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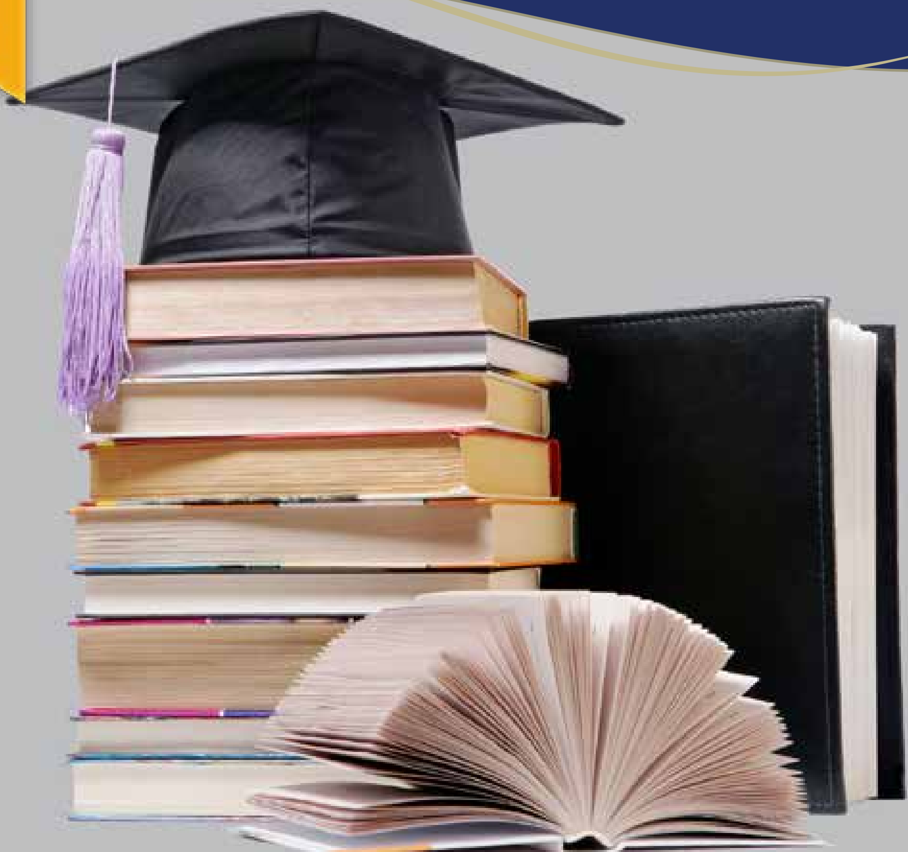
## The 2016-17 Budget:

# Higher Education Analysis



MAC TAYLOR • LEGISLATIVE ANALYST • FEBRUARY 2016

LAO

# TABLE OF CONTENTS

# EXECUTIVE SUMMARY

## Overview

***Under Governor's Budget, Total Funding for Higher Education Reaches $48.2 Billion.*** Accounting for funds from all sources, the Governor's budget includes $48.2 billion for higher education in 2016-17, an increase of $1.4 billion (3 percent) from the revised 2015-16 level. This funding primarily supports the University of California (UC), the California State University (CSU), the California Community Colleges (CCC) and the California Student Aid Commission. Though many fund sources help support higher education, the main fund sources for undergraduate and graduate education are state General Fund, student tuition revenue, and, at CCC, local property tax revenue. These fund sources for UC, CSU, and CCC combined grow from $20.7 billion in 2015-16 to $21.6 billion in 2016-17, an increase of $916 million (4 percent). The Governor assumes tuition charges for resident students at each segment remain flat.

***Governor's Budget Contains a Few Proposals for UC and CSU, Many for CCC.*** The Governor's budget increases state General Fund for UC and CSU each from $3.3 billion to $3.5 billion. These proposed increases include ongoing unrestricted base increases for UC ($125 million, 4 percent) and CSU ($148 million, 5 percent), one-time funding of $171 million for paying down a portion of UC's unfunded pension liability, and one-time funding of $35 million each for UC and CSU deferred maintenance. For CCC, the Governor's budget increases Proposition 98 funding to $8.3 billion, an increase of $262 million (3 percent) from the revised current-year level. The Governor's budget increases CCC apportionments by $115 million to fund 2 percent enrollment growth and augments various categorical programs, most notably, providing $200 million for a new program to expand access to career technical education (CTE) and $30 million to revamp the existing Basic Skills Initiative. The Governor provides $290 million for CCC deferred maintenance and instructional support.

## Key Messages

***Recommend Linking UC and CSU Funding Increases With Legislative Priorities.*** Under the Governor's budget, UC and CSU would have significant discretion over their ongoing budget augmentations. We recommend the Legislature review the expenditure plans that UC and CSU have developed to determine if they conform with legislative priorities. We further recommend the Legislature designate funding in the state budget for areas it deems high priorities.

***Recommend Legislature Continue Enrollment-Based Budgeting.*** The Governor's budget does not set enrollment targets for UC and CSU. Though the state has been inconsistent in recent years in setting enrollment targets, it set targets last year. In doing so, it took a new approach by setting expectations for one year after the budget year. This was an effort to better align state budget decisions with UC's and CSU's admission decisions. We recommend the Legislature use the same approach in crafting this year's budget. Specifically, if the Legislature desires to fund enrollment growth, we recommend it (1) set a target for 2017-18 and (2) schedule any associated enrollment funding for 2017-18 in this year's trailer legislation. For CCC, we believe the proposed enrollment growth rate is somewhat high given recent enrollment trends. We recommend the Legislature revisit the issue in May, at which time it will have updated information about current-year enrollment.

***Recommend Modifying CCC Workforce Proposals.*** We recommend the Legislature create a new workforce program, as the Governor proposes, but better structure it to address the high costs of certain CTE programs. Under the modified program, CCC would have ongoing funding streams for (1) equipment and other one-time costs and (2) programs with exceptionally high ongoing costs (typically due to faculty and class-size requirements). We also recommend the Legislature fold into this new program an existing supplemental funding program for nursing education and any CCC projects the Legislature desires to maintain from the CTE Pathways Program. In addition, we recommend consolidating planning processes so that colleges are not required to create parallel regional plans for adult education, CTE, and other workforce-related programs.

***Recommend Learning From Efforts Now Underway Before Augmenting Basic Skills Initiative.*** We believe the Governor's proposed augmentation is premature. Last year, the state funded two new grant programs intended to improve basic skills practices. The state required evaluations of both programs, with the results of the evaluations due in a few years. We recommend the Legislature learn more about the outcomes of these programs before augmenting the Basic Skills Initiative. In 2016-17, the Legislature could redirect the proposed funding to allow more colleges to participate in one of the two grant programs created last year or use the funds for other one-time priorities.

***Recommend Working With Segments to Improve Budgeting of Maintenance.*** For decades, the state has had difficulty getting clear, reliable information about each segment's annual maintenance spending and maintenance backlog. Given this longstanding challenge, coupled with the size and complexity of the segments' capital programs, we believe the Legislature should begin exploring new ways of budgeting for maintenance. The Legislature could work with the segments to develop reasonable estimates of the amount of annual spending required to keep their backlogs from growing. Once it has made reasonable estimates of these amounts, the Legislature could consider earmarking funding in the annual budget. In tandem with developing these earmarks, the state could work with the segments to develop plans for eliminating their existing maintenance backlogs. These plans should identify funding sources and propose a multiyear schedule of payments. Once reasonable plans have been developed, the Legislature could consider including them in trailer legislation. Given their backlogs are substantial, developing these plans likely would take time, such that if the Legislature were to begin this work now it could help inform next year's budget.

***Recommend Directing UC and CSU to Provide More Information About Some of Their Proposals at Spring Budget Hearings.*** We recommend that UC provide additional information on its plans for (1) changing its pension benefits, (2) expanding graduate enrollment, and (3) providing general purpose monies to campuses to boost academic quality. We also recommend the Legislature direct CSU to provide additional information at spring budget hearings on its plans for student success initiatives and capital outlay.

# INTRODUCTION

In this report, we analyze the Governor's proposed budget for higher education. We begin by providing background on three areas of higher education: enrollment, tuition and financial aid, and performance. In the next five sections, we analyze the Governor's budget proposals for (1) the University of California (UC), (2) the California State University (CSU), (3) the California Community Colleges (CCC), (4) Hastings College of the Law, and (5) the California Student Aid Commission (CSAC). In each of these sections, we provide relevant background, describe the proposals, provide an assessment, and make recommendations. The final section consists of a summary of the recommendations we make throughout the report. Various additional higher education budget tables not included in this report may be accessed from the Education page of our website.

# HIGHER EDUCATION IN CONTEXT

This section provides background on key aspects of the state's higher education system. We begin with an overview of the state's public and private institutions. Next, we present information on public higher education enrollment, tuition and financial aid, and institutional and student performance. In cases where data is available, we provide perspective on how California's public higher education system compares to other states. Throughout this section, we cite the most recent data available from government sources. In some cases, particularly for national comparison data, the most recent data may be several years old.

## Overview of Higher Education

***Higher Education in California Delivered by Public and Private Institutions.*** The *Master Plan for Higher Education in California* sets forth the missions of the state's three public segments. In addition to public higher education, California has a private sector consisting of many nonprofit and for-profit colleges and universities. Figure 1 (see next page) provides basic information about each segment and sector.

***Key Issues in Higher Education in California.*** The state in recent years has focused primarily on three main areas of higher education: access, affordability, and performance. The state's longstanding interest in access is to ensure that its residents have the opportunity to attend higher education. The state also has had a longstanding interest in ensuring that higher education is affordable for those residents choosing to attend. In more recent years, the state has taken a heightened interest in a number of performance measures, including whether students complete their studies on time. The remainder of this section addresses each of these areas by providing context on enrollment, tuition and financial aid, and performance in California's public higher education system.

## Enrollment

Below, we discuss higher education eligibility policies, enrollment demand, enrollment funding, enrollment trends, and nonresident enrollment.

### Eligibility Policies

***1960 Master Plan Differentiates Among the Three Segments.*** The state's Master Plan establishes different eligibility requirements for each of the three higher education segments. Under the

Master Plan, any student may enroll in the CCC system. The CCC system has the broadest level of access both because it (1) has the broadest mission (including vocational training leading to certificates and credentials, adult education, and instruction leading to associate degrees and transfer) and (2) is the least expensive per student. In contrast, both university systems set admission criteria because (1) their missions are more narrowly focused on undergraduate and graduate education and (2) they are more expensive per student. Between the university systems, UC has the most rigorous admission criteria and the highest cost. Though the Master Plan does not explicitly assign areas of service to each of the three systems, the state typically views UC as a statewide system, CSU as a regional system, and CCC as a system of local campuses. (The state did not include Hastings in the Master Plan, nor has the state otherwise specified an eligibility policy for Hastings.)

***All Adult Californians May Attend Community Colleges.*** The CCC system is known as an "open access" system because it is available to all Californians 18 years or older. The CCC system has no admission criteria, such as grades or previous course-taking, to screen out or select certain students. (While CCC does not deny admission to students, it also does not guarantee access to particular classes and some classes may set prerequisites.)

***Master Plan Sets Freshman Eligibility Pools at UC and CSU.*** The Master Plan calls for UC to draw its incoming freshman class from the top 12.5 percent (one-eighth) of public high school graduates. It calls for CSU to draw its applicant pool from the top 33 percent (one-third) of public high school graduates. The Master Plan allows the universities to admit resident private high school graduates and nonresident students if these applicants meet similar academic standards as eligible public high school graduates.

***Universities Supposed to Align Admission Policies With Freshman Eligibility Pools.*** Both UC and CSU require freshman applicants to complete a set of high school coursework known as "A through G" (A-G) that includes English, history,

**Figure 1**

**Higher Education in California**

*2015-16*

**California Community Colleges**
72 districts
113 colleges
1.2 million FTE students
$9.2 billion total funding

**California State University**
23 campuses
394,000 FTE students
$8.7 billion total funding

**University of California**
10 campuses
5 medical centers
3 national labs
254,000 FTE students
$28 billion total funding

**Hastings College of the Law**
1 campus
909 FTE students
$62 million total funding

**Private Nonprofit Sector**
178 institutions
306,700 FTE students
$253 million Cal Grant funding

**Private For-Profit Sector**
1,071 institutions
319,900 FTE students
$21 million Cal Grant funding

FTE = full-time equivalent.

math, and science courses. These coursework requirements are intended to help prepare students for college-level work. In 2013-14, 42 percent of public high school graduates had successfully completed A-G coursework. In addition to completing A-G coursework, UC and CSU have other admission criteria, including requiring certain test scores and grade point averages (GPAs), they use to select students from within their respective eligibility pools. (UC and CSU also admit some freshmen who do not meet these criteria. The Master Plan calls for UC and CSU to limit such special admissions to no more than 2 percent of all freshman admissions.)

***Available Evidence Suggests UC and CSU Drawing From Beyond Their Freshman Eligibility Pools.*** For fall 2014, UC and CSU admitted 13 percent and 30 percent, respectively, of public high school graduates as freshmen. Had CSU also admitted an additional 17,500 freshman applicants who met CSU's admission criteria but whom the university system turned away, it would have admitted 34 percent of all public high school graduates. Because not all public high school students within the eligibility pools apply to UC or CSU, and many only apply to UC or CSU but not both, the universities currently are drawing from even larger pools of students.

***State Currently Conducting Freshman Eligibility Study to Obtain Better Data.*** Over the last several decades, the state has conducted studies periodically to determine the proportion of public high school graduates eligible for admission to UC and CSU as freshmen. As part of these studies, UC and CSU admission counselors examined a sample of public high school transcripts and determined the number of students the universities would have admitted had all students applied. Chapter 324 of 2015 (SB 103, Committee on Budget) directs the Office of Planning and Research to complete such a study by December 1, 2016.

***Master Plan Establishes Minimum Qualifications for Students Transferring to UC and CSU.*** The Master Plan calls for UC and CSU to accept qualified transfer students who complete 60 units of transferrable credit at a community college and meet minimum GPA requirements (2.4 for UC and 2.0 for CSU). The Master Plan also calls on UC and CSU to maintain at least 60 percent of their total enrollment as upper-division to allow room for transfer students (who typically transfer as juniors). To achieve this target, the universities typically aim to admit one transfer student for every two freshmen. Though not part of the Master Plan, recent legislation—Chapter 428 of 2010 (SB 1440, Padilla)—also requires CSU to accept applicants who earn "associate degrees for transfer" from the community colleges.

***For Fall 2014, UC Admitting All Eligible Transfer Students, CSU Denying Admission to 13 Percent.*** Unlike for freshmen, the universities themselves are able to track whether they are admitting all eligible transfer students. This is because the Master Plan sets the minimum admission standards for transfer students, rather than establishing an eligibility pool as for freshmen. UC has been admitting all eligible transfer students for many years. CSU has not been admitting all eligible transfer students the past few years. It asserts that part of the reason it recently has been unable to accommodate all eligible transfer students is due to inadequate state funding.

***Master Plan Does Not Include Eligibility Criteria for Graduate Students.*** Instead, the Master Plan calls for the universities to consider graduate enrollment in light of workforce needs, such as for college professors and physicians.

***Master Plan Eligibility Policies Last Reviewed in 2010.*** Over the last several decades, the Legislature has periodically revisited the Master Plan's provisions, doing so most recently in 2010. To date, the Legislature has not modified any of the original Master Plan eligibility policies. In recent years, however, the Legislature has taken an interest in access to particular campuses at UC, even though the Master Plan establishes eligibility on a systemwide basis.

### Enrollment Demand

***Demographic Changes Affect Enrollment Demand.*** Other factors being equal, an increase in the number of California public high school graduates causes a proportionate increase in the number of students eligible to enter UC and CSU as freshmen. Similarly, increases in the state's traditional college-age population (18- to 24-year olds) generally correspond with increases in UC and CSU eligible students. In 2013-14, more than 90 percent of UC undergraduates and about 80 percent of CSU undergraduates were in this age group. The CCC system enrolls students from a broader age range, with 57 percent of its students being under the age of 24. Its enrollment is affected by changes in both the college-age population and the overall adult population in California.

***College Participation Rates Another Factor in Enrollment Demand.*** For any subgroup (for example, the traditional college-age group), the percentage of individuals who are enrolled in college is that subgroup's college participation rate. Other factors remaining constant, if participation rates increase (or decrease), then enrollment demand increases (or decreases). Participation rates can change due to a number of factors, including student fee levels, availability of financial aid, state and institutional efforts to promote college going, and the availability and attractiveness of other postsecondary and employment options.

***College Participation in California Higher Than National Average.*** The federal Department of Education estimates that 46 percent of 18- to 24-year olds in California were enrolled in postsecondary education in 2013. This participation rate is higher than all but ten states and three percentage points higher than the national average of 43 percent. Compared to other states, California has a higher percentage of its undergraduate enrollment in two-year institutions. In California, 60 percent of all undergraduates attend two-year institutions—a higher share than all but two other states (Illinois and Wyoming) and 14 percentage points higher than the national average of 46 percent.

***For Community Colleges, Economy Affects Enrollment Demand.*** Though changes in the state's college-age population affect community college enrollment demand, CCC enrollment demand is also affected by various other factors. For example, CCC enrollment demand tends to be tightly linked with economic conditions. In particular, demand for CCC's workforce and career technical education courses tends to rise during economic downturns (when more people tend to be out of work) and fall during economic recoveries (when job opportunities are better).

***Enrollment Demand Varies by Campus.*** Student demand can vary greatly by campus. For instance, at UC, the Berkeley and Los Angeles campuses receive the most applicants and are the most selective. In fall 2015, the two campuses admitted 19 percent and 16 percent of California resident freshman applicants, respectively. By contrast, the least selective UC campus (Merced) admitted 62 percent. Differences in enrollment demand also exist at CSU and CCC.

### Enrollment Funding

***State Traditionally Sets Enrollment Target for Each Segment.*** Under the traditional approach to funding enrollment, the state first considers the various factors discussed above and sets an enrollment target for each segment. Over the past few decades, the state typically has set one overall enrollment target for each segment rather than separate targets for undergraduate and graduate students. If the state increases a segment's overall enrollment target, then the state decides how much associated funding to provide for enrollment growth. (As an exception to these practices, the state traditionally has not provided enrollment funding to Hastings. Instead, the state provides unallocated base increases and gives discretion to the school in setting its enrollment level.)

***UC and CSU Enrollment Growth Traditionally Funded Based on Marginal Cost Formula.*** In the case of the universities, the state for decades funded enrollment growth based on the estimated cost of admitting one additional student. The state used a formula to calculate this "marginal cost." 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 marginal cost formula was based on the cost of all enrollment (undergraduate and graduate students and all academic disciplines excluding health sciences). The state provided each system 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.

***In Recent Years, State Has Not Consistently and Clearly Linked Funding to Enrollment Growth for UC and CSU.*** As shown in Figure 2, the state did not set enrollment targets for UC and CSU in four of the nine years between 2007-08 and 2014-15. The state first omitted enrollment targets in the 2008-09 budget, when it entered the most recent recession and reduced base funding for UC and CSU. The purpose was 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 effect, the targets these two years largely were symbolic. In 2013-14 and 2014-15, the state again chose not to include enrollment targets in the budget, primarily due to concerns the Governor had raised regarding enrollment-based

**Figure 2**

**State Has Not Been Setting University Enrollment Targets on a Consistent Basis**

*Resident Full-Time Equivalent Students*

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|---|
| **UC** | | | | | | | | | |
| Enrollment target | 198,455 | None | None | 209,977 | 209,977[a] | 209,977[a] | None | None | None[b] |
| Actual enrollment | 203,906 | 210,558 | 213,589 | 214,692 | 213,763 | 211,212 | 209,867 | 212,002 | 210,669 |
| Percent change[c] | | 3.3% | 1.4% | 0.5% | -0.4% | -1.2% | -0.6% | 1.0% | -0.6% |
| **CSU** | | | | | | | | | |
| Enrollment target | 342,553 | None | None | 339,873 | 331,716[a] | 331,716[a] | None | None | None[d] |
| Actual enrollment | 353,915 | 357,223 | 340,289 | 328,155 | 341,280 | 343,227 | 351,955 | 359,679 | 371,217 |
| Percent change[c] | | 0.9% | -4.7% | -3.6% | 4.0% | 0.6% | 2.5% | 2.2% | 3.2% |

[a] State budget did not require the universities to return money if they fell short of this target.

[b] The 2015-16 budget directs UC to add 5,000 undergraduate students by the 2016-17 academic year, as compared to the number enrolled in 2014-15. The budget provides $25 million to UC if it meets this expectation.

[c] Reflects percent change in actual enrollment.

[d] The 2015-16 budget directs CSU to add 10,000 full-time equivalent students by the end of fall 2016, as compared to the number enrolled in 2014-15. The budget does not identify a specific dollar amount for enrollment growth, but it fully funds CSU's budget request, which assumed this level of growth.

funding. (The Governor argued it distracts from a focus on institutional and student outcomes.)

***New Approach Taken Last Year.*** In 2015-16, the state resumed connecting funding to enrollment but took a different approach than it had in the past. Specifically, the state set enrollment targets in the 2015-16 budget but allowed each system until 2016-17 to meet the target. The state took this approach in recognition of the fact that by the time the state budget was being finalized in June 2015, UC and CSU had already largely determined their enrollments for fall 2015. The state also deviated from its traditional approach by specifying that the target for UC was for undergraduate students only.

***State Continues to Link Funding to Enrollment Growth for CCC.*** The budget annually sets an enrollment target for CCC. State law requires that the system's annual budget request for enrollment growth be based, at minimum, on changes in the adult population and excess unemployment (defined as an unemployment rate higher than 5 percent). The CCC also may request enrollment growth to cover "unfunded" (or over-cap) enrollment. The Governor and Legislature do not have to approve enrollment growth at the requested level. Their decisions tend to reflect the state's budget condition—increasing the enrollment target when revenue increases (and the Proposition 98 guarantee rises) and reducing it when revenue falls. This approach often works counter to economic conditions and student demand. That is, unemployment tends to rise during recessions, stimulating enrollment demand, yet recessions likely mean a tighter state budget and fewer, if any, funds available for enrollment growth.

## Enrollment Trends

***UC Enrollment Relatively Flat in Recent Years.*** As shown in Figure 2, enrollment at UC over the past few years has increased or decreased by less than one percentage point each year. Looking over a somewhat longer period, enrollment in 2015-16 is expected to be 3.3 percent higher than it was in 2007-08 (prior to the start of the last recession), but 1.9 percent lower than in 2010-11 (when enrollment at UC peaked). We estimate the 18- to 24-year old population has grown by roughly 3 percent from 2007-08—around the same rate of change as UC enrollment.

***CSU Enrollment Increasing Moderately in Recent Years.*** Enrollment at CSU has increased by 2 to 3 percentage points over the last few years. Enrollment in 2015-16 is expected to be at an all-time high (4.9 percent above the 2007-08 level). During the recession, enrollment decreased more notably at CSU than at UC, as CSU chose to reduce enrollment in order to manage state funding reductions. Since 2007-08, enrollment at CSU has grown faster than the 18- to 24-year-old population.

***CCC Enrollment Has Fluctuated Notably This Economic Cycle.*** Beginning in 2007-08, CCC enrollment surged. While the state provided enrollment growth funds in both 2007-08 and 2008-09, student demand outpaced growth in funding, resulting in actual enrollment exceeding funded enrollment. In 2009-10, a particularly difficult budget year, the state reduced enrollment funding but actual CCC enrollment remained about the same. At the trough of the recession, actual CCC enrollment exceeded funded enrollment by about 95,000 full-time equivalent (FTE) students. As the state continued to reduce CCC funding, community college districts eventually responded by reducing their course offerings. Actual enrollment began to drop, presumably less from a drop in student demand and more from a lack of funding. By the end of 2012-13, actual enrollment was 12 percent (123,000 FTE students) below its 2008-09 peak. Since 2012-13, the state's fiscal situation has improved, with the state funding enrollment growth in each of the past three years. With greater funding have come greater course offerings. Student demand, however, appears to be weakening, with many community college districts indicating difficulty in meeting their current funded enrollment targets.

***Hastings Has Sharply Curtailed Enrollment.*** Juris Doctor (JD) enrollment at Hastings reached a high point in 2009-10 at 1,179 FTE students. Enrollment has declined to an estimated 778 FTE students in 2015-16—a drop of 34 percent from the peak. Hastings indicates the decline was a strategic move intended to (1) address slackening workforce demand for attorneys and (2) increase the academic qualifications of its student body.

***Enrollment in California Has Grown More Slowly Than in Other States.*** Enrollment at California public institutions has grown more slowly since the start of the most recent recession compared to other states. Specifically, public higher education FTE enrollment in California grew 2.2 percent from 2007-08 through 2013-14, while the average growth across other states was 11 percent. Growth was slower in California for both four-year institutions and community colleges. Various factors might explain why public higher education enrollment in California has grown more slowly than in most other states, including differences in demographic growth and changes in state funding levels. Some enrollment in California also appears to have shifted to private sector institutions, as private sector FTE enrollment grew by 34 percent between 2007-08 and 2013-14.

***Funding Per Student Has Increased in Recent Years.*** Per-student funding has increased at each segment the past few years. From 2012-13 through 2015-16, per-student funding increased by 27 percent at CCC, 16 percent at UC, and 13 percent at CSU. Inflation generally was quite low during this period—running at 1 to 2 percent annually. As a result, even after adjusting for inflation, funding per FTE student increased 22 percent at CCC, 11 percent at UC, and 9 percent at CSU. (Comparing these per-student funding figures back to 2007-08 is not possible due to certain changes in the way the state accounts for university expenditures.)

### Nonresident Enrollment

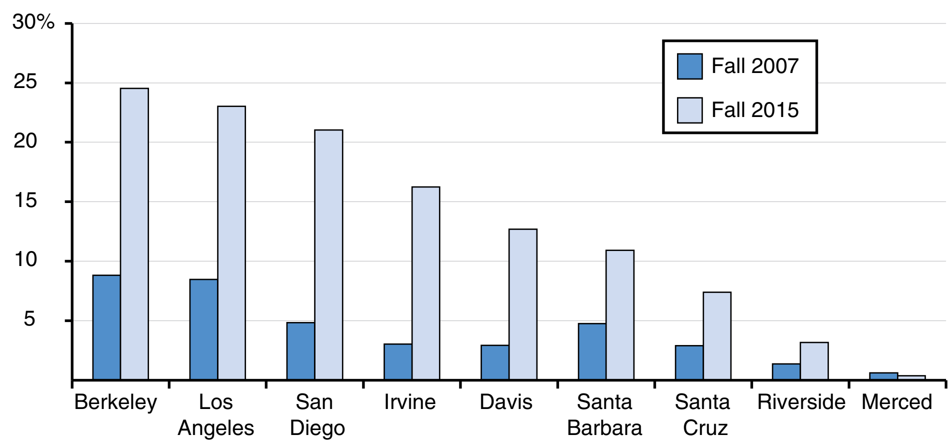
***Nonresident Enrollment Traditionally Not Factored Into State Budget Decisions.*** The state's funding approach to enrollment traditionally has considered only resident students. This is because the state does not provide funding for nonresident students. As a result, each segment has had discretion to set nonresident enrollment levels.

***UC Has Largest Percentage of Nonresident Students.*** Currently, nonresidents make up 17 percent of all students at UC, 11 percent at Hastings, 6 percent at CSU, and 4 percent at CCC. UC also has experienced the largest growth in nonresident students in the recent past, particularly among undergraduates. (Most nonresident graduate students are able to establish residency after one year, thereby limiting their numbers.) UC undergraduate nonresident enrollment increased from about 7,100 students in 2007-08 to an estimated 29,000 students in 2015-16. Nonresidents' share of the UC undergraduate student body quadrupled during this time.

***Nonresidents Growing as a Share of UC Undergraduate Students at Nearly Every Campus.*** As shown in Figure 3 (see next page), the share of nonresident undergraduates has grown from 2007 to 2015 at every UC campus, except for Merced. Though nonresidents have grown notably as a share of undergraduate students at nearly every campus, large differences still exist across campuses. For example, as shown in the figure, close to 25 percent of undergraduates at Berkeley currently are nonresidents, compared to 3 percent at Riverside. A number of factors could account for differences in the resident to nonresident ratio across campuses. Berkeley, which is a more

Figure 3

**Nonresident Share of Undergraduates Has Grown Significantly at Nearly Every UC Campus**




selective campus, likely has greater ability to attract more applicants from outside of the state. Berkeley also might have higher costs relative to Riverside and it might have decided to partly pay for these by generating more nonresident tuition. (UC allows campuses to retain the tuition revenue they generate from nonresident students.) Cost differences across campuses could be attributable to a different mix of programs (with the sciences being more expensive to operate) as well as higher faculty compensation.

***Nonresident Enrollment at UC Lower Than Other Similar Public Universities.*** Compared to other public universities with a similar level of research, UC has a lower share of incoming undergraduate students who are nonresidents. Specifically, across 64 comparison institutions, nonresidents make up 30 percent of new freshmen. The average across the UC system is 18 percent. (This percentage is different than the 17 percent noted above because it includes only new freshmen.) Specific UC campuses, however, are near or slightly above the national average. For instance, 31 percent and 27 percent of incoming freshmen at Berkeley and Los Angeles, respectively, are nonresidents.

***UC Nonresident Students Generate More Revenue Than Resident Students.*** In addition to paying the resident tuition charge, UC nonresident students pay a supplemental tuition charge of about $27,000. The UC system requests $10,000 from the state to serve a resident student. UC asserts that the $17,000 excess funding generated by nonresidents is used to cross-subsidize services for California resident students. Since 2007-08, the UC system has allowed individual campuses to retain the revenue associated with nonresident supplemental tuition. (Prior policy had been to collect the revenue centrally and distribute it back out to all campuses based on systemwide priorities.)

## Tuition and Financial Aid

Below, we examine affordability from a variety of angles, beginning with a focus on student tuition, then turning to financial aid.

### Tuition

***State Currently Does Not Have a Tuition Policy.*** A tuition policy establishes how tuition levels are to be adjusted over time. Depending on the policy, the tuition charge either explicitly or implicitly represents the share of education cost to be borne by students, with the remainder of cost primarily subsidized by the state through base funding appropriated to each of the higher education segments. (The full tuition charge only affects certain students, as financial aid policies can cover some or all of the tuition charge for financially needy students.) Though California had a tuition policy for several years during the late 1980s and early 1990s, it has not had a tuition policy the last couple of decades.

***Each Segment Charges Different Tuition and Fees.*** UC's systemwide charge for full-time undergraduate students is the highest—$12,240. CSU charges such students $5,472, while CCC charges $1,380 for a full course load (or $46 per unit). Campuses in each system also can charge additional fees for specific services or activities—such as student health services.

***Student Share of Education Cost Varies by Segment.*** Figure 4 shows the proportion of education cost for a student paying full tuition that is covered by the state, the student, and other sources. (As discussed further below, about half of students at each segment pay no tuition.) UC students paying full tuition cover slightly more than half of their education cost, CSU students cover about one-third of their education cost, and CCC students cover 15 percent. (The federal government also covers a share of cost for students paying tuition, as some students [or their families] are eligible for a federal tax credit of up to $2,500 annually to reimburse for tuition costs.)

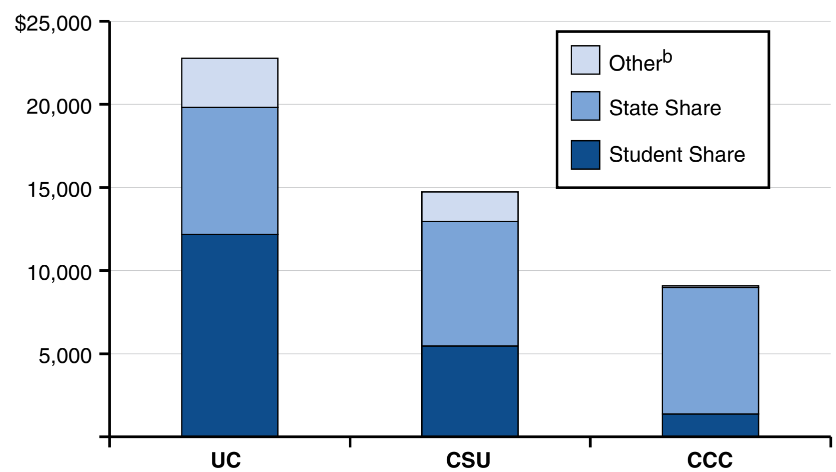
***Segments' Tuition and Fee Levels Vary Compared to Public Colleges in Other States.*** Compared to other public universities with a similar level of research activity, UC tends to have higher tuition and fees. Specifically, UC's tuition and fees are higher than all but 10 of the 65 largest public research universities in other states. By contrast, tuition and fees at CSU are lower than all but 42 universities among a group of 244 masters-level public universities in other states. CCC tuition and fees are the lowest in the country, about 40 percent of the national average.

***Tuition and Fees Tend to Be Volatile.*** As shown in Figure 5 (see next page), tuition and fee levels in California tend to follow a pattern of flat periods punctuated by sharp increases. The flat periods generally correspond to years in which the state experienced economic growth, while the periods of steep 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 charges to make up for the loss of state support, and the state increased fees at CCC. This pattern could be affected by the new state reserve requirements enacted under Proposition 2 (2014), which could mitigate state revenue losses during recessions.

**Figure 4**

**Student Share of Education Cost Varies by Segment[a]**

*2015-16*



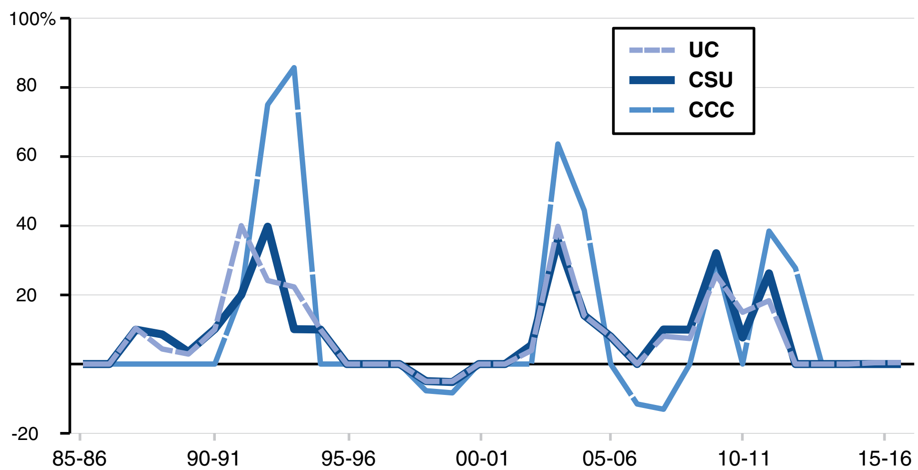

[a] For students paying full tuition only. (About half of students at UC, CSU, and CCC pay no tuition.) Education cost calculated based on Delta Cost Project methodology.

[b] Includes nonresident supplemental tuition, some endowment income, and other funds.

Figure 5

**Extended Tuition Freezes Followed by Periods of Steep Increases**

*Percent Change in Systemwide Tuition and Fees*




## Financial Aid

***Cost of Attendance Includes Tuition and Other Expenses.*** These other expenses include housing and food, personal expenses, books and supplies, and transportation. 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. Figure 6 shows the range of attendance costs across campuses at each system, by living arrangement. 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. The cost of attendance tends to be highest at UC, next highest at CSU, and lowest at CCC, though this is not always the case. For instance, Coastline Community College (located in Orange County) reports a cost of attendance for students living off campus not with family that exceeds the cost for students in the same living arrangement at all CSU campuses and one UC campus.

***Cost of Attendance in California Typically Higher Than in Other States.*** Even the least expensive UC campus has a higher cost of attendance than nearly all other public universities with high research activity. CSU campuses also tend to have a higher cost of attendance relative to most other masters-level public universities in the country. A similar pattern holds for CCC compared to community colleges in other states.

***Various Types of Financial Aid Help Students Cover Their Cost of Attendance.*** Types of aid

Figure 6

**Cost of Attendance Varies by Segment and Living Arrangement[a]**

*2014-15*

| | On Campus | Off Campus (Not With Family) | Off Campus (With Family) |
|---|---|---|---|
| UC | $31,300 to $34,800 | $26,700 to $30,000 | $24,500 to $26,100 |
| CSU | $19,600 to $26,200 | $21,700 to $25,000 | $10,100 to $13,200 |
| CCC | $11,000 to $15,400[b] | $14,400 to $28,200 | $5,400 to $12,300 |

[a] Reflects the range across campuses, rounded to the nearest hundred.
[b] Only 9 of 112 colleges report a cost of attendance for students living on campus.

include grants, scholarships, and tuition waivers (collectively called gift aid, because students do not have to pay back these amounts); student loans; federal tax benefits; and subsidized work-study programs. Financial aid may be need based (for students who otherwise might be unable to afford college) or nonneed based (typically scholarships or other payments based on academic merit, athletic talent, or military service). About two-thirds of resident undergraduate students at UC and CSU receive need-based financial aid in the form of gift aid, loans, or work study. At the community colleges, 46 percent of students receive such aid. (CCC students are much more likely to attend part-time and many aid programs require full-time attendance.)

***Eligibility for Need-Based Aid Determined Using Federal Methodology.*** To be eligible for federal, state, and institutional need-based financial aid programs, students must complete a common, web-based application form (the Free Application for Federal Student Aid, or FAFSA). The federal Department of Education uses information from this form, including household income, certain available assets, and number of children in college, to determine a student's expected family contribution (EFC) toward college costs. A student's financial need is the total cost of attendance at a particular campus less his or her EFC. Campuses then combine (or "package") various types of financial aid to meet as much of each student's financial need as possible.

***Three-Fifths of Financial Aid at UC, CSU, and CCC Comes in Form of Need-Based Gift Aid.*** Figure 7 displays how much financial aid students at California's public institutions receive from various sources. As shown in the figure, California students received an estimated $10.2 billion from these sources in 2013-14, with over 60 percent of it in need-based gift aid. (This is in addition to $12 billion in nonneed-based subsidies the state provides for all students through direct appropriations to the segments.) For costs not covered by these sources, students typically rely on family income and assets, their own earnings and savings, and other types of borrowing.

***Gift Aid Covers Full Tuition for About Half of Public College Students.*** About 55 percent of undergraduate students at UC and CSU receive aid sufficient to fully cover systemwide tuition and fees, and an additional 9 percent of UC students and 7 percent of CSU students receive partial tuition coverage. At CCC, 45 percent of students receive full fee waivers, paying for two-thirds of all course units taken.

***State Provides Need-Based Gift Aid Through Cal Grants.*** The state's Cal Grant program guarantees gift aid to California high school

**Figure 7**

**Over Half of Aid Is Need-Based Gift Aid**

*2013-14 (In Billions)*

| | |
|---|---|
| **Gift Aid (Need Based)** | |
| Federal | $2.8 |
| Institutional | 2.0 |
| State | 1.4 |
| Subtotal | ($6.2) |
| **Loans** | |
| Federal (subsidized) | $1.1 |
| Federal (unsubsidized) | 1.1 |
| Other | 0.1 |
| Subtotal | ($2.3) |
| **Tax Benefits** | |
| Federal | $1.4 |
| **Gift Aid (Nonneed Based)** | |
| Institutional | $0.2 |
| Other | 0.1 |
| Subtotal | ($0.2) |
| **Work Study** | |
| Federal | $0.1 |
| **Total** | **$10.2** |
| Federal | $6.5 |
| Institutional | 2.2 |
| State | 1.4 |
| Other | 0.2 |

Note: Figure reflects aid for UC, CSU, and CCC undergraduate students. Only programs providing more than $50 million in aid are shown. Some gift aid, institutional loans, and nonfederal work-study programs do not meet this threshold.

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 public universities and up to a fixed dollar amount toward costs at private colleges. The program also offers stipends (known as access awards) for some students. Access awards are intended 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 Has Grown Significantly, Driven by Increased Tuition and Participation.*** State spending on Cal Grants has increased from $813 million in 2007-08 to an estimated $2 billion in 2015-16. The increase primarily is due to sharp increases in the number of award recipients as well as increases in award amounts for students at the public universities. The number of award recipients increased from 207,300 in 2007-08 to 340,500 in 2015-16 (a 64 percent increase), while systemwide tuition and fees at the universities nearly doubled. Implementation of the California Dream Act, which beginning in 2013-14 made certain undocumented and nonresident students eligible for state financial aid, accounts for $67 million of the increase in Cal Grant spending.

***State Recently Created New Program to Supplement Cal Grant Access Award.*** The 2015-16 budget provided $39 million for a new Full-Time Student Success Grant to supplement the access award for CCC students who are enrolled in 12 or more units. The CCC Chancellor's Office expects the program to increase the access award by $600 in 2015-16—bringing the total access award for CCC students to $2,256.

***State Also Recently Created Middle Class Scholarships for Certain UC and CSU Students.*** The Middle Class Scholarship program took effect starting in 2014-15. Under the program, students with household incomes up to $100,000 qualify for an award that covers 40 percent of their tuition (when combined with all other public financial aid). The percent of tuition covered declines for students with household income between $100,000 and $150,000, such that a student with a household income of $150,000 qualifies for an award covering up to 10 percent of tuition. The program is being phased in, with awards in 2015-16 set at 50 percent of full award levels, then 75 percent and 100 percent for the following two years, respectively. CSAC provides these scholarships to eligible students who fill out a federal financial aid application, though the program is not need-based according to the federal government's financial aid formula. Unlike Cal Grants, the program is not considered an entitlement, with program funding levels capped in state law. If funding were insufficient to cover the maximum award amounts specified in law, awards would be pro-rated downward.

***State Changed Certain Aspects of Middle Class Scholarship Program Starting in 2016-17.*** Whereas the program previously had no asset ceiling, 2015-16 trailer legislation establishes a ceiling of $150,000. (The asset ceiling excludes primary residences and funds in retirement accounts.) The legislation requires CSAC to adjust income and asset ceilings annually for inflation. The legislation also specifies that a student may receive a scholarship for no more than the equivalent of four years (or, in some cases, five years) of full-time attendance. To reflect savings from these changes as well as lower-than-anticipated participation in the program, the legislation adjusted the original statutory appropriations for the program down from $152 million to $82 million in 2015-16, from

$228 million to $116 million in 2016-17, and from $305 million to $159 million thereafter.

***Segments Offer Institutional Need-Based Gift Aid.*** In addition to Cal Grants and Middle Class Scholarships, UC and CSU operate institutional need-based programs. UC and CSU pay for these programs largely by redirecting a portion of tuition revenue. When packaging financial aid, UC first applies any applicable federal and state aid on a student's behalf and assumes each student must contribute $9,500 through work or borrowing. It then uses institutional aid to fill any remaining gap between available resources and the cost of attendance. UC's average gift aid per recipient from all sources exceeds tuition by about $4,600—meaning the average aid award pays for some living costs. By comparison, CSU uses its State University Grant program to cover full tuition for certain students based on their EFC. It does not cover other costs of attendance. At CCC, the Board of Governors (BOG) Fee Waiver program fully covers enrollment fees (but not other costs of attendance) for financially needy students. Though commonly considered institutional aid, as it is unique to CCC, the state effectively funds the BOG fee waiver program through CCC apportionments. (If the state did not use these associated funds for apportionments, it likely would use them for other CCC purposes.)

***Institutional Need-Based Gift Aid Has Grown Significantly.*** Between 2007-08 and 2015-16, institutional aid spending more than doubled at the universities, growing from $313 million to an estimated $735 million at UC and from $241 million to an estimated $581 million at CSU. At CCC, spending on BOG Fee Waivers has nearly quadrupled from $221 million in 2007-08 to an estimated $777 million in 2015-16. The increases at each segment primarily occurred as a result of increases in tuition and fees over this time.

***Net Price Ranges Considerably by Segment and Campus.*** The "average net price" for an institution is the cost of attendance (tuition and living expenses) minus the average grant aid received by grant recipients. The federal government reports an average net price for first-time, full-time undergraduate students by institution that is weighted according to how many students live on campus, off campus not with family, and off campus with family. At UC, the average net price ranges from $12,000 (at the Merced campus) to $16,700 (at the Berkeley campus). The range across CSU campuses is much broader, spanning from $1,600 (at the Dominguez Hills campus) to $16,800 (at the San Luis Obispo campus). A similar range exists at CCC campuses, with average net prices spanning from $1,400 (at College of the Sequoias) to $12,200 (at Irvine Valley College). Because aid policies largely are standardized across campuses, the variation in net price across campuses mostly relates to differences in cost of attendance (due to regional differences in housing and other costs) as well as differences in students' financial need across campuses.

***Net Price Also Varies Considerably by Income Level.*** For instance, at UC campuses, the average net price for students whose families earn less than $30,000 annually ranges from $8,000 to $10,900, while the average for students whose families earn more than $110,000 annually ranges from $26,900 to $30,900. Variations by income group also exist at CSU campuses and CCC campuses. This is because financial aid programs typically target lower-income students who might otherwise be unable to afford college.

***Student Borrowing Much More Common at Universities Than CCC.*** Each year, 43 percent of UC and CSU undergraduates take out loans, with an average loan amount of $6,500 at UC and $7,600 at CSU. By the time they graduate, 55 percent of UC students and 48 percent of CSU students have taken out student loans. Among those borrowing, the average student loan debt at graduation is $19,100 for UC students and $15,700 for CSU students. (In addition, about 6 percent of UC and CSU parents who apply for financial aid take out loans, with average annual loan amounts of about $15,100 and $12,000, respectively.) By contrast, only 2 percent of CCC students borrow each year.

***Average Student Debt Comparatively Low in California.*** About 60 percent of students at four-year public universities nationally graduate with loan debt, with an average debt load of $25,900. This is 36 percent higher than the average debt at UC and 65 percent higher than CSU. Nationally, 17 percent of students attending public two-year institutions report borrowing—ten times the proportion at CCC.

***Small Share of UC and CSU Students Default on Loans.*** About 95 percent of all borrowing at UC and CSU is through federal loans. Three-year default rates on these loans vary by UC and CSU campus but tend to be relatively low. For instance, over two-thirds of UC and CSU campuses have default rates that are less than 5 percent, and no campus has a default rate greater than 10 percent. In comparison, the national default rate for four-year public universities is 8 percent.

***Federal Loans Have Income-Driven Repayment Plans.*** The most common type of federal loan—William D. Ford federal direct loans—currently offers new borrowers six repayment plans. Three of these plans, known as income-driven repayment plans, vary loan repayments based on the income of the borrower as a way to improve affordability and reduce the likelihood of a student defaulting. For example, the Pay As You Earn Repayment Plan (PAYE) caps monthly repayments at 10 percent of a borrower's discretionary income (defined as income earned above 150 percent of the poverty level, adjusted for location and household size). Each of these three plans also forgives any remaining loan balances after a set period. For example, PAYE forgives balances after 20 years, or 10 years for eligible borrowers in public service careers.

## Performance

Below, we describe the state's performance measures for higher education and review data on the segments' recent performance in certain areas.

### Performance Measures

***State Recently Adopted Broad Goals for Higher Education.*** Chapter 367 of 2013 (SB 195, Liu) establishes three goals for higher education. The goals are: (1) improve student access and success, such as by increasing college participation and graduation rates; (2) better align degrees and credentials with the state's economic, workforce, and civic needs; and (3) ensure the effective and efficient use of resources to improve outcomes and maintain affordability. The law states the Legislature's intent that these goals guide state budget and policy decisions for higher education. The law also calls for the creation of performance measures to monitor progress toward these goals. To date, the state has not adopted these measures.

***State Recently Adopted Specific Performance Measures for UC and CSU.*** Separate from Chapter 367, the 2013-14 budget package codified a new requirement for UC and CSU to report annually on a number of performance measures. The university systems are required to report by March 15 of each year their graduation rates, spending per degree, and the number of transfer and low-income students they enroll, among other measures. In addition, recent state budgets have required the UC and CSU governing boards to adopt academic plans each year that set their own targets for each statutory performance measure for each of the following three years. Figure 8 shows UC's and CSU's current performance and their respective performance targets.

***State Also Required CCC to Set Performance Targets.*** The 2014-15 budget package required each community college and the CCC Board of Governors to adopt measures and targets for student performance by June 30, 2015. The Board of Governors adopted systemwide measures and

**Figure 8**

## Comparing UC's and CSU's Current Performance and Performance Targets[a]

| State Performance Measure | University of California: Current Performance[b] | University of California: Target[c] | California State University: Current Performance[b] | California State University: Target[c] |
|---|---|---|---|---|
| ***CCC Transfers Enrolled.*** Number and as a percent of undergraduate population. | 34,344 (18%) | 34,425 (18%) | 143,322 (36%) | 145,480 (35%) |
| ***Low-Income Students Enrolled.*** Number and as a percent of total student population. | 76,452 (41%) | 76,708 (40%) | 207,528 (50%) | 213,614 (50%)[d] |
| ***Graduation Rates.***[e] | | | | |
| • 4-year rate—freshman entrants. | 63% | 66% | 19% | 20% |
| • 4-year rate—low-income freshman entrants. | 57% | 60% | 12% | 14% |
| • 6-year rate—freshman entrants (CSU only). | | | 57% | 59% |
| • 6-year rate—low-income freshman entrants (CSU only). | | | 52% | 56% |
| • 2-year rate—CCC transfer students. | 57% | 60% | 30% | 32% |
| • 2-year rate—low-income CCC transfer students. | 53% | 56% | 29% | 31% |
| • 3-year rate—CCC transfer students (CSU only). | | | 62% | 66% |
| • 3-year rate—low-income CCC transfer students (CSU only). | | | 62% | 65% |
| ***Degree Completions.*** Annual degrees awarded for: | | | | |
| • Freshman entrants. | 33,123 | 36,270 | 36,704 | 45,238 |
| • CCC transfer students. | 14,745 | 15,080 | 42,771 | 45,443 |
| • Graduate students. | 13,917 | 15,110 | 18,831 | 19,513 |
| • Low-income students. | 23,999 | 25,660 | 45,660 | 50,030 |
| • All students. | 62,988[f] | Not reported | 105,693 | 117,146 |
| ***First-Year Students on Track to Graduate on Time.*** Percentage of first-year undergraduates earning enough credits to graduate within four years. | 51% | 51% | 51%[g] | 55%[g] |
| ***Funding Per Degree.*** State General Fund and tuition revenue divided by number of degrees for: | | | | |
| • All programs. | $105,100[f] | $121,400 | $38,548[f] | $42,322 |
| • Undergraduate programs only. | Not reported | $28,900 | Not reported | $51,830 |
| ***Units Per Degree.*** Average course units earned at graduation for: | Quarter Units | | Semester Units | |
| • Freshman entrants. | 187 | 183 | 138 | 138 |
| • Transfer students. | 97 | 93 | 141 | 140 |
| ***Degree Completions in STEM Fields.*** Number of STEM degrees awarded annually to: | | | | |
| • Undergraduate students. | 16,371[f] | Not reported | 18,519 | 24,531 |
| • Graduate students. | 8,167 | 8,830 | 4,278 | 4,766 |
| • Low-income students. | 8,775 | 9,382 | 8,802 | 10,628 |

[a] Targets based on administration's General Fund and tuition revenue assumptions for 2016-17 through 2018-19.
[b] Fall 2015 for enrollment and annual 2014-15 for completions and units, unless otherwise specified.
[c] Fall 2018 for enrollment and annual 2018-19 for completions and units, unless otherwise specified.
[d] Fall 2017.
[e] For most recent and future cohorts as reported by segments.
[f] 2013-14.
[g] CSU excludes students not enrolled at the beginning of the second year.
STEM = science, technology, engineering, and math.

targets in July 2014. (The measures come from CCC's Student Success Scorecard, which was developed in 2012.) These measures are tracked for a cohort of students over a six-year period. Figure 9 shows CCC's current performance and targets.

***State Has Not Directly Linked Funding for UC, CSU, or CCC to Their Institutional Performance.*** The state to date has not adopted a performance funding formula that adjusts funding based upon the segments' performance. The state,

**Figure 9**

**CCC Systemwide Performance Measures and Targets**

| Measure | Current Performance[a] | Target |
|---|---|---|
| ***Completion Rate.*** Completion defined as: (1) earning an associate degree or credit certificate, (2) transferring to a four-year institution, or (3) completing 60 UC/CSU transferable units with a GPA of at least 2.0 within 6 years of entry. | 39% for underprepared<br>70% for prepared<br>47% overall | Increase rate by 2.5 percent (of rate) annually. |
| ***Remedial Progress Rate.*** Success in college-level English or math class for students who took remedial English, remedial math, or English as a second language. | 43% in English<br>31% in math<br>28% in English as a second language | Increase rate by 2.5 percent (of rate) annually. |
| ***CTE Completion Rate.*** CTE students who completed a degree, certificate, 60 transferable units, or transferred. | 50% | Increase rate by 2.5 percent (of rate) annually. |
| ***Associate Degrees for Transfer.*** Number of these degrees completed annually. | 11,448 | Increase number by 5 percent annually for next five years. |
| ***Equity Rate.*** Index showing whether a subgroup's completion rate is low compared with overall completion rate. An index of less than 1.0 indicates underperformance. | 0.73 American Indian<br>0.79 African American<br>0.82 Hispanic<br>0.88 Pacific Islander<br>1.09 White<br>1.38 Asian | Increase annually until all indices are 0.80 or above. |
| ***Education Plan Rate.*** Share of students who have an education plan. | Not available[b] | To increase percentage each fall term. |
| ***FTE Years Per Completion.*** A measure of efficiency showing amount of instruction, on average, required for each completion. (A student completing 60 units, the standard length of an associate degree or preparation for transfer, would generate two FTE years.) | 5.3 for underprepared<br>2.85 for prepared<br>4.39 overall | Decrease measure (increase efficiency). |
| ***Participation Rate.*** Number of students ages 18-24 attending a community college per 1,000 California residents in the same age group. | 265 | Increase participation rate each year. |
| ***Participation Among Subgroups.*** Index comparing a subgroup's share of enrollment with its share of the state population. An index of less than 1.0 indicates underrepresentation.[c] | 0.87 White<br>1.01 Hispanic<br>1.01 African American<br>1.22 Asian | Maintain index above 0.80 for all subgroups. |

[a] 2013-14 for annual data and 2008-09 cohort for cohort data, unless otherwise specified.
[b] New data measure. Reporting was optional in 2013-14.
[c] Reflects participation rates in 2012-13. Rate for 2013-14 not yet available.
CTE = career technical education and FTE = full-time equivalent.

however, has provided some targeted funding in recent years related to institutional performance. Most notably, the state increased CCC's Student Success and Support Program from $49 million in 2012-13 to $427 million in 2015-16. It also created a one-time $50 million program in 2014-15 to promote innovative models of higher education at CCC, CSU, and UC campuses. In some cases, the segments also have chosen to dedicate otherwise unallocated resources to improving performance. Most notably, CSU is dedicating $38 million of its unallocated base increase in 2015-16 to expanding its student success initiatives.

***Governor Trying to Boost Institutional Performance Through an Agreement With UC.*** In May 2015, the Governor and the UC President announced they had reached an agreement that UC would undertake certain operational changes intended to improve its institutional performance. (The agreement also calls for multi-year funding increases for UC and allows UC to increase its tuition charge starting in 2017-18.) Among other changes, the agreement calls for UC to (1) more closely align its lower-division requirements for its 20 most popular majors with those used by CSU and CCC for associate degrees for transfer, (2) initiate a pilot program to use adaptive learning technologies to improve instruction and student persistence, and (3) identify three-year degree pathways in 10 of its top 15 majors.

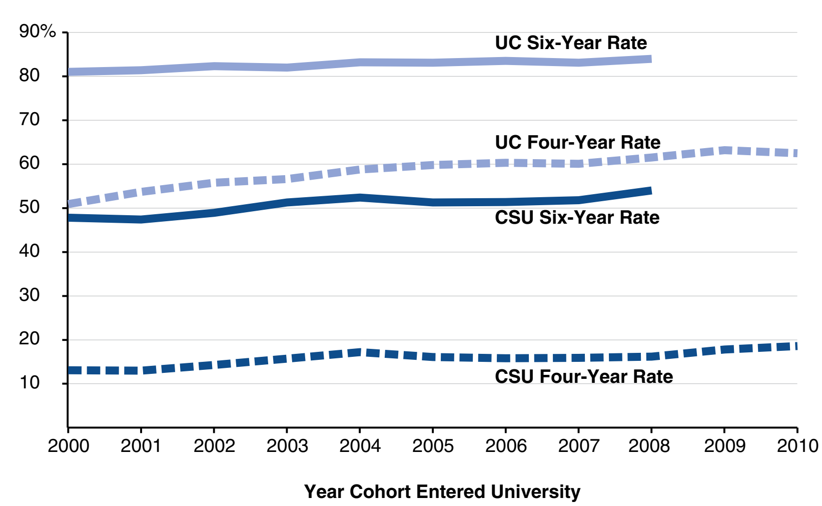
### Performance Trends

***Slight Increases in UC and CSU Graduation Rates for Freshmen.*** As shown in Figure 10, graduation rates for students entering UC and CSU as freshmen have increased slightly in recent years. At UC, more than 60 percent of incoming full-time freshmen graduate within four years and more than 80 percent graduate within six years. By comparison, most public institutions similar to UC in terms of research activity have lower graduation rates, with an average four-year graduation rate of 45 percent and six-year graduation rate of 70 percent. Graduation rates are much lower at CSU than UC. Less than 20 percent of incoming full-time freshmen graduate within four years and just over half graduate within six years. These rates are similar to the graduation rates at masters-level public institutions in other states, which have an average four-year graduation rate of 24 percent and average six-year rate of 45 percent.

***Graduation Rates for UC and CSU Transfer Students Also Increasing Slightly.*** A two-year graduation rate for transfer students is analogous to a four-year graduation rate for entering freshmen. The two-year graduation rate for transfer students at UC has increased from 46 percent a decade ago

**Figure 10**

**Graduation Rates for First-Time, Full-Time Freshmen Increasing Slightly**



to 55 percent today. The two-year rate at CSU has increased from 21 percent to 28 percent over the same time. UC's two-year rate for transfer students is less than its four-year rate for freshmen, while at CSU the opposite is true. This means freshmen generally outperform transfer students (in terms of graduation rates) at UC, whereas transfer students generally outperform freshmen at CSU. Graduation rates for transfer students at both UC and CSU increase notably when measured over longer period of times. For instance, the four-year graduation rate for transfer students is 88 percent at UC and 73 percent at CSU.

***Based on Certain Milestone Measures, CCC Performance Improving Slightly.*** Milestone performance measures show the share of students passing certain academic milestones commonly associated with completion. CCC milestone measures include the percentage of students persisting over three terms, completion rates of college-level English and math courses for students entering unprepared and English as a second language students, and the percent of students completing 30 units. Each of these measures has increased slightly in recent years. For instance, the three-term persistence rate has risen from 71 percent in 2009-10 to 72 percent in 2013-14.

***CCC Program Completion Rates Declining Slightly.*** Instead of measuring the share of entering students that completes a degree within a specified period, CCC measures the success of a "completion cohort." A student in a completion cohort is one who enters CCC as a first-time student, enrolls in six units within three years of first enrolling, and attempts any math or English course during that period (typically an indicator that the student has some academic goal). A successful completion outcome is earning an associate degree or a credit certificate, transferring to a four-year institution, or becoming "transfer prepared" by successfully completing 60 transferable units with at least a "C" average. Completion rates have been declining slightly in recent years. They peaked at 49 percent in 2011-12 and since have dipped to 47 percent for 2013-14. More recent data likely will begin showing a reversal of this trend, as completion rates appear somewhat linked with state funding, and state funding has increased notably in recent years.

# UNIVERSITY OF CALIFORNIA

In this section, we begin with an overview of the Governor's proposed budget for UC. We then analyze specific UC revenue and expenditure proposals and make associated recommendations. (In a separate report released on February 10—*Review of UC's Merced Campus Expansion*—we discuss UC's one large capital outlay proposal for 2016-17.)

## Overview

***Governor's Budget for UC Consists of $29 Billion From All Sources in 2016-17.*** This is a $903 million (3 percent) increase from the current year. Of total UC funding, about one-quarter comes from state General Fund and student tuition revenue. These two fund sources primarily support UC's mission of providing undergraduate and graduate education. As a major research university, UC is involved in various other activities. For example, more than one-quarter of UC's revenue comes from its five medical centers, which provide health care services to patients. UC also annually receives a substantial amount of federal funding to support specific research activities.

***Governor Proposes to Continue His Long-Term Funding Plan for UC.*** In 2013-14, the Governor announced a four-year funding plan for UC. Under the plan, the state provided UC

5 percent General Fund base increases in the first two years (2013-14 and 2014-15) and a 4 percent increase in the current year (2015-16). The plan includes another 4 percent increase for UC in 2016-17. In order to receive these base augmentations, the Governor has required UC not to increase tuition for resident students. The Governor has not tied these base increases to specific budgetary priorities (such as enrollment growth). Instead, UC has set its own priorities with its state funding. (In May 2015, the Governor announced his intention to propose 4 percent General Fund increases for UC in 2017-18 and 2018-19. The Governor also proposed for UC to begin increasing tuition at around the rate of inflation beginning in 2017-18.)

***Governor Proposes General Fund Increase of $209 Million (6.4 Percent).*** Figure 11 shows the Governor's January revenue assumptions and UC's corresponding expenditure plan. Consistent with his long-term plan, the Governor proposes a

**Figure 11**

**University of California Budget**

*(In Millions)*

| | |
|---|---|
| **Revenue[a]** | |
| **2015-16 Revised** | |
| General Fund | $3,257 |
| Tuition and fees | 3,028 |
| **Total** | **$6,285** |
| **2016-17 Changes** | |
| General Fund | $209 |
| Tuition and fees[b] | 158 |
| Subtotal | ($367) |
| Other[c] | 145 |
| **Total** | **$512** |
| **2016-17 Proposed** | |
| General Fund | $3,467 |
| Tuition and fees | 3,186 |
| **Total** | **$6,652** |
| **Changes in Spending** | |
| **UC's Plan for Unrestricted Funds** | |
| General salary increases (3 percent) | $152 |
| Resident undergraduate enrollment growth (3.4 percent)[d] | 50 |
| Academic quality initiatives[e] | 50 |
| Faculty merit salary increases | 32 |
| Operating expenses and equipment cost increases | 30 |
| Health benefit cost increases (5 percent) | 27 |
| Deferred maintenance | 25 |
| Pension benefit cost increases | 24 |
| Debt service for capital improvements | 15 |
| Nonresident enrollment growth (3.2 percent)[f] | 14 |
| Dream Loan Program | 5 |
| Retiree health benefit cost increases | 4 |
| Subtotal | ($428) |
| **Restricted General Fund** | |
| Proposition 2 payments for UC Retirement Plan (one time) | $171 |
| Deferred maintenance (one time) | 35 |
| Remove one-time funding provided in 2015-16 | -122 |
| Subtotal | ($84) |
| **Total** | **$512** |

[a] Includes all state General Fund. Reflects tuition after discounts. (In 2016-17, UC is projected to provide $1.1 billion in discounts.)

[b] Reflects increases in nonresident supplemental tuition (8 percent), the Student Services Fee (5 percent), and increased enrollment, offset by increases in discounts.

[c] Reflects: (1) General Fund for enrollment growth UC intends to carry over into 2016-17, (2) savings from administrative efficiencies, (3) increased revenue from investments, and (4) philanthropy.

[d] UC has not yet indicated its final plan for resident graduate enrollment growth.

[e] For purposes such as increasing instructional support, reducing student-to-faculty ratios, recruiting faculty, increasing faculty salaries, and providing stipends to graduate students. UC indicates it will allow campuses to determine how to spend the funds.

[f] Funded from nonresident tuition.

$125 million (4 percent) ongoing, unrestricted General Fund base increase. The Governor's budget also includes two one-time General Fund augmentations for specific purposes: (1) $171 million to pay down a portion of UC's unfunded pension liability (scored as a Proposition 2 debt payment) and (2) $35 million for deferred maintenance. These augmentations are offset by $122 million in expiring one-time funds.

***Governor Assumes Tuition Revenue Increases $158 Million (5.2 Percent).*** Specifically, the Governor assumes increases of: (1) $88 million in nonresident supplemental tuition revenue due to an 8 percent rate increase, coupled with an increase in nonresident students; (2) $76 million in other tuition revenue due to resident enrollment growth and the phasing out of tuition discounts for nonresident students; (3) $19 million in Student Services Fee revenue from a 5 percent rate increase and enrollment growth; and (4) $4 million in professional supplemental tuition revenue from enrollment growth. These tuition revenue increases are offset by a $30 million increase in tuition discounts.

***UC Assumes $95 Million in Ongoing Savings and Revenue From Other Sources.*** UC indicates it has identified four ways to generate new savings and revenue for its education program. First, UC expects $40 million in new revenue from increased investment returns. (The increase is due to UC shifting a portion of its reserves from a lower-yield, short-term investment fund into a higher-yield, longer-term investment fund.) Second, UC assumes it will save $30 million through improved procurement practices across its campuses. Third, UC anticipates $15 million in savings from self-insuring for certain risks. Finally, UC assumes a $10 million increase in philanthropic donations available for instructional purposes.

***UC Assumes $50 Million Additional General Fund for Meeting Enrollment Expectations.*** The 2015-16 budget set an expectation for UC to enroll 5,000 more resident undergraduate students in 2016-17 compared to 2014-15. The budget authorizes the Director of Finance to augment UC's budget by $25 million (ongoing) in May 2016 if UC demonstrates it will meet this expectation. In his 2016-17 budget, the Governor assumes UC will meet this target and receive the associated funding. UC, however, asserts it will not be able to spend the $25 million during 2015-16 and indicates it intends to carry the funds over into 2016-17. UC intends to dedicate $50 million toward supporting the 5,000 students in 2016-17 (equating to $10,000 per student). (In Figure 11, we include this enrollment funding in the "other" revenue changes.)

***Key Issues Before the Legislature.*** UC developed an expenditure plan that is based on the level of funding proposed in the Governor's budget. We analyze key features of this expenditure plan. We start by considering the alternative revenue sources identified by UC to support its education program. Afterward, we analyze the following expenditure areas: inflationary cost increases, UC's unfunded pension liability, enrollment growth, maintenance, and UC's proposal to enhance academic quality. As we have discussed in past years, we have major concerns with the Governor's approach to allow UC to set its own spending priorities without legislative input. We continue to recommend the Legislature designate funding in the budget for high state priorities.

## Alternative Revenue

***UC Recently Began Directing More Alternative Fund Sources to Education Costs.*** The state historically has considered state funding and student tuition revenue the primary sources of funding for UC education. In addition, the state and UC by longstanding practice have considered a small amount of certain other UC revenues, such as a portion of UC's patent royalty income, as paying for education. In recent years, however, UC has been factoring funding from different revenue sources, such as philanthropy, into its annual state budget plan. Moreover, in a recent biennial report to the Legislature on the cost of education, UC estimated it spends $24,157 per student, with $7,871 (one-third) originating from sources other than state funding and student tuition. The report, however, did not itemize these other sources of funding. (The $24,257 estimate is an average of the cost of education for undergraduate and graduate students. It excludes the health sciences.)

***Required Report Lacked Key Information on Other Funds Used for Education.*** To better understand what revenue sources UC uses to pay for students' education, the state, as part of the 2015-16 budget package, required UC to submit a report by December 2015 describing all fund sources it can legally use to pay for students' education. Though the report UC submitted identified all fund sources UC is *legally allowed* to spend on education, it did not itemize the amount it *uses* from each source. As a result, the state still lacks key information on the funds UC makes available for education.

***Recommend Requiring UC to Identify Fund Sources in Cost of Education Reports.*** UC's identified alternative revenues may have positive implications for state budgeting. The Legislature, however, lacks key information on these revenue sources. For example, are these sources mostly one time or ongoing in nature? Is education the appropriate use of these funds? Does UC plan to rely more or less heavily on them moving forward? To obtain better information on how UC pays for students' education, we recommend the Legislature modify existing state law to require UC's biennial cost of education report (next due in October 2016) to identify the amount of each alternative fund source used in its calculations. Understanding these fund sources could facilitate future conversations on how the state and the university share the cost of education.

## Inflation

***Inflation Affects Three Areas of UC's Budget.*** These areas are (1) employee compensation costs; (2) other operating expenses, such as utility bills and equipment costs; and (3) capital outlay. (Because the state now combines UC's support and capital budgets and adjusts annually by a certain percentage, it is effectively making an inflationary adjustment to capital spending.) We discuss these three areas in greater detail below.

***Compensation Costs Are UC's Largest Expense.*** Compensation consists of the salaries and benefits UC pays its employees. Employee compensation is the largest driver of UC's instruction costs (over 80 percent of UC's core academic budget). Instruction-related employees include faculty, administrators, counselors, librarians, and management staff.

***Operating Expenses and Equipment Costs Are a Smaller Portion of UC's Budget.*** UC also spends money on goods and services. For instance, UC procures instructional equipment and library materials and it pays for utilities. In 2015-16, UC's operating expenses and equipment costs made up about 13 percent of its core academic budget.

***Funding for Capital Outlay Recently Shifted Into UC's Operating Budget.*** For most state agencies, the state issues bonds for capital outlay projects and funds the associated debt service separately from agencies' operating budgets. Recently, the state began treating capital outlay as an operating expense for UC and CSU. That is, the state shifted all funding for debt service associated with UC projects into UC's operating budget. The state also provided UC the authority to (1) issue bonds by pledging its General Fund appropriation and (2) repay the associated debt service using its General Fund. Given these changes, the state has not issued bonds for UC projects the past few years and instead has expected UC to fund new capital projects from within its operating budget.

***UC's Expenditure Plan Provides a $239 Million Ongoing Increase for Compensation.*** The majority of this compensation increase ($152 million) is for a 3 percent salary increase for UC employees. An additional $32 million is for faculty merit salary increases as tenured faculty move up the academic ladder. Another $27 million is to pay for cost increases for UC employees' health benefits. UC also proposes $24 million to pay for increased costs for its employees' pensions and $4 million for increased costs for its retirees' health benefits.

***UC's Expenditure Plan Provides a $30 Million Ongoing Increase for Operating and Equipment Expenses.*** UC indicates this amount represents a 2 percent increase for non-salary costs and additional funding for utility costs that it expects to rise above inflation.

***UC's Expenditure Plan Provides a $15 Million Ongoing Increase for Debt Service for Capital Projects.*** UC indicates this funding would service the debt on completed capital outlay projects, though currently it is unable to identify the specific projects. (UC indicates that it will have a final list of completed capital projects later in the year.) UC asserts that any funding available in excess of the amount needed for debt service on completed projects will be set aside for debt payments on future projects.

***UC's Proposed Increases Higher Than Inflation.*** UC's proposed cost increases for compensation, operating expenses and equipment, and capital outlay total $284 million, a 4.5 percent increase from UC's General Fund and tuition base in the prior year. This rate exceeds the standard measure of inflation used by many state and local governments, which is estimated to be 2.5 percent in 2016-17 (equivalent to $154 million). UC, however, has revenue available from the alternative sources described above to help pay for the cost increases.

## Unfunded Pension Liability

***Employers May Offer Different Types of Retirement Plans.*** Employers can offer employees defined benefit pension plans, defined contribution plans, or a combination of these two types of plans. A defined benefit plan guarantees a retired employee a lifetime pension based on a formula that includes factors at the time the employee retires—such as the employee's age, salary, and the number of years of service with the employer. This type of benefit typically is prefunded through regular contributions made by both the employer and employee to a pension fund that is invested and managed by a pension board. A defined contribution plan, by contrast, does not guarantee employees a lifetime pension. Instead, employers and employees can make contributions to a retirement savings account established by the employer.

***Major Difference Between Plans Is Who Bears the Risk.*** In the case of a defined benefit plan, the employer is responsible for providing set benefits to retirees. During periods of market losses, employers typically must make larger contributions to ensure the plan is funded. That is, when actuaries determine that a defined benefit plan has less than 100 percent of assets to pay for all accumulated benefits, the plan incurs an "unfunded liability" that the employer must pay. In the case of a defined contribution plan, the employee bears the risk. In these cases, the plans still are subject to market losses, and the employee directly bears the consequence in the form of less retirement income.

***UC's Retirement Program Has Significant Unfunded Liability.*** In the late 1980s, UC's defined benefit plan became "superfunded" due to exceptional investment returns. This means the system had well over 100 percent of the assets needed to pay all accumulated benefits. In response, the UC Regents allowed a "funding holiday" for nearly two decades during which neither UC nor its employees made new contributions to the retirement plan. During the mid-2000s, however, investment returns declined and, in 2009, the university estimated the plan had an unfunded liability. In response, the UC Regents began requiring UC and its employees to contribute to the plan. A June 2015 valuation of the plan estimates its unfunded liability to be $12.1 billion, with the plan having only enough assets to pay 82 percent of accumulated benefits.

***State Provided $96 Million One Time in 2015-16 for Unfunded Liability.*** The *2015-16 Budget Act* provided UC with $96 million for its pension liabilities. (The state scored this funding as a Proposition 2 debt payment.) As a condition of receiving this funding, the state required UC to make a change to its pension benefits. Specifically, the state required UC to establish a pensionable salary limit (the maximum amount of an employee's salary that can be factored into his or her benefit calculation) consistent with the limits specified in the Public Employees' Pension Reform Act (PEPRA). In 2015, this limit is $117,020 for employees covered by Social Security. By contrast, UC's retirement plan currently has a limit of $265,000—the maximum allowed by the federal Internal Revenue Service (IRS). The 2015-16 budget authorized the Department of Finance to release the $96 million to UC once it adopts the change. (Though not specified in the budget, the new pension limit presumably would apply only to new UC employees because California case law generally prohibits reducing pension benefits for current employees.)

***Governor Proposes $171 Million One Time in 2016-17 for Unfunded Liability.*** The proposal includes the same condition specified in the 2015-16 budget.

***UC Task Force Recently Proposed Changes to Retirement Plan for New Employees.*** Following the enactment of the budget in June, the UC President appointed a task force comprised of faculty and administrators across the UC system to consider changes to its retirement plan. In January 2016, the task force publicly released its recommendations. The task force asserts that adopting the PEPRA pensionable salary limit without other corresponding benefit increases would make it more difficult for the university to hire and retain ladder-rank faculty. Under the task force's proposal, UC employees hired on or after July 1, 2016 would have two options for a retirement plan:

- ***First Option.*** An employee can elect to have the existing defined benefit plan but with the PEPRA pensionable salary limit. In addition, the employee can participate in a supplemental defined contribution plan. For the defined contribution plan, UC and the employee would contribute 10 percent and 7 percent, respectively, of any salary between the PEPRA limit and the IRS limit.

- ***Second Option.*** An employee can opt to participate only in the defined contribution plan. UC and the employee would contribute 10 percent and 7 percent, respectively, of salary up to the IRS limit.

UC officials indicate they expect the UC Regents to hear the task force proposal at their March 2016 board meeting.

***Task Force Proposal Does Not Maximize Savings.*** The task force found that adopting the PEPRA pensionable salary limit would reduce UC's annual pension costs by an average of $80 million annually over 15 years. (UC would achieve most of these savings in future years because the change only applies to new employees.) The report also estimated the addition of the defined contribution plan reduces these savings to $15 million. (This estimate assumes 60 percent of new employees would enter into the first option and 40 percent of new employees into the second option.) UC, however, would not bear any investment risk associated with the defined contribution plans. This risk instead would be borne by UC employees.

***Recommend Legislature Have UC Report on Retirement Proposal at Budget Hearings.*** UC could share its task force's proposal at hearings, and the Legislature could consider whether it meets the Legislature's overarching policy objective of reducing retirement costs at UC.

## Meeting Enrollment Growth Expectations for 2016-17

***UC Projecting Decline in Resident Enrollment for 2015-16.*** UC anticipates enrolling 1,300 fewer resident FTE students in 2015-16 compared to 2014-15, with the entirety of the decrease consisting of undergraduate students. UC reports that, throughout spring 2015, it instructed campuses to keep resident enrollment flat in 2015-16 due to uncertainty over the amount of state funding it would receive. UC indicates that campuses responded by enrolling fewer new students in fall 2015. As noted earlier, the 2015-16 budget did not set an expectation for 2015-16 resident enrollment but instead set an expectation for 2016-17.

***UC Anticipates Meeting Undergraduate Enrollment Expectation for 2016-17.*** UC reports that it intends to meet the 2015-16 budget's enrollment growth expectation for 2016-17 by enrolling 5,050 more new freshman and transfer students in fall 2016, as compared to fall 2014. Figure 12 shows UC's growth plan by campus. UC has planned for 45 percent of new enrollment to be at the system's three most selective campuses (Berkeley, Los Angeles, and San Diego).

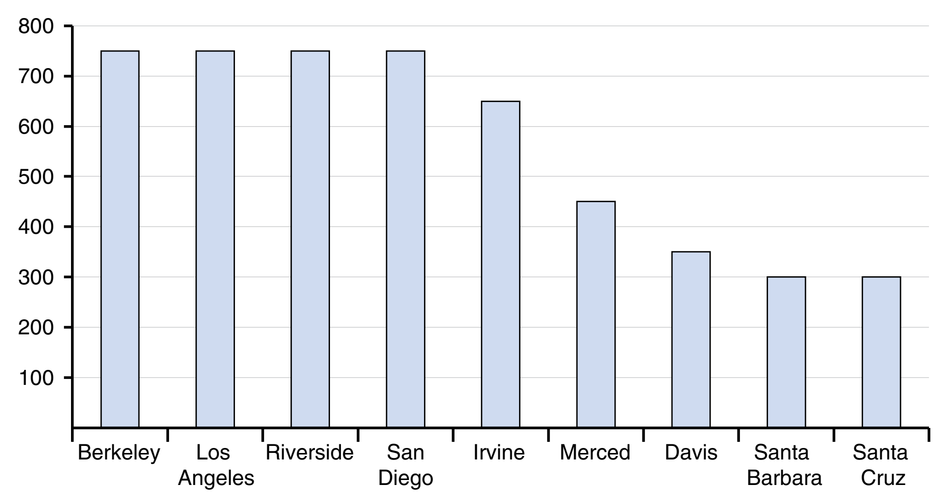
***UC's Plan for Graduate Student Enrollment Growth Unclear.*** Under the Governor's budget, UC does not plan to increase resident graduate enrollment. (For reasons not entirely clear, the Governor's budget documents show UC growing resident graduate enrollment by 423 FTE students.) UC is requesting $6 million on top of the Governor's budget to fund 600 additional resident graduate students (reflecting 1.6 percent growth).

***Recommend UC Clarify Plans Regarding Resident Graduate Enrollment.*** We recommend the Legislature require UC to report in spring budget hearings on its plans for resident graduate

**Figure 12**

**Expected Growth in New UC Undergraduate Students**

*UC's Growth Plan, 2016-17 Compared to 2014-15*



enrollment. Specifically, we recommend UC (1) clarify the number of graduate students it intends to add under the Governor's proposal, (2) identify corresponding growth by campus, and (3) explain its justification for growing resident graduate enrollment at its proposed level.

## Setting Enrollment Target for 2017-18

***State Took New Approach to Enrollment in 2015-16 Budget.*** Traditionally, the state budget has set resident enrollment targets for the budget year. The state took a different approach in the *2015-16 Budget Act* by setting an enrollment target for 2016-17, one year after the budget year.

***Out-Year Enrollment Targets an Effective Tool to Influence Admissions.*** The state's traditional enrollment budgeting approach does not align well with UC's admission calendar. UC makes most admission decisions for its fall term in the early spring, prior to the enactment of the state budget in June. This means the state budget is enacted too late to influence UC's fall admission decisions. The state, however, can influence UC's admissions for the following year by setting a budget-year-plus-one target.

***UC Has Two Enrollment Growth Objectives for Next Few Years.*** One objective is to grow enrollment systemwide by 3,200 resident FTE students in each 2017-18 and 2018-19, for a total of 6,400 new resident FTE students across the two years. A second objective is to almost double enrollment at the Merced campus, growing from about 6,000 FTE students in 2015-16 to 10,000 FTE students in 2020-21.

***A Few Key Factors to Consider in Setting Enrollment Target.*** As noted in the "Higher Education in Context" section, UC has been meeting or exceeding the Master Plan's access goals, indicating it accepts every eligible student within the system. Moreover, demographic projections show declines in the state's college-age population in the coming years. Some campuses, however, historically have relatively low admission rates and, in recent years, have become even more competitive.

***Recommend Legislature Set Enrollment Target for 2017-18.*** To the extent the Legislature desires to grow UC enrollment for 2017-18, we recommend setting an enrollment target (based on FTE students) as part of the 2016-17 budget. We recommend scheduling any associated enrollment growth funding for 2017-18 in this year's trailer bill legislation. This would ensure that funds are appropriated for the year in which the associated enrollment growth occurs. To ensure UC complies with the enrollment expectation, we recommend the Legislature further specify in the trailer legislation that the funding would revert to the state if UC falls below the target by a certain margin.

## Maintenance

***UC Reports Sizeable Backlog of Maintenance Projects.*** UC recently compiled a list of deferred maintenance projects from its campuses. The project list totals $1.2 billion, with 42 percent of the backlog attributable to the San Diego campus, 17 percent to the San Francisco campus, and 11 percent at the Davis campus. UC asserts this list is not exhaustive and understates its total maintenance backlog.

***UC's Expenditure Plan Dedicates $25 Million Ongoing for Maintenance.*** UC asserts this funding will allow it to continue addressing campuses' maintenance backlogs.

***Governor Proposes $35 Million One Time for Deferred Maintenance.*** Similar to a proposal from the Governor in 2015-16, the Governor for 2016-17 calls for deferred maintenance funding for various agencies statewide. The proposal does not identify specific projects, though agencies would be required to submit project lists to the Department of Finance after the enactment of the budget, and the Joint Legislative Budget Committee would have 30 days to review these lists prior to the department approving them.

***UC Lacks Long-Term Maintenance Plan.*** Though UC has begun to identify its backlog by providing the Legislature a list of deferred maintenance projects, it has not yet created a long-term plan to pay down the backlog and prevent future backlogs from developing. Without such a plan, UC's infrastructure may be poorly maintained, potentially driving up future facility costs.

***Consider Establishing Earmark for Maintenance Funding.*** The Legislature could work with UC to develop a reasonable estimate of the amount required to be spent annually to keep UC's maintenance backlog from growing. In effect, this estimate would represent the ongoing amount required to adequately maintain its facilities. Once it has made a reasonable estimate of this amount, the Legislature could consider earmarking funding for this purpose in the annual budget. This would lend much greater transparency to the budgeting of major maintenance, helping the state to track and monitor maintenance funding over time. Providing this earmark every year would ensure UC is not developing a maintenance backlog. If the earmark were suspended a few years, the state would be able to track the resulting backlog and develop plans for eliminating the backlog in subsequent years. As developing an estimate such as the one described above might take several months of work with UC, the Legislature could begin this work now in hopes of it informing next year's budget decisions.

***Consider Building Plan for Eliminating Existing Backlog.*** In tandem with determining an annual earmark for major maintenance that could be used moving forward, the state could work with UC to develop a plan for eliminating its existing maintenance backlog. We believe this plan should identify funding sources and propose a multiyear schedule of payments. Once a reasonable plan has been developed, the Legislature could consider codifying it in trailer legislation. Given UC's backlog appears substantial, developing such a plan likely also will take time, such that if the Legislature were to begin this work now it could help inform next year's budget.

## Academic Quality

***UC's Expenditure Plan Dedicates $50 Million to Academic Quality.*** Under UC's proposal, campuses would have discretion in setting their own priorities for these monies. In conversations with our office, UC has suggested campuses could use the funding to pay for new faculty hires, instructional equipment, and graduate student stipends. Given that this funding is ongoing, this augmentation effectively would increase UC's per-student funding rate.

***Recommend Legislature Require UC to Present a More Detailed Spending Plan.*** In our view, UC's proposal raises concern because campus spending decisions may not align with legislative priorities. We therefore recommend that the Legislature require UC to present a more detailed plan. The plan could include detail on the number of faculty hires for each campus and an analysis as to why hiring additional faculty is needed. To the extent that UC is not able to provide the Legislature with a plan that aligns with legislative priorities, the Legislature could set its own priorities for this funding in the budget.

# CALIFORNIA STATE UNIVERSITY

In this section, we begin with an overview of the Governor's proposed budget for CSU. We then analyze specific CSU revenue and expenditure proposals and make associated recommendations.

## Overview

***Governor's Budget Proposes $9 Billion From All Sources for 2016-17.*** This is a $238 million (3 percent) increase from 2015-16. Of total CSU funding, nearly two-thirds comes from state General Fund and student tuition. These two fund sources support CSU's mission of providing undergraduate and graduate education. CSU also operates various enterprises, such as student dormitories and parking facilities. The remainder of CSU's revenue generally supports these other operations.

***Governor Proposes to Continue Main Features of Long-Term Funding Plan for CSU.*** In 2013-14, the Governor announced a four-year funding plan for CSU. The plan consists of annual base increases for CSU equal to his proposed base increases for UC (5 percent of UC's base budget in 2013-14 and 2014-15 and 4 percent in 2015-16 and 2016-17). The plan calls for CSU to have full discretion in spending these funds, though it requires CSU to keep tuition flat. For 2013-14 and 2014-15, the state budget generally followed the Governor's plan. The 2015-16 budget, however, departed from the plan by providing CSU a much larger General Fund increase than UC. It also set an enrollment expectation for CSU. For 2016-17, the Governor proposes a continuation of the main contours of his long-term plan—no tuition increases and significant discretion for CSU to spend its monies—though he proposes a larger base increase for CSU than the one he proposes for UC.

***Governor Proposes to Increase General Fund by $187 Million (6 Percent) in 2016-17.*** Figure 13 (see next page) summarizes the Governor's revenue assumptions and CSU's corresponding expenditure plan for 2016-17. The Governor proposes a $148 million (5 percent) ongoing unrestricted General Fund increase and an additional $27 million General Fund increase for retiree health. The Governor also proposes one-time General Fund of $35 million for deferred maintenance. These increases are offset by $25 million in expiring one-time funds provided in 2015-16 for deferred maintenance.

***Governor Assumes Tuition Revenue Increases $16 Million (1 Percent).*** This increase comes entirely from enrollment growth. CSU does not propose increasing systemwide fee levels in 2016-17.

***Four Key Issues Before the Legislature.*** CSU developed an expenditure plan that is based on the level of funding provided in the Governor's budget. Below, we analyze key features of this plan: employee compensation, enrollment growth, maintenance, and a small set aside for either student success initiatives or capital outlay, as yet not determined. As we have discussed in past years, we have major concerns with the Governor's approach to allow CSU to set its own spending priorities without broader state involvement. We continue to recommend the Legislature itemize funding in the budget for high state priorities.

## Compensation

***State Funds CSU Compensation in a Few Different Ways.*** Current budgetary practice is for the state to provide funding augmentations for two specific areas of CSU compensation. First, the state funds the portion of CSU's pension cost increases linked to the system's 2013-14 payroll. Though not shown in Figure 13 due to initial timing issues, this increase is estimated to be $52 million for 2016-17. (The state began this practice in 2013-14 as a way to encourage CSU to consider pension costs in its new hiring and salary decisions.) Second, the state funds CSU's retiree health benefit cost increases. This increase is estimated to be $27 million for 2016-17. The state expects CSU to cover any other increases in compensation costs from its unrestricted base increase.

***CSU Proposes to Spend $112 Million on Compensation.*** Of CSU's proposed higher spending, about two-thirds ($112 million) is related to employee compensation not funded separately by the state. Specifically, CSU proposes spending $70 million to increase salaries by 2 percent, $37 million to pay for active employee health benefit rate increases, and $7 million for pension cost increases above its 2013-14 payroll.

***CSU's Proposed Spending on Compensation Generally in Line With Inflation.*** CSU's proposed compensation spending increase is approximately 2.5 percent of its General Fund and tuition base budget. (This base budget excludes funding for retiree pension benefits based on 2013-14 payroll and health benefits because the state funds them separately.) This percent roughly aligns with estimated inflation rates for 2016-17.

## Enrollment

***State Took New Approach to Enrollment in 2015-16 Budget, Set Target for 2016-17.*** Traditionally, the state budget sets resident

**Figure 13**

**California State University Budget**

*(In Millions)*

| Revenues[a] | Amount |
|---|---|
| **2015-16 Revised** | |
| General Fund | $3,297 |
| Tuition | 2,273 |
| **Total** | **$5,570** |
| **2016-17 Changes** | |
| General Fund | $187 |
| Tuition[b] | 16 |
| **Total** | **$203** |
| **2016-17 Proposed** | |
| General Fund | $3,484 |
| Tuition | 2,288 |
| **Total** | **$5,772** |
| **Changes in Spending** | |
| **CSU's Plan for Unrestricted Funds** | |
| Employee compensation increase (2 percent) | $70 |
| Resident enrollment growth (1 percent) | 37 |
| Employee health benefits | 35 |
| Lease-revenue debt service | 8 |
| Pension benefits[c] | 7 |
| Maintenance of newly constructed facilities | 1 |
| Other[d] | 7 |
| Subtotal | ($164) |
| **Restricted General Fund** | |
| Deferred maintenance (one time) | $35 |
| Retiree health benefits | 27 |
| College Textbook Affordability Act (ongoing) | 2 |
| Remove one-time funding in 2015-16 | -25 |
| Subtotal | ($39) |
| **Total** | **$203** |

[a] Reflects General Fund, including most appropriations outside of CSU's main appropriation. Reflects tuition after discounts. In 2016-17, CSU is projected to provide $668 million in discounts.

[b] Generated from 1 percent enrollment growth.

[c] Reflects higher pension costs that CSU must fund from within its base increase. The state is providing CSU an estimated $52 million (not shown) for higher pension costs attributed to its 2013-14 payroll level.

[d] CSU has not yet specified how it would allocate this funding. It has identified capital improvements and student success initiatives as possible priorities. This amount slightly differs from CSU's Academic Sustainability Plan due to different tuition revenue assumptions made by the Governor and CSU.

enrollment targets for the budget year. The state took a different approach in the *2015-16 Budget Act* by setting an expectation for CSU to enroll 10,400 more resident FTE students by 2016-17, as compared to 2014-15. The state took this approach in recognition of the fact that CSU had made most of its fall admission decisions prior to the state budget being finalized in June.

***CSU Indicates It Expects to Meet Enrollment Target in 2015-16.*** CSU currently estimates that 2015-16 enrollment will grow by 11,538 FTE students (3.2 percent) over 2014-15. CSU indicates it had not expected enrollment to be this high as of June 2015. Given its current enrollment level, CSU will have exceeded its 2016-17 target in 2015-16.

***CSU Plans to Spend $37 Million to Grow Enrollment 1 Percent Over 2015-16 Level.*** Under the Governor's proposal, CSU indicates it would grow enrollment by 3,713 FTE students in 2016-17.

***Various Factors for Legislature to Evaluate in Deciding Whether to Grow Enrollment.*** As noted in the "Higher Education in Context" section of this report, CSU likely is drawing from beyond its freshman eligibility pool, yet it is denying admission to eligible transfer students. Given these factors, the Legislature could consider targeting CSU enrollment growth funding to additional transfer enrollment. The Legislature also could consider changing its policy for CSU freshman eligibility, though any such changes would have significant implications moving forward for CSU enrollment, enrollment at the other higher education segments, and state costs. (The Legislature may wish to wait at least one year before considering such changes, as a CSU freshman eligibility study currently is underway.)

***If Further Enrollment Growth Desired, Recommend Target for 2017-18.*** As with UC's admission decisions, CSU's decisions are not well aligned with the timing of the state budget process. (CSU is not affected by this misalignment as much as UC. This is because CSU has a larger spring admission cycle that can help it meet budget-year enrollment targets.) If the Legislature desires to grow CSU enrollment, we recommend setting an enrollment target for 2017-18 and scheduling any associated appropriation for 2017-18 in this year's trailer legislation. To ensure CSU complies with the enrollment expectation, we recommend the Legislature specify in the trailer legislation that funding would revert if CSU falls below the target by a certain margin.

## Deferred Maintenance

***CSU Reports Sizeable Backlog of Maintenance Projects.*** CSU estimates that campuses have accumulated a maintenance backlog of $2.6 billion, with nearly $2 billion for facilities and the remainder for campus infrastructure. More than half of this backlog is concentrated in seven (of CSU's 23) campuses (Los Angeles, Chico, San Luis Obispo, Fresno, San Diego, San Francisco, and Sacramento). CSU estimated the facility component of the backlog using a statistical model that calculates the expected lifespan of building systems. It estimated the infrastructure component of the backlog by undertaking campus assessments. CSU estimates it would need to set aside $181 million annually to prevent its maintenance backlog from growing.

***Governor Proposes $35 Million One Time for Deferred Maintenance.*** This proposal for CSU is part of a larger package of deferred maintenance funding for various agencies statewide. The overall proposal does not require agencies initially to identify specific maintenance projects, though agencies would be required to submit project lists to the Department of Finance after enactment of the budget. The Joint Legislative Budget Committee would have 30 days to review these lists prior to the department approving them.

***CSU Making Progress in Tracking Maintenance, but Still Lacks Plan for Backlog.*** In past years, our office has recommended that state agencies develop a long-term plan that identifies how much funding they need to set aside annually for maintenance to prevent a growing backlog. CSU appears to be making efforts in this direction by attempting to estimate its long-term maintenance needs. CSU, however, has not yet identified a plan to retire its existing backlog of deferred maintenance.

***Consider Establishing Earmark for Maintenance Funding.*** The Legislature could review CSU's estimate of the amount required to be set aside for maintenance. If the Legislature determines this amount to be reasonable, it could consider earmarking funding for this purpose in the annual budget. This would lend much greater transparency to the budgeting of major maintenance, helping the state to track and monitor maintenance funding over time. As reviewing an estimate such as the one described above might take several months of work with CSU, the Legislature could begin this work now in hopes of it informing next year's budget decisions.

***Consider Building Plan for Eliminating Existing Backlog.*** In tandem with determining an annual earmark for major maintenance that could be used moving forward, the state could work with CSU to develop a plan for eliminating its existing maintenance backlog. We believe this plan should identify funding sources and propose a multiyear schedule of payments. Once a reasonable plan has been developed, the Legislature could consider codifying it in trailer legislation. Given CSU's backlog appears substantial, developing such a plan likely also will take time, such that if the Legislature were to begin this work now it could help inform next year's budget.

## Other Expenditures

***CSU Left $7 Million Undesignated in Its Expenditure Plan.*** After specifying how it would spend the bulk of its funding under the Governor's proposal, CSU left $7 million undesignated. CSU indicates it might spend this money on either student success initiatives or capital outlay projects. We describe both of these below.

***CSU Seeks to Improve Graduation Rates Through Student Success Initiatives.*** In recent years, CSU campuses have begun to implement new initiatives to improve graduation rates. These initiatives tend to vary by campus, but generally include hiring additional faculty, improving advising methods, and redesigning courses. In 2015-16, CSU expects to increase spending on these initiatives by $38 million. Given the funding is ongoing, this augmentation effectively increases CSU's per-student funding rate.

***CSU's Capital Outlay Plan Includes New Space and Improvements to Existing Space.*** CSU's 2016-17 capital outlay request includes 21 projects totaling $535 million. To pay for these projects, CSU would issue bonds worth $473 million in the coming year, and campuses would provide the remaining funds from their operating reserves. The projects include $194 million for new facility space at eight campuses and $341 million for improvements and renovations to facilities and infrastructure at every campus across the system. CSU estimates the total debt service on these projects would range from $30 million to $47 million, depending on market conditions at the time the bonds are sold. Because this amount exceeds the $7 million available in CSU's expenditure plan, CSU indicates it would fund a subset of these projects under the Governor's proposal. (Under current law, the Legislature only has until April 1 to review CSU's capital outlay proposals.)

***Recommend Legislature Direct CSU to Provide Additional Details on Expenditure Plan.*** We recommend the Legislature require CSU to present a detailed plan in March budget hearings for the $7 million it left undesignated in its expenditure plan. For student success initiatives, this plan should include information on how CSU would distribute funding to each campus, how campuses would use the funding, and how CSU is tracking the effectiveness of the initiatives. For capital outlay, the plan should include the specific list of projects CSU would undertake.

# CALIFORNIA COMMUNITY COLLEGES

In this section, we provide background on the community colleges; summarize the Governor's budget for the CCC system; discuss his specific CCC proposals related to workforce education, apportionment funding, and basic skills and other categorical programs; provide our assessment of those proposals; and offer associated recommendations for the Legislature's consideration. (We discuss the Proposition 98 minimum guarantee and cross-cutting K-14 education issues in our *Proposition 98 Education Analysis.*)

***System Supported Primarily by Proposition 98 Funds.*** The main sources of support for community colleges include Proposition 98 General Fund, local property tax revenue, and enrollment fees. The CCC's share of Proposition 98 funding traditionally is 10.9 percent, though this share has fluctuated somewhat over time. In addition, the state provides non-Proposition 98 General Fund for CCC general obligation bond debt service, teacher retirement costs, and Chancellor's Office operations.

***State Has Provided Large Augmentations in Recent Years.*** Annual CCC funding in 2015-16 was $2.2 billion (33 percent) higher than in 2007-08 (the previous peak), not adjusted for inflation. Over the past few years, growth has been particularly notable, with annual funding in 2015-16 $2.9 billion (47 percent) higher than in 2011-12. Major ongoing augmentations since 2011-12 have included more than $1 billion in apportionment funding for enrollment growth, cost-of-living adjustments (COLAs), faculty salaries, and higher funding rates for certain courses; $620 million in categorical support for student success, student equity, and other student support services; and $500 million for an Adult Education Block Grant for school districts and community colleges.

## Overview of Governor's CCC Budget Proposals

***Proposes to Increase CCC Proposition 98 Funding by $262 Million (3 Percent) Over Revised 2015-16 Funding.*** As shown in Figure 14 (see next page), the *2016-17 Governor's Budget* increases Proposition 98 funding for CCC to $8.3 billion. The proposed budget includes $438 million in ongoing programmatic increases and $358 million in one-time funding. (The Governor's budget package includes an additional $38 million in one-time funding available from prior years.) These programmatic increases are partly offset by the removal of prior-year, one-time spending and other technical adjustments. Under the Governor's proposal, CCC would receive 10.9 percent of total Proposition 98 funding in 2016-17 (excluding the $500 million Adult Education Block Grant from the calculation).

***Major Proposed Augmentations.*** Figure 15 (see next page) shows the changes the Governor proposes for community college Proposition 98 spending in the current and budget years. Major base increases in 2016-17 include $248 million

**Figure 14**

## California Community College Funding

*(Dollars in Millions)*

| | 2014-15 Actual | 2015-16 Revised | 2016-17 Proposed | Change From 2015-16 Amount | Change From 2015-16 Percent |
|---|---|---|---|---|---|
| **Proposition 98 Funds** | | | | | |
| General Fund[a] | $4,979 | $5,373 | $5,447 | $74 | 1% |
| Local property taxes | 2,302 | 2,624 | 2,812 | 188 | 7 |
| Subtotals | ($7,281) | ($7,997) | ($8,259) | ($262) | (3%) |
| **Other Funds** | | | | | |
| Non-Proposition 98 General Fund[b] | $387 | $440 | $524 | $84 | 19% |
| Enrollment fees | 410 | 420 | 426 | 6 | 1 |
| Lottery | 189 | 202 | 202 | — | — |
| Special funds and reimbursements | 86 | 95 | 95 | — | — |
| Subtotals | ($1,072) | ($1,157) | ($1,247) | ($90) | (8%) |
| **Totals** | **$8,353** | **$9,154** | **$9,506** | **$352** | **4%** |

[a] Includes $23 million in 2014-15 and $25 million in 2016-17 for innovation awards. Beginning in 2015-16, includes $500 million for Adult Education Block Grant, of which more than $400 million goes to school districts.

[b] Includes funding for state contributions to the State Teachers Retirement System and state general obligation bond debt service.

**Figure 15**

## CCC Proposition 98 Spending Changes

*(In Millions)*

| | |
|---|---|
| **2015-16 Budget Act Spending Level** | **$7,914** |
| Pay down mandate backlog (one time) | 73 |
| Technical adjustments | 11 |
| **Total Changes** | **$83** |
| **Revised 2015-16 Spending** | **$7,997** |
| **Technical Adjustments** | |
| Remove one-time spending | -$372 |
| Other technical adjustments | -90 |
| Subtotal | (-$461) |
| **Policy Changes** | |
| Fund deferred maintenance and instructional equipment (one time) | $255 |
| Implement workforce recommendations of BOG task force | 200 |
| Fund 2 percent enrollment growth | 115 |
| Make CTE Pathways Initiative ongoing | 48 |
| Augment Basic Skills Initiative | 30 |
| Provide 0.47 percent COLA for apportionments | 29 |
| Fund Innovation Awards at community colleges (one time) | 25 |
| Increase funding for Institutional Effectiveness Initiative | 10 |
| Fund development of "zero-textbook-cost" degree programs (one time) | 5 |
| Improve systemwide data security | 3 |
| Increase apprenticeship reimbursement rate | 2 |
| Provide 0.47 percent COLA for selected student support programs | 1 |
| Subtotal | ($723) |
| **Total Changes** | **$262** |
| **2016-17 Proposed Spending** | **$8,259** |

BOG = Board of Governors; CTE = Career Technical Education; and COLA = cost-of-living adjustment.

for career technical education (CTE), of which $200 million is to implement the recommendations of a Board of Governors task force on workforce education and $48 million is to make the expiring CTE Pathways Initiative ongoing. Other significant increases include $115 million for 2 percent enrollment growth, $31 million for a 0.47 percent COLA on apportionments and selected categorical programs, and $30 million to improve basic skills instruction. We discuss each of these augmentations later in this section.

***No Change to Enrollment Fee Levels.*** The Governor proposes no change to the current enrollment fee amount of $46 per credit unit (or $1,380 for a full-time student taking 30 units per year). This fee has remained unchanged since 2011-12. The Board of Governors Fee Waiver program waives enrollment fees for nearly half of students, accounting for two-thirds of units taken at the community colleges. Community colleges continue to offer noncredit instruction at no charge.

## Workforce Proposals

The Governor's budget includes two main workforce education proposals for the community colleges. The first proposal is to create a large new program to support CTE. The second is to re-establish an otherwise expiring CTE program. Below, we provide background on CCC's existing workforce education activities, describe the Governor's workforce education proposals, and provide our assessment and recommendations.

### Background: Several CCC Programs Support Workforce Education

***More Than One-Third of CCC Instruction Is Workforce-Related.*** This estimate is based on enrollment in basic skills and occupational courses. Basic skills courses include elementary and secondary math, reading, writing, and English as a second language. Student enrolling in these courses may be improving their skills in order to be able to enter the workforce. Students enrolling in occupational courses may be seeking applicable certificates or associate degrees, or learning new skills to help them advance their careers. Altogether, these courses generate more than $2 billion in annual apportionment funding for community colleges.

***CCC Pilot Program Will Offer Bachelor's Degree in Occupational Fields.*** Over the next two years (2016-17 and 2017-18), 15 colleges will begin offering a bachelor's degree in an occupational field as part of a CCC pilot program. The Board of Governors selected pilot colleges based on several factors identified in statute, including documented local or regional unmet workforce needs in the subject area of the degree. In addition, statute specifies that CCC bachelor's degree programs may not duplicate curricula already offered by CSU or UC. Approved programs include dental hygiene, mortuary science, health information technology, aerospace manufacturing technology, and industrial automation, among others. Legislation directs our office to conduct an interim evaluation of the pilot by July 1, 2018 and a final evaluation by July 1, 2022. The pilot program is scheduled to sunset in 2023.

***Four CCC Categorical Programs Address Unique CTE Issues.*** These programs, described below, provide $136 million for direct instruction, planning and coordination, and student services related to workforce education.

***Apprenticeship Program Supports Classroom Instruction That Accompanies On-the-Job Training.*** During an apprenticeship, apprentices receive supervised, hands-on training from an employer and take classes relevant to their trade. This categorical program reimburses school districts and community colleges for classroom instruction related to approved apprenticeship programs. Most apprenticeship instruction offered by the community colleges provides college credit, and all apprenticeship instruction, whether provided by colleges or school districts, is reimbursed on an hourly basis at the same rate as CCC credit instruction. In 2015-16, the state is providing a total of $51.9 million for apprenticeship instruction ($20.5 million for school district instruction, $16.4 million for community college instruction, and $15 million for ongoing development of new apprenticeship programs regardless of provider).

***CTE Pathways Program Funds Consortia of Community Colleges and High School Districts.*** The goal of this grant program is to help regions develop sustainable CTE pathways among schools, community colleges, and regional business and labor organizations. The grants are to help consortia meet eight specific objectives identified in the program's authorizing legislation. These objectives include aligning secondary and postsecondary CTE programs to create seamless transitions for students, providing professional development to facilitate CTE partnerships, and increasing the number of students who engage in work-experience programs. The Legislature created the CTE Pathways Program in 2005, reauthorized it in 2012, and has provided $48 million each year since reauthorization. The program was set to expire at the end of 2014-15, but the 2015-16 budget provided an additional $48 million and extended the program one more year. Of the $48 million provided in 2015-16, $33 million is going to community college CTE programs and $15 million to high school programs. The community college portion supports a mix of specialized programs (such as Career Advancement Academies, which provide basic skills instruction in a CTE context for students who dropped out of high school or are otherwise underprepared) and more centralized efforts (such as a network of regional industry liaisons for the colleges). The majority of the school district funding ($9 million) goes to the California Partnership Academies, a California Department of Education (CDE) categorical program supporting small high school learning communities, each with a career theme. (Last year, the state created a new competitive CTE grant program for high schools. The state committed to provide a total of $900 million for the program over a three-year period, 2015-16 through 2017-18.)

***Economic and Workforce Development (EWD) Program Supports Statewide and Regional Coordination.*** Under this longstanding program, the Chancellor's Office has used labor market analysis to define 15 economic regions and identify 10 priority industry sectors. In 2013-14, the program funded six initiatives, summarized in Figure 16, to improve the delivery of CTE within these economic regions and industry sectors. (The program has not yet reported on its more recent projects.) The 2013-14 initiatives emphasized collaboration among community colleges, employers, labor unions, civic organizations, and economic and workforce development officials in meeting workforce needs. The program also has established common performance measures designed to apply to all CCC workforce programs.

***State Provides Supplemental Funding for Nursing Education.*** The purpose of this program is to increase the number of students who complete CCC nursing programs and pass the national licensure exam for registered nurses. Specifically, the program provides funding to create additional enrollment slots, identify (through diagnostic assessment) students who are ready to enter a nursing program, provide pre-entry preparation for students who do not pass the assessment, and provide support (such as tutoring) for enrolled students to reduce attrition. The Chancellor's Office annually allocates to each nursing program $5,700 per additional enrollment slot (over a baseline level) to expand capacity and a base grant of $32,000 to $50,000 for student assessment and retention activities. In addition to paying for direct instructional and support services, funds may be used for equipment purchases and faculty professional development related to the program goals.

***Career Technical Education Students May Receive Financial Aid.*** In addition to the CCC categorical programs described above, the state supports CTE through need-based student financial aid programs. Community college students may qualify for one or more of these programs if they demonstrate financial need and meet other requirements. CCC Board of Governors fee waivers cover enrollment fees. The Cal Grant B access award, administered by CSAC, provides up to $1,656 annually for books, supplies, and living expenses for students enrolled in a certificate or degree program of one year or more. Community college students who are recent high school graduates and meet certain eligibility requirements are guaranteed a Cal Grant B award. Other students, including those who have been out of school for more than one year, must compete for a limited number of Cal Grant B awards. A supplemental award funded through a CCC categorical program provides $600 annually for Cal Grant B recipients who attend CCC full time, bringing their total award to $2,256. Students who do not qualify for a Cal Grant B award (mainly because they are in a program shorter than one year in length or have been out of school longer than a year, as many CTE students have been), may apply for a limited number of Cal Grant C awards. These Cal Grant awards provide $547 annually for books and supplies for CCC students enrolled in a vocational program four months to two years in length. Students also may apply for federal financial aid, including Pell Grants, education tax credits, and federal student loans.

### Background: Board of Governors Strong Workforce Task Force

***Board of Governors Commissioned Task Force to Recommend Improvements in CTE.*** The board established the *Task Force on Workforce, Job Creation, and a Strong Economy* in late 2014. The board appointed 26 members from inside and outside of the CCC system, including leaders from the Chancellor's Office and community colleges, the business community, organized labor, public agencies involved in workforce training and K-12 education, and community-based organizations. The group collected input on CTE issues through a series of regional community college meetings,

**Figure 16**

**Economic and Workforce Development (EWD) Program**

*2013-14 Initiatives (In Millions)*

| Initiative | Description | Amount |
|---|---|---|
| **Deputy Sector Navigators** | Industry experts who connect businesses and community colleges within a region to enhance alignment between career pathways and employer needs. | $13 |
| **Sector Navigators** | Industry experts for each of the ten priority industry sectors who coordinate the deputy sector navigators and perform similar work at a statewide level. | 6 |
| **Industry-Driven Regional Collaboratives** | Regional networks of public, private, and community-based organizations that support CCC efforts to meet regional industries' training and education needs. | 2 |
| **Centers of Excellence for Labor Market Research** | Labor market and data resource centers for education and industry stakeholders that provide real-time and forecasted regional labor market research. | 1 |
| **Technical Assistance Providers** | Contractors who provide expertise and technical assistance in specific areas of need to the Chancellor's Office, colleges, and other EWD grantees. | 1 |
| **CTE LaunchBoard** | Online data tool funded in part by EWD that provides the Chancellor's Office and colleges with CTE performance data, including transitions from K-12 CTE programs to colleges, college enrollment and completions, attainment of industry or state certifications, employment in field of study, and earnings. | — |
| **Total** | | **$23** |

CTE = career technical education.

town hall meetings, and public task force meetings spanning from November 2014 through July 2015.

***Task Force Identified Workforce Education and Training Priorities.*** Based upon its meetings and the input it received, the task force identified a set of workforce priorities. These priorities include securing adequate funding for high-cost CTE programs, including a stream of funding to keep equipment and facilities up to date with industry developments; speeding the development and approval of new programs in response to workforce needs; increasing colleges' flexibility to hire experienced professionals to teach certain skills courses; providing learning opportunities that better align across educational levels within a region and focus on attainment of skills and competencies; expanding student support services; and improving the use of labor market and student success data to inform program planning. The task force developed 76 detailed recommendations related to these priorities. While some funding for coordination could help, CCC could implement most of the task force's recommendations with existing funding and authority.

***A Few Task Force Recommendations Could Require Legislation or Funding.*** These include targeting funds for high-cost CTE programs (including funds for equipment), removing statutory barriers to hiring CTE faculty who may have industry experience in place of formal education, and increasing financial aid for CTE students.

***Board Adopted Task Force Report, Requested Additional State Funding.*** At its November 2015 meeting, the Board of Governors formally adopted the task force recommendations. The board already had included a $200 million funding request in its system budget, approved in September 2015, as a placeholder pending finalization of the task force report. The funding request called for a sustained, supplemental funding source to increase community colleges' capacity to create, adapt, and maintain CTE courses and programs that respond to regional labor market needs. The request specifically called for funding to offset the high cost of CTE programs and provide a funding stream to purchase equipment and outfit facilities.

## Governor's Proposals

***Proposes Large New Workforce Education Program.*** The proposed budget includes $200 million in ongoing Proposition 98 General Fund support for a new "Strong Workforce Program." This amount would fully fund the Board of Governors' request. The purpose of the program would be to expand the availability of quality CTE and workforce development courses, pathways, and programs resulting in certificates, degrees, and other credentials.

***Proposes Regional Planning Approach for New Workforce Program.*** Under the proposed process, CCC would coordinate its CTE programs within 14 regions identified under the state's implementation of the federal Workforce Innovation and Opportunity Act (WIOA) "to the extent possible." (Five of the WIOA regions coincide with five of CCC's 15 economic regions, as defined for the EWD program, and nine have various degrees of overlap with the remaining ten CCC regions.) Within these regions, CCC would create "collaboratives" of community college districts, local education agencies, interested CSU and UC campuses, civic representatives, workforce development boards, representatives from the organized labor community, and economic development and industry sector leaders. Collaboratives would meet at least annually to develop four-year plans to meet regional workforce education needs. These plans would include a needs assessment based on regional labor market analyses, efforts to coordinate existing programs in the region, student success goals, and work plans for meeting regional priorities. The proposed planning process mirrors the existing planning process for regional consortia under the state's Adult Education Block Grant program. Under that program, 71 consortia of school districts and community colleges, working with the same types of partner organizations, develop similar plans based on similar data and criteria.

***Requires Chancellor's Office to Implement Performance Measures.*** The proposal calls for the Chancellor to align the measures, to the extent possible, with federal WIOA performance measures. (These include measures of degree and certificate completion, employment, and earnings.) Collaboratives would set measurable goals for performance in each of these areas and provide annual updates of their progress in meeting the goals. The Chancellor would post regional plans on CCC's website. Beginning January 1, 2018, the Chancellor would be required to report annually to the Governor and Legislature on each region's performance outcomes (disaggregated for underserved demographic groups). As part of these reports, the Chancellor would be required to provide recommendations for program improvement and for future allocations to collaboratives based on program outcomes.

***Tasks Chancellor's Office With Developing Allocation Formula for New Workforce Program.*** Under the proposal, the Chancellor would recommend a funding allocation to the Department of Finance for approval prior to distributing funds. The allocation would reflect each region's share of the state's: (1) unemployment, (2) CTE enrollment, (3) projected job openings, and (4) after the first year, successful performance outcomes. Each collaborative would designate one community college district to serve as a fiscal agent to receive and distribute funds. The Chancellor could reserve up to 5 percent of annual program funding for statewide coordination activities.

***Leaves Distribution of Funds Within Region to Community College Districts.*** The Governor's proposed legislation calls for the regional collaboratives to allocate funds in accordance with their plans. In an apparent contradiction, the proposal also requires that any decisions relating to the distribution of funds be determined exclusively by the community college districts participating in a collaborative. The proposal requires that districts receiving an allocation use the region's plan to inform their campus CTE planning, but it does not specify what types of activities colleges could support with the funding.

***Requires Chancellor's Office to Make Recommendations to Board of Governors Regarding Workforce Efforts.*** The recommendations would include policies, regulations, and guidance necessary to facilitate sharing of best practices and curricula across colleges, streamline course and curriculum approval, and eliminate barriers to hiring qualified instructors (including reevaluating the required minimum qualifications for CTE instructors), among other efforts. The Chancellor is to present the recommendations by June 30, 2017. (See the box on page 42 for a discussion of the curriculum approval process.)

***Makes Otherwise Expiring CTE Pathways Program Ongoing.*** The budget also includes $48 million in ongoing funding to make the CTE Pathways Program ongoing. The Governor proposes that future CTE Pathways funding "align" with the regional plans developed under the Strong Workforce Program, but the Pathways program would continue to have separate statutory requirements.

***Increases Funding Rate for Apprenticeship Instruction.*** This proposal is consistent with last year's action to bring the reimbursement rate for apprenticeship instruction up to the funding rate for noncredit Career Development and College

Preparation (CDCP) courses, which is now the same as the rate as for credit courses. (Unlike the CDCP rate, which increases automatically as a result of COLA, faculty salary augmentations, and other apportionment increases, the apprenticeship rate is specified as a fixed dollar amount in the annual budget act and must be adjusted each year.) The proposed adjustment costs $1.8 million.

### Assessment of Governor's Overall CTE Proposal

***Mixed Review of Proposal.*** We think some aspects of the Governor's Strong Workforce proposal are reasonable. In general, we believe the program's objectives are in line with legislative priorities but the Governor's approach to meeting these objectives is unlikely to result in the desired improvements. Below, we discuss these issues.

***Unclear if Recent Augmentations Have Resulted in Notable Improvements.*** Before spending more on CTE, the state likely would want to know the effect of its former CTE augmentations. Over the last decade, the state has provided more than $500 million in CTE Pathways funding, $500 million in Career Pathways Trust funding (a similar grant program for community colleges and high schools funded in 2013-14 and 2014-15), $350 million for the Economic and Workforce Development Program, and support for several other smaller categorical programs to improve

### Curriculum Approval Process

***Lengthy Process.*** To develop new CTE programs, faculty members typically work with local advisory committees that include industry representatives. New curriculum proposals require approval from a college, a district governing board, a regional consortium, and the Chancellor's Office before they can be implemented. The role of the Chancellor's Office is to ensure that proposed courses and programs comply with all statutory and regulatory requirements to qualify for apportionment funding. Completing these steps often can take two years or longer. This extended time line is especially problematic in occupational fields with frequent industry changes.

***Governor Interested in Expediting Process.*** The Governor proposes that the Chancellor make recommendations to the Board of Governors regarding streamlining curriculum approval, at both the state and local levels, including potentially eliminating the state approval process for CTE courses, programs, and certificates.

***Options for Improving Process Without Reducing Accountability.*** We are concerned about the Governor's proposal to consider eliminating the Chancellor's Office role in CTE curriculum review. Currently, the office's review provides a way to ensure taxpayer resources are used appropriately and to take corrective action if necessary. Internal policy changes, however, could reduce duplication in review processes while still retaining this important state function. For example, colleges could collaboratively develop model CTE programs that meet CCC and industry standards. Such models have the potential to speed the curriculum development and approval process (much as they did for associate degrees for transfer under the state's recent transfer reform initiative). Potential CCC policy changes could include specifying the respective roles for each curriculum review, minimizing overlap among them, and providing a fast-track approval process for programs that meet the requirements of model curricula. These changes would require no additional state action.

the coordination, alignment, supply, and quality of CTE programs. Given these large infusions of funding, some of the ongoing issues the Board of Governor's task force identified raise a number of questions for the Legislature. In particular, why does the state still face widespread problems of course and program alignment? Why has effective coordination across providers and with employers proved so difficult to accomplish? How would providing another large influx of resources for similar activities, as the Governor proposes, yield better results?

***Governor's Proposal Contributes to Even More Duplication of Planning Efforts.*** The Governor's proposal to create a regional planning process for CTE programs that so closely mirrors the adult education consortium planning process would add significant duplication of efforts that already are plagued by a troubling level of duplication. Moreover, continuing the CTE Pathways Program would maintain another similar regional planning process. Finding a way to integrate adult education and CTE planning efforts within existing WIOA planning processes under the state's workforce development boards would reduce the administrative burden on colleges and their planning partners, including employers.

***Governor's Proposal Does Not Link Funding to Root Issues.*** The Governor's proposal does not require any particular programmatic activities for community colleges (other than participating in planning). Under his proposal, it is unclear to what extent funds would directly support increased enrollment in instructional programs versus other uses, such as planning, collaboration, professional development, and equipment. A more structured approach would better connect funding to program objectives. A more structured approach would be based on a clear definition of the problems the state is trying to address, their root causes, and specific strategies to address those causes. It would distinguish between those issues the CCC system already can address and those that require state funding or authority. Below, we discuss three areas where a new state program could have a direct positive impact on longstanding concerns regarding CTE program availability and student success: (1) high-cost courses, (2) faculty qualifications, and (3) student financial aid.

### Addressing High-Cost Programs

***Offsetting High Costs of Some CTE Programs Has Merit.*** As explained in the box on page 44, some CTE courses are relatively expensive to deliver. Because these courses receive the same funding rate per student as other courses, their relatively high cost creates a disincentive for colleges to expand their availability. Community colleges in the past typically have increased their CTE enrollment more slowly than other types of enrollment during periods of growth, and decreased it more quickly during funding reductions. (For example, in 2014-15, CTE enrollment was about the same level it had been ten years earlier whereas non-CTE enrollment was 15 percent higher.) A funding mechanism that offsets the higher cost of creating and expanding CTE programs (when justified by labor market demand) could reduce this disincentive and encourage the colleges to expand and maintain CTE enrollment.

***Ongoing Funding Stream for Equipment Would Address Major Cost Driver.*** Under the Governor's proposal, collaboratives could fund equipment and other one-time costs, such as program startup, from their regional allocations. They also, however, could choose to incorporate all their funding into base budgets for existing programs, leaving none available for new program development and equipment purchases over the long term. To remain available for these periodic (but not annual) costs, a targeted, ongoing funding stream would have to be kept separate from CTE programs' base budgets.

***Other Approaches Would Be Problematic at CCC.*** Two other approaches for supporting high-cost programs—differential funding and fees—would be extremely difficult to implement in California. The state lacks systematic cost data on which it could base course-specific funding rates. Moreover, under a more differentiated funding model, a college would not necessarily receive more total funding because lower-cost courses would receive lower rates. The state also has limited capacity for increasing revenue through higher fees, particularly if any new revenue is offset by additional financial aid for low-income students. Recent CCC fee increases yielded almost no new revenue because of increases in the number of students qualifying for fee waivers.

### Addressing Faculty Requirements

***Board of Governors Establishes Minimum Faculty Qualifications.*** These qualifications are set for each discipline based on recommendations of the statewide Academic Senate. For academic disciplines (which include some CTE subjects), the minimum qualification is a master's degree. For many CTE areas, a master's degree is not generally expected (or available). For these disciplines, the minimum qualification is a bachelor's degree in any major and two years of experience in the occupational area of the assignment, or an associate degree and six years of experience. Each community college district may establish "equivalency" criteria for a degree, for example, allowing relevant work experience or industry certifications to satisfy a portion of the educational requirement.

***Qualifications Apply to Entire Disciplines.*** The statewide discipline qualifications and locally determined equivalencies apply to entire disciplines rather than individual courses. On occasion, colleges find themselves unable to hire an expert for a *particular* CTE course because that individual does not meet the qualifications to teach every course within the discipline.

### Some Disciplines Consistently Have Higher Instructional Costs

***Equipment and Class Sizes Account for Higher Costs.*** Research identifies equipment costs and student-to-instructor ratios (including for supervised practicums and laboratory sections) as the two main factors explaining cost differences across subject areas within a college. (Other one-time costs, such as keeping curricula aligned with industry developments, also contribute to higher costs for some programs.) National cost studies have shown that nursing and engineering courses cost, on average, about three times as much to deliver as math, social science, and humanities courses and more than twice as much as computer science, business, and many science courses.

***Colleges Cross-Subsidize.*** Colleges typically offset the cost of these relatively expensive courses with lower costs in other courses, such as large lecture courses that have high student-to-teacher ratios and lower-than-average costs. Changes in a college's mix of disciplines can change its average instructional costs.

***States Have Used Various Strategies to Fund High-Cost Programs.*** These strategies include differential course funding (colleges receive a higher rate for certain courses), differential student fees (students pay a higher fee for certain courses), and targeted funding for equipment or program development.

***Limitations Are Statutory.*** The requirement that qualifications be established by discipline is set in state law. To permit colleges to hire instructors who are qualified to teach only some courses in a discipline would require (1) amending statute to create a limited exception for certain industry-qualified professionals to teach individual courses; or (2) creating a separate classification of CTE instructors colleges may hire, at their discretion, under narrowly defined circumstances and with mentorship or other support.

### Addressing Financial Aid

***Governor's Proposal Does Not Address Financial Aid.*** Although the Board of Governor's task force identified financial aid as an issue, the Governor's proposal is silent on it.

***CTE Students Often Receive Less Financial Aid Than Other Students.*** Many financially needy CTE students do not qualify for Cal Grant B awards because their CTE programs are less than one year in length or they have been out of school too long to still qualify for Cal Grant entitlement awards. If these students receive Cal Grant C awards, the cash assistance they receive for books, supplies, and living expenses is one-quarter the value of a Cal Grant B award with the CCC full-time supplement. We see no policy reason for this discrepancy in award amounts, and the discrepancy could possibly suppress completion rates for CTE students. This is because students who receive less financial aid may have to work longer hours. Research shows that working more than 20 hours per week is associated with lower academic performance.

### Recommendations

The state has made efforts over the past several decades to increase the availability and quality of CTE programs, and, through planning and coordination, improve the alignment of CTE programs across education sectors and with employer needs. Below, we provide recommendations that try to accomplish these goals by building on the strengths of the Governor's proposals and avoiding their drawbacks. For purposes of illustration, we use the Governor's proposed funding level as a starting point and suggest how those dollars could be reallocated under our recommendations. Without substantial data on the costs of community college CTE programs and more time to grapple with the extent of CTE expansion the state wants, determining exactly how much funding the state should provide is difficult. If the Legislature wanted to pursue either the Governor's proposal or our recommendations, it could work with CCC over the coming months to develop more refined budgetary estimates.

***Consolidate Planning Processes.*** Whether or not it adopts the Governor's workforce funding proposal, we recommend the Legislature better integrate planning across adult education and CTE programs, regardless of funding source, within one set of regions. Ideally, local workforce development boards could approve comprehensive plans that include adult education and CTE programs (instead of individual representatives from those bodies approving separate plans through adult education consortia, CTE Pathways consortia, and any new collaboratives). Operational plans for smaller units, such as the 71 adult education consortia or the providers within a collaborative, would have to align with the larger regional plans and could rely on those plans for labor market analyses and other inputs. Integrated planning would provide greater opportunity to ensure programs are working in concert to meet regional needs for workforce education and training at all levels. It also could reduce inefficient duplication of meetings, planning efforts, programs, and reporting.

***Replace Governor's $200 Million Workforce Proposal With a Better Structured Program***

***Linked to Key Cost Drivers.*** We recommend the Legislature modify the Governor's proposal to create a CTE categorical program focused on addressing high CTE costs, thereby reducing any disincentives to expand CTE programs. We recommend this new program have two components—one largely for equipment and one for CTE programs with especially high costs.

***Create Ongoing Equipment Funding Stream.*** We recommend the Legislature designate a portion of funding under the new program for CTE equipment and other one-time costs such as program start-up. As an ongoing source of funds, this component could support additional CTE development and expansion each year based on regional priorities. Funding could be based on a regional allocation model similar to the one the Governor proposes in his budget, which considers workforce needs and program outcomes, or it could be based on similar factors at the district level. In either case, funding should be only for specific equipment or other one-time costs required to meet identified regional workforce needs that are aligned with regional WIOA plans. Regions or districts could use their full allocation annually or save a portion of their allocations for a year or more to support infrequent, more expensive equipment purchases. To ensure the colleges have a substantial, ongoing funding source for these costs, we recommend using at least half of the proposed funding for this component.

***Create Ongoing Supplemental Funding Stream to Address Programs With Especially High Faculty Costs.*** In addition to an equipment earmark, we recommend the state also provide ongoing, supplemental funding to address unusually high faculty costs in some CTE programs. The Legislature could consider whether it wants to embed outcome-based funding into this component as a way to create new incentives for colleges to increase student success in occupational areas that align with regional plans. Given not all CTE courses have high costs, the Legislature could direct the Chancellor's Office to develop associated criteria to ensure this component supports only CTE areas that have *significantly* higher-than-average costs. This component could use a similar allocation model to the equipment component, except that the outcome factors could take precedence.

***Fold Nursing Supplements Into The New CTE Categorical Program.*** If the Legislature adopts the above recommendations, nursing education programs could receive equipment funds and high-cost supplements under the new program. Including outcomes in the allocation factors would address the student success goals of the current nursing supplements. As a result, separate funding for nursing programs would no longer be necessary.

***Reject Continuation of CTE Pathways Program, Fold Activities Into Other Programs.*** We see no justification for maintaining this program as a separate grant program with distinct requirements. We recommend rejecting the Governor's proposal to make the program ongoing. Should the Legislature wish to continue funding some of the specific projects under the current CTE Pathways Program grants, such as the California Partnership Academies, it could move the associated funding to the existing CDE categorical program for the same projects. Similarly, any CCC activities the Legislature wished to maintain could be incorporated into the new CTE categorical program described above.

***Require Chancellor to Report on Options to Facilitate Hiring of Experienced Industry Professionals.*** The Governor's proposal would require the Chancellor to recommend changes to policies regarding faculty qualifications to the Board of Governors. Given the possibility that statutory changes may be needed to address this issue, we recommend the Legislature direct the

Chancellor to present it with options that would remove statutory barriers, authorize (but not require) colleges to use an exception or newly created special hiring category, and delineate the circumstances under which using such exceptions would be appropriate. The Legislature's direction to the Chancellor could include soliciting input from CTE faculty organizations, the Academic Senate, and other stakeholders and providing the associated report by March 1, 2017.

***Consider Increasing Cal Grant C Award Amount.*** If the Legislature wishes to increase financial aid for CTE students who do not qualify for the larger Cal Grant B entitlement awards, it could consider increasing Cal Grant C award amounts. It could accomplish this by raising the award amount for all Cal Grant C recipients through the CSAC budget. Alternatively, it could provide a targeted increase for community college students through a CCC supplemental grant, as it did last year for Cal Grant B recipients attending CCC full time. Costs to increase the award for all students, including those at private colleges, would range from $3 million in General Fund support for a $600 annual supplement for full-time Cal Grant C recipients (the same as the current Cal Grant B supplement) to $9 million for a $1,700 supplement that would equalize the total book, supply, and living expenses awards for full-time Cal Grant B and Cal Grant C recipients. Providing the same increases only for community college students would cost about $2.5 million and $7 million, respectively, from Proposition 98 General Fund.

***Adopt Apprenticeship Rate Increase and Consider Tying to CDCP Rate.*** We recommend adopting the conforming adjustment to reimburse apprenticeship instruction at the same rate as CDCP instruction. If the Legislature's intent is to continue funding apprenticeship instruction at the CDCP and credit rate, it could amend statute accordingly. Instead of specifying that the rate shall be established in the annual budget act, the language could specify that the rate shall be the hourly equivalent of the funding rate established for CDCP courses in the same fiscal year.

## Enrollment Levels and Funding

In the "Higher Education in Context" section, we described how the economy affects CCC enrollment demand and capacity and reviewed recent trends in enrollment at the community colleges. Below, we describe how the state funds CCC enrollment and provide an update on the use of 2015-16 enrollment funds. In addition, we describe the Governor's proposal for 2016-17 enrollment funding and provide our assessment of that proposal.

### Background

***CCC Enrollment Funding Has Three Components.*** The state decides how much to provide for CCC enrollment by considering (1) enrollment growth, (2) declining enrollment, and (3) enrollment restoration. In setting the CCC enrollment growth level, the state typically bases its decision on an estimate of the average enrollment growth rate that districts likely can support given student demand and available funding. The state's declining enrollment adjustment allows districts to claim the higher of their current-year or prior-year enrollment levels—effectively a one-year hold harmless provision. Districts have three years to earn back funding associated with enrollment declines. The third component, accordingly, is an estimate of the amount of enrollment districts likely will earn back (or "restore") during the budget year.

***Statute and Budget Language Specifies How Enrollment Funds May Be Used.*** In recent years, budget language has required CCC to give highest priority to expanding enrollment in courses related to its primary mission of transfer, workforce training, and basic skills. In 2014, the state adopted legislation codifying these enrollment priorities.

***Systemwide, CCC Falling Short of Meeting 2015-16 Enrollment Target.*** After adjustments for enrollment declines and restoration, the 2015-16 budget funded 2.3 percent net enrollment growth for CCC. This followed actual enrollment growth of 1.8 percent from 2013-14 to 2014-15. Preliminary estimates suggest that systemwide enrollment is growing 0.9 percent in 2015-16. In addition, 0.5 percent of CCC enrollment remained unfunded at the end of 2014-15. In total, the system would be able to use growth funding of up to 1.4 percent for both existing unfunded enrollment and 2015-16 enrollment growth. Because these estimates were not available at the time the Governor prepared his budget proposal, the proposal does not reflect the 2015-16 shortfall in enrollment and its implications for projected 2016-17 enrollment.

***Three-Quarters of Districts Not Meeting Growth Targets.*** Of the CCC's 72 districts, 54 estimate that their enrollment in 2015-16 will fall short of their targets. (These targets include any restoration to which districts are entitled plus their new growth allocations.)

### Governor's Proposals

***Funds Enrollment Growth and Adjusts for Enrollment Declines and Restoration.*** The Governor proposes $115 million for 2 percent CCC enrollment growth (an additional 23,000 FTE students). The Governor's budget also assumes declining enrollment in 2015-16 (and the loss of associated funding in 2016-17) at 1.3 percent of overall CCC enrollment. Additionally, the Governor's budget assumes 0.7 percent restoration in 2016-17. Accounting for changes in enrollment growth, declines, and restoration, the net change is a 1.4 percent increase (about 17,000 FTE students) in funded enrollment compared to the *2015-16 Budget Act* level.

### Assessment

***Governor's Proposed Growth Rate Appears Somewhat High.*** The Governor's proposals for enrollment growth, declines, and restoration generally appear reasonable to us. The recent trend in enrollment suggests the Governor's budget overstates enrollment in both the current year and the budget year. As a result, relatively little in new base funding could be needed to fund enrollment growth in 2016-17.

***Use Updated Information in May to Make Final Enrollment Decisions.*** By the time of the May Revision, the CCC Chancellor's Office will have received some updated 2015-16 attendance reports from districts. These data will show the extent to which districts are meeting, exceeding, or falling short of their enrollment targets in the current year. At that time, the Legislature will have better information to assess the extent to which colleges will use the 2015-16 enrollment growth funds and be able to grow in the budget year. If the Legislature decides the full amounts are not justified for one or both years, it could use any associated freed-up funds for other Proposition 98 priorities.

## Basic Skills Initiative

Below, we provide background on basic skills education at the community colleges, describe the Governor's proposal to augment funding for a basic skills program, and provide our assessment and recommendations regarding this proposal.

### Background

***Three-Quarters of First-Time CCC Students Assessed as Unprepared.*** This represents more than 150,000 incoming degree, certificate, and transfer-seeking students annually. Various factors contribute to the high rate of unprepared students. Many students did not fully master basic English and math skills during prior schooling. Some may have mastered the skills in the past but forgotten them. For some students, performance on the assessment tests may not accurately reflect their mastery of the material (for example, because of their test anxiety or not grasping the importance of the test and taking it seriously).

***Unprepared Students Are Less Likely to Graduate.*** Among degree, certificate, or transfer-seeking students who enter CCC prepared for college-level work, 71 percent achieve one of those outcomes within six years compared to 39 percent for unprepared students.

***Basic Skills Education Encompasses Several Types of Courses.*** These courses—sometimes called remedial, developmental, or foundational courses—include those in elementary and secondary reading, writing, and math as well as English as a second language (ESL). Most basic skills English and math courses, and about one-third of ESL courses, are offered for credit. (Though technically offered for credit, these credits generally do not count toward associate degrees or transfer.) Colleges also may offer tutoring, study skills courses, and learning skills courses for adults with disabilities as noncredit basic skills instruction.

***Basic Skills Courses Account for More Than One-Quarter of All CCC English and Math Enrollment.*** In 2014-15, 28 percent of all English, reading, and writing units taken at CCC (not including ESL) were remedial. Similarly, 24 percent of all math units taken were remedial.

***Shortcomings of Traditional Approach to Basic Skills Instruction.*** Under the traditional approach to basic skills instruction, colleges administer assessment tests to entering students and, based on the results, place them into a sequence of courses they must complete before enrolling in transferable college-level courses. (A math sequence, for example, could include arithmetic, pre-algebra, elementary algebra, and intermediate algebra.) Basic skills courses often focus on teaching specific skills through repetitive drills, with an emphasis on correct procedures and answers. These teaching methods have been criticized as ineffective because they do not necessarily promote conceptual understanding or provide interesting, relevant context to help students connect what they are learning in the classroom to their broader educational or professional goals. Moreover, traditional course sequences extend students' time in school. For example, a student beginning three levels below transferable college courses must complete three semesters of remediation.

***Some Promising Innovations in Basic Skills Education.*** Many community colleges in recent years have made significant improvements to their processes of preparing students for college-level courses. These improvements generally fall into four areas: (1) changing how colleges assess and advise entering students, to place more of them directly into college-level courses; (2) accelerating or compressing remedial courses and sequences to get students through faster; (3) offering alternative math pathways for non-STEM majors that focus on statistics instead of calculus; and (4) adopting student-centered instructional methods and support services and integrating student support services into basic skills courses.

***State Provides Most Basic Skills Funding Through Apportionments, Some Through Categorical Programs.*** The vast majority of CCC's basic skills funding is from apportionments. Apportionment funding supports direct instruction. The state allocates apportionment funding on the basis of FTE enrollment. In 2015-16, we estimate the state provided $700 million for basic skills through apportionments (accounting for 11 percent of all apportionment funding). Of this amount, more than $400 million was for English, math, tutoring, and study skills courses. In addition, a number of categorical programs support basic skills coordination, innovation, professional development, and student services, as described below.

***State Has Provided More Than $20 Million Annually for Basic Skills Initiative Since 2007-08.*** The purpose of this categorical program is to improve the effectiveness of CCC basic skills instruction. Of the total, 95 percent goes to colleges and 5 percent is for statewide professional development activities. Funding to colleges is allocated based on the number of basic skills FTE students they serve. Colleges may use the funds for curriculum planning and development; student assessment, advisement, and counseling services; supplemental instruction and tutoring; articulation; instructional materials and equipment; and any other purpose directly related to enhancement of basic skills, English as a second language instruction, and related student programs. The statewide professional development component supports workshops, conferences, publications, and "communities of practice" (collaborative learning opportunities for practitioners focused on a specific type of reform, such as basic skills acceleration).

***Several Other Categorical Programs Include Basic Skills Components.*** Most notably, the Student Success and Support Program supports assessment and placement for incoming students. Student equity plan funding also can support basic skills improvement strategies. Additionally, various categorical programs offer counseling, tutoring, and other basic skills support. These programs include the Extended Opportunity Programs and Services for students with language, social, economic, and educational disadvantages; the Mathematics, Engineering, and Science Achievement (or "MESA") Program for underrepresented students seeking careers in math, science and engineering fields; the Puente Project to help Latino and other underrepresented students transfer, earn college degrees, and return to their community as mentors and leaders; the Umoja program to promote African-American student success; Disabled Students Programs and Services; and student services for CalWORKs recipients. Another categorical program—the Institutional Effectiveness Partnership Initiative—helps colleges evaluate and improve their operational and educational practices, including their basic skills instruction.

***Two One-Time Grant Programs Created in 2015-16 to Improve Basic Skills Practices.*** Last year, trailer legislation established the Community College Basic Skills and Student Outcomes Transformation Program. As the name implies, the intent of the program is to transform how colleges deliver basic skills instruction in order to improve student outcomes. The legislation also established the Basic Skills Partnership Pilot Program to promote more and better collaboration in delivery of basic skills instruction among high schools, community colleges, and CSU campuses. The state provided one-time funding of $60 million for the transformation program and $10 million for the partnership program. We provide further information about each of these programs below.

***Transformation Program.*** Districts may apply for one-time, three-year grants of up to $1.5 million to help them adopt or expand the use of evidence-based models for basic skills assessment, placement, instruction, and student support. Statute identifies six such strategies (shown in Figure 17) and requires participating colleges to adopt or expand the use of at least two of them. Eligible activities under the grant program include curriculum redesign, professional development, release time for faculty and staff, and data collection and reporting. The Chancellor's Office released a request for applications January 21, 2016. Districts will be selected for awards primarily based on the quality of their improvement plans rather than their current basic skills outcomes. Applications are due from districts March 25, and grants are to commence July 1. Statutory language specifies data collection requirements for participating community colleges and directs our office to evaluate the program's effectiveness in interim and final reports to be issued by December 1, 2019 and December 1, 2021, respectively.

***Partnership Pilot.*** Under this smaller one-time grant program, the Chancellor's Office will award five grants of $2 million each to community college districts. To qualify for awards, districts must collaborate with nearby school districts and CSU campuses to better articulate English and math instruction across segments. Participating CSU campuses must commit to directing their underprepared students—either currently enrolled or planning to enroll—to basic skills instruction at community colleges. Statute requires the Chancellor's Office to report by April 1, 2017 on program effectiveness and cost avoidance, as well as make recommendations regarding the expanded use of community colleges to deliver basic skills instruction to CSU students.

### Governor's Proposal

***Augments Basic Skills Initiative by $30 Million (Ongoing).*** The proposed augmentation would bring annual funding for the categorical program to $50 million (Proposition 98 General Fund).

***Expands Purposes of Initiative.*** The Governor proposes to add four activities to the allowable uses of program funding: (1) implementing or expanding the use of evidence-based practices and principles identified in the legislation creating the transformation program; (2) accelerating the adoption and use of open educational resources in basic skills English, math, or ESL courses; (3) collaborating with high schools and CSU campuses to better align remedial instruction methodologies, curricula, and course offerings among local education agencies, community colleges, and CSU campuses; and (4) implementing assessment and placement practices that increase the likelihood students will be appropriately placed in college-level rather than remedial courses.

***Requires Districts to Complete Self-Assessments of Their Programs.*** The Governor proposes to require community colleges to assess their basic skills efforts using a specified tool. Trailer legislation in 2007-08 required that each college commit to conducting a self-assessment as a condition of receiving Basic Skills Initiative funding that year. The associated assessment tool was developed as part of a comprehensive report

**Figure 17**

**Six Evidence-Based Strategies for Improving Basic Skills Education**

- ✓ Using multiple measures to assess and place students into English and math courses.
- ✓ Increasing placement of students directly into transferable college-level courses and providing co-requisite basic skills instruction.
- ✓ Requiring students to master only those English and math skills needed for their programs of study.
- ✓ Contextualizing remedial instruction to relate to students' programs of study.
- ✓ Integrating student support services with instruction.
- ✓ Developing shorter sequences for completion of a college-level English or math course by using technology, the above strategies, or other strategies and practices that the college can substantiate are effective.

commissioned by the Chancellor's Office. The assessment tool helps colleges evaluate their use of 26 practices identified in the research as effective for improving basic skills outcomes. Colleges completed the self-assessments in 2007-08 and have not since been required to repeat them.

***Requires Annual Action and Expenditure Plans.*** In addition, the Governor proposes requiring districts to report the strategies they will implement to improve the successful transition of students to college-level English and math courses. The Governor also would require colleges to provide performance targets for increasing the number of students transitioning to college-level work and reducing the amount of time it takes.

***Requires a Plan for Implementing Multiple Measures of Assessment and Placement.*** Statute already requires colleges to use multiple assessment measures for the purpose of advising and placing students. The extent of compliance with this requirement, however, varies. The administration suggests that requiring a plan for using multiple measures will encourage broader and more effective implementation of existing state law.

***Gives Funding Priority to Colleges That Are Participating in Transformation Program or Independently Undertaking Similar Activities.*** The administration has indicated that this provision is intended to provide an incentive for colleges to participate in the transformation program. Under the proposal, colleges could receive priority for Basic Skills Initiative augmentations at the same time they receive initial funding under the transformation program. They could direct funding from both sources to implement their selected improvement strategies.

***Introduces Performance Funding Into Program.*** Proposed trailer legislation requires the Chancellor to use a new method for distributing basic skills initiative grant funds. Specifically, the Chancellor would be directed to distribute funds based on three main factors: (1) the percentage of basic skills English, math, or ESL students completing a college-level course in the same subject within one year and two years; (2) the percentage of incoming students (regardless of basic skills status) who complete college-level English and math courses within one year and two years of enrolling; and (3) a weighting factor of 20 percent for colleges participating in the transformation program or adopting similar reforms. The first factor could disadvantage colleges that adopt one of the recommended reforms—placing more students directly into transferable college-level courses. The Governor included the second factor, on which these same colleges likely would perform well, to offset any such disadvantage. The proposed legislation provides for a minimum allocation of $100,000 per college and permits the Chancellor to include additional factors and adjustments as deemed necessary. The legislation would require the Chancellor to receive concurrence from the Department of Finance prior to adding factors and prior to allocating funds.

***Holds Colleges Harmless.*** The proposed legislation would guarantee that colleges receive as much funding under the revised Basic Skills Initiative as they received from the categorical program in 2015-16.

***Directs Chancellor to Urge Colleges With Low Basic Skills Success Rates to Seek Assistance.*** The proposal would require the Chancellor to "strongly encourage" each of the five districts with the lowest basic skills completion outcomes to apply for help in improving their outcomes. The assistance would be provided by visiting teams of peer experts as part of the Institutional Effectiveness Initiative, described later in this report. (The proposal avoids creating a mandate by encouraging and not requiring the application.)

***Directs Chancellor to Work With Department of Finance and Legislative Analyst to Recommend***

***Annual Accountability Measures.*** The CCC already has a student success measure related to one of the proposed program goals (increasing the share of basic skills English, math, and ESL students who complete a college-level course in the same subject). While the stated goal of the Governor's proposed basic skills augmentation is to improve completion of a college-level course within one year and two years, the existing student success measure looks at completion within six years. The data are readily available, however, to look at the same outcome within one and two years. The CCC currently does not have a measure for the second proposed goal (increasing the share of entering students, regardless of whether they initially take basic skills courses, who complete college-level English and math courses within one year and two years).

### Assessment

Below, we review the performance of the existing Basic Skills Initiative. We next provide our assessment of the Governor's proposal to modify and augment the initiative.

***Evaluations of Existing Basic Skills Initiative Have Identified Some Successes . . .*** The statewide professional development component has provided many learning opportunities for faculty, staff, and administrators. Often supported by these statewide activities, many colleges have implemented effective basic skills strategies. One of the most touted successes associated with the initiative is the California Acceleration Project. This project promotes several models for reducing the length of remedial sequences and reducing the number of transitions, where students can lose momentum by not passing one course or not enrolling in the next course. A study of 16 colleges implementing accelerated pathways in English and math developed through this project showed significant increases in students' odds of completing college-level courses—more than double the odds for English and more than four times for math. To date, more than half of community colleges have participated in professional development activities related to acceleration. Statewide training and communities of practice also have fostered the adoption and expansion of other types of reforms at dozens of colleges.

***. . . But Limited Impact on Systemwide Outcomes.*** Innovations tend to spread slowly across the CCC system given the highly decentralized structure of the colleges. This is especially true for instruction, where individual faculty members have considerable latitude regarding how to teach a subject. While the Basic Skills Initiative has had some success spreading effective practices, adoption of these practices is far from universal and many colleges continue to use traditional approaches that have poor outcomes. As a result, systemwide outcomes have improved only modestly.

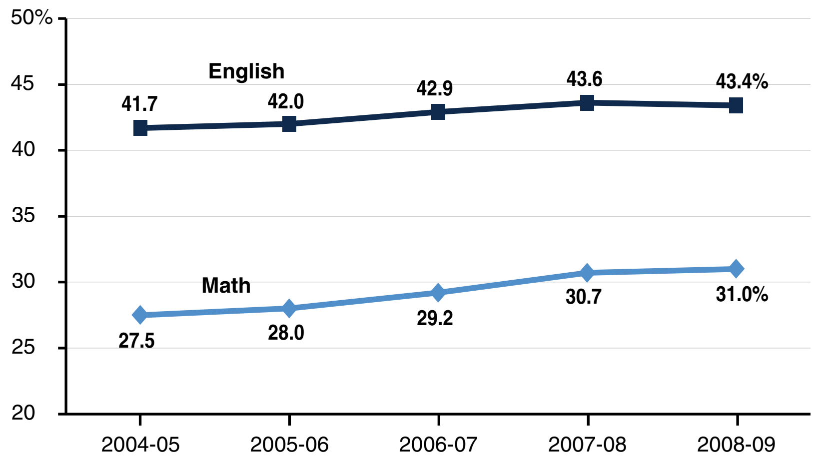
***Remedial Success Rates Have Increased Modestly, but Remain Very Low.*** As shown in Figure 18 (see next page), 43 percent of students who enrolled in a basic skills English course in 2008-09 completed a college-level English course within six years—up slightly from 42 percent for students entering four years earlier. The increase in math success, from 28 percent for the earlier cohort to 31 percent for students entering in 2008-09, is somewhat greater. Nearly 70 percent of students taking basic skills math, however, still do not make it past elementary algebra within six years. Though these systemwide results are lackluster, performance varies widely by college. English remediation success rates range from 19 percent to 73 percent across community colleges. In math, rates range from 8 percent to 54 percent.

***Hold Harmless Provision Undermines Goal of Program.*** The Governor's proposal to guarantee ongoing funding (equal to a college's current Basic Skills Initiative allocation) dampens the potential

**Figure 18**

**Lackluster Results for Basic Skills Students**

*Six-Year Outcomes for Cohorts Entering From 2004 to 2008*[a]




[a] Percent of students who enrolled in a basic skills course and completed a college-level course in the same discipline within six years.

impact of his other proposed changes. Up to $20 million of the proposed $50 million total for the program could go to colleges continuing their current practices, whether or not those practices have proven effective.

***Focus on Outcomes Warranted.*** The Governor's proposal to base the allocation of Basic Skills Initiative funding primarily on two measures of student progress would send a clear message regarding the state's expectations. It would convey, for example, that the state expects colleges to help more students complete college-level English and math courses, and to do so within the first two years of attendance (rather than over six years as the CCC's current student success measure suggests).

***Other Design Considerations.*** We have two other concerns with the Governor's proposal. First, whereas a self-assessment could help colleges identify weaknesses in their basic skills programs and build on strengths, the previous assessment instrument likely is outdated. This assessment was developed more than ten years ago and substantial research has since been undertaken that could help refine the instrument. Second, we are concerned about the proposal to prioritize funding for colleges participating in the transformation program. As few as 40 of 113 colleges might participate in the transformation program, and these colleges will not necessarily be those with the poorest basic skills outcomes. Further concentrating basic skills resources on this select subset of colleges could significantly disadvantage other colleges—including some that could have less grant-writing expertise but just as much need to transform their basic skills practices. Moreover, colleges that receive funding for both the transformation program and the augmented Basic Skills Initiative might struggle to accommodate such large simultaneous increases.

## Recommendations

***Reject Governor's Proposal to Augment Basic Skills Initiative by $30 Million.*** Given the initiative's modest impact on statewide basic skills completion rates over the last ten years, we recommend not augmenting the program at this time. The transformation and partnership pilot programs funded last year have the potential to more substantially improve outcomes. The Legislature could wait until these two programs have been fully implemented and evaluated to help it better target additional ongoing resources for basic skills improvement. In the meantime, the Legislature has better options for using the $30 million in 2016-17. If it wishes to redirect the funds for basic skills improvement, it could augment the transformation program to allow more colleges to participate. Alternatively, it could use the funds for deferred maintenance or other one-time purposes. Following any of these one-time uses, the Legislature could later augment the Basic Skills Initiative and make further refinements, if warranted, based on the results of the transformation and partnership pilot programs.

***Modify Basic Skills Initiative Requirements and Transition to Performance Funding.*** Whether or not it decides to augment the Basic Skills Initiative, we recommend the Legislature adopt many of the Governor's proposed new requirements for the program in 2016-17. Specifically, we recommend: (1) expanding the allowable activities under the program as proposed and requiring that colleges engage in at least two evidence-based strategies, including working with other education agencies and institutions to articulate instruction; (2) adopting a revised funding allocation based primarily on the proposed performance factors; (3) adopting a short-term hold harmless provision for colleges that would phase out over no more than three years; and (4) not weighting the Basic Skills Initiative allocation toward colleges that already will be receiving funding from the transformation program. We also suggest directing the Chancellor to develop a revised self-assessment tool for colleges.

## Other Ongoing Proposals

### Institutional Effectiveness Partnership Initiative (IEPI)

***Initiative Established in 2014-15 to Provide Technical Assistance to Colleges and Districts.*** The purpose of this program is to improve institutions' student outcomes, fiscal viability, and programmatic compliance with state and federal guidelines, as well as to significantly reduce the number of accreditation sanctions and negative audit findings for colleges. The 2014-15 budget provided ongoing funding of $2.5 million for local assistance and $1.1 million for state operations (nine positions) for the program. Trailer legislation that year required the Chancellor's Office to develop a set of effectiveness indicators (summarized in Figure 19, next page). It also required colleges, as a condition of receiving Student Success and Support Program funds, to develop, adopt, and publicly post goals and performance outcomes using these indicators. The budget directed the Chancellor's Office to provide technical assistance to districts that are not improving their performance outcomes.

***Broad Definition of Technical Assistance.*** As used in this program, the term means the providing of operational or management advice and coaching, much as a consultant might offer to an organization. (An initiative leader recently explained the process as "professional development for colleges" rather than for individuals.)

***Chancellor's Office Created Institutional Effectiveness Division to Implement New Initiative.*** The new division developed an implementation approach that relies on a partner campus (College of the Canyons) to administer the program and peer subject-matter experts, organized into "partnership resource teams," to work directly with colleges and districts that request assistance. Funding supports coordination, outreach, training for team members, travel expenses, and $150,000 implementation grants for institutions receiving assistance. (Statute requires a local match for these grants but authorizes the Chancellor to waive the match requirements if he initiates the technical assistance. Though all institutional reviews to date have been voluntary, the Chancellor has waived the requirement in all cases, deeming them have been initiated by his office.)

***Institutional Effectiveness Initiative Expanded in 2015-16.*** The 2015-16 budget added ongoing funding of $3 million to expand partnership resource team activities (bringing the total to $5.5 million) and provided $12 million for a new statewide professional development component for faculty, staff, and administrators. The Chancellor's Office awarded a specialized training contract to Chabot-Las Positas Community College District to administer the professional development component. Under this contract, the district works with the Success Center for CCC (a partner organization) to (1) develop and coordinate workshops on practices that promote student success, improve college operations, develop leadership, and meet other statewide priorities; and (2) develop an online clearinghouse as a "one-stop shop" of effective practices, training materials, and other resources for faculty, staff, and administrators.

***Significant Activity in First Two Years.*** In 2014-15, more than 450 attendees from 104 colleges and 22 district offices attended six regional workshops on using the indicators and setting local performance goals. More than 100 subject-matter experts volunteered to participate in partnership resource teams, and the initiative deployed 46 of them in eight teams averaging six members each. Each team began working with a college or district that had requested assistance. (The composition and size of each team depends on the problems each institution identified and the range of expertise needed to address them.) As part of each review, a team conducts at least three

**Figure 19**

**Institutional Effectiveness Indicators**

| |
|---|
| **Student Performance and Outcomes** |
| Percent of degree, certificate, and transfer-seeking students who achieve goal within six years. |
| Percent of remedial English and math students who complete a college-level course in the same subject within six years. |
| Percent of career technical education students who complete a degree, certificate, or transfer preparation within six years. |
| Percent of students who earn a grade of "C" or better in the fall term. |
| Annual number of associate degrees awarded. |
| Annual number of Chancellor's Office-approved certificates awarded. |
| Annual number of students successfully transferring to a university.[a] |
| **Accreditation Status** |
| Latest action of Western Association of Schools and Colleges, Accrediting Council for Community and Junior Colleges. |
| **Fiscal Viability** |
| Salaries and benefits as a percent of unrestricted General Fund expenditures. |
| Annual number of full-time equivalent students. |
| Net increase or decrease in unrestricted General Fund balance. |
| Ending unrestricted General Fund balance as a percent of total expenditures. |
| Unrestricted and restricted General Fund cash balance, excluding investments. |
| **Programmatic Compliance With State and Federal Guidelines** |
| Findings of independent audit of financial statements, state compliance, and federal award compliance. |
| **College Choice Indicators** |
| Each college must identify an indicator focused on unprepared students or basic skills students. |
| Each college may identify an additional indicator. |

[a] Informational only, as outcome is affected by UC and CSU admission policies.

in-person visits and provides additional support by telephone and e-mail, with the assistance spanning the course of several months. In the second year of implementation (2015-16), the pool of experts volunteering to serve on partnership resource teams increased to more than 230. Teams began working with 17 colleges and districts in the fall 2015 semester and another nine in the spring 2016 semester. The Chancellor's Office expects the professional development component to provide between 40 and 50 regional workshops in 2015-16, serving several thousand participants. The online clearinghouse, named the Professional Learning Network, went live in early 2016.

***Governor Proposes $10 Million Augmentation (Ongoing) in 2016-17.*** The Governor proposes augmenting statewide professional development activities by $8 million, bringing the total for this component of the program to $20 million. The Chancellor's Office would use this funding to: (1) provide between 75 and 125 regional workshops and statewide summits on effective practices; (2) continue adding content to the online Professional Learning Network, focusing especially on areas of statewide interest such as basic skills improvement; and (3) develop communities of practice to bring together faculty, staff, and administrators who are working on common issues to learn from each other. The proposal would augment technical assistance funding by $2 million, bringing the total for this component of the program to $7.5 million. The Chancellor's Office would use this funding to: (1) expand partnership resource teams to more than 300 experts, (2) respond to an anticipated 30 technical assistance requests from colleges and districts, (3) develop separate communities of practice for institutions that recently received team visits, and (4) develop "micro teams" of experts to provide short-term, follow-up technical assistance on specific topics. Budget language would require the Chancellor's Office to report on the use of the professional development funds from the prior year by December 1 of each year.

***Proposed Expansion Worth Considering.*** Judging from participation to date, community college demand for technical assistance and faculty, staff, and student demand for professional development opportunities is strong. Moreover, the Chancellor's Office has proposed additional worthwhile activities it could undertake if given an augmentation.

***Caution Regarding Speed of Growth.*** The institutional effectiveness initiative has grown very quickly in its first two years. The Chancellor's Office expects to initiate about the same number of technical assistance projects in 2016-17 as in 2015-16 while still completing engagements begun earlier. It plans to roughly triple the number of workshops and other professional development opportunities and launch the communities of practice. While each of these activities has merit individually, faculty, staff, and administrators have limited time they can devote to professional development.

***Expand Proposed Reporting Requirement.*** We suggest the Legislature monitor the program over the next year to ensure it does not grow beyond the demand for technical assistance and professional development. To help it monitor the program, the Legislature could amend the proposed reporting requirement to include information about activities under both components of the program, including college participation in those activities, as well as colleges' progress toward their goals for each of the institutional effectiveness indicators.

### Systemwide Data Security

***Growing Concerns About Information Security Generally . . .*** As the Governor noted in an October 2015 proclamation, the state's information infrastructure faces an increasing threat of malicious cyber attack, loss of privacy from spyware and adware, and significant financial and personal privacy losses due to identity theft and fraud. At the same time, citizens and institutions are increasing their reliance on technology.

***. . . And Information Security at Community Colleges.*** A 2013 CCC survey found that most colleges did not have a staff member dedicated to information security, did not have an information security awareness program, felt that their information security program was fledgling, and lacked sufficient information about data security policies.

***Recent Growth in Systemwide Technology Projects Also Has Increased Security Risks.*** This growth includes the expanded use of student outcome data (including creation of the CCC Student Success Scorecard, Salary Surfer, and College Wage Tracker). It also includes the development of three major systemwide technology projects that address 2012 recommendations of the Student Success Task Force—an online education planning tool, a common assessment system for entering students, and an online education initiative.

***Chancellor's Office Funds Six Systemwide Technology Projects Through the Telecommunications and Technology Infrastructure Program (TTIP).*** The state created TTIP in the 1996-97 budget to coordinate the system's technology activities. Figure 20 describes the programs the Chancellor's Office funds under the TTIP umbrella. The 2015-16 budget provides $44 million for these programs (consisting of $20 million for the technology infrastructure program; $14 million under the Student Success and Support Program for e-transcript, e-planning, and common assessment tools; and $10 million to expand the availability of courses through the use of technology).

**Figure 20**

**Telecommunications and Technology Infrastructure (TTIP) Program**

***Online Education Initiative (In Development).*** Will enable a student from any participating college to enroll in and complete a course from another participating college and easily apply that course towards completion of a degree at the student's home college. Project involves creating several resources, including a common course management system, course design rubrics, tutorials to assess student readiness for online courses, arrangements among colleges sharing courses, and an online course catalog. Host district: Butte-Glenn, with assistance from Foothill-De Anza.

***Education Planning Initiative (In Development).*** Will facilitate college education planning and degree audit systems—key tools for students to define and track progress toward their educational goals—by providing access to transcript, articulation, and curriculum inventory information systemwide. Also will provide a student services portal to help lead students toward successful completion of their goals. Host district: Butte-Glenn.

***Common Assessment Initiative (In Development).*** Will develop a common assessment system providing information, test preparation, test delivery, test administration, data collection and course placement guidance for CCC colleges and students. Host district: Butte-Glenn.

***CCC Technology Center.*** Incorporates CCC systemwide technology platform, CCC Apply (online college application system), Open CCC project (allows a single sign-on for students and staff to access multiple CCC web-based programs), eTranscript service, CCC Information Security Center, and CCC access to fiber optic backbone and network services through the Corporation for Education Network Initiative in California. Host district: Butte-Glenn.

***3C Media Solutions.*** Distributes educational video content, podcasts, streaming services, and event coverage for the community colleges. Host district: Palomar.

***Cal-PASS Plus—California Partnership for the Achievement of Student Success.*** Enables collection, analysis, and sharing of student data to track student performance and improve student success from elementary school through university. Host district: San Joaquin Delta.

***Projects Include Information Security Center.*** The CCC Technology Center incorporates several interrelated projects, including a CCC Information Security Center. The Security Center coordinates information security for the colleges' local information systems and statewide technology projects. The center offers vulnerability scanning, server monitoring, and model policies and procedures for colleges. The center also promotes information security awareness and provides up-to-date information on new threats and solutions.

***Governor Proposes $3 Million (Ongoing) to Improve CCC Systemwide Data Security.*** The budget proposal would support a range of technical services for community colleges and statewide projects through the system's TTIP program. The proposed augmentation would bring total funding for TTIP and related projects to $47 million annually.

***Augmentation Would Expand Security Services.*** The Chancellor's Office reports that the proposed funding would enable the system to create a comprehensive suite of security services for community colleges and statewide technology projects. Services would include providing support for colleges in the event of a data breach, offering more in-depth vulnerability scans and risk analyses, promoting the CCC information security standards and creating incentives for institutions to meet these standards, and enhancing security monitoring and "threat intelligence" (knowledge that helps individuals identify security threats). The funding also would support creation of a CCC systemwide data sharing committee to ensure the security of personally identifiable information.

***Adopt Governor's Proposal to Provide $3 Million to Improve Systemwide Data Security.*** Given growing reliance on information technology systems at the colleges, the state's creation of several new technology projects that will house substantial personal information about students, and weaknesses identified in college data security practices, we recommend providing funds to enhance data security. The amount required to adequately fund data security is unclear. The proposed uses of the $3 million augmentation appear sensible, however, and we believe that the Chancellor's Office could productively use the proposed amount.

## One-Time Funding

The Governor proposes to use $285 million in 2016-17 Proposition 98 funds for three one-time purposes: (1) deferred maintenance and instructional support, (2) innovation awards to CCC colleges, and (3) a new "zero-textbook-cost degree" initiative. In addition, the Governor proposes one-time Proposition 98 funding from earlier years of $76 million to address community colleges' education mandates backlogs and $35 million for deferred maintenance. Our *Proposition 98 Education Analysis* discusses the Governor's mandate proposal. Below, we discuss the Governor's proposals for augmenting deferred maintenance and instructional support and funding new innovation awards. We will discuss the textbook-cost proposal in a forthcoming brief.

### Deferred Maintenance

***CCC Maintains Inventory of Facility Conditions.*** Community college districts jointly developed a set of web-based project planning and management tools called FUSION (Facilities Utilization, Space Inventory Options Net) in 2002. The Foundation for California Community Colleges (the Foundation), with assistance from San Joaquin Delta Community College District, operates and maintains FUSION on behalf of districts. The Foundation employs assessors to complete a facility condition assessment of every building at districts' campuses and centers on a three- to four-year cycle. These assessments, together with other facility information entered into FUSION, provide extensive data on CCC facilities and help districts with their local planning efforts. All 72 districts pay annual fees to the Foundation to support the facility condition assessments and the FUSION system.

***CCC Reports Sizeable Maintenance Backlog.*** From the districts' facility condition assessments, the CCC system has identified about $6 billion in scheduled and deferred maintenance projects over the next five years. The system has narrowed down the list to identify a more feasible maintenance plan of $1 billion in the highest-priority projects to be completed over this period. The Governor's budget documents show $504 million in CCC deferred maintenance, which is based on projects from the first two years of this plan.

***State Has a Categorical Program for CCC Maintenance and Repairs.*** This categorical program also funds the replacement of instructional equipment and library materials, hazardous substances abatement, architectural barrier removal, and water conservation projects. Historically, budget language for this program has required a one-to-one match for any maintenance spending (using apportionments, local bond monies, or other general-purpose funds), but no match has been required since 2013-14. To use this categorical funding for maintenance and repairs, districts must adopt and submit to the CCC Chancellor's Office a five-year plan of maintenance projects. Districts also must spend at least 0.5 percent of their current operating budgets on ongoing maintenance and at least as much on maintenance as they spent in 1995-96 (about $300 million statewide) plus what they receive from the categorical program. In addition to categorical funds, CCC districts fund scheduled maintenance from their apportionments and other general-purpose operating funds (for less expensive projects) augmented by local bond funds (for more expensive projects).

***State Has Provided Substantial Funding for CCC Maintenance, Instructional Equipment, and Library Materials Over Past Few Years.*** The 2014-15 and 2015-16 budgets each provided $148 million for this categorical program. Historically, this program has received large appropriations when a large amount of one-time Proposition 98 funding is available and no appropriations in tight budget years. Historically, the budget allocated half of the program's funding for deferred maintenance and half for replacement of instructional equipment and library materials. In 2014-15, the budget removed this split, leaving associated allocation decisions up to districts. Data are not available on how much of the 2014-15 and 2015-16 funding community colleges have spent on deferred maintenance. Data also are not available on how much the colleges expect to spend from their apportionments and bond funds on maintenance.

***Governor Proposes $290 Million for These Purposes.*** The budget proposal includes $255 million in 2016-17 funds, $28 million in Proposition 98 settle-up funds, and $6 million in unspent Proposition 98 prior-year funds for this categorical program.

***Recommend Adopting Governor's Funding Proposal With Stronger Reporting Requirements.*** The proposed funding would help address CCC's large maintenance backlog and help update instructional equipment and materials. In addition, by dedicating $255 million in 2016-17 Proposition 98 funding to one-time purposes, the proposal would provide a corresponding cushion against future revenue declines and drops in the Proposition 98 minimum guarantee. For these reasons, we recommend adopting the Governor's proposal. We recommend, however, that the Legislature require additional reporting as described in our February 2016 brief, *Governor's General Fund Deferred*

*Maintenance Proposal*, to help the Legislature identify and address the underlying causes of CCC's maintenance backlog. In that report, we suggested collecting information about the factors that have led to the accumulation of maintenance backlogs and how the institutions could address maintenance on an ongoing basis so that deferred maintenance does not continue to accumulate.

***Inventory System Requires Updating.*** Districts report that the FUSION system is becoming outdated and cumbersome. It is compatible with only one operating system and one Internet browser. It cannot be used on mobile devices, a capability that would allow staff to input information while inspecting buildings. It also does not have the flexibility to include new functions such as inventorying instructional equipment. Districts are planning to upgrade the FUSION system to address these deficiencies. To fund the cost of the desired upgrades, estimated at $1.1 million, the districts have decided to defer their facility condition assessments—likely for a full three- to four-year cycle—and redirect funding toward the upgrade. In the interim, they would use outdated facility condition assessments to estimate their maintenance needs.

***Authorize Districts to Use a Portion of Maintenance Funding for Inventory System.*** To ensure the state continues to receive current and useful information about CCC facilities, we recommend the Legislature authorize districts to use up to $1.1 million (in aggregate) of the one-time maintenance funding toward the FUSION upgrade.

### Awards for Innovation

***Awards for Innovation Funded in 2014-15.*** The 2014-15 budget provided $50 million in one-time funding to promote innovative models of higher education at UC, CSU, and CCC campuses. Campuses that had undertaken initiatives to increase the number of bachelor's degrees awarded, improve four-year completion rates, or ease transfer across segments could apply for awards. Because awards were based on initiatives already implemented at the campuses, they functioned more like prizes or rewards than grants for specified future activities. Campuses could apply on their own or in collaboration with other campuses. A committee of seven members—five Governor's appointees (one each representing DOF, the three segments, and the State Board of Education) as well as two legislative appointees selected by the Speaker of the Assembly and the Senate Rules Committee, respectively—made award decisions.

***Committee Approved 14 of 57 applications.*** In March 2015, the committee selected 14 applicants, including 6 community colleges, to receive awards. The winning applications described several strategies they had undertaken that met the initiative's priorities. These strategies included improving K-12 alignment to higher education standards and expectations, redesigning curriculum and teaching practices to improve outcomes, and using technology to expand access to courses. The winners included individual institutions and teams of institutions, and each received from $2.5 million to $5 million in award funds. The budget scored $23 million in awards to community colleges as Proposition 98 General Fund. The winning institutions will report on the effectiveness of their strategies by January 1, 2018 and January 1, 2020.

***Legislature Rejected Governor's Proposal for Additional Awards in 2015-16.*** Last year's proposal would have provided $25 million for new awards using a similar application process. The proposal differed from the 2014-15 program, however, in that it would have (1) narrowed the priorities to focus only on improving four-year graduation rates and (2) provided awards only to CSU campuses.

***Governor Proposes $25 Million for Awards to Community Colleges in 2016-17.*** The Governor proposes to provide six innovation awards of at least $4 million each in 2016-17. This proposal differs from the 2014-15 and 2015-16 proposals in four ways: (1) only CCC districts would be able to apply for awards, which would be funded by Proposition 98 General Fund; (2) awards would be based on proposed activities instead of initiatives applicants already have implemented; (3) awards would need to focus specifically on effective articulation and transfer pathways, successful transitions from higher education into the workforce, and innovations in technology and data; and (4) the Governor would have more discretion in selecting his appointees to the awards committee. (Members no longer would have to represent any of the higher education segments or the State Board of Education.)

***Awards Would Support Six Specific Activities.*** Under the proposal, each applicant would apply to implement one of six innovations and the award committee would recommend one award in each of these areas:

- Concurrent enrollment permitting high school students to earn industry-recognized credentials or associate degrees for transfer while completing high school.
- Programs permitting college students to earn industry-recognized credentials and associate degrees for transfer concurrently.
- Use of prior learning assessment and competency-based credit to accelerate students' completion of industry-recognized credentials.
- Fully online courses for basic skills in English and mathematics.
- Fully online courses for completion of intersegmental general education requirements, using courses that articulate across the three public higher education segments.
- "Predominant" use of open educational resources (freely available instructional materials) in a college's course offerings.

***Potential Benefits to State Not Commensurate With Funding Amounts.*** We have two main concerns about these awards. Our most significant concern is that, under the proposal, the state would provide relatively large sums to a handful of community colleges to implement local initiatives that would not necessarily have significant statewide value. The administration has indicated that the award amounts are intended as incentives for innovation and may have no relation to the costs of implementing a winning initiative. As an example, the award for creating online general education courses likely involves redesigning a dozen or fewer courses. The award would provide more than $300,000 per course for this effort. This is more than ten times the per-course amount under the Governor's zero-textbook-cost degree proposal, and more than 70 times the per-course amount under an existing state incentive grant for colleges to adopt free course materials. Yet, all of these efforts would involve the same types of activities to redesign courses and select appropriate instructional materials. Moreover, the proposal does not provide for dissemination of innovations to other colleges across the state.

***Award Program Further Fragments Efforts to Improve Student Outcomes.*** Our second main concern is that the proposal would add yet another program to the state's numerous existing efforts to improve CCC student outcomes. The current range of programs, including the Student Success and Support Program, Student Equity Program, Institutional Effectiveness Partnership Initiative, Basic Skills and Student Outcomes Transformation Program, Basic Skills Partnership Pilot Program, Online Education Initiative, Common Assessment Initiative, Education Planning Initiative, and others already are challenging for colleges and the state to coordinate. Additionally, the Governor has proposed large programs to enhance CTE and incentivize colleges to adopt free course materials in place of textbooks. Rather than creating a new, separate incentive program providing generous awards to a handful of colleges, the state should focus on ensuring that existing programs with broader statewide impact are implemented well.

***Reject Governor's Proposal to Provide $25 Million for CCC Awards.*** For these reasons, we recommend the Legislature reject this proposal. If the Legislature still wishes to use the $25 million one-time funding in the higher education budget, it could target the funding to other priorities, like deferred maintenance, that are one-time in nature.

# HASTINGS COLLEGE OF THE LAW

In this section, we begin with an overview of key aspects of the Governor's proposed budget for Hastings. We then examine specific revenue and expenditure proposals and offer associated recommendations.

## Overview

***Governor Proposes $62 Million From All Sources for Hastings in 2016-17.*** Hastings' two largest fund sources are tuition ($22 million, after discounts) and state General Fund ($15 million). The state traditionally has focused on these two fund sources because they provide the most support for Hastings' education program. Hastings, however, also receives $25 million from numerous other sources, such as investment income, federal grants, donations, and student housing fees. Some of this revenue supports education but some supports other operations, such as student housing, student health services, and parking.

***Governor Assumes $4.6 Million Decrease in Tuition Revenue, Proposes $3.3 Million Increase in State General Fund.*** As shown in the top part of Figure 21, the Governor's budget assumes tuition revenue decreases by $4.6 million (17 percent). The decrease in tuition revenue is due to Hastings (1) offering more tuition discounts ($3.3 million), and (2) decreasing enrollment ($1.3 million). The Governor's budget augments Hastings'

**Figure 21**

**Hastings College of the Law Budget**

*(In Millions)*

| Revenue[a] | Amount |
|---|---|
| **2015-16 Revised** | |
| Tuition and fees | $27.0 |
| General Fund | 12.1 |
| **Total** | **$39.1** |
| **2016-17 Changes** | |
| Tuition and fees | -$4.6[b] |
| General Fund | 3.3 |
| Subtotal | (-$1.3) |
| Draw down reserves | $3.8 |
| **Total** | **$2.5** |
| **2016-17 Proposed** | |
| Tuition and fees | $22.5 |
| General Fund | 15.4 |
| **Total** | **$37.8** |
| **Changes in Spending** | |
| **Restricted General Fund** | |
| Deferred maintenance (one time) | $2.0 |
| General obligation bond debt service | 0.3 |
| Subtotal | ($2.3) |
| **Hastings' Plan for Unrestricted Funds** | |
| Benefit cost increases | $0.2 |
| Salary increases (2.5 percent)[c] | 0.1 |
| Subtotal | ($0.3) |
| **Total** | **$2.5** |

[a] Reflects tuition after discounts. (In 2016-17, Hastings is projecting to provide $16.3 million in discounts.) Includes all state General Fund.

[b] Reflects a 3.7 percent decrease in enrollment (-$1.3 million) and a 25 percent increase in tuition discounts (-$3.3 million).

[c] Increases only apply to certain employees comprising about one-quarter of Hastings' workforce.

General Fund by $3.3 million (27 percent). Of the $3.3 million increase, $2 million is one time and $1.3 million is ongoing. These changes result in a net decrease of $1.3 million in Hastings' state funding and tuition revenue combined.

***Hastings Plans to Draw Down $3.8 Million From Its Reserves.*** Hastings' reserve is estimated to total $11 million at the end of 2015-16. In part to cover the drop in revenue mentioned above, Hastings plans to draw down its reserve in 2016-17 by $3.8 million. This would leave Hastings with a $7.2 million reserve at year's end. This reserve level equates to 12 percent of Hastings' annual operating costs. Hastings plans to draw down an amount greater than its projected drop in revenue to support $2.5 million in augmentations (the main ones we discuss later in this section).

***Governor Dedicates Most New Spending to Facilities.*** As shown in the bottom part of Figure 21, the Governor proposes $2 million in one-time spending on deferred maintenance. He provides another $264,000 ongoing to pay for general obligation bond debt service associated with Hastings' facilities. With the remaining unrestricted revenue, Hastings plans to increase employee compensation. Specifically, it plans to increase spending on benefits for all employees by $153,000 and salaries (for specified employees) by $111,000 (2.5 percent). These salary increases only affect about one-quarter of Hastings' workforce, those enrolled in a particular bargaining unit. The affected bargaining unit represents custodians, food service workers, bus drivers, nursing assistants, and certain other non-academic job classifications.

***Key Issues for the Legislature.*** The Governor proposes to allow Hastings to set its own enrollment, tuition levels and financial aid packages, and spending priorities (aside from the Governor's earmark for maintenance). As we have discussed in past years, we have concerns with this basic budgetary approach because it diminishes legislative oversight. We believe the Legislature should consider each of these areas when reviewing Hastings' budget.

## Enrollment

Below, we consider both Hastings' enrollment level and associated enrollment funding.

### Enrollment Level

***State Has No Eligibility Policy for Hastings.*** The state did not include an eligibility policy for Hastings in its original 1960 *Master Plan for Education*, and the state to date has not developed such a policy. Moreover, the state traditionally has not set enrollment targets for Hastings in the state budget.

***Hastings Plans to Decrease Enrollment by 3.7 Percent in 2016-17.*** Specifically, Hastings plans to reduce resident JD enrollment from 778 FTE students in 2015-16 to 749 FTE students in 2016-17. (As noted in the "Higher Education in Context" section, this decrease follows a series of sharp decreases in enrollment in recent years.) Hastings cites a few reasons for the enrollment decrease. First, Hastings argues it has reduced enrollment because it is concerned about the job market for its graduates. Second, Hastings indicates it is aiming to boost the qualifications of its student body. That is, the school is attempting to increase the incoming class's average GPA and standardized test scores by being more selective in its admissions.

***Various Factors for Legislature to Consider When Evaluating Enrollment Levels for Hastings.*** To help it evaluate Hastings' proposed enrollment level, the Legislature could adopt a policy specifying its overarching enrollment objective for the law school. A state enrollment policy for Hastings could be based on various factors. For instance, the Legislature might consider workforce demand for lawyers or student demand for law school.

### Enrollment Funding

***State Historically Has Not Had an Enrollment Funding Formula for Hastings.*** Though the state has lacked such a formula to date, the *Supplemental Report of the 2015-16 Budget Package* required Hastings to submit a report to the Legislature by fall 2015 proposing an enrollment funding formula. The reporting requirement stemmed from the Legislature's concerns that Hastings' enrollment had decreased significantly in recent years, yet the school's state funding had increased.

***Hastings' Report Raises Concerns With Using an Enrollment Funding Formula***. Hastings' report cites four objections to the state using an enrollment funding formula for its budget. First, Hastings argues that its relatively small size (compared to law schools that are part of a larger university system) means it has relatively high fixed costs that do not fluctuate in tandem with enrollment. Second, Hastings asserts that an enrollment funding formula might encourage the school to enroll more students, even if those students were to face poor job prospects. Third, Hastings believes its academic planning would be made more difficult due to uncertainty regarding the amount of funding it would receive through the formula. Fourth, Hastings maintains achieving a specific enrollment target would be difficult due to challenges in predicting how many students accept offers of admission. Despite these concerns, Hastings fulfilled the reporting requirement by calculating a state funding rate of $4,705 per student, using an enrollment funding formula the state in the recent past has used for UC and CSU. (Based on this formula, Hastings calculated the total cost per new student as $34,513, with $29,910 covered by student tuition revenue.)

***Hastings' Concerns Not Particularly Persuasive***. Below, we address each concern cited by Hastings.

- ***Fixed Costs.*** Because some costs are fixed and do not vary with student enrollment, the state's traditional enrollment formulas, and the enrollment formula Hastings uses, excludes fixed costs for executive management, human resources, public safety, community relations, and certain administrative services.

- ***Incentives.*** Hastings presumes the state would want to expand enrollment regardless of the labor market for its students. The state, however, could craft an enrollment policy that explicitly takes the labor market into account (as discussed above).

- ***Timing.*** Under some enrollment budgeting approaches, Hastings might not know how much enrollment funding it would receive until late June, past when it will have made its fall enrollment decisions. To address this issue, the state could set its enrollment target and provided the associated enrollment funding in trailer legislation for the year after the budget year. (Recently, the state has moved toward using budget-year-plus-one enrollment targets and funding for UC and CSU to address this same issue.)

- ***Forecasting Challenges.*** Hastings' concern about forecasting how many students will accept its admission offers also has merit. The state, however, has addressed this concern in the past for UC and CSU by establishing an acceptable margin of error around the enrollment target. For example, the state could reduce Hastings' enrollment funding only if Hastings missed its target by more than 5 percent.

***Recommend Legislature Adopt Funding Formula if Enrollment Target Used.*** We believe the Legislature should link some portion of Hastings' budget to student enrollment. The enrollment-based formula suggested by Hastings appears to be a reasonable starting point. If Hastings remains concerned about how fixed costs are treated in the formula, the Legislature could direct Hastings to identify any additional fixed costs it believes should be excluded and make corresponding modifications to the enrollment formula.

## Tuition and Financial Aid

***State Has No Tuition or Financial Aid Policy for Hastings.*** Having no tuition policy is not unique to Hastings. The state also has no such policies for UC or CSU.

***Governor Expects Hastings to Keep Tuition Flat in 2016-17.*** Tuition at Hastings is $44,201 in 2015-16. Hastings expects to keep tuition flat in 2016-17, except it indicates its board will consider an increase in its health services fee. (In 2015-16, this fee is set at $633—$15, or 3 percent, higher than the prior-year level.)

***Hastings Plans to Increase Financial Aid by $3.2 Million (24 Percent) in 2016-17.*** Hastings plans to increase its tuition discounts from $13.1 million in 2015-16 to $16.3 million in 2016-17. Hastings' tuition discounts typically are awarded based on merit, not need. As such, Hastings indicates the increase is intended to help it attract more highly qualified students.

***Various Factors for Legislature to Consider When Evaluating Hastings' Tuition and Financial Aid Decisions.*** While offering more tuition discounts might help Hastings attract more academically qualified students, it also reduces the amount of revenue Hastings has to spend on other areas (such as compensation, maintenance, or instructional equipment). The Legislature could consider whether additional financial aid is a higher priority than other areas. Another consideration for the Legislature is whether it shares Hastings' priorities for awarding financial aid based on merit, rather than need.

## Deferred Maintenance

***Hastings Cites a $8.4 Million Maintenance Backlog.*** Hastings recently included this estimate in a report to the Department of Finance. The report includes examples of maintenance projects by building but does not include a project-level list. Of the $8.4 million, $6.8 million is associated with Snodgrass Hall and $1.6 million is associated with Kane Hall.

***Governor Proposes $2 Million One-Time Spending on Deferred Maintenance.*** This proposal for Hastings is part of a larger package of deferred maintenance spending for various state agencies. The overall proposal does not require agencies initially to identify specific maintenance projects, though agencies would be required to submit project lists to the Department of Finance after enactment of the budget. The Joint Legislative Budget Committee would have 30 days to review these lists prior to the department approving them.

***Governor's Proposal Would Address Relatively Large Share of Hastings' Backlog.*** The Governor's proposal would address nearly one-quarter of Hastings' deferred maintenance backlog. This is a much higher share than the Governor proposes for other higher education agencies, including UC and CSU. (For instance, the Governor proposes $35 million for UC, though the university asserts it has a backlog of over $1.2 billion.) Though differing funding levels may make sense to the extent they reflect differing priorities, the Governor's proposal did not include a justification for the variation.

***Hastings' Plan Includes Some Projects Not Typically Considered Deferred Maintenance.*** Though not yet required to do so, Hastings has submitted a project-level deferred maintenance list totaling $2.5 million. Figure 22 summarizes Hastings' project list by building and type of project. Hastings indicates it would address a subset of these projects under the Governor's $2 million proposal. Hastings' list includes some types of projects not typically considered deferred maintenance, such as installing automatic faucets (to conserve water) and replacing lighting (to conserve energy). As mentioned in our *The 2016-17 Budget: Governor's General Fund Deferred Maintenance Proposal*, certain energy efficiency projects identified by departments might be able to be funded by cap-and-trade auction revenues or various state revolving fund programs (where project costs are recouped over time through the project's energy savings).

***Hastings's Plan Includes Projects in a Building Targeted for Replacement and Modernization.*** The 2015-16 budget funds a replacement project for the main part of Snodgrass Hall. Additionally, the Governor's *California's Five-Year Infrastructure Plan* indicates Hastings would like to modernize the remaining annex portion of Snodgrass Hall in 2017-18. Hastings asserts, however, that the projects for Snodgrass Hall on its deferred maintenance list are urgent and should be undertaken soon.

***If Legislature Approves Proposal, Recommend Targeting Funding to Specific Projects.*** The Legislature will want to consider the Governor's proposal for Hastings' deferred maintenance in the context of the Governor's overall proposal for deferred maintenance statewide. If the Legislature decides to provide $2 million for Hastings, we recommend it prioritize Hastings' $2.5 million list by not funding the projects related to lighting replacements and water conservation, as alternative revenues might be available to support these projects. We further recommend the Legislature prioritize projects at Kane Hall, given the state has approved replacing the main portion of Snodgrass Hall and Hastings plans to propose renovating the annex portion. We calculate the remaining projects left after setting these priorities would total $2 million.

## Compensation

***Salary Increases at Hastings Low Compared to Inflation.*** Hastings' expenditure plan calls for a 2.5 percent salary increase for about one-quarter of its employees. This increase generally is in line with

**Figure 22**

**Hastings' Proposed List of Deferred Maintenance Projects[a]**

*2016-17 (In Thousands)*

| Project Type | Cost |
|---|---|
| **Kane Hall** | |
| Roof | $1,265 |
| Electrical | 478 |
| Lighting | 140 |
| Heating, ventilation, and air conditioning | 130 |
| Water conservation | 60 |
| Floors | 50 |
| Waterproofing | 42 |
| Building exterior | 30 |
| Subtotal | ($2,195) |
| **Snodgrass Hall** | |
| Heating, ventilation, and air conditioning | $115 |
| Lighting | 85 |
| Water conservation | 60 |
| Roof | 23 |
| Building infrastructure | 15 |
| Electrical | 10 |
| Subtotal | ($308) |
| **Total** | **$2,503** |

[a] Hastings' list includes $2.5 million in projects, though the Governor's proposal is for $2 million.

inflation. Hastings indicates it intends to hold salaries flat for the remainder of its workforce. This means Hastings' overall salary-related expenditure increases for 2016-17 total less than 1 percent of its budget (General Fund and tuition combined), notably lower than most standard measures of inflation.

# CALIFORNIA STUDENT AID COMMISSION

In this section, we begin with an overview of the Governor's proposed budget for CSAC. We then examine changes in two programs—Cal Grants and Middle Class Scholarships—and make associated recommendations.

## Overview

***Governor Provides $2.3 Billion for CSAC in 2016-17.*** As shown in Figure 23, this reflects a funding increase of $169 million (8 percent) from the revised current-year level. General Fund support is $136 million lower and federal Temporary Assistance for Needy Families (TANF) support is $305 million higher than the revised current-year level. The largest year-to-year spending increases are for Cal Grants ($137 million) and Middle Class Scholarships ($34 million). The Governor anticipates a small reduction ($3 million) in loan assumption program costs.

***Governor Assumes $50 Million Decrease in 2015-16 Spending.*** As part of its budget package, the administration revises its estimates of 2015-16 CSAC spending relative to the enacted 2015-16 budget. Most notably, the administration lowers

**Figure 23**

**California Student Aid Commission Budget**

*(Dollars in Millions)*

| | 2014-15 Actual | 2015-16 Revised | 2016-17 Proposed | Change From 2015-16 Amount | Change From 2015-16 Percent |
|---|---|---|---|---|---|
| **Expenditures** | | | | | |
| **Local Assistance** | | | | | |
| Cal Grants | $1,835 | $1,966 | $2,103 | $137 | 7% |
| Middle Class Scholarships | 62 | 82 | 116 | 34 | 41 |
| Assumption Program of Loans for Education | 19 | 17 | 14 | -3 | -15 |
| Chafee Foster Youth Program | 12 | 12 | 12 | — | — |
| Student Opportunity and Access Program | 7 | 8 | 8 | — | — |
| National Guard Education Assistance Awards | 2 | 2 | 2 | — | — |
| Other programs[a] | 1 | 1 | 1 | —[b] | 21 |
| Subtotals | ($1,939) | ($2,088) | ($2,256) | ($169) | (8%) |
| **State Operations** | $13 | $14 | $14 | —[b] | —[b] |
| **Totals** | **$1,952** | **$2,102** | **$2,271** | **$169** | **8%** |
| **Funding** | | | | | |
| General Fund | $1,539 | $1,564 | $1,428 | -$136 | -9% |
| Federal Temporary Assistance for Needy Families | 377 | 521 | 826 | 305 | 58 |
| Other[c] | 35 | 17 | 17 | — | — |

[a] Includes Cash for College, Child Development Teacher/Supervisor Grants, Graduate Assumption Program of Loans for Education, John R. Justice Program, Law Enforcement Personnel Dependents Scholarships, and State Nursing Assumption Program of Loans for Education for Nursing Faculty.

[b] Less than $500,000 or 0.5 percent.

[c] Includes College Access Tax Credit Fund, Student Loan Authority Fund, and other federal funds.

its estimate of Cal Grant Costs by $49 million (discussed further below). The Governor's budget also lowers its estimate of loan assumption program costs by $2 million. (These decreases are offset by slight increases in state employee compensation costs.)

## Cal Grants

***State's Main Financial Aid Program Is Cal Grants.*** As shown in Figure 24, the state's Cal Grant program has both an entitlement and a competitive component. It also has multiple types of awards. One type of award, Cal Grant A, covers full systemwide tuition and fees at the public universities and up to a fixed dollar amount toward costs at private colleges, while a second type, Cal Grant B, also offers stipends (known as access awards) for students with the lowest household income. A third type, Cal Grant C, provides up to a fixed amount for tuition and fees and other costs for eligible low- and middle-income students enrolled in career technical education programs. A student generally may receive awards for up to four years of full-time study.

***CSAC Estimates Cal Grant Caseload Based Largely on Trends in Paid Recipients.*** Each fall and spring CSAC estimates the Cal Grant Caseload for the current year and the budget year. For the current-year estimate, CSAC looks at how many awards have been offered to date and then assumes a certain percentage of these awards are paid based on recent paid rates. For the budget-year estimate, CSAC takes the current-year estimate and projects it forward based upon various factors. Most notably, CSAC makes assumptions about the share of new awards converting into

**Figure 24**

**Cal Grant Award Amounts and Eligibility Criteria**

*2015-16*

**Award Amounts**

**Cal Grant A**

Tuition awards for up to four years.

- Full systemwide tuition and fees ($12,240) at UC.
- Full systemwide tuition and fees ($5,472) at CSU.
- Fixed amount ($9,084) at nonprofit or WASC-accredited for-profit colleges.
- Fixed amount ($4,000) at other for-profit colleges.

**Cal Grant B**

Up to $1,656 toward books and living expenses for up to four years.

Tuition coverage comparable to A award for second through fourth years.

**Cal Grant C**

Up to $2,462 for tuition and fees for up to two years.

Up to $547 for other costs for up to two years.

**Eligibility Criteria[a]**

**High School Entitlement (A and B)**

- High school senior or graduated from high school within the last year.
- Minimum high school GPA of 3.0 (for A award) or 2.0 (for B award).

**Transfer Entitlement (A and B)**

- CCC student under age 28 transferring to a four-year school.
- Minimum college GPA of 2.4.

**Competitive (A and B)**

- Cannot be eligible for entitlement.
- Minimum high school GPA of 3.0 (for A award) and 2.0 (for B award).
- State law authorizes 25,750 new awards per year.

**Competitive (C)**

- Must be enrolled in career technical education program at least four months long.
- No GPA minimum.
- State law authorizes 7,761 new awards per year.

[a] To be eligible for any award, family assets (excluding primary residences and retirement plans) are capped at $67,500. A and C awards have an income ceiling of $87,200 and the B award has an income ceiling of $45,800. (Income ceiling varies by family size and dependency status. Amounts listed are for dependent students from a family of four entering program in 2015-16.)

WASC = Western Association of Schools and Colleges and GPA = grade point average.

renewal awards and the attrition of existing renewal awards. CSAC also includes the effects of any policy or administrative changes. For instance, CSAC includes the effects of any tuition increases at the public universities as well as any administrative efforts to increase the number of awards that are paid. CSAC then provides its estimates to the Department of Finance for inclusion in the Governor's budget.

***Governor Assumes a $49 Million Decrease in Cal Grant Spending in 2015-16.*** This a 2 percent decrease compared to the enacted 2015-16 budget. The decrease is concentrated among certain education sectors and certain types of Cal Grant Awards. By sector, the budget assumes a $37 million decrease for awards at private, for-profit institutions and a $31 million decrease for awards at CSU. These decreases are partly offset by increases for awards at UC. By type of award, the budget assumes a $44 million decrease in Cal Grant B awards and a $12 million decrease in Cal Grant C awards. These decreases are partly offset by estimated increases in Cal Grant A awards.

***Governor Proposes a $137 Million Increase in Cal Grant Spending in 2016-17.*** As shown in Figure 25, this is a 7 percent increase over the revised 2015-16 level. The increase primarily is associated with higher spending on awards at certain segments (particularly UC and CSU), certain award groups (particularly high school entitlements), and certain types of awards (Cal Grant A and Cal Grant B). A portion of the higher spending at UC ($4.1 million) is due to UC raising its Student Services Fee by $54 (5 percent). A portion of the higher high school entitlement costs ($21 million) is due to recent efforts by the commission to increase the number of awards that are paid. CSAC data also show that $18 million of the increase occurs among *California Dream Act* students, primarily for high school entitlement awards. (Though not explicitly factored into CSAC's estimates, we estimate about $14 million of the increase in competitive award costs is associated with the renewal of 3,250 new competitive awards authorized in the 2015-16 budget.)

***Governor to Provide Updated Cal Grant Estimates in May Revision.*** As part of the May Revision, the administration will provide the Legislature with updated information to determine the appropriate amount to budget for the Cal Grant program in both the current and budget years.

## Middle Class Scholarships

***State Placed Appropriations in Statute When Program Was Created.*** The Middle Class Scholarship program took effect starting in 2014-15. The program is being phased in, with awards in 2015-16 set at 50 percent of full award levels, then 75 percent and 100 percent for the following two years, respectively. At the time the program was created, the state scheduled ongoing funding for it in statute. In 2015-16, the state adjusted these statutory appropriations to reflect eligibility changes that it made to the program. Current state law appropriates $107 million for 2014-15, $82 million for 2015-16, $116 million for 2016-17 and $159 million for 2017-18 and each year thereafter. As part of last spring's May Revision, however, the Governor revised 2014-15 spending to $62 million.

***Governor Proposes No Funding Changes.*** This means the Governor assumes $62 million for 2014-15, $82 million for 2015-16, and $116 million for 2016-17.

***Current Data Suggests 2014-15 Spending Will Come in Lower Than Budgeted.*** In February 2016, CSAC announced it had finished reconciling expenditures for 2014-15. The commission reported spending $54.3 million—$7.7 million less than the amount assumed by the Governor for 2014-15.

***Data Also Suggest Lower Spending in 2015-16 and 2016-17.*** In February 2016, CSAC reported it had spent $50.1 million to date for 2015-16. (This figure reflects the phase-in of the higher award amount in 2015-16 as well as the effect of the recently enacted asset ceiling for the program.) Though CSAC will not finish reconciling expenditures for 2015-16 until later this fall, the final 2015-16 number likely will not be much different. This is because data for 2014-15 show only a few million dollars variation between the amount CSAC reported spending in February 2015 and the final amount it reported spending in February 2016. This means the Governor's proposed funding levels for 2015-16 and 2016-17 likely overestimate program expenditures by tens of millions of dollars.

***Recommend Legislature Require CSAC to Provide Updated Estimates at May Revision.*** Specifically, we recommend CSAC provide the most recent data available for 2015-16 on the number of awards and dollars spent, by segment. We also recommend the Legislature direct CSAC to project final expenditures for 2015-16 and 2016-17.

**Figure 25**

**Cal Grant Spending**

*(Dollars in Millions)*

| | 2014-15 Actual | 2015-16 Estimated | 2016-17 Projected | Change From 2015-16 | |
|---|---|---|---|---|---|
| | | | | Amount | Percent |
| **Total Spending** | **$1,809** | **$1,966** | **$2,103** | **$137** | **7%** |
| **By Segment:** | | | | | |
| University of California | $824 | $887 | $943 | $56 | 6% |
| California State University | 594 | 669 | 734 | 65 | 10 |
| Private nonprofit institutions | 241 | 253 | 261 | 9 | 3 |
| California Community Colleges | 122 | 137 | 146 | 9 | 7 |
| Private for-profit institutions | 27 | 21 | 19 | -2 | -11 |
| **By Program:** | | | | | |
| High School Entitlement | $1,457 | $1,595 | $1,711 | $116 | 7% |
| CCC Transfer Entitlement | 221 | 209 | 204 | -5 | -2 |
| Competitive | 123 | 157 | 184 | 27 | 17 |
| Cal Grant C | 8 | 5 | 4 | -1 | -18 |
| **By Award Type:** | | | | | |
| Cal Grant A | $1,037 | $1,115 | $1,178 | $63 | 6% |
| Cal Grant B | 764 | 846 | 921 | 75 | 9 |
| Cal Grant C | 8 | 5 | 4 | -1 | -18 |
| **By Renewal or New:** | | | | | |
| Renewal | $1,247 | $1,365 | $1,480 | $115 | 8% |
| New | 562 | 601 | 624 | 22 | 4 |
| **By Funding Source:** | | | | | |
| General Fund | $1,425 | $1,443 | $1,276 | -$167 | -12% |
| Federal TANF | 377 | 521 | 826 | 305 | 58 |
| Student Loan Authority Fund | 6 | — | — | — | — |
| College Access Tax Credit Fund | — | 2 | 2 | — | — |

TANF = Temporary Assistance for Needy Families.

# SUMMARY OF LAO RECOMMENDATIONS

**University of California**

- Review expenditure plan developed by UC to determine if priorities align with Legislature's goals. Align funding in the state budget with priorities.
- Modify existing "cost of education" reporting requirement to require UC to identify the amount it uses from each fund source to pay for education.
- Require UC to report at spring budget hearings on changes it is considering for its retirement plan. Assess extent to which these changes meet Legislature's goals.
- Require UC to report at spring budget hearings on how many resident graduate students it plans to enroll in 2016-17.
- If funding enrollment growth, set enrollment targets for one year after the budget year to influence fall admission decisions at UC. Schedule enrollment-growth funding for budget year plus one in this year's trailer legislation.
- Require UC to develop long-term plans to eliminate deferred maintenance and prevent it from recurring. Moving forward, consider earmarking maintenance funding to ensure campuses are setting aside enough money annually.
- Require UC to present a plan at spring budget hearings for the $50 million it intends to spend on academic quality initiatives.

**California State University**

- Review expenditure plan developed by CSU to determine if priorities align with Legislature's goals. Align funding in the state budget with priorities.
- If funding enrollment growth, set enrollment targets for one year after the budget year to influence fall admission decisions at CSU. Schedule enrollment-growth funding for budget year plus one in this year's trailer legislation.
- Require CSU to develop long-term plans to eliminate deferred maintenance and prevent it from recurring. Moving forward, consider earmarking maintenance funding to ensure campuses are setting aside enough money annually.
- Require CSU to explain how it would spend the $7 million it left "to be determined" in the expenditure plan it submitted to the state.

**California Community Colleges**

- Replace Governor's proposed $200 million new workforce proposal with a more structured career technical education (CTE) program that provides ongoing funding streams for (1) equipment and other one-time costs and (2) CTE programs with exceptionally high costs. Fold CCC nursing program supplements and CTE Pathways program into the new program.

- Consolidate regional planning for adult education and CTE.

- Require Chancellor to report on legislative options to facilitate the hiring of experienced industry professionals as CTE instructors.

- Consider increasing the award amount for Cal Grant C (which provides financial aid for CTE students). Cost for the financial aid increase could range from $3 million to $9 million, depending on the amount of the award increase and the students deemed eligible (that is, students attending public and private higher education institutions or only community college students).

- Adopt apprenticeship rate increase and consider amending statute to tie apprenticeship rate to Career Development and College Preparation course rate.

- Wait until early May for updated estimate of 2015-16 enrollment at community colleges and then adjust apportionments accordingly. Make 2016-17 enrollment decision in light of revised 2015-16 enrollment level. Use any freed-up funds for other Proposition 98 priorities.

- Adopt Governor's proposed changes to Basic Skills Initiative program requirements (with minor modifications) and transition the program to performance funding.

- Reject the Governor's proposed $30 million augmentation to the Basic Skills Initiative at this time. Consider redirecting the funding to support another round of one-time grants under the Basic Skills and Student Outcomes Transformation Program, or using it for deferred maintenance or other one-time purposes.

- Consider augmenting and refining the Basic Skills Initiative in the future, if warranted, based on the results of two basic skills grant programs approved last year but not yet implemented.

- Adopt Governor's $290 million one-time funding proposal for deferred maintenance and instructional support and add stronger reporting requirements. Authorize districts to use a small portion of the funding ($1.1 million) to upgrade their systemwide facility condition inventory system (FUSION).

- Reject Governor's proposal to provide $25 million in one-time awards for six CCC campuses to implement specified innovations. Redirect funding to other one-time Proposition 98 priorities.
- Consider adopting Governor's proposed $10 million augmentation for the Institutional Effectiveness Partnership Initiative, but be cautious about expanding the program too quickly. Require Chancellor to provide annual information to help gauge whether the initiative is reaching capacity.
- Adopt the Governor's proposal to provide $3 million to augment CCC systemwide data security.

**Hastings College of the Law**

- Consider adopting a policy for setting enrollment targets at Hastings based on factors such as student demand for law school and state workforce demand for lawyers.
- If setting enrollment target, use enrollment funding formula proposed by Hastings to adjust Hastings' budget.
- Establish spending priorities for financial aid and other program areas.
- If funding deferred maintenance, prioritize by type of project.

**California Student Aid Commission**

- Revisit Cal Grant Caseload trends in May to determine funding levels for current year and budget year.
- Direct the commission to provide more information about Middle Class Scholarship expenditures in May. Specifically, direct commission to project caseload and expenditures for 2015-16 and 2016-17.

## Contact Information



| | | | |
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