates admitted to UC under comprehensive review. While above UC's expected 12.5 percent eligibility pool under the Master Plan, two factors complicate the study's results. One is that UC's results have a margin of error of

1.6 percentage points, creating a possible range between 12.3 percent to 15.5 percent. The other is that the eligibility study did not examine where students admitted under comprehensive review ranked statewide or locally, such that the state no longer knows the entire pool of students from which UC is drawing. Moreover, UC has increased the proportion of high school graduates admitted under comprehensive review. In fall 2016, UC admitted four percent of high school graduates under the comprehensive review policy.

Trends. In 2015, 47 percent of Californians between the age of 18 and 24 (the traditional college going age) reported attending college. This share has steadily increased since 2000. In that year, 35 percent of 18-24 years olds in California reported attending college. In 2015, the rate for all 18-24 year olds in the nation was 43 percent, with California's rate ranking 9th highest among all states.

Additionally, LAO notes that UC and CSU resident enrollment are at all-time highs. In 2016-17, CSU educated 377,300 resident full time equivalent (FTE) students and UC educated 216,200 resident FTE students. The 2016-17 enrollment levels are 11 percent higher at CSU and 10 percent higher at UC compared to their respective levels in 2006-07. Though resident enrollment at the universities is less volatile than at CCC, both CSU and UC experienced some enrollment decline during the past recession.

Enrollment Funding. For decades, the state funded enrollment growth according to a "marginal cost" formula that estimated the cost of admitting one additional student. The most recently used formula assumed the universities would hire a new professor for roughly every 19 additional students and linked the cost of the new professor to the average salary of newly hired faculty. In addition, the formula included the average cost per student for faculty benefits, academic and instructional support, student services, instructional equipment, and operations and maintenance of physical infrastructure. The state provided the systems flexibility to determine how to distribute enrollment funding to its campuses. If the systems did not meet the enrollment target specified in the budget within a certain margin, then the associated enrollment growth funding reverted back to the state. UC estimated its total marginal cost per student was \$18,146, with a state share of \$10,097. If the segments did not meet the enrollment target specified in the budget within a certain margin, then historically an equivalent portion of the associated enrollment growth funding was reverted.

Recent Budget Acts. Due to the economic recession, the 2008-09 budget began omitting enrollment targets to provide UC and CSU flexibility to manage state funding reductions. The state resumed enrollment funding from 2010-11 through 2012-13, but in two of the three years, it did not require the universities to return money to the state if they fell short of the target. In 2013-14 and 2014-15, the state again chose not to include enrollment targets in the budget.

Beginning with the 2015-16 budget, the state resumed setting enrollment targets for UC for the subsequent academic year. This change was intended to give UC more time to respond to legislative direction. In the 2015-16 budget, the state set a goal for UC to enroll 5,000 more resident undergraduate students by 2016-17 (than the 2014-15 level) and allocated an associated \$25 million in ongoing funding for the growth. The 2016-17 budget act continued this practices, setting an expectation that UC enroll 2,500 more resident undergraduate students in 2017-18 than in 2016-17. The budget provides an associated \$18.5 million, contingent on UC providing sufficient evidence by May 1, 2017 that it would meet this goal.

The 2017-18 budget did not designate additional funding to support the additional enrollment in 2018-19. Instead, the budget directed UC to report by December 1, 2017, on existing programs budgeted at UCOP from which monies could be redirected to support the enrollment growth of at least 1,500 resident undergraduate students. Additionally, budget bill language states that the state and UC share the cost of enrollment. UC was expected to consult with legislative staff and the DOF in the summer and fall regarding the possible changes. This process was designed to give legislative staff an opportunity to provide input on the possible programmatic reductions and allow the Legislature to finalize funding decisions in the 2018-19 budget.

Additionally, the 2017-18 budget provided \$5 million General Fund to enroll an additional 500 graduate students, and notes that the UC must prioritize enrollment of resident graduate students, and that there be at least as many resident graduate students as nonresident graduate students.

Enrollment Funding through Redirection of Funds and Programs. While the budget bill did not specify a specific amount of funding to be redirected from UC, UC proposes to redirect the full \$15 million from existing resources and programs to support enrollment growth of 1,500 students. Of this amount, \$8 million would come from reductions to UCOP's budget. The remaining funds would come from other sources, including: (1) redirected lottery funds (\$3 million); (2) savings, according to UC, by providing certain systemwide programs a smaller budget increase than otherwise planned for 2018-19 (\$2.5 million); and (3) eliminating certain programs budgeted at certain campuses (\$1.5 million). Staff notes that UC's proposal provides preliminary recommendations, and decisions on precise programs to be reduced or eliminated has not been finalized or approved by the Board of Regents. The descriptions below provide additional information on UC's draft proposal; however for some programs UC has not been able to provide staff with additional details.

1. Reductions to the Office of the President (\$8 million):

- **UC Presidential Initiatives Fund (\$2 million).** This fund is approximately \$9.7 million and provides the UC President the opportunity to invest in areas where UC can address challenges in higher education and society. The UC has not decided the particular initiative or program will be eliminated or reduced, however, the Presidential Initiative currently funds the following:
 - **Student Public Service Fellowships:** This program annually supports up to three students per undergraduate campus, or 27 students in all, to participate in internships through the UC Washington Center (UCDC) and UC Center Sacramento (UCCS), gaining firsthand exposure to the American political process and attaining work experience. Fellows receive \$2,500 in financial support to defray costs of enrollment. Fellows are selected based on financial need and a demonstrated commitment to civic engagement and service.
 - **President's Public Service Law Fellowship:** This initiative launched in 2016, with an initial funding term of four years. This awards annual fellowships to law school students at the Berkeley, Davis, UCLA and Irvine campuses. The funding makes post-graduate work and summer positions more accessible for students

who want to pursue public service legal careers but might otherwise — out of financial need — seek private sector jobs.

- **Smoke and Tobacco Free Student Fellowships:** These fellowships support UC's commitment to a smoke- and tobacco-free environment and to developing research and policy solutions. This year, 19 applications were received and 10 were approved for funding. The supported students conducted a diverse set of projects aimed at advancing smoke- and tobacco-free policies throughout UC.
- **Undocumented Students Initiative:** This initiative was launched in 2013 and provides campuses with funding to address undocumented students' unique needs through a range of support services, including academic and personal counseling, financial aid and legal advising. In 2016, the UC made a multi-year commitment to expand the program in three key areas: (1) The California DREAM Loan Program, (2) Establishment of student services staff coordinators, targeted undergraduate and graduate fellowships, and other financial support, and (3) Expansion of legal services through UC's Undocumented Legal Services Center at the UC Davis School of Law. This program serves students at eight UC campuses, providing free access to an attorney, consultation on legal rights and protections, and assistance filing for applicable state and federal programs.
- **Global Food Initiative:** This initiative seeks to address food security at campuses and advance a multiyear plan to develop or build support services and programs to ensure that students access healthy food and basic needs resources. The initiative was launched in 2014 to address the issue of feeding a world population expected to reach 8 billion by 2025. GFI builds on existing efforts and creates new collaborations among UC's 10 campuses, UC Division of Agriculture and Natural Resources and the Lawrence Berkeley National Laboratory. A semi-annual competitive proposal process allocates funds to the campuses for GFI-related research and other activities such as food security on campuses, the Healthy Campus Network and projects designed and led by GFI faculty, staff and/or student fellows. GFI working groups also identify best practices and develop the toolkits to implement them.
- **UC- Mexico Initiative:** Launched in 2014, this initiative seeks to create a sustained, strategic and equal partnership between the UC and institutions in Mexico to address common issues such as science and technology, health, agriculture, and the environment and sustainability. Every UC campus has programs on Mexico, ranging from vibrant centers to individual faculty research collaborations to Education Abroad. The Initiative brings together these many activities to provide strategic direction and to create synergies among current efforts.
- **UC National Center for Free Speech and Civic Engagement:** Launched in October 2017, the UC National Center for Free Speech and Civic Engagement will be housed at UCDC, the UC's Washington, D.C. location. The Center

brings together people of different backgrounds, experiences and views from across the country to apply the best legal, social science, journalistic and other research, along with real world experience, to inform free speech and civic engagement policies on campuses, in state legislatures and in Washington D.C.

- **Carbon Neutrality Initiative:** This initiative was launched in 2013, committing UC to emit net zero greenhouse gases from its buildings and vehicle fleet by 2025. All 10 UC campuses, the UC Office of the President, Division of Agriculture and Natural Resources and Lawrence Berkeley National Laboratory participate in programs to improve energy efficiency, develop new sources of renewable energy and enact a range of strategies to cut carbon emissions. A Global Climate Leadership Council, comprised of external experts and UC scientists, administrators and students, provides guidance in seeking out best practices, policies and technology to achieve carbon neutrality and to advance teaching/research in climate change and sustainability. Funded projects include Student Fellowship Program, Faculty Curriculum Workshops, and the Climate Knowledge-Action Network in association with CSU.
- **Cuba Faculty Matching Funds:** This Multi-Campus Research Program for three years between 2006 and 2008. Normalization of US–Cuba diplomatic relations in 2015 prompted UC to explore how it might expand its relationship with Cuban scholars. UCOP now provides funding, matched by the host UC campus, for one visiting scholar from Cuba each year.
- **Contingency budget (50 percent reduction, \$1.5 million).**
- **Professional Services Budget (five percent reduction, \$1.5 million).** UCOP is conducting zero based budgeting for professional services such as their annual Pricewaterhouse Coopers financial audit.
- **Chancellor’s House Maintenance (\$0.5 million).** Unrestricted funds provided to the campuses for the chancellor’s residence – this traditionally has been part of the Office of the President budget, but under this proposal campuses will have to fund this themselves.
- **Merit Savings / Unpaid Merit Awards (\$0.5 million).**
- **Administrative Funds for Campus Chancellors (\$0.4 million).**
- **Travel and Meetings (\$0.4 million).** UCOP is doing zero-based budgeting for travel and meetings. Overall, there will be a 12 percent reduction in travel.
- **Star Award Policy (\$0.25 million).** The program allows managers to give one-time cash awards to staff below the executive level in recognition of performance. Last May, the UC President reduced the maximum award from \$5,000 to \$500.

- **Outreach and Membership Activities (\$0.2 million).** This includes outreach expenditures and memberships in organizations that university faculty and administrators generally participate in for best practice sharing, recruiting, etc. UC has indicated that it will limit this reduction to membership only, and not the outreach component. Outreach refers to donations UCOP makes to 501c3. The memberships in 2017-18 include: Fair Labor Association, Workers Rights Consortium, Association of Governing Boards of Universities and Colleges, Association of Independent California Colleges and Universities (AICCU), California Biomedical Research Association, The Climate Registry, Council on Competitiveness, Education Advisory Board, The Federal Demonstration Partnership, The Higher Education User Group (HEUG), IMS Global Learning Consortium, The National Association of State Universities & Land Grant Colleges, The Science Coalition, U.S. Green Building Council, WICHE-Western Interstate Commission for Higher Ed.
 - **Administrative fund for Office of the President (\$0.1 million - 60 percent reduction).**
2. **Growth in Lottery Funds (\$8 million):** This would redirect \$8 million from the growth in lottery funds for the purpose of increasing enrollment. In 2015-16, UC received approximately \$33 million from the Lottery Education Fund. Funds are distributed to campuses based on enrollments, and campuses used their funding for campus needs, such as instructional equipment, support, library support, science and math initiative and instructional computing.
3. **Reduced Growth to Campus Programs (\$2.5 million).** UC funds certain statewide programs from UC's main state General Fund appropriation before the remaining funds are distributed. Five of these systemwide programs receive an annual inflationary adjustment, which are described below. The UC proposes to reduce this inflationary adjustment by half.
- **Agricultural Experimental Stations (\$1.4 million).** This is a statewide, multi-campus organized research unit of the University's Division of Agriculture and Natural Resources (DNAR), which conducts basic and applied research in agriculture and natural resources. The AES is administered centrally by the Vice President, DANR, and at the campus level by Associate Directors who are also the Deans of the colleges of agricultural sciences and natural resources on the Berkeley, Davis, and Riverside campuses.
 - **Neuropsychiatric Institutes (\$0.5 million).** UC operates two Neuropsychiatric Institutes (NPIs) at UCLA and UCSF. They serve as primary resources for mental health research and fulfill a critical mission for the state in educating and training providers to care for California's citizens suffering from mental and developmental disorders, addictions, and psychological illnesses.
 - **Scripps (\$0.4 million).** Scripps Institution of Oceanography (SIO) is a UCSD program that conducts research on and communicates understanding of the oceans, atmosphere, Earth, and other planets for the benefit of society and the environment.

- **Mental Health Teaching Support (MHTS) (\$0.2 million).** UC operates two Mental Health Teaching Support programs located at UCLA and UCSF. These are designated for clinical teaching support, but indirectly supports research because it enables UCLA and UCSF to care for patients who would not otherwise be able to afford care, many of whom participate in research studies. In 2016-17 this program received \$15 million from State General Funds (set-aside). Other MHTS support funds come from Medicare and other third-party payer sources.
- **Medical Investigation of Neurodevelopmental Disorders (MIND) Institute (\$0.1 million).** The MIND Institute is a UC Davis campus program and collaborative research and clinical center committed to the awareness, understanding, prevention, care, and cures of autism and other neurodevelopmental disorders. The MIND Institute educates future clinicians and researchers in the field of neurodevelopmental disorders; provides clinical care to 2,500 families annually; and educates professionals and community members through lecture series, workshops, and community-based clinics and outreach.

4. Eliminated Campus Programs (\$1.5 million).

- **California Program on Access to Care (\$0.9 million).** This is a multi-campus initiative established to provide policy analysis and UC research that will help eliminate health disparities in California and create a state where all individuals – including the most vulnerable – have the opportunity to live a healthy life.
- **Health Initiatives of the Americas (\$0.3 million).** This initiative is a program at UC Berkeley's School of Public Health to reduce health disparities of the less advantaged Latino population in the United States.
- **US Mexico Social Security and Tax Policy (\$0.2 million):** This program is held at UCLA, and involves preventing double taxation and over-withholding taxes from employee and independent-consultant salaries.
- **Graduate Fellows Program (\$0.1 million):** This is a program at UC Berkeley, which supports the recruitment, training, and matriculation of students from historically underrepresented groups in order to increase the ethnic/racial diversity of Berkeley's post-graduate student body and the pool of Ph.D. candidates for tenure-track positions.

UC Planning for More Enrollment Growth in 2018-19. UC's draft budget plan assumes growth in resident undergraduate students of 2,000 FTE students—500 more than expected in the 2017-18 budget. In addition to the higher growth in resident undergraduate enrollment, UC plans to grow graduate enrollment in 2018-19 by 500 FTE students (both resident and nonresident) over the 2017-18 level. To cover the costs of the resident undergraduate and graduate enrollment growth, UC assumes in its budget plan and requests that the state provides an additional \$10 million ongoing General Fund beyond the Governor's budget.

Governor's Budget Proposal

The Governor's budget does not propose new funding for enrollment growth, nor does it recognize \$15 million General Fund redirection from UCOP.

Legislative Analyst's Office

The LAO believes that the UC's proposed list is a reasonable starting point, as UC met with legislative staff throughout the fall. However, LAO notes that the identified savings are modest. The LAO suggests the Legislature may want to consider whether such a plan meets the Legislature's intent to have UC to revisit its cost structure.

Recommend Legislature Consider Enrollment Expectations for 2019-20 Academic Year. The Legislature in recent years has established enrollment expectations one year after the budget year to better align the timing of budget decisions with UC's admissions calendar. The LAO recommend the Legislature continue this practice and focus its attention toward enrollment growth for 2019-20. Whereas UC's admission decisions for 2018-19 largely have already been made, the Legislature still could influence UC's enrollment levels for 2019-20. In considering possible enrollment levels for 2019-20, the Legislature likely will want to consider the results of the state's recent eligibility study, which found UC likely is drawing from somewhat beyond its Master Plan pool.

Staff Comments

Staff notes that many programs and initiatives under consideration for elimination or reduction have been legislative priorities, specifically, the Undocumented Students Initiative, and Carbon Neutrality Initiative, among others. While the UC has not finalized which programs to eliminate or reduce, the Legislature may wish to consider if these changes are appropriate or if it should consider redirection from other sources, and the potential impact they may have on Legislative priorities. Additionally, the Legislature may wish to consider if it is appropriate for UC to bear the full costs of increasing enrollment, or if the Legislature should support UC in their efforts.

Graduate Enrollment. As noted in the previous section, UC is requesting an additional \$5 million to enroll an additional 500 graduate students. This is similar to a request in the 2017-18 budget that was fulfilled by the state. According to UC's Information Center, for the fall 2017 term, the UC enrolled 56,275 graduate students, of which, 55 percent were California residents, 47 percent were female, and 14 percent identified as underrepresented minorities. This is in contrast to the undergraduate population, which enrolls 216,747 students, of which, 82 percent are California Residents, 54 percent are female, 29 percent identified as underrepresented minorities.

Over the last few years, the Legislature has invested in efforts to diversify graduate student enrollment. For example, the 2017-18 budget provided \$300,000 ongoing General Fund to the UC Summer Institute for Emerging Managers and Leaders, which offers fellowships to undergraduates at historically black colleges and universities and at Hispanic-serving institutions, with the aim of attracting them to apply to the MBA programs offered throughout the UC system.

Additionally, the state provided \$2 million in the 2016-17 and 2017-18 to support equal employment activities for faculty diversity. According to a recent report from the Campaign for College

Opportunity, *Left Out: How Exclusion in California's Colleges and Universities Hurt Our Values, Our Students, and Our Economy*, studies have shown that academic performance and career aspirations are enhanced when students have faculty of similar background, who serve as role models. However, while 74 percent of students at UC identify as people of color, only 30 percent of tenure faculty, 38 percent of non-tenured faculty, 30 percent of campus senior leaders, 17 percent of the academic senate, 20 percent of campus academic senate, 21 percent of UCOP staff, and 38 percent of the UC BOR identify as people of color.

The subcommittee may wish to ask:

1. What is the Administration's position on the UC's proposed list of program and funding redirection to support enrollment growth?
2. UC: What is the process and next steps for finalizing the redirection proposal?
3. UC: How have campuses and programs reacted to the proposal?

Staff Recommendation. Hold Open

Issue 4: UC Student Support Services (Informational Only)

Panel:

- Jason Constantouros, Legislative Analyst Office
- Seija Virtanen, University of California

Background

The 2016-17 budget included \$20 million in one-time for support services for “low-income students and students from underrepresented minority groups,” including students who were enrolled in Local Control Funding Formula (LCFF)-plus schools, which was modeled after Senate Bill 1050 (de León) of 2016. LCFF-plus schools are schools where more than 75 percent of the school’s total enrollment (unduplicated) is composed of students who are either English learners, eligible for a free or reduced-price meal, or foster youth. These schools are eligible for supplemental funding under LCFF. The additional funding in the budget act was designed both to increase the number of LCFF-plus and other low-income students who enroll at UC and to expand academic support services to ensure their academic success and timely graduation.

The UC Regents January 2017 board agenda notes that in August 2016, the UC Office of the President (UCOP) allocated the \$20 million in one-time funds to campuses based on the number of students who graduated from LCFF-plus high schools who were enrolled on each undergraduate campus in the fall of 2015. Students who entered as either freshmen or transfers were included in this count. In addition, funds were set aside for outreach services provided by UC San Francisco and for supplemental funding for particularly promising and innovative programs. The chart below displays the distribution of funds and the number of LCFF-plus students by campus.

Supplemental Student Support Services and Programs
(Dollars in Millions)

Campus	Number of LCFF plus Students	Allocation	Expenditure by December 2017	Carry forward by December 2017
Berkeley	2,474	\$1.55	\$1.55	\$0
Davis	3,326	\$2.09	\$1.7	\$0.39
Irvine	5,499	\$3.45	\$2.9	\$0.54
Los Angeles	4,226	\$2.95	\$2.65	\$0.3
Merced	2,190	\$1.78	\$0.49	\$1.29
Riverside	4,169	\$2.77	\$2.12	\$0.65
San Diego	2,782	\$1.83	\$1.38	\$0.45
San Francisco	n/a	\$0.3	\$0.27	\$0.03
Santa Barbara	2,658	\$1.73	\$0.89	\$0.84
Santa Cruz	2,485	\$1.56	\$1.48	\$0.07
Reserve: High-Potential Projects	n/a	\$1.0	\$0	\$0
Total for All Campuses	29,809	\$20	\$15.43	\$4.57

Prior to receiving the allocation of funds, each campus was required to provide UCOP with a spending plan indicating how these funds would be used, what outcome metrics would be tracked, and the timeline for implementation. The additional one-time funding could be used by campuses to expand current programs or launch new efforts, but could not be used to fund existing programs at their current scale.

Campuses were asked to use 20 to 40 percent of their funding for efforts to increase the application, admission, and enrollment of students from LCFF-plus schools. Examples of eligible funding include partnering with community-based organizations to raise awareness of UC, and better serve LCFF-plus students and their families, or using UC proprietary software other tools to identify students attending LCFF-plus schools who are close to achieving UC eligibility and providing college advising and academic enrichment programs to those students.

The remaining 60 to 80 percent is to be used to provide academic support services to enrolled students, focusing on those who are low-income, first-generation college, or otherwise educationally disadvantaged. Examples of eligible funding include additional academic support and learning assistance programs for students, including targeted support services in the fields of writing and science, technology, engineering, and mathematics; or training faculty, advisors, and peer mentors how to best support low-income, first-generation, and educationally-disadvantaged students.

Additionally, for the fall 2017 application cycle, in order for applicants to receive full consideration in the comprehensive review process, campuses received special rosters of all applicants to from LCFF-plus schools. For 2018, the UC application system will be redesigned to automatically identify these applicants on their UC applications, which is similar to how UC identifies students who qualify for the Eligibility in the Local Context Program. Additionally, UC is also redesigning its application fee waiver so that applicants who report low family incomes are automatically granted these waivers, rather than being required to apply for them. In addition to the one-time funding, AB 1602 (Committee on Budget), Chapter 24, Statutes of 2016, also required UC to provide direction to each campus regarding supplemental consideration in the admission process for pupils who are enrolled in LCFF plus schools, and meet all the same admission requirements.

AB 1602 also required UC to report by November 30, 2017 and each year thereafter to the Legislature the number of students who attended a LCFF plus school and were admitted to UC, and the number of students who enrolled, disaggregated by campus. In November 2017, UC submitted the report, *The Admission and Enrollment of Students from LCFF+ High Schools*, and provided information about the application, admit rate, and number of LCFF plus enrollees system wide, by campus, and by race/ethnicity, which are displayed in the tables below.

High School Graduates, Applicants, Admits, Enrollees by LCFF Plus Statues of High School Systemwide

		LCFF+ Schools	All High Schools
2015	H.S. Graduates	141,639	425,730
	Applicants	22,532	89,760
	Admits	11,898	53,562
	Enrollees	7,172	29,683
	Application Rate	16%	21%
	Admit Rate	53%	60%
	Yield Rate	60%	55%
2016	H.S. Graduates	138,305	428,033
	Applicants	23,250	92,208
	Admits	14,305	62,304
	Enrollees	8,449	34,895
	Application Rate	17%	22%
	Admit Rate	62%	68%
	Yield Rate	59%	56%
2017	H.S. Graduates	n/a	n/a
	Applicants	25,428	98,195
	Admits	14,388	61,616
	Enrollees	8,161	34,183
	Application Rate	n/a	n/a
	Admit Rate	57%	63%
	Yield Rate	57%	55%

As displayed above, the number of applications and admits from LCFF plus students have increased since 2015. Specifically, the number of applicants went up from 22,532 in 2015 to 23,250 in 2016, and 25,428 in 2017. This represents annual increases of about three percent and nine percent, respectively. Additionally, the number of LCFF plus high school students admitted went up from 11,898 in 2015 to 14,305 in 2016, and 14,388 in 2017, representing annual increase of about 20 percent and one percent, respectively.

Applicants, Admits, Enrollees from LCFF Plus High Schools, by UC Campus

	Berkeley	Davis	Irvine	Los Angeles	Merced	Riverside	San Diego	Santa Barbara	Santa Cruz
2015	Applicants	7,781	8,447	13,448	11,822	6,519	10,700	9,314	8,617
	Admits	1,175	2,547	4,258	1,760	3,413	4,328	2,127	2,317
	Enrollees	548	766	1,463	968	767	927	534	446
	Admit Rate	15%	30%	32%	15%	52%	40%	23%	27%
	Yield Rate	47%	30%	34%	55%	22%	21%	25%	19%
2016	Applicants	7,674	8,869	14,153	12,097	7,422	11,833	9,481	8,623
	Admits	1,102	3,038	4,419	1,981	5,071	6,109	3,240	2,529
	Enrollees	531	877	1,355	1,209	985	1,604	905	372
	Admit Rate	14%	34%	31%	16%	68%	52%	34%	29%
	Yield Rate	48%	29%	31%	61%	19%	26%	28%	15%
2017	Applicants	8,216	9,375	15,907	13,161	8,322	13,049	10,367	9,729
	Admits	1,345	3,213	3,586	1,742	5,476	5,202	3,161	2,237
	Enrollees	620	958	1,156	1,054	1,159	1,236	963	408
	Admit Rate	16%	34%	23%	13%	66%	40%	30%	23%
	Yield Rate	46%	30%	32%	61%	21%	24%	30%	18%

In 2017, UC Riverside, UC Irvine, and UC Merced had the largest number of incoming freshman from LCFF plus high schools. UC Davis, UC Merced, and UC San Diego showed increases in the number of incoming freshman in both 2016 and 2017. At six of the nine campuses, the number of incoming freshman from LCFF plus schools grew from 2015 to 2017.

**High School Graduates, Applicants, Admits, Enrollees from LCFF Plus High Schools,
By Race and Ethnicity**

		African American	American Indian	Hispanic/ Latino(a)	Asian/Pacific Islander	White	Unknown	Two or More Races
2015	H.S. Graduates	10,822	679	106,211	11,572	10,741	397	1,217
	Applicants	1,503	45	16,002	3,684	858	440	n/a
	Admits	535	25	8,150	2,469	535	184	n/a
	Enrollees	313	13	4,774	1,662	307	103	n/a
	Application Rate	14%	7%	15%	32%	8%	111%	n/a
	Admit Rate	36%	56%	51%	67%	62%	42%	n/a
	Yield Rate	59%	52%	59%	67%	57%	56%	n/a
2016	H.S. Graduates	9,638	660	105,475	10,381	10,207	483	1,461
	Applicants	1,491	48	16,924	3,589	794	404	n/a
	Admits	698	37	10,191	2,644	514	221	n/a
	Enrollees	393	15	5,828	1,803	290	120	n/a
	Application Rate	15%	7%	16%	35%	8%	84%	n/a
	Admit Rate	47%	77%	60%	74%	65%	55%	n/a
	Yield Rate	56%	41%	57%	68%	56%	54%	n/a
2017	H.S. Graduates	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Applicants	1,611	47	18,745	3,749	802	474	n/a
	Admits	740	21	10,320	2,563	509	235	n/a
	Enrollees	406	11	5,700	1,658	270	116	n/a
	Application Rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Admit Rate	46%	45%	55%	68%	63%	50%	n/a
	Yield Rate	55%	52%	55%	65%	53%	49%	n/a

The share of freshman applicants, admits, and enrollees from LCFF plus high schools who were underrepresented minorities (URMs) increased in both 2016 and 2017, even as the share of LCFF plus high school graduates who were URMs stayed about the same. In 2017, 80 percent of applicants from LCFF plus high schools were URMs, up slightly from 78 percent in 2015 and 79 percent in 2016. URMs represented 77 percent of admits in 2017, also up from 2015 (73 percent) and 2016 (76 percent). Three-quarters (75 percent) of the incoming freshmen from LCFF plus schools in 2017 were URMs, up from 71 percent in 2015 and 74 percent in 2016. The share of LCFF plus high school graduates who were URMs stayed fairly steady at 83 percent in 2015 and 84 percent in 2016, the latest years of data available. In all three years, the largest racial/ethnic group among applicants, admits, and enrollees from LCFF plus high schools were Hispanic/Latino(a).

The number of African American admits and enrollees from LCFF plus high schools in the incoming class grew steadily from 2015 to 2017. The number of admits went up 30 percent in 2016 and six percent in 2017, while the number enrolling went up 26 percent in 2016 and nine percent in 2017. This was the only racial/ethnic group showing this pattern of year-by-year growth among admits and enrollees from 2015 to 2017. There were 1,611 African American applicants, 740 admits, and 406 enrollees from LCFF plus high schools in 2017.

The subcommittee may wish to ask:

1. Please explain why there was a delay in distributing funds? What is the timeline to distribute the remaining funds? How will the colleges continue their efforts with this population?

Issue 5: Capital Outlay and Deferred Maintenance

Panel

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

Background

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

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

UC and CSU are required to manage its capital program so that no more than 15 percent and 12 percent, respectively, of its General Fund support appropriation, less general obligation bond payments and State Public Works rental payments, is used for its capital program. SB 860 also included the costs to design, construct, or equip energy conservation projects for CSU. Additionally, the state allows each university to pay the associated debt service of academic facilities using its state support appropriation.

In order to use its General Fund support for debt service payments, state law requires UC and CSU to receive approval from the DOF on each of the projects, following legislative review. Under the review process, DOF is to submit a preliminary list of approved projects to the Legislature by February 1, with the final list submitted no sooner than April 1, 2018.

Deferred Maintenance. The 2015 Budget Act provided UC with \$25 million one-time General Fund to support deferred maintenance projects. The 2016 Budget Act provided \$35 million in one-time General Fund to UC. The Governor has made no similar proposal this year.

2017-18 Budget Act. For 2017-18, the Administration approved six projects which would correct seismic and life safety deficiencies for academic facilities, one project would entail construction of a

new science facility at the Irvine campus. Additionally, the Administration approved \$35 million in bond funding for deferred maintenance, and \$15 million to conduct an assessment of the conditions of academic facilities. This resulted in \$161 million in bond authority for capital outlay and deferred maintenance projects.

Preliminarily Approved Projects

In September, UC submitted a list of nine capital outlay projects proposed for 2018-19 totaling in \$301 million in state costs. Consistent with state law, UC would fund these projects by issuing bonds and paying the associated debt service from its state General Fund support. In addition to bonds supported by state funds, UC would use non-state funds to supplement funding for six of the nine projects. Accounting for all proposed state and non-state funds, the nine projects would cost \$324 million in 2018-19 (for specified phases) and \$464 million total (including all phases). On February 6, 2018, the Administration submitted a letter to the Legislature preliminarily approving nine projects described below. UC estimates that the maximum projected percentage will be approximately 6.3 percent. The LAO chart below describes UCs nine capital outlay requests.

University of California 2018-19 Capital Outlay Request (Dollars in missions)

Campus	Project	2018 -19	All Years	
		State Cost	State Cost	Total Cost
Systemwide	<u>Deferred maintenance (Construction Phase):</u> UC is proposing to use bond funds to undertake \$35 million in deferred maintenance projects. The budget year would mark the fourth consecutive year the state has provided or authorized funding specifically for deferred maintenance at UC. In 2017-18, the state also approved \$15 million for UC to fund a team of experts to visit each campus and assess the current condition of academic facilities. One goal of the assessment is to attain a more accurate estimate of UC's deferred maintenance backlog.	\$35	\$35	\$35
Systemwide	<u>Northern Regional Library Facility, Phase 4 expansion, (Construction and Equipment phase ^a):</u> The facility, which is located in Richmond, is one of two libraries (the other is in Los Angeles) that provide overflow storage to UC campuses. The two libraries together store around 14 million of UC's 40 million volumes. The two facilities currently have combined capacity of around 15 million items. Based on historical growth of UC's collections, UC estimates the two facilities will reach capacity sometime between 2018 and 2022. The proposed project would add 26,610 gross square feet to the northern facility, which would increase total capacity of the two regional libraries to around 18 million volumes (an increase of around 20 percent).	30	30	32.5
San Diego	<u>New Ridge Walk Complex (Construction phase ^a):</u> The new facility	50	50	117.4

	would consolidate departments and programs within the Divisions of social sciences and arts and humanities. New space would include research offices, graduate student offices, active learning spaces, and conference and collaborative spaces. By comparison, a majority of the space at San Diego (69 percent) would be for faculty and staff office space. In its proposals, UC notes that San Diego would relocate existing administrative and advising services of certain academic departments into the new buildings.			
Davis	<u>New Teaching and Library Complex (Construction phase ^a):</u> This would be a new facility for general assignment classrooms. UC does not provide a specific breakdown of space for the Davis project but indicates the new building would have 2,000 classroom seats as well as study space. In addition to constructing state supportable space, some of the projects would construct nonacademic space, such as student recreation rooms, that would be supported by non-state funds.	50	50	66
Riverside	<u>New Student Success (Center Preliminary plans, working drawings, construction, and equipment):</u> This is for a new facility for general assignment classrooms, co-located student advising offices, and multipurpose student life spaces. Most of the state supportable space would be for classrooms (89 percent). Riverside would relocate existing administrative and advising services of certain academic departments into the new buildings.	50	50	60.3
Santa Cruz	<u>New Kresge College academic building (Working drawings ^a):</u> This would house academic programs including a lecture hall with approximately 600 seats. Approximately 60 percent of the new facility would be for faculty and staff office space. Santa Cruz would relocate existing administrative and advising services of certain academic departments into the new buildings.	2.8	50	53
San Francisco	<u>Health Sciences Instruction and Research seismic renovation (Construction phase ^a):</u> This would seismically improve utilities and building systems to minimize disruption during a major earthquake and the upgrade the facility's seismic rating to Level III.	37	37	47.4
Berkeley	<u>Giannini Hall seismic renovation (Construction phase ^b):</u> This project would reinforce the structural components of Giannini Hall to improve its resistance to seismic forces and provide substantial life safety protection to its occupants during a large seismic event. The preliminary plans and working drawings phases of this project were approved last year.	36	39.2	39.2
San Francisco	<u>Health Sciences Instruction and Research life safety renovation (Construction phase ^b):</u> This project is to remediate life-safety egress impediments with selective and strategic renovations on multiple floors in the health sciences and research complex, specifically in the health sciences east and health sciences west towers. The preliminary plans and working drawings phases of this project were	10	13	13

	approved last year.			
Totals		300.8	354.2	463.8

^a Previous phases funded by non-state funds.

^b Previous phases approved and funded by state.

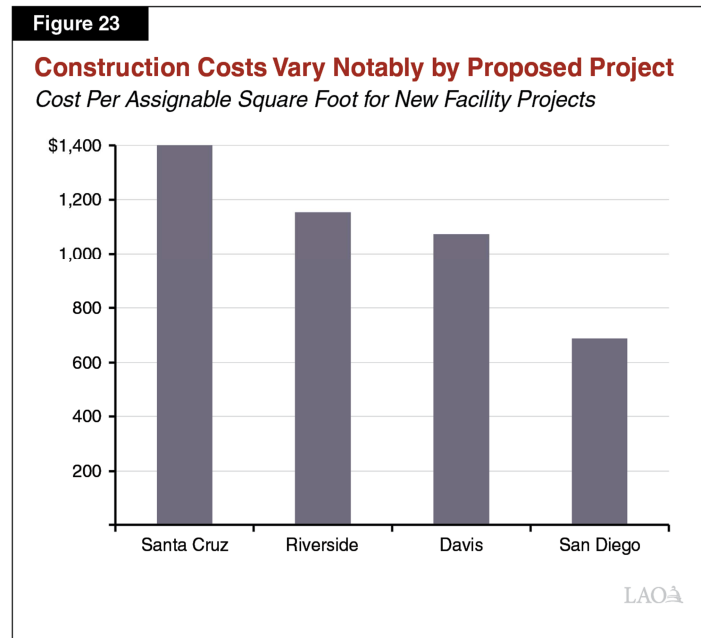
C = construction; E = equipment; P = preliminary plans; and W = working drawings.

Projects Would Cost \$22 Million in Annual Debt Service. UC estimates it would begin paying debt service on the projects in 2020-21, with debt service costs rising to \$22 million annually by 2023-24. UC anticipates requesting authority for the construction phase of the Santa Cruz project in 2019-20, which it estimates would have an additional debt service cost of \$3.4 million annually. Including costs from previously approved projects, UC estimates its debt service costs would rise to \$252 million in 2024-25 and remain around that level in subsequent years. As a share of its General Fund support, UC estimates its debt service costs would rise to 6.3 percent. Under state law, this debt service ratio cannot exceed 15 percent. This statutory limit excludes payments UC makes annually on general obligation bond debt. Including those payments, total debt service costs at UC would be \$416 million in 2024-25, around 10 percent of what UC forecasts its General Fund support to be that year.

Legislative Analyst's Office Comments

Costs Vary Notably for New Facility Projects. UC's construction costs would vary from \$1,400 per assignable square foot at the Santa Cruz campus to \$688 per assignable square foot at the San Diego campus. Even costs for similar spaces would vary by project. Classroom space at Riverside, for example, would cost around double for that same type of space at San Diego. UC noted several general reasons why costs might differ across projects. For example, certain market conditions in a campus's region, such as a labor shortage, could increase costs. While these general concepts are reasonable, LAO notes that UC has not provided specific explanations regarding the wide variation in proposed project costs this year.

For any UC construction project the Legislature would like to consider in 2018-19, LAO recommends it direct UC to report on construction costs per square foot and explain any variation in these costs for the same type of space across campuses. To the extent UC is unable to provide sufficient justification, LAO recommend the state withhold authorization of the projects.



Recommend Legislature Require UC to Develop Comprehensive Maintenance Plan. Though UC is currently studying the condition of its existing facilities, the LAO believes UC would benefit from: (1) a long-term funding plan to retire its backlog, and (2) a review of its current scheduled maintenance practices (such as setting funds aside when new systems are installed) so as to avoid the reemergence of future maintenance backlogs. Without both plans in place, the Legislature cannot have confidence that UC's capital program is being well managed and maintained. To address concerns regarding maintenance practices at UC, the LAO recommends the Legislature adopt budget language requiring UC to develop a long-term maintenance plan. The plan should include (1) a multiyear expenditure plan for eliminating the backlog of projects, including proposed funding sources; and (2) a plan for how to avoid developing a maintenance backlog in the future.

UC Library Holdings Continuing to Grow. About every ten years, the state has provided funds to expand the Northern Regional Library to accommodate UC's growing collections. UC anticipates its collections will grow by 300,000 items annually over the next several years. While adding more space has been the Legislature's traditional approach to addressing expanding library collections, opportunities now exist to store documents in a digital format rather than storing as physical volumes. In recent years, UC has tried to expand its digital holdings through the California Digital Library, a systemwide program housed at UCOP. Expanding such efforts could reduce some of the need for additional space. As part of its review, the Legislature could ask UC to identify current digital collections and efforts to convert physical items into digital format. The Legislature also could ask UC to do a reassessment of the need to maintain the size of its existing physical library collections.

Staff Comments

As noted in the previous agenda item, UC is requesting \$35 million General Fund for deferred maintenance. This is in addition to the bond funds for \$35 million in the DOF preliminary approved capital outlay letter, for a total of \$70 million General Fund for deferred maintenance in 2018-19 on the most critical needs. Additionally, in 2017-18, the Administration approved \$15 million in bond financing for UC to fund a team of experts to visit each campus and assess the current condition of

academic facilities. Previously, UC notes that campuses have only been able to collect limited deferred maintenance information as it is encountered during preventative and corrective maintenance visits. This approach only identifies emergency and critical items, rather than providing for the systematic and comprehensive approach that a new facility conditions assessment would require. One goal of the new assessment is to attain a more accurate estimate of UC's deferred maintenance backlog. UC notes that it has hired 12 staff (four at Davis, Los Angeles, and Santa Barbara, each) to conduct comprehensive facility assessments, which is anticipated to be complete by December 2021. In addition to assessing facilities, the goal is to also create a standardized assessment approach among all campuses.

The subcommittee may wish to ask:

1. UC: What is the rationale for requesting both additional general fund and bond financing for deferred maintenance?
2. UC: What is the rationale to fund deferred maintenance projects prior to the completion of the comprehensive assessment or maintenance plan as recommended by the LAO.

Staff Recommendation. Hold open.

6610 CALIFORNIA STATE UNIVERSITY

The California State University (CSU) system is comprised of 23 campuses, consisting of 22 university campuses and the California Maritime Academy. The California State Colleges were brought together as a system by the Donahoe Higher Education Act of 1960. In 1972, the system became the California State University and Colleges; the name of the system was changed to the California State University in January 1982. The oldest campus, San Jose State University, was founded in 1857 and became the first institution of public higher education in California. Joint doctoral degrees may also be awarded with the UC. The program goals of the CSU are to:

- Provide instruction in the liberal arts and sciences, the professions, applied fields that require more than two years of college education, and teacher education to undergraduate students and graduate students through the master's degree.
- Provide public services to the people of the state of California.
- Support the primary functions of instruction, public services, and student services in the University.
- Prepare administrative leaders for California public elementary and secondary schools and community colleges with the knowledge and skills needed to be effective leaders by awarding the doctorate degree in education.
- Prepare physical therapists to provide health care services by awarding the doctorate degree in physical therapy.
- Prepare faculty to teach in postsecondary nursing programs and, in so doing, help address California's nursing shortage by awarding the doctorate degree in nursing practice.

The CSU Board of Trustees is responsible for the oversight of the system. The board adopts rules, regulations, and policies governing the CSU. The board has authority over curricular development, use of property, development of facilities, and fiscal and human resources management. The 25-member Board of Trustees meets six times per year. Board meetings allow for communication among the trustees, chancellor, campus presidents, executive committee members of the statewide Academic Senate, representatives of the California State Student Association, and officers of the statewide Alumni Council. The trustees appoint the chancellor, who is the chief executive officer of the system, and the presidents, who are the chief executive officers of the respective campuses.

Issue 6: CSU Budget and Tuition

Panel

- Daniel Hanower, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Ryan Storm, California State University

Background

As noted in earlier in the agenda in “Issue 1: UC Budget and Tuition,” tuition and fees at UC and CSU tend to be volatile, with periods of flat tuition followed by sharp increases. The periods of flat tuition generally correspond to years in which the state experienced economic growth, whereas the periods of steep tuition increases generally correspond to periods when the state experienced a recession. During recessions, the state has often balanced its budget in part by reducing state funding for the segments. UC and CSU, in turn, increased tuition and fees to make up for the loss of state support. This was the case in the recent recession; between 2004 and 2013, tuition at UC and CSU more than doubled. However, as the economy recovered, this trend of divestment started to reverse. The passage of Proposition 30 and recent budget acts facilitated a renewed investment in public higher education. Since the passage of Proposition 30 in 2012, the state has funded a multiyear investment plan at UC and CSU.

After several years of flat tuition, CSU Board of Trustees voted in March 2017 on a five percent tuition increase, or \$270, for a total annual tuition price of \$5,742. The tuition increase took effect in fall 2017. This tuition increase generated about \$77.5 million in net revenue, after spending \$38 million on State University Grant (SUG) to students. This additional revenue was used to cover the Graduation Initiative 2025, described in later in the agenda.

In January 2018, the CSU Board of Trustees heard an item to increase tuition for resident undergraduates by \$228 (four percent) for a total tuition price of \$5,970. Tuition for nonresidents and resident graduate students would increase by six percent. The proposed tuition increase would generate about \$70 million in additional net revenue. The Board of Trustees is scheduled to vote on the tuition increase at its May meeting. The California Student Aid Commission notes that this tuition increase would increase costs for Cal Grants by \$23 million in 2018-19.

As noted previously, the Administration provided a multi-year budget framework to UC, providing annual four percent base increases. Under the Administration's framework, CSU received the same amount of base funding increase as UC.

Governor's Budget Proposal

The Governor's budget proposal provides a \$92.1 million unrestricted base increase to CSU. The budget does not assume a tuition increase. However, in the Governor's Budget Summary, the Governor expresses a desire for CSU to reduce its cost structure and to keep college affordable for all students. Additionally, the summary indicates the Governor's desire for CSU to use a portion of his proposed unrestricted base increase for the Graduation Initiative 2025.

CSU Budget Request

Whereas the Governor's budget includes a \$92 million increase over 2017-18 for the CSU, the CSU is requesting a \$283 million increase. This is \$191 million higher than the Governor's proposed level (CSU is formally requesting an increase \$171 million as it counts additional revenue of \$20 million from enrollment growth, which is not assumed in the Governor's budget). Of the \$283 million, CSU would like \$263 million to come from the state General Fund and \$20 million to come from higher tuition revenue resulting from one percent enrollment growth. As the LAO figure below shows, the largest single component of CSU's spending plan is \$122 million for faculty and staff compensation increases. CSU also is requesting funding for its Graduation Initiative, basic cost increases, enrollment growth, and capital outlay projects.

Governor's Budget Proposal	Dollars in millions
Unrestricted base increase (2.4 percent)	\$92.1
Pension adjustment	24.9
Retiree health benefits adjustment	20.3
Open educational resources a	1.7
Center for California Studies: This funding increase is for (1) \$100,000 in new General Fund support for the California Education Policy Fellowship Program (the program has been supported entirely by nonstate funding since it began in 2016-17); and (2) \$81,000 for a cost-of-living adjustment to executive, assembly and senate legislative, and judicial fellowship stipends.	0.2
Total	\$139.2
CSU Budget Request	
Compensation: The CSU system has 13 represented employee groups. CSU estimates this would fund a compensation pool for current, tentative and pending contracts, and new contracts open in 2018-19 and a 2.5 percent salary increase to non-represented employees.	\$122
Graduation Initiative	75
Basic and mandatory costs: These costs include increases for employee health (\$12 million), retirement benefits above the state-funded amount (\$11 million), state minimum wage increases (\$4 million), and operations and maintenance of newly constructed facilities (\$3.6 million).	31
Enrollment growth: For one percent or 3,641 FTES enrollment growth.	40
Facilities projects: This funding request is address critical infrastructure and utility renewal projects and facility renovation, as well as to fund limited capacity growth to serve new enrollment.	15
Total	\$283b
a Funding authorized pursuant to Chapter 633 of 2015 (AB 798, Bonilla). b Of this amount, CSU requests that \$263 million come from the state General Fund, with the remaining \$20 million generated by tuition revenues from one percent enrollment growth.	

Legislative Analyst's Office Comments. The Legislature faces key decisions each year regarding cost increases at CSU. Typically, the Legislature gives first priority to covering cost increases needed to maintain existing services. At the CSU, the largest of these costs relate to compensation and enrollment. After addressing these base issues, the Legislature then typically considers proposals for program expansions or new programs. After making decisions about which CSU cost increases to support, the Legislature has to decide how to cover those cost increases. In addition to state funding, student tuition constitutes an important source of funding for CSU. State General Fund and student tuition revenue each makes up roughly half of CSU's core operating budget. Absent an increase in student tuition revenue, this means that any increase in General Fund support results in an overall increase to CSU's core budget of about half that amount. For example, a three percent General Fund increase equates to about a 1.5 percent overall increase in CSU's core budget. Though the Legislature could choose to have the state bear the full effect of approved cost increases, it alternatively could consider sharing any cost increases about evenly between the state and non-financially needy students. The state provides full tuition coverage for financially needy students. Such an approach would recognize the notable public and private benefits of a CSU education.

Staff Comments. As noted earlier in the agenda, each year, around 40 percent of UC and CSU undergraduates take out loans, with an average annual loan amount of \$5,400 per borrower. Slightly more than half of UC and CSU students have loan debt at graduation, with debt at graduation averaging \$20,500. Student borrowing in California tends to be lower than in other states. For example, about 60 percent of students at four-year public universities nationally graduate with loan debt, with an average debt load upon graduation of \$27,300. Compared to the average fee level of similar public universities in other states, CSU's tend to be notably lower.

The Governor's budget summary notes that the Administration remains concerned about the impact of tuition increases on lower income students and families and believes more must be done to reduce the universities' cost structures. Further reforms should be implemented before the segments consider charging students more. The Administration has worked to reduce the overall cost structure of higher education through various initiatives.

At the January 2018 Board of Trustees meeting, an item regarding University Operational Effectiveness Initiatives was heard. The item describes various initiatives the CSU pursued to reduce costs while maintaining or improving the ability to deliver core educational services. Some of the initiatives started a few years ago and, according to CSU, have annually ongoing savings. For example CSU sponsored legislation that allows campuses to solicit project bids on a website and achieve savings that would have otherwise been spent on print advertising. This netted the CSU \$4.6 million cost reductions per year. Other initiatives appear to have yielded one-time savings. For example, the CSU bid out the systemwide data center this year and achieved savings of \$1.8 million per year over the next five years by utilizing a combination of physical data center and utilization of cloud services. CSU reported that these efficiencies have yielded a total of \$119.5 million in cost avoidance.

The subcommittee may wish to ask:

1. DOF: What initiatives or changes do you expect CSU to take to reduce its overall cost structure?

Staff Recommendation: Hold Open.

Issue 7: Enrollment, Admissions, and Impaction

Panel

- Daniel Hanower, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Nathan Evans, California State University

Background

The California Master Plan for Higher Education establishes student eligibility policies. For freshman eligibility, CSU is to draw from the top 33 percent, and for transfer students, CSU is to admit those with at least a 2.0 grade point average. Additionally, as a minimum, CSU requires high school students to complete A-G courses. As noted earlier, the 2015-16 budget provided \$1 million General Fund to the Office of Planning and Research to conduct an eligibility study of UC and CSU. The study found that 41 percent of public high school graduates met CSU's systemwide admission requirements in fall 2015. This proportion is notably higher than CSU's expected eligibility pool of 33 percent. It also is the highest proportion of graduates CSU has drawn from since the 1960s as the LAO figure shows below. Because CSU admission requirements have not changed since the last eligibility study in 2007, the increase since then is likely due to the greater share of high school graduates completing the AG series.

Recent Budget Acts. Historically, the state funded enrollment growth at CSU based on a marginal cost formula, and set enrollment targets annually. In 2017-18, CSU estimated its total marginal cost per student was \$10,649, with a state share of \$8,041. As noted previously, during the economic recession, the state did not include enrollment targets in order to provide CSU flexibility to manage state funding reductions. The 2015-16 budget resumed enrollment targets for CSU. In fact, the 2015-16 budget fully funded CSU's budget request of \$97 million General Fund above the Governor's proposal of \$119 million. The 2016-17 budget included budget bill intent language to increase enrollment by at least 10,400 FTEs, or three percent, by the end of fall 2016, when compared to 2014-15. Additionally, the 2016-17 Budget Act set an expectation for CSU to increase resident enrollment by 1.4 percent (an additional 5,194 FTE students) over 2015-16.

The 2017-18 Budget Act set an expectation for CSU to increase resident enrollment by 0.7 percent (an additional 2,487 FTE students) over 2016-17. Based on preliminary enrollment data, campuses are on track to exceed this target, with fall 2017 FTE student enrollment about 2.7 percent (10,600 FTE students) higher than the previous fall. The Chancellor's Office is attempting to identify the reasons why growth is coming in so much higher than budgeted.

Admissions and Impaction. California's Master Plan and current law do not specifically assign CSU a regional role within the state's public higher education system. Historically, though, CSU campuses—through their admissions policies and other practices—have tended to focus on enrolling students from surrounding areas. Over the past several years, however, a certain CSU enrollment management practice known as “program impaction” has weakened that regional role.

When demand exceeds available enrollment slots, CSU can declare “impaction.” CSU has two types of impaction—campus and program. Under campus impaction, all local students who meet systemwide eligibility requirements have priority admission to the campus. Nonlocal students, however, must meet

stricter supplemental criteria. When a campus declares program impactation, by contrast, all applicants must meet supplemental admissions criteria. In other words, impacted programs do not have a local admissions priority (though local students typically are awarded extra eligibility points to help make them more competitive).

Whereas for decades CSU only had one campus with all programs impacted (San Luis Obispo), today six campuses (Fresno, Fullerton, Long Beach, San Diego, San Jose, and San Luis Obispo) have declared all (or virtually all) of their programs to be impacted. Program impactation may boost prestige at the campuses (by admitting higher performing nonlocal students) but can make it difficult for eligible applicants—some of whom may be place bound due to family or other obligations—to attend their local campus.

Denied Eligible Applicants. The past several years CSU has reported denying admission to some freshman and transfer applicants due to campus and program impactation.

	Fall 2012	Fall 2013	Fall 2014	Fall 2015	Fall 2016	Fall 2017
Admitted	194,564	212,152	212,538	216,755	222,192	226,121
Denied Eligible Applicants	22,123	26,430	30,665	31,825	31,402	32,223

In 2017-18, CSU conducted an analysis of these qualified-but-denied students and found data in the National Student Clearinghouse that about 75 percent of qualified-but-denied students enrolled other higher education institutions. Specifically, about 57 percent appeared to be attending a California college: either a UC, private college, or a community college, and 18 percent enrolled in out of state institutions. CSU notes that about 25 percent of students cannot be found in national college databases, indicating these students had good enough grades and test scores to attend CSU but may not be attending college. (CSU notes, however, that not all colleges report their attendance to a national clearinghouse, so it is possible that some of these students have enrolled in college.) CSU also notes in 2016, about 60 percent, or 19,000 of the 31,402 qualified students denied admission applied to only one CSU campus, and may have therefore been seeking admission to a specific, selective program or location. CSU notes that 6,748 students denied admission to CSU applied only to San Luis Obispo, and 5,479 students applied only to San Diego State. These are generally considered to be among the most selective CSU campuses, with highly-impacted programs. CSU assumes similar trends in 2017. It is not clear how many of these qualified-but-denied students are local area students.

Currently, CSU only automatically redirects applicants who have an associate degree for transfer, as required by statute. To address these issues, the 2017-18 Budget Act contained provisional language directing the Board of Trustees (BOT) to adopt a new systemwide policy that requires campuses to provide first priority for impacted programs to local students meeting minimum systemwide qualifications. The BOT also must develop a policy to automatically redirect applications to non-impacted campuses if a student is denied admission to an impacted program or campus. Both of these policies must be adopted by May 2018. In January 2018, Chancellor's Office staff presented draft proposals for both new policies. The Trustees are scheduled to vote on final policies at its March 2018 meeting.

Under the draft policy, students who are not accepted at any of the campuses or programs to which they applied would be given an opportunity to select two non-impacted campuses or programs to have their applications redirected. Upon receiving these alternative choices from a student, CSU would automatically transmit the application, and would be guaranteed admissions to one of the two choices. The draft policy is similar to CSU's current policy for applicants with an associate degree for transfers who are redirected.

For admissions prioritization for local students, the draft policy would not provide first priority to local applicants with minimum systemwide qualifications. Instead, the proposal requires every impacted program to provide some kind of admissions advantage to local students, which already is the current policy for most impacted programs. Under this draft policy, local students still would be subjected to supplemental admissions criteria. CSU notes that first priority means a finite admission advantage for local applicants and at a minimum would include meaningful weighting of grade point averages or eligibility index that gives admission preference to local CSU-eligible undergraduate applicants over non-local applicants. CSU notes that this would help create some type of statewide standard and transparency over the admissions process.

Governor's Budget Proposal. The Governor does not have a proposal to increase enrollment at CSU.

Legislative Analyst's Office Comments. The LAO believes the Chancellor's Office's draft policy on admissions prioritization for local students falls notably short of legislative intent, and recommends the Legislature signal to the Chancellor's Office that the draft admission policy for local students is unacceptable. The LAO recommends the Legislature direct CSU to draft a new policy that is consistent with the provisional language in the 2017-18 Budget Act. If the Legislature finds that the subsequent draft also fails to meet legislative intent, LAO recommends the Legislature it specify in statute the new policy that campuses must follow.

Staff Comments. As noted in the previous issue, CSU's budget request includes an additional \$40 million to increase enrollment by one percent or approximately 3,600 FTES. CSU officials suggest that lack of funding is the biggest reason why thousands of qualified students are being turned away, as they would not be able to support additional course sections or student services. However, staff notes that when the Legislature fully funded the CSU's budget request in 2015-16, the CSU reported minimal changes in the number of qualified-but-denied students. Additionally, CSU previously indicated that CSU lacks capacity to increase enrollment. CSU reports addressing this issue in several ways, including a revamped application system that warns students that they are applying to an impacted campus or program, and provide suggestions for other CSU campuses and programs that may have more room. Additionally, the CSU's proposed redirection policy may provide access to some CSU denied eligible applicants. CSU's goal is to attract around 1,000 students through this new policy.

The subcommittee may wish to ask:

1. CSU: Currently, CSU has a redirection policy in place for Associate Degree for Transfer Applicants. Please describe how this policy has been working, what are some lessons learned or best practices that can be utilized for the freshman policy?

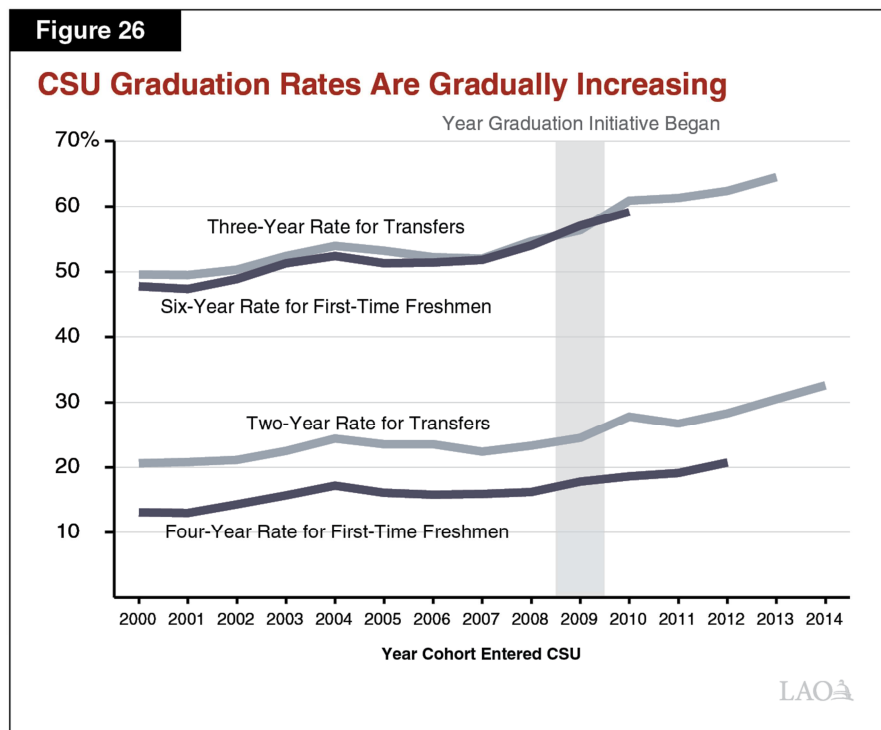
Staff Recommendation: Hold open

Issue 8: Graduation Rates**Panel**

- Daniel Hanower, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Nathan Evans, California State University

Background

Historically, CSU's six year graduation rates for incoming freshmen have been below 50 percent and its four year rates have been below 15 percent. To address its low graduation rates, CSU launched the Graduation Initiative in 2009. CSU has set a goal to increase six and four year graduation rates for first-time freshmen to 70 percent and 40 percent, respectively, by 2025. The Graduation Initiative also seeks to increase graduation rates for transfer students. In addition, CSU has a goal to eliminate differences in graduation rates for several groups of students, including those who are low-income and first generation. Double digit achievement gaps, however, persist at CSU. The LAO figure below displays the CSU's graduation rates trends since 2000.



CSU provided the following information regarding its graduation rates for various cohorts. As shown in the chart below, four-year graduation rates for first time freshman have steadily increased. For example the four year graduation rate increased from 15.8 percent from the 2006 cohort, to about 23 percent for the 2013 cohort.

Cohort	4- year graduation rate	5- year graduation rate	6-year graduation rate
2006	15.8 percent	40.5 percent	51.4 percent
2010	18.6 percent	46.8 percent	59.1 percent
2011	19.1 percent	47.3 percent	59.2 percent
2012	20 percent	50 percent	N/A
2013	22.6 percent	N/A	N/A

Although CSU reports that graduation rates are improving, achievement gaps by race/ ethnicity, and socioeconomic status still persist. The chart below displays graduation rates by race/ethnicity for the fall 2006 cohort compared to subsequent cohorts. For example, 22.5 percent of white students from the 2006 graduated in four years, compared to just 8.3 percent of black students, and 10.4 percent of Hispanic students. This is an achievement gap of about 14.3 percent, and 12.1 percent. For the 2013 cohort, 35.6 percent of white students graduated in four years, compared to 12.5 percent of black students, and 16.1 percent of Hispanic students. This is an achievement gap of about 23.1 percent and 19.5 percent.

	White	Asian/ Pacific Islander	Black	Hispanic
4- Graduation Rates				
2006 Cohort	22.5 percent	12.6 percent	8.3 percent	10.4 percent
2010 Cohort	29.2 percent	14.7 percent	8.7 percent	12.1 percent
2011 Cohort	30.5 percent	16.6 percent	9 percent	12.4 percent
2012 Cohort	32.7 percent	18.1 percent	11.9 percent	14.4 percent
2013 Cohort	35.6 percent	21.3 percent	12.5 percent	16.1 percent
6 – Year Graduation Rates				
2006 Cohort	58.4 percent	53.4 percent	34.7 percent	44.6 percent
2010 Cohort	66.5 percent	63 percent	43.6 percent	53.4 percent
2011 Cohort	67 percent	64.6 percent	43.3 percent	53.6 percent
2012 Cohort	N/A	N/A	N/A	N/A
2013 Cohort	N/A	N/A	N/A	N/A

Moreover, previous information from CSU also indicates a double digit difference between students who receive the Pell Grant versus those who do not, and it appears that the achievement gap between these students has not improved. For example, the four year graduation rate achievement gap for the 2006 cohort between Pell Grant and non-Pell Grant students was 8.4 percent; however, the achievement gap for the 2013 cohort is 15.1 percent.

	Pell Grant	Non-Pell Grant
4 – Year Graduation Rates		
2006 Cohort	10 percent	18.4 percent
2010 Cohort	11.8 percent	24 percent
2011 Cohort	11.9 percent	25.5 percent
2012 Cohort	13.7 percent	27.4 percent
2013 Cohort	15.3 percent	30.4 percent
6 – Year Graduation Rates		
2006 Cohort	44.2 percent	53.5 percent
2010 Cohort	54.6 percent	63.5 percent
2011 Cohort	53.8 percent	64.9 percent
2012 Cohort	N/A	N/A
2013 Cohort	N/A	N/A

Recent Budget Acts. According to the LAO, the CSU is designating \$123 million in ongoing funding to implement the Graduation Initiative. The 2015-16 budget act fully funded the CSU’s budget request, which included \$38 million for the Graduation Initiative. Furthermore, the 2016-17 budget included \$35 million one-time for CSU to address its graduation rates, and required CSU develop a plan to improve four-year and two-year graduation rates for freshman and transfer students, respectively, and close gaps in graduation rates for three groups of students: those who are (1) low-income, (2) underrepresented minorities, and (3) first-generation college-goers. The 2016-17 budget also provides \$1.1 million ongoing to support a network of working groups comprised of staff and employees. The purpose of the network is to investigate the underlying causes of low graduation rates at CSU. The Education Insights Center, located at the Sacramento campus, administers this funding.

The 2017-18 budget provided \$12.5 million General Fund one time for the Graduation Initiative. Additionally, the CSU used the revenue from its 2017-18 tuition increase (\$75 million) to fund the initiative. While the Chancellor’s Office gives campuses flexibility on how to spend this funding, the main use of the funding has been to hire more faculty and advisors to expand course offerings and support services. In a January 2018 report to the Legislature, the Chancellor’s Office estimates that campuses have added about 400 new tenure track faculty and more than 1,000 lecturers in the current year using Graduation Initiative funds. These new hires have enabled the system to offer more than 3,200 additional course sections in 2017-18. CSU also expects to add about 230 academic advisors in 2017-18, with the goal of reducing campuses’ student to advisor ratios.

CSU Revising Assessment and Remedial Policies for Incoming Freshmen. Historically, CSU has relied heavily on placement tests to assess students’ college readiness. In recent years, the Legislature has expressed concern with this practice, citing national research that suggests placement tests routinely place students in remedial math and English classes when they could have succeeded in collegelevel coursework. A growing amount of research is finding that a better way to assess college readiness is to use multiple measures (including data from students’ high school records). To promote reform at CSU, the 2017-18 Budget Act includes provisional language requiring the Trustees to adopt by May 2018 new assessment policies that include placing “significant weight” on incoming students’ high school grades in math and English. In August 2017, the Chancellor issued an executive order that requires campuses to discontinue using CSU’s math and English placement tests and instead rely on

high school grades and other data (such as Smarter Balanced assessment results and SAT scores) to place students. In addition, the executive order limits the number of remedial (non-credit-bearing) units that academically underprepared students may be required to take and requires campuses to provide students with academic support (such as targeted tutoring).

CSU Identifies Opportunities to Reduce Excess Unit Taking. Students who accrue more units than their degree requires generally take longer to graduate, generate higher costs for the state and themselves, and crowd out other students. Data indicate, however, that CSU continues to have a problem with excess unit taking by both freshman entrants and transfer students. In response, the *2017-18 Budget Act* included provisional language requiring CSU to report on opportunities for campuses to make available more course slots by reducing the number of excess units that students earn. In a January 2018 report to the Legislature, the Chancellor's Office calculated that if every CSU graduate reduced their excess units by one unit, CSU could free up 1,333 additional course sections. Using this calculation, reducing excess unit taking by half (an average of about 10 semester units per graduate) would be the equivalent of freeing up more than 10,000 course sections—representing about 30,000 FTE students and \$250 million in General Fund support for the system. The Chancellor's Office report cites various ways to reduce excess unit taking, including more technology enhanced advising (known as “eAdvising” tools). Additionally, the CSU is also in the process of revising major requirements by placing a 120 unit cap for graduation.

Governor's Budget Proposal

The Governor's budget summary indicates the Governor's desire for CSU to use a portion of its proposed unrestricted base increase of \$92 million for the Graduation Initiative 2025.

Legislative Analyst's Office

CSU Could Increase Cross Campus Online Enrollment. CSU notes that expanding online education can help achieve its Graduation Initiative targets. Online education—which can make course taking more convenient for students while minimizing demands on classroom space—is offered by all but one campus (the Maritime Academy). Another potential benefit of online education is that students can find and get credit for courses offered at other campuses, which can speed their time to graduation. CSU data indicate, however, that very few students currently enroll in online courses at other campuses. This is due in large part to students being unaware that the option exists, as well as CSU's development of an online course catalog that is very difficult for students to use. Were CSU to streamline the process by which students find, enroll in, and transfer credits back to their home campus, campuses could improve students' access to needed coursework and reduce their time to degree.

Recommend CSU Pursue Efficiency Opportunities Before Legislature Further Augments Graduation Initiative. Despite some improvement in CSU's graduation rates, the LAO believes CSU has significant opportunities to improve efficiencies and more strategically allocate existing resources. In particular, LAO believes CSU could do more to reduce excess unit taking and free up thousands of course sections. Additionally, campuses could focus greater efforts on ensuring their various student success strategies are integrated into a coherent and comprehensive plan. Given these opportunities for further reform and given the many other competing cost pressures facing CSU in the budget year, the

Legislature may wish to place a lower priority on providing additional funding for the Graduation Initiative in 2018-19.

CSU Study Finds Several Potential Areas for Improvement at Campuses. In August 2017, the CSU Student Success Network—a state funded systemwide initiative facilitated by the Education Insights Center at CSU Sacramento—released a report on campuses’ plans and efforts to improve student success. The study notes that campuses are implementing a broad set of programs and practices as part of the Graduation Initiative (including encouraging students to attend fulltime, requiring new students to attend orientation and advising sessions, and increasing internships and on campus employment). The study finds, however, that campuses generally lack a systematic approach to integrating these efforts into a cohesive plan. The report also found that campuses generally are in the beginning phases of scaling reform efforts to reach larger numbers of students. Campuses also generally are beginning to think more about allocating existing resources in smarter, more strategic ways (such as consolidating programs or activities).

Staff Comments

Improving graduation rates is a shared goal of the Legislature, CSU and the Administration. The revised graduation goals of CSU are laudable. As noted above, CSU has designated \$123 million in ongoing funds from state support and tuition revenue to support the Graduation Initiative. Additionally, the state has also invested \$49 million in one-time funds to support the Graduation Initiative. CSU anticipates needing an additional \$75 million annually over the next six years, for a total of \$450 million ongoing to support the Graduation Initiative. As shown in the previous charts and figures, graduation rates at the CSU have improved overtime, however more work needs to be done.

The subcommittee may wish to ask:

1. CSU: Please describe why achievement gaps still persists for Pell Grant eligible, and underrepresented minority students?
2. CSU: What is the most impactful investment, reform, and practice that has helped improve the CSU graduation rate?
3. DOF: How should CSU adjust their budget to fund the Graduation Initiative? What else can the CSU do to improve graduation rates?

Staff Recommendation. Hold open

Issue 9: Capital Outlay Facilities

Panel

- Sally Lukenbill, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Elvyra San Juan, California State University

Background

Historically, the state has sold bonds and paid the associated debt service to fund CSU's capital outlay program for academic buildings. As noted earlier in the agenda, beginning in 2014-15, the state shifted funds for existing debt service on CSU capital outlay projects from a separate budget item to the university's main General Fund support appropriation. In addition, the state granted CSU the authority to pledge its General Fund appropriation to issue its own bonds to build academic facilities. The university is permitted to repay the associated debt service from its General Fund appropriation. The new process limits the university to spending a maximum of 12 percent of its main General Fund appropriation on debt service and pay-as-you-go academic facility projects. As of January 2017 (the most recent year for which CSU has submitted data to the Legislature), CSU was spending 6.7 percent of its main General Fund appropriation for these purposes.

Historically, the state reviewed and approved specific CSU capital outlay projects in the annual budget act. Under the new process, CSU submits a list of capital projects to the DOF for approval. CSU must continue to submit written documentation to the Legislature—commonly referred to as “capital outlay budget change proposals”—that provides detailed information on each project request (including a description of the proposed project, what problem the project is intended to address, the proposed phases to be funded in the budget year and future years, estimated costs and proposed funding sources, and alternatives that CSU considered). Legislative budget subcommittees have an opportunity to review the projects and, by April 1 of each year, signal to the Administration whether to approve or reject projects. DOF must make final project approval decisions by April 1. DOF submitted its preliminary approval capital outlay letter to the Legislature on March 5, 2018. The letter provides preliminary approval for five projects described in the chart on the following page.

CSU Capital Outlay Projects
(Dollars in millions)

Campus	Project	2018-19 State Costs ^b	All Years State Costs ^b	Total Cost
Tier 1 Priorities				
Systemwide ^c	<u>Infrastructure improvements</u> : For projects related to building systems modernization (plumbing, mechanical and electrical), replacement of chillers, boilers, and HVAC systems, energy management upgrades, and Americans with Disabilities Act upgrades.	\$17.3	\$17.3	TB D
San Luis Obispo	<u>New science and agriculture teaching and research complex (P,W,C,E)</u> : The new facility will include undergraduate and graduate student research labs, lecture space, student interaction space, and faculty offices.	10	10	101. 8
Sonoma	<u>Stevenson Hall renovation and addition (S,P,W,C)</u> : The renovation will correct deficiencies and modernize instructional spaces. This new facility will include space to support the needs of the School of Social Sciences, Education, Business and Economics and Administrative Leadership.	93.2	96.3	99.4
East Bay	<u>Library replacement building (W,C,E)</u> : This will address seismic deficiencies, upgrade fire and life safety systems, and building system renewals. The project will also renovate the existing library to isolate the unoccupied wing of the building from the east wing, thereby keeping the previously upgrade east wing functional. The overall facility is currently rated a seismic level VI.	79	81.4	90.4
Pomona	<u>Administration replacement building (E)</u> : This will fund the equipment phase of the project. Previous phases were funding in the 2013 budget act as well as campus reserves.	1.4	77.9 ^d	79.3
Subtotals		\$201	\$283	\$37 1

^aCSU proposes to fund Tier 1 priorities using \$13 million in freed-up existing funds and Tier 2 priorities only if it receives an additional \$15 million General Fund augmentation.

^bCovered using CSU systemwide revenue bonds, unless otherwise indicated. Reflects amounts as stated in CSU's 2018-19 proposals to the Legislature, which in some cases are inconsistent with other CSU documentation.

^cCSU proposes to finance a package of systemwide infrastructure improvements totaling \$67.3 million in 2018-19. Of this amount, \$17.3 million would be funded under Tier 1 and \$50 million under Tier 2.

^dConsists of \$26.6 from lease revenue bonds and \$51.3 from systemwide revenue bonds.

^eThe Chancellor's Office has indicated that it may only proceed with preliminary plans for this project in 2018-19 but has not made a final decision.

P = preliminary plans; W = working drawings; C = construction; E = equipment; S = study; and TBD = to be determined.

CSU Budget Request

In addition to the above projects, CSU's budget request, as noted in "Issue 6," includes an additional \$15 million for facilities. These are considered as "tier two priorities," and would only be funded if CSU receives the additional \$15 million. The LAO chart below provides additional information about the projects.

Campus	Project	2018-19 State Costs ^a	All Years State Costs ^a	Total Cost
Tier 2 Priorities				
San Bernardino	Theater building renovation and addition (P,W,C)	TBD ^c	\$97.9	\$111.1
Northridge	New Sierra Annex building (P,W,C)	TBD ^c	91.1	100
San Luis Obispo	Kennedy Library renovation and addition (P,W,C,E)	50	51.3	55
Channel Islands	Gateway Hall renovation (S,P,W,C,E)	38.8	39	42
Maritime Academy	Mayo Hall renovation and addition (S,P,W,C)	17.6	17.6	18.3
Subtotals		\$225^b	\$296.8	\$326.6
^a Covered using CSU systemwide revenue bonds, unless otherwise indicated. Reflects amounts as stated in CSU's 2018-19 proposals to the Legislature, which in some cases are inconsistent with other CSU documentation. ^b CSU proposes to finance a package of systemwide infrastructure improvements totaling \$67.3 million in 2018-19. Of this amount, \$17.3 million would be funded under Tier 1 and \$50 million under Tier 2. ^c The Chancellor's Office has indicated that it may only proceed with preliminary plans for this project in 2018-19 but has not made a final decision. P = preliminary plans; W = working drawings; C = construction; E = equipment; S = study; and TBD = to be determined.				

Legislative Analyst's Office Comments

Overall, Project Proposals Submitted to the Legislature Have Serious Deficiencies. LAO reviewed the five 2018-19 capital outlay budget change proposals that CSU would support using \$13 million in base funds as well as the five proposals that CSU has indicated it would fund only if it received an associated \$15 million state General Fund augmentation. The LAO has four significant concerns with the package of proposals: (1) some proposals provide virtually no documentation, (2) proposals for facility additions or new buildings generally lack data or other information justifying the need for additional space, (3) some of the requests are for previously approved projects that—with little or no explanation—reappear on CSU's 2018-19 capital outlay list with scope changes and significantly higher costs, and (4) several proposals are unclear on costs or contain fiscal and other errors. The LAO describes various the various projects and comments below.

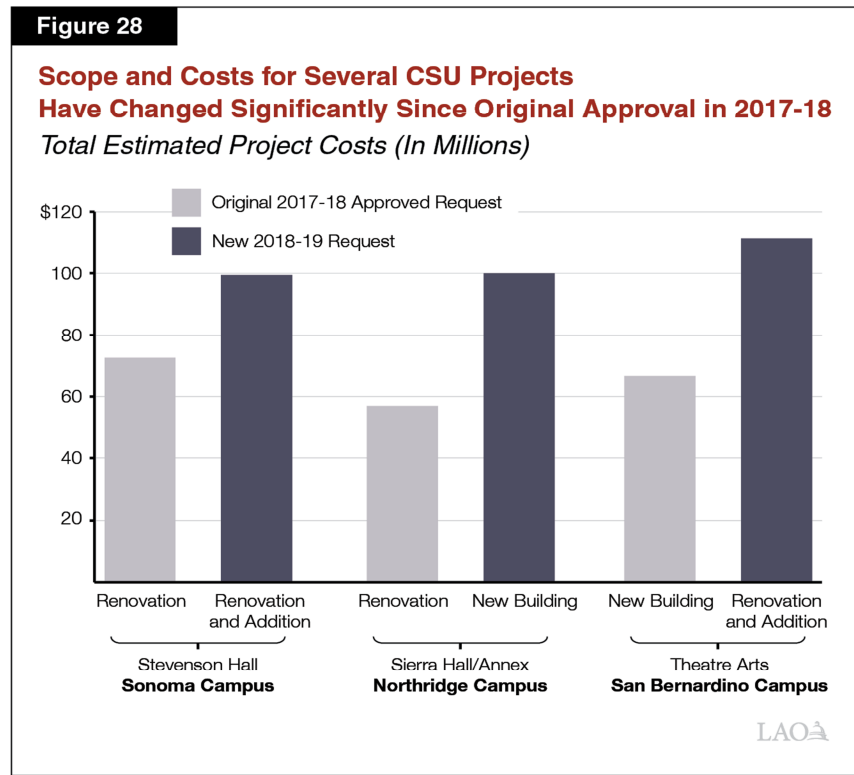
Pomona Administrative Replacement Building. CSU requests authority to use systemwide revenue bonds to purchase equipment for the Pomona campus' administrative replacement building. The proposal, however, does not provide a justification as to why new equipment is needed for a replacement building. Moreover, the LAO requested from CSU the list of equipment proposed for this project, along with an itemized breakout of costs. CSU has not provided the list to the LAO. Without this information, it is difficult to review whether the equipment request is reasonable.

San Luis Obispo Science and Agriculture Teaching and Research Facility, and Kennedy Library. The proposal for San Luis Obispo's science and agriculture teaching and research complex indicates that the new facility would provide undergraduate and graduate student research labs, faculty offices, student "interaction space," and lecture space to accommodate 336 FTE students. The proposal does not include, however, information on what specific size and type of lecture space would be constructed (such as classrooms or large lecture halls), what current utilization rates are for those learning spaces, and why additional faculty offices are needed. Without this data, it is difficult to evaluate the need for this project. Similarly, San Luis Obispo's Kennedy Library renovation and addition project indicates it would add 566 FTE students in lecture space without providing any further detail.

Maritime Academy Capital Outlay Proposal. Maritime Academy's full proposal for the Mayo Hall renovation and addition project consists of a mere five sentence summary description and estimated costs for each project phase. The proposal fails to provide standard information such as why the project is needed, how the project would further the campus' programmatic goals, and what alternatives (including their associated costs) were considered.

Previously Approved Capital Projects Reappear on CSU's 2018-19 Priority List With Scope Changes and Significantly Higher Costs. Five projects on CSU's 2018-19 list were approved by the state as part of the 2017-18 budget process, but CSU opted not to fund them in the current year. The Chancellor's Office has re-submitted these projects for approval in 2018-19. The LAO figure on the following page shows that for three of these projects, the proposed scope has changed and total estimated costs are now significantly higher than what the state approved in 2017-18.

Northridge Sierra Hall. The Northridge campus' 2017-18 proposal for Sierra Hall identifies a renovation—with an estimated cost of \$57 million—as "the most cost effective and least disruptive to the University operations and physical environment." It is unclear why CSU has returned in 2018-19—just months after the state approved the 2017-18 renovation project—with a significantly different project proposal (a new building) at a significantly higher cost (\$100 million). The proposals generally lack an explanation as to why the projects have changed so significantly in such a short period of time.



East Bay Library. In 2017-18, the state approved CSU’s request for East Bay to use campus funds for preliminary plans on its library project. CSU’s 2018-19 proposal, however, states that systemwide revenue bonds paid for East Bay’s preliminary plans. The Chancellor’s Office has been unable to clear up these discrepancies for the LAO.

San Bernardino Theatre Renovation. In the “Alternatives” section of San Bernardino’s 2018-19 theater arts proposal, the proposal appears to prefer a less expensive alternative (a new theater facility that, the proposal states, would “keep the budget to the \$60 million range”). Yet, the proposal ends up recommending a \$111 million renovation and addition project. The justification for this preferred solution remains unknown, however, because that section of the proposal is incomplete. In addition, cost related information conflicts on certain proposals, which creates further unnecessary confusion for the Legislature in reviewing these proposals. For example, the same San Bernardino proposal states that \$6 million in future costs for equipment will be covered by campus funds. CSU’s 2018-19 capital outlay program, which the Trustees approved in November 2018, however, states that statewide revenue bonds will pay for the equipment.

Recommend Legislature Direct CSU to Resubmit Proposals. The LAO recommends the Legislature direct CSU to rewrite and resubmit its 2018-19 project requests by early March. Should CSU fail to provide an acceptable and compelling set of new proposals in time, the LAO recommends the Legislature remove \$13 million from CSU’s base budget and redirect the funds for other legislative priorities.

Recommend Legislature Direct CSU to Include Standard Information in All Future Proposals. Going forward, the LAO recommends the Legislature signal to CSU the importance of submitting complete and accurate project proposals. Each future proposal should provide standard

information, including (1) a clear statement of the problem, (2) pros and cons of alternative approaches that were considered (including at least one project involving lower costs), (3) an explanation of why the recommended project is superior to the other available alternatives, (4) any known risks involved with the project, and (5) how the proposed project is linked to CSU's programmatic needs and the state's priorities. Renovation project proposals also should specify the deficiencies in the existing building, identify what led to these deficiencies, and state why such deficiencies need to be addressed now. In addition, if a proposal requests authority to add space, it should include what specific type of space is required (and how much space by type) as well as current and projected utilization rates and how those rates compare to legislative standards. In addition, such proposals should include a description of possible strategies the campus could instead use to reduce demand or need for a new facility, including expanding hybrid or fully online courses or increasing facility usage during the summer.

Staff Comments

In general, proposals lack standard documentation and adequate justification, the little information that is contained in them tends to be unclear and contain errors. This makes reviewing these proposals difficult. Staff shares the concerns of the LAO regarding the lack of information and transparency in the capital outlay requests, particularly given this change in capital outlay authority and oversight. Moreover, the CSU is requesting additional funding for facilities, however the issues as outlined above make it difficult for staff to evaluate the proposals and requests.

Additionally, the Legislature received the preliminary approval letter from DOF later than expected. It is staff's understanding that the CSU recently submitted updated capital outlay budget change proposals last week, and is working on providing the Administration with additional information. DOF has committed to extending the final deadline for final approval no earlier than May 1, 2018 to provide the Legislature and the LAO additional time to review.

Staff Recommendation: Hold Open.