LAO

The 2021-22 Budget: **Various CSU Proposals**

MARCH 2021

In this post, we cover four California State University (CSU) proposals. In the first section, we analyze the Governor's proposal to provide enrollment growth funding for CSU Stanislaus's off-campus center at Stockton. In the second section, we analyze the Governor's proposal to provide one-time funding for the Computing Talent Initiative (CTI) based at CSU Monterey Bay. In the third section, we analyze proposed trailer bill language that would allow CSU to transfer funds among certain accounts. In the fourth section, we analyze the proposal to postpone the potential suspension of state-funded summer financial aid at the universities.

Stockton Center

In this section, we focus on CSU Stanislaus's off-campus center at Stockton. We first provide background, then discuss the Governor's proposal to fund enrollment growth at the center, analyze that proposal, and make an associated recommendation.

Background

CSU Stanislaus Maintains Off-Campus Center in Stockton. The Stockton center is located about 45 miles away from the main campus at Stanislaus. It offers upper-division undergraduate coursework in selected fields (including business, criminal justice, psychology, and liberal studies), as well as a small number of graduate programs. It enrolled 291 state-supported full-time equivalent (FTE) students in 2019-20, making it among the smaller of CSU's eight off-campus centers. (The center also enrolls a smaller number of self-supported students in extension courses.) The Stockton center's current facilities have capacity for 1,069 FTE students. Like other centers, the Stockton center's operations are funded through the main campus's budget allocation.

State Recently Funded New Campus Study With Focus on Five Areas, Including San Joaquin County. The *2019-20 Budget Act* provided $4 million to the CSU Chancellor's Office to assess demand for a potential new campus in one of five specified areas: San Joaquin County (including Stockton), Chula Vista, Concord, Palm Desert, and San Mateo County. The Chancellor's Office contracted with a team of independent consultants on the study, which was released in July 2020. The study concluded that projected enrollment demand did not justify a new campus in any of the five areas, as the existing CSU campuses have sufficient capacity under their master plans to accommodate projected growth. However, the existing campuses would need additional funding to reach their planned capacity. The study does not directly evaluate which existing campuses or centers to prioritize for facility or enrollment growth funds.

Proposal

Governor Proposes $1 Million Ongoing for Enrollment Growth at Stockton Center. The Governor's proposal would fund an additional 115 FTE students at the Stockton center. The provisional language does not specify when the center is to meet the target. The $1 million augmentation is based on the traditional marginal cost formula, of which the state General Fund component is $8,586 per FTE student in 2021-22. The administration indicates this proposal is intended to address growing demand for an educated workforce in the San Joaquin region. It further indicates that the proposal aligns with the Governor's overarching goals related to equity and access in higher education. Specifically, the Governor's proposal is intended to expand educational access in an area that has many low-income and underrepresented residents and is not within close proximity to the main campus of a public university. In contrast to the administration's focus in previous years on developing a new campus in Stockton, this proposal is intended to utilize existing facility capacity at the Stockton center. Aside from this targeted proposal, the Governor's budget does not fund systemwide enrollment growth at CSU, nor does it set a systemwide enrollment target for CSU.

Assessment

Proposal Departs From State's Typical Approach of Funding Enrollment Growth. Typically, the state provides enrollment growth funding to CSU systemwide. The Chancellor's Office, in turn, allocates these funds across the 23 campuses based on multiple factors, including recent enrollment trends and potential for growth. Campus leaders have discretion over how to divide their allocations between their main campus and any off-campus centers.

State Has Not Established Prioritization Criteria for Targeted Growth Funding. If the Legislature desired to adopt a different enrollment growth approach that allocated funds directly to campuses or off-campus centers, it would want to have a systematic way of identifying which locations to prioritize for funding. Having transparent, rational allocation criteria would help ensure that growth decisions were not arbitrary. In deciding how to allocate state funds for enrollment growth, the Legislature could consider various factors, including regional enrollment demand, workforce demand, and certain demographic factors. These are the same types of factors that the July 2020 new campus study examined. Using these types of criteria, it is not clear that San Joaquin County would be the highest priority for growth funds. Based on the new campus study, San Joaquin County scores relatively high on some criteria, including the ability to serve first-generation students. However, it scores relatively low on other criteria, including regional enrollment demand and regional workforce demand.

Center Would Have Limited Opportunity to Meet Growth Target in 2021-22. The Stockton center's strategic plan (which was last updated in 2019) includes a goal to increase the center's enrollment by 25 percent annually over a five-year period, subject to available funding. The plan suggests this goal could be achieved through comprehensive marketing, as well as strengthening relationships with educational partners and other local stakeholders. An increase of 115 FTE students represents roughly 40 percent growth. We think there would be limited opportunity to meet this target in 2021-22, the year the funds would be provided. First, the center would likely need to implement substantial changes to its recruitment and admissions strategy to achieve such rapid growth. Second, by the time the state budget is finalized in June, admissions and potentially course scheduling decisions will have already been made for fall 2021.

Recommendation

Recommend More Systematic Approach to Funding Enrollment Growth. Given the above considerations, we recommend rejecting the Governor's proposal to fund enrollment growth at the Stockton center in 2021-22. If the Legislature wishes to move toward funding enrollment on a more targeted basis, it could work with the administration and CSU to identify a set of factors to use in prioritizing campuses and centers for growth in future years. In the meantime, we recommend the Legislature set a systemwide enrollment target for CSU in 2022-23, as we discuss in *The 2021-22 Budget: Analyst's of the Major University Proposals*.

Computing Talent Initiative

In this section, we focus on a computer science initiative based at CSU Monterey Bay. We first provide background, then discuss the Governor's proposal to fund the initiative, analyze that proposal, and make an associated recommendation.

Background

Monterey Bay Has Local Partnership in Computer Science. In 2013, CSU Monterey Bay and Hartnell College (a local community college) created an accelerated, three-year bachelor's degree program in computer science. Students in the program complete about half of their coursework at each institution. The program's cohort-based model is intended to create a learning community, with students involved in workshops, study sessions, and industry mentorships. In 2015, the two institutions jointly received a $5 million one-time state award through the Innovation in Higher Education initiative for having created the program. CSU Monterey Bay has also launched a similar four-year, cohort-based program for students entering as freshmen. To date, these programs have enrolled more than 400 students across 15 cohorts. About three-quarters of these students have been underrepresented minorities, and about one-third have been female. The programs report a four-year graduation rate of 69 percent, much higher than CSU's systemwide four-year graduation rate of 31 percent for freshmen.

Certain Program Components Have Been Expanded to Other Locations. In 2018, the program team at CSU Monterey Bay and Hartnell College replicated their cohort-based bachelor's degree program at CSU Dominguez Hills and El Camino College, with support from a National Science Foundation grant awarded to the four institutions. More recently, the program team has also started to make certain workshops originally developed for the on-campus, cohort-based program available online to computer science students at community colleges and universities statewide.

Proposal

Governor Proposes $10 Million One Time for CTI. This initiative would build upon the existing computer science program and activities based at CSU Monterey Bay and Hartnell College. The goal of the initiative would be to strengthen the state's technology workforce pipeline, with an emphasis on increasing diversity within the industry. The administration indicates the initiative was selected for funding because of its alignment with the Governor's focus on equity.

Funds Would Support CTI Activities Across a Five-Year Period. Budget bill language does not specify how the proposed $10 million is to be spent or across what time period the funds are available. However, CSU has provided us with a preliminary five-year expenditure plan developed by the CTI program team, as detailed below.

- ***Demonstration Sites ($2 Million to $3 Million).*** A portion of the funds would be used to bring components of the cohort-based bachelor's degree program in computer science to additional demonstration sites. The program team intends to select at least five sites from various geographic areas of the state, with priority for sites that involve a community college partner and serve a high concentration of low-income, first-generation, and underrepresented students.
- ***Statewide Activities, Including Online Hub ($2 Million to $3 Million).*** Another portion of the funds would support statewide activities. These activities would include the development and operations of an online hub for computer science students, faculty, and industry representatives. The hub would provide resources and enable collaboration on activities such as mentorship, internship and job placement, and curriculum development. The activities also would include data collection on higher education computer science programs, with the goal of informing decisions about how to address challenges in the state's technology workforce pipeline.

- ***Financial Aid (Remaining Funds).*** The remaining funds would support student scholarships and stipends.

Based on information the administration provided to us from the program team, CTI is expected to enroll a total of 500 to 2,000 students at the new demonstration sites over the five-year period, and reach potentially tens of thousands of students through the online hub. The program team intends to explore several potential funding sources to cover the ongoing costs of the initiative, including private funds from the technology industry and core operations funds at demonstration sites.

Assessment

Important to Weigh Proposal Against State's Other One-Time Priorities. In considering the Governor's smaller one-time proposals for 2021-22, the Legislature likely will want to weigh the benefits of funding these various initiatives against the benefits of using the funds for a few strategic purposes. In *The 2021-22 Budget: California's Fiscal Outlook*, released last November, we recommended using one-time funds for two key purposes: restoring budget resilience and mitigating the adverse effects of the pandemic. The Governor's CTI proposal is not tightly linked to either of these purposes. While the pandemic has highlighted attention on the technology industry, a bachelor's degree program does not provide immediate employment benefits, in contrast to the short-term workforce training programs typically used to respond economic downturns.

Proposal Would Likely Have Minor Impact on State's Equity Goals. Although the Governor's CTI proposal would expand the reach of the existing program at CSU Monterey Bay and Hartnell College, the scale of the proposed initiative remains small relative to the state's higher education system. In addition to targeted proposals such as this one, the Governor's budget contains broader strategies to increase equity, including an expectation that all three public higher education segments reduce student equity gaps as a condition of receiving base increases in 2021-22. (We cover this expectation in *The 2021-22 Budget: Analysis of the Major University Proposals*.) Compared with specific one-time initiatives, these broader strategies are likely to have a larger and more long-lasting impact, allowing for more systemic progress toward the state's equity objectives.

Proposal Could Create Ongoing Cost Pressures. Based on CTI's preliminary expenditure plan, most of the proposed $10 million would support costs that are ongoing in nature, including program operations and student aid. Although the intent is to seek funding from private industry and other sources, it remains to be seen whether such sources would provide sufficient funding to sustain CTI activities beyond the initial five-year period. This creates a potential risk that the program may require future General Fund support if it is to have an ongoing impact.

Proposal Does Not Contain Provisions for Legislative Oversight. Although CTI includes a data collection component intended to help measure progress toward its objectives, the proposed budget bill language does not contain a requirement to report any of this data to the Legislature. Having a reporting requirement is key to helping the Legislature understand whether the initiative is having its intended impact. Program reporting could also help inform the Legislature's decisions about whether to fund similar initiatives in the future.

Recommendation

Consider Redirecting Funds Toward Other One-Time Priorities. Given the above considerations, the Legislature may wish to reject the Governor's CTI proposal and redirect the associated funds toward other one-time priorities, including restoring budget resilience and mitigating the effects of the pandemic. If the Legislature wishes instead to pursue this proposal, it could request that the administration and CTI program team provide a financial sustainability plan this spring that provides further detail, including potential ongoing funding sources and amounts beyond the initial five-year funding period. A financial sustainability plan could inform the Legislature's decision as to whether providing initial state funding could have long-lasting effects. Were the Legislature to provide funding for this initiative, we encourage it to modify the Governor's proposal to improve oversight. Specifically, the Legislature could include a requirement that the program submit annual reports during the initial five-year period that contain key information, including how the funds were being spent; the types of programming and student support provided; the number of students participating; and their retention, graduation, and job placement rates, as this data becomes available.

Use of Restricted Funds

In this section, we focus on a trailer bill proposal that would allow CSU to transfer funds among certain accounts. We first provide background on current restrictions on how CSU may use its funds, then discuss the Governor's proposal to provide greater flexibility during the pandemic, analyze that proposal, and make an associated recommendation.

Background

CSU Maintains Separate Accounts for Certain Programs. Campuses have a core operating account that supports their academic programs. Campuses maintain separate accounts for their noncore programs (also known as "enterprise programs"), including housing, parking, continuing education, student body centers, and health facilities. These noncore programs are self-supporting, with user fees set to cover associated costs. Consistent with this financing principle, under current law, noncore revenues generally must remain within the associated program. For example, parking fee revenues support parking expenses, and housing fee revenues support housing expenses. (State law makes an exception for debt service on university bonds, explicitly authorizing CSU to pledge revenues across its accounts.)

State Law Authorizes Internal Borrowing Across CSU Accounts. State law explicitly authorizes CSU to borrow funds from one of its accounts for another account. For example, the housing program at a given campus could borrow from the continuing education program. However, the loan must be repaid with interest by the time funds are needed for expenditure within the original account. The need for repayment creates a future cost pressure for the program that borrows the funds. CSU indicates programs do not borrow internally under normal circumstances, as accounts typically have sufficient revenues to cover their expenses.

CSU's Noncore Programs Have Experienced Significant Revenue Losses Over Past Year. Due to the pandemic, noncore programs such as housing and parking are operating at reduced capacity, resulting in significant revenue losses. Based on a fall 2020 campus survey, CSU estimates that its revenue losses total $689 million from March through December 2020. CSU is addressing a portion of these revenue losses using federal funds for institutional relief, which total $854 million to date. (These federal relief funds also can be used to cover extraordinary costs associated with the pandemic, such as higher technology costs resulting from more online instruction. We cover federal relief in our recent post.) Despite operating at reduced capacity, noncore programs still have some continued expenses, such as employee compensation and service contracts.

Proposal

Governor Proposes to Remove Restrictions on CSU's Accounts. The proposed trailer bill language would allow CSU to transfer funds across accounts, or use funds in any account for any purpose, regardless of existing statutory restrictions. This flexibility is intended to mitigate the effects of the pandemic, remaining operative through June 30, 2023. The flexibility generally applies to core and noncore funds. However, the proposed language explicitly excludes tuition revenue (the main source of balances in the core operating account) and lottery revenue. In contrast to current law, funds transferred under the proposed language would not need to be repaid. The proposed language would require any transferred funds to first be used to mitigate impacts to programs that predominately support underrepresented students, expand online education, or provide for continued employment. (The administration suggests that supporting noncore programs such as housing and parking could meet the first of these criteria.)

CSU Might Use Flexibility to Cover Operating Costs in Noncore Programs. The CSU Chancellor's Office indicates that, if campuses were to use the proposed flexibility, they would most likely transfer funds to noncore programs that have experienced significant revenue losses during the pandemic. The funds would be used to cover these programs' operating costs, potentially including employee compensation.

Assessment

Strong Rationale Needed to Remove Current Restrictions. Under current law, the restrictions on the use of CSU's noncore funds reflect that these programs are supported by user fees. That is, the students (and sometimes staff and faculty) who use the programs pay for them. For example, a student enrolled in a continuing education course pays a fee for that course, a student who commutes to campus by car pays a parking fee, and a student who is housed in a dormitory pays a housing fee. By extension, the students who do not use these programs are not charged for them. In all these cases, transferring fee revenue among accounts runs contrary to the users' expectations at the time their fees were paid. Transferring funds without repayment also could have a negative impact on the account from which the funds are taken, as those funds could otherwise have been used for future activities such as program development.

Noncore Programs Have Existing Options to Cover Operating Costs. Although the pandemic presents extraordinary circumstances for CSU's noncore programs, campuses have several existing options to continue covering program costs. First, campuses could use federal relief funds. As noted above, the first two rounds of institutional relief funds have totaled $854 million—an amount exceeding CSU's estimated $689 million in revenue losses through December 2020. Depending on current negotiations, the federal government could possibly provide an even larger third round of institutional relief in the coming months. Second, campuses could draw on their noncore reserves, which totaled $1.1 billion at the end of the 2019-20 fiscal year. Although a portion of these reserves have been committed for planned activities, these funds could be repurposed until the associated programs regain their fiscal footing. (We provide further detail on university reserves in our recent post.) Third, if a campus is unable to cover costs in a given program using federal relief funds and campus reserves, it could use the internal borrowing option authorized under current law. Given that CSU has announced plans to return to largely in-person instruction in fall 2021, we expect noncore program revenues to begin recovering in 2021-22 (though the amount of time it takes these programs to return to full capacity remains uncertain).

More Information Needed on Added Benefits of Proposed Flexibility. The main difference between the internal borrowing option authorized under current law and the Governor's proposed flexibility is that the latter would not require that transferred funds be repaid. This potentially benefits some future program users, but it does so potentially at the expense of other program users. For example, if the housing program were to borrow from continuing education under current law, future students using CSU housing could potentially see their housing fees increase during the repayment period. In contrast, were the funds transferred without repayment, future students using CSU housing could potentially see smaller increases in their housing fees, but the continuing education program would have fewer funds than otherwise—funds, for example, that might have been used for research on better understanding student demand for certain continuing education courses. The CSU Chancellor's Office indicates that the amount and duration of such fee increases are not known at this time. To date, CSU campuses have not needed to borrow internally, and CSU does not know how much campuses would use the proposed flexibility to transfer (rather than borrow) funds. Without this information, it is difficult for the Legislature to assess the impacts of the proposal.

Recommendation

Withhold Action Pending Receipt of Additional Information. Given the considerations above, we recommend the Legislature direct the administration and CSU to provide additional information estimating how much campuses would likely use the proposed flexibility, as well as the associated amount of future fee increases that would likely be avoided as a result. This information would allow the Legislature to weigh the benefits of the proposal against the drawbacks of using funds for purposes other than originally intended. If the administration and CSU cannot provide this information in the spring, the Legislature may wish to reject the proposal in light of those drawbacks. (The administration proposes similar trailer bill language for the University of California [UC] and California Community Colleges, but neither of these segments has expressed particular interest to us in this flexibility. Were the Legislature to consider the language for these other segments, we recommend it direct the administration and those segments to provide comparable information as that requested of CSU.)

Summer Financial Aid

In this section, we focus on financial aid for the summer term at CSU and UC. (We include UC in this section, as the Governor's proposal in this area applies similarly to both segments.) We first provide background on the state's recent funding for summer financial aid at CSU and UC, then discuss the Governor's proposal to postpone the potential suspension of this funding, and make associated recommendations.

State Provided Funding for New Summer Financial Aid Grants, Subject to Suspension. The *2019-20 Budget Act* and *2020-21 Budget Act* each provided $6 million to CSU and $4 million to UC for new summer financial aid grants. Under the associated budget bill language, CSU and UC could provide summer-term grants to students eligible for state financial aid. In both budget acts, this funding (and more than a dozen other items across the state budget) is subject to potential suspension on December 31, 2021. Specifically, when submitting the May Revision later this year, the Department of Finance is to compare estimated General Fund revenues to expenditures in 2021-22 and 2022-23. Unless revenues exceed expenditures in both years by at least the total cost of all suspension items, then all these items are to be automatically suspended.

Governor Proposes to Postpone Suspension Calculation by One Year. The Governor's budget proposes to continue funding summer financial aid at CSU and UC, as well as the other suspension items, for 2021-22. It postpones the suspension calculation for all items by one year—to the May Revision for 2022-23. At that point, unless estimated General Fund revenues exceed expenditures in 2022-23 and 2023-24 by at least the total cost of the suspension items, then these items are to be automatically suspended on December 31, 2022.

Recommend Eliminating Suspension Language. In *The 2021-22 Budget: The Governor's Suspension Proposal*, we raise several concerns regarding the Governor's broader approach to suspensions across the state budget. Although the suspension items are treated as temporary spending, they tend to support programs that are ongoing in nature. Treating them as temporary therefore understates the true ongoing cost of the state's policy commitments. Moreover, the potential suspensions create uncertainty for program providers and recipients, making planning and implementation more difficult. For these reasons, we recommend the Legislature eliminate the suspension language. As an alternative to using the Governor's proposed suspension calculation, the Legislature could instead decide whether to fund the suspension items based on the merits of each item.

Recommend Reevaluating Summer Financial Aid Funding. Whereas many of the other suspension items in the state budget are tied to longstanding programs with well-developed underlying policies, the summer financial aid funds at CSU and UC were provided for the first time only two years ago and had limited policy development. Summer financial aid grants at CSU and UC could potentially support several laudable policy objectives, including increasing aid for students with financial need, reducing students' time to degree, and improving utilization of campus facilities during the summer. However, current law does not identify any of these objectives for the summer financial aid funds. Moreover, no statutory rules guide grant size, coverage, or student prioritization. We recommend the Legislature fundamentally reevaluate whether to continue this funding, taking into consideration its merits, other financial aid programs, and the state's projected operating deficit. If the Legislature chooses to fund summer financial aid grants at CSU and UC on an ongoing basis, we recommend it adopt statute to define clear policy objectives for the new program, establish program rules that align with those objectives, and identify ways to measure progress toward those objectives over time.

LAO Publications

This report was prepared by Lisa Qing, and reviewed by Jennifer Pacella and Anthony Simbol. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.