

May 16, 2016

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

LAO 
75
YEARS OF
SERVICE

Overview of May Revision Proposals For Higher Education





Higher Education General Fund Changes

Higher Education General Fund Support^a								
<i>(Dollars in Millions)</i>								
	2015-16			2016-17			Year-to-Year Change at May Revision	
	Governor's Budget	May Revision	Change	Governor's Budget	May Revision	Change	Amount	Percent
CCC	\$5,813	\$5,860	\$47	\$5,946	\$6,034	\$88	\$174	3%
CSU	3,297	3,297	—	3,484	3,510	26	213	6
UC	3,257	3,259	2	3,467	3,471	4	212	6
CSAC ^b	2,085	1,998	-86	2,254	2,152	-102	153	8
CIRM	369	369	—	274	274	—	-95	-26
Hastings	12	12	—	15	15	—	3	27
Awards for Innovation	—	—	—	25	25	—	25	N/A
Totals	\$14,833	\$14,796	-\$38	\$15,465	\$15,481	\$16	\$686	5%

^a Includes General Fund support for retirement, debt service, and deferred maintenance paid from outside higher education agencies' budgets. Excludes state cost changes in 2016-17 for agencies participating in the California Public Employees' Retirement System, as these costs have not yet been distributed across agencies' budgets. For Hastings and CIRM, figures do not reflect May adjustments to general obligation bond debt service.

^b Includes Temporary Assistance for Needy Families support that directly offsets General Fund costs.
CSAC = California Student Aid Commission and CIRM = California Institute for Regenerative Medicine.

- The May Revision assumes total General Fund support for higher education is \$686 million (5 percent) higher than the revised 2015-16 level of spending.
- New proposals in the May Revision include a \$75 million increase for community college general purpose apportionments, a \$26 million increase for two initiatives to improve California State University (CSU) graduation rates, and a \$4 million increase to expand the University of California's (UC's) online A-G course offerings.
- The May Revision also revises spending to account for new estimates of financial aid program participation.



University of California

A-G Online Course Expansion



Background

- Started in 1999, UC Scout currently provides 26 online A-G and advanced placement courses for high school students.
- California high schools and students can use UC Scout for free to supplement face-to-face instruction. Alternatively, they (students directly or schools on their behalf) can pay a course fee ranging from \$169 to \$299 per semester for UC Scout to provide credit-bearing instruction solely online.
- In 2013-14, UC Scout served nearly 3,000 students from 405 schools. The program's budget was \$2.4 million.



May Revision Proposal

- Provides \$4 million (one time) for UC Scout to develop 45 additional A-G online courses.
- Requires UC to (1) solicit comments from local education agencies regarding which courses to develop, (2) report on the courses selected for development by January 1, 2017, and (3) develop the courses by January 1, 2018.

A-G Online Course Expansion (Continued)



Assessment and Recommendation

- Expanding online access to A-G and advanced placement courses for students who lack access to them at their local high schools may have merit.
- The May Revision proposal, however, lacks information on:
 - How much unmet demand exists for additional online A-G courses and which specific courses have the greatest unmet demand.
 - Whether other online providers could meet any unmet demand.
 - How the proposed level of funding was determined.
 - How UC Scout would inform schools statewide of the availability of the additional courses.
- Recommend rejecting proposal without prejudice until better information justifying the expansion and associated cost is available.

Release of Current-Year Funding for Retirement and Enrollment



Background on Retirement Issue

- The 2015-16 budget included \$96 million (one time) for UC's unfunded pension liability, contingent upon UC adopting a pensionable salary limit consistent with the limit specified under the Public Employees' Pension Reform Act of 2013 (PEPRA)—\$117,020 in 2016.
 - In March 2016, the UC Regents adopted the PEPRA pensionable salary limit but also created defined contribution plans.



Background on Enrollment Issue

- The 2015-16 budget authorizes the Department of Finance (DOF) to augment UC's base funding by \$25 million if UC can demonstrate it will enroll 5,000 more undergraduate residents in 2016-17 over the 2014-15 level.
 - In April 2016, UC provided data on freshman admissions and transfer applications, along with information on campus targets for enrolling 5,000 more undergraduate students.



May Revision Proposals

- DOF finds UC in compliance with the retirement and enrollment provisions and releases the associated funding.

Release of Current-Year Funding for Retirement and Enrollment (Continued)



Assessment

- UC redirected much of the savings associated with establishing the PEPPRA limit toward the supplemental defined contribution plans. The defined contribution plans, however, do not carry the risk of creating a future unfunded liability for UC.
- Determining whether UC will meet its enrollment target is difficult at this time because UC currently only has data on transfer applications but not transfer admissions.

Graduation Rate Improvement Plan



Background

- The last two budget packages have required CSU to submit a three-year plan to the state that includes (1) proposed expenditures under the Governor's revenue assumptions and (2) systemwide targets for eight performance measures established in state law.
- The Governor's January budget continued this reporting requirement for 2016-17.



May Revision Proposal

- Replaces existing reporting requirement on expenditures and eight performance targets with new reporting requirement focused solely on targets for graduation rates.
- Under the new reporting requirement, CSU would set systemwide and campus-level targets to (1) improve four-year graduation rates (for freshman entrants) and two-year graduation rates (for transfer entrants), and (2) reduce the gap in graduation rates between Pell-eligible and non-Pell-eligible students. CSU also would establish a time frame to achieve these targets.
- The CSU Trustees would submit the plan to DOF by September 30, 2016.
- If DOF approves the plan, CSU would receive \$25 million (one time) and report annually on progress toward meeting its targets.

Graduation Rate Improvement Plan (Continued)



Assessment and Recommendation

- Proposal focuses only on one performance measure (graduation rates), though other performance measures (such as cost per degree) also are important.
- Proposal eliminates CSU report on expenditure plan, which provides the Legislature with valuable information on how the system would spend state funds.
- CSU does not need additional funds to produce a report and it is unclear if CSU would spend the funding in ways that improve its graduation rates.
- Recommend rejecting the proposal.

Student Success Network**Background**

- CSU has undertaken numerous strategies over many years to improve its graduation rates. These strategies have aimed to improve both the academic preparation of incoming freshmen and the instructional, advising, and support services offered to enrolled students.
- Last year, CSU indicated it would spend \$38 million of its ongoing state funding increase on improving student outcomes.

**May Revision Proposal**

- Provides \$1.1 million (ongoing) to establish working groups of faculty, staff, and administrators to discuss, develop, and evaluate practices that improve graduation rates.
- Funding would provide leave time for participants, as well as support conferences and research.
- Program would be administered by a center at CSU Sacramento.

**Assessment and Recommendation**

- Proposal suggests that more faculty and staff interaction is needed to improve graduation rates, and additional state funding is needed to facilitate these conversations. In our view, the administration has not provided sufficient evidence for these claims.
- Given CSU already has available \$38 million ongoing to improve student outcomes, the Legislature could earmark funding for this proposal from within CSU's existing base appropriation.



California Community Colleges

CCC Spending by Source			
<i>(In Millions)</i>			
	Governor's Budget	May Revision	Change
2014-15 Minimum Guarantee			
General Fund	\$4,979	\$5,025	\$46
Local property tax	2,302	2,306	5
Totals	\$7,281	\$7,331	\$51
2015-16 Minimum Guarantee			
General Fund	\$5,373	\$5,422	\$48
Local property tax	2,624	2,562	-62
Totals	\$7,997	\$7,983	-\$14
2016-17 Minimum Guarantee			
General Fund	\$5,447	\$5,535	\$88
Local property tax	2,812	2,760	-52
Totals	\$8,259	\$8,295	\$36

- May Revision Provides \$73 Million Increase for Community Colleges**
 - \$36 million in 2016-17 funds.
 - \$37 million in prior- and current-year funds combined.

- Total California Community Colleges (CCC) Proposition 98 Funding Is \$8.3 Billion in 2016-17**
 - Up from \$8 billion in 2015-16 (revised).
 - Per-student funding increases \$158 (2.3 percent) from revised 2015-16 level (bringing total to \$7,053).



California Community Colleges

(Continued)

2016-17 CCC Proposition 98 Changes			
<i>(In Millions)</i>			
	Governor's Budget	May Revision	Change
2015-16 Revised Spending	\$7,997	\$7,983	-\$14
Technical Adjustments	-\$468	-\$416	\$52
Policy Proposals			
Implement workforce recommendations of BOG task force	\$200	\$200	—
Fund deferred maintenance and instructional equipment (one time) ^a	255	189	-\$66
Fund 2 percent enrollment growth	115	115	—
Provide apportionment increase (above growth and COLA)	—	75	75
Make CTE Pathways Initiative ongoing	48	48	—
Augment Basic Skills Initiative	30	30	—
Fund Innovation Awards at community colleges (one time)	25	25	—
Revise estimate of energy-efficiency funds	6	11	4
Increase funding for Institutional Effectiveness Initiative	10	10	—
Augment technology infrastructure funding	—	5	5
Fund technical assistance to adult education consortia (one-time)	—	5	5
Fund development of "zero-textbook-cost" degree programs (one time)	5	5	—
Provide instructional materials for incarcerated adults	—	3	3
Improve systemwide data security	3	3	—
Extend Full-Time Student Success Grant to Cal Grant C recipients	—	2	2
Increase apprenticeship reimbursement rate	2	2	—
Augment funding for systemwide Academic Senate ^b	—	—	—
Provide COLA ^c	31	—	-31
Subtotals	<u>(\$730)</u>	<u>(\$728)</u>	<u>(-\$2)</u>
Total Changes	\$262	\$311	\$50
2016-17 Proposed Spending	\$8,259	\$8,295	\$36

^a Governor's budget provided an additional \$28 million in Proposition 98 settle up and \$6.4 million in unspent Proposition 98 prior-year funds for this purpose. The May Revision provides \$24 million in settle up and \$6.4 million in unspent prior-year funds.

^b Provides \$300,000.

^c COLA rate was estimated at 0.47 percent in January, finalized at zero in May.

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



California Community Colleges (Continued)

See *The 2016-17 Budget: Analysis of the Proposition 98 May Revision Budget Package* for a discussion of these recommendations.

Summary of California Community Colleges Recommendations		
Program	May Revision Proposal	LAO Recommendation
General purpose apportionment funding	Increase by \$75 million.	Adopt. Colleges can use flexible funds to meet highest priorities.
Online Education Initiative	Provide \$20 million one time.	Adopt. Accelerates implementation of online courses.
Technical assistance for Adult Education Consortia	Increase by \$5 million one time (over three years).	Adopt. Maintains service level to consortia during transition process.
Telecommunications and Technology Infrastructure	Increase by \$7 million one time and \$5 million ongoing.	Adopt. Expands Internet capacity for statewide technology projects.
Full-Time Student Success Grant	Increase by \$2 million.	Adopt. Reduces financial aid disparity between career technical education students and other students.
CCC Academic Senate	Increase by \$300,000.	Adopt. Addresses increased workload for statewide initiatives.
Energy-efficiency projects (Proposition 39)	Increase by \$4 million.	Adopt. Increase for projects consistent with revised Proposition 39 revenue estimate.
Equal Employment Opportunity Strong Workforce Program	Increase by \$2 million. Make policy changes.	Adopt. Uses special fund balance for authorized purposes. Modify. Remove requirement that LAO approve funding allocations.
Zero-Textbook-Cost Degree Program	Make policy changes.	Modify. Add requirement for CCC to coordinate with related state initiatives. Consider adding component for instructional materials for incarcerated adults.
Instructional materials for incarcerated adults	Provide \$3 million.	Reject. Proposal lacks adequate information and raises several concerns. Consider link to zero-textbook-cost proposal.
Basic Skills Initiative	Make policy changes.	Modify. Adopt change in share for statewide professional development (from 2.4 percent to 5 percent of total program funding). Designate first-year funding for grants. Remove requirement that LAO concur on funding factors.
Enrollment growth	Make no changes to January proposal.	Modify. Reduce 2015-16 enrollment base to reflect updated data and carry adjustment forward into 2016-17. Still assume 2 percent growth year over year. Use freed-up funds for other high priorities.
CCC mandates backlog	Provide \$29 million.	Reject. Per-student approach to reducing CCC mandates backlog no longer makes sense.
Deferred Maintenance and Instructional Equipment	Increase by \$189 million.	Modify. To extent Legislature frees up funding by rejecting or modifying other CCC proposals, redirect funds for one-time purposes such as maintenance backlog.



California Student Aid Commission

California Student Aid Commission Budget								
<i>(Dollars in Millions)</i>								
	2015-16			2016-17			Year-to-Year Change at May Revision	
	Governor's Budget	May Revision	Change	Governor's Budget	May Revision	Change	Amount	Percent
Expenditures								
Local Assistance								
Cal Grants	\$1,966	\$1,915	-\$51	\$2,103	\$2,005	-\$98	\$90	5%
Middle Class Scholarships	82	48	-34	116	116	—	68	139
APPLE	17	14	-2	14	12	-2	-3	-18
Chafee Foster Youth	12	12	—	12	12	—	—	—
Cal-SOAP	8	8	—	8	8	—	—	—
National Guard Awards	2	2	—	2	2	—	—	—
Other Programs ^a	1	1	— ^b	1	1	— ^b	— ^b	-22
Subtotals	(\$2,088)	(\$2,001)	(-\$86)	(\$2,256)	(\$2,155)	(-\$101)	(\$154)	(8%)
State Operations	\$14	\$14	—	\$14	\$17	\$2	\$2	17%
Totals	\$2,102	\$2,015	-\$86	\$2,271	\$2,172	-\$99	\$157	8%
Funding								
General Fund	\$1,564	\$1,477	-\$86	\$1,428	\$1,043	-\$385	-\$434	-29%
Federal TANF	521	521	—	826	1,109	283	588	113
Other ^c	17	17	—	17	20	3	3	20

^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.
 APPLE = Assumption Program of Loans for Education; Cal-SOAP = California Student Opportunity and Access Program; and TANF = Temporary Assistance for Needy Families.

- The May Revision assumes California Student Aid Commission (CSAC) spending from all fund sources is \$157 million (8 percent) higher than the revised 2015-16 level of spending.
- The major changes in the May Revision for CSAC include (1) adjustments to Cal Grant and Middle Class Scholarship spending to account for revised participation estimates, and (2) two new proposals totaling \$2.4 million to strengthen the security of CSAC's current information technology (IT) system and continue planning for a new system.



California Student Aid Commission

(Continued)

Cal Grants



May Revision Proposals

- Decreases 2015-16 and 2016-17 spending by \$51 million and \$102 million, respectively, to reflect revised estimates of grant recipients and average award amounts.
- Increases federal Temporary Assistance for Needy Families support by \$238 million and decreases General Fund support by that amount. This is a fund swap and has no programmatic effect.
- Increases College Access Tax Credit Fund support for the Cal Grant B access award by \$3.2 million. This increases the access award supplement from \$8 to \$22.



Assessment and Recommendation

- Governor's revised Cal Grant estimates appear reasonable.
- Recommend adopting May Revision proposals.



California Student Aid Commission

(Continued)

Middle Class Scholarships



Background

- Annual appropriations for this program are set forth in state law. State law requires CSAC to reduce award amounts if it projects program spending will exceed the statutory appropriations.
- For 2015-16 and 2016-17, state law appropriates \$82 million and \$116 million, respectively. The larger 2016-17 appropriation reflects a ramping up of award amounts.
- The Governor's January budget assumed spending at the statutory levels.



May Revision Proposals

- For 2015-16, the Governor assumes spending will be \$34 million lower than the statutory appropriation. The administration bases its estimate on updated 2015-16 data (showing only \$48 million in award offers rather than \$82 million).
- For 2016-17, the Governor continues to assume spending will equal the statutory appropriation of \$116 million.



California Student Aid Commission

(Continued)

Middle Class Scholarships (Continued)



Assessment and Recommendation

- The May Revision proposal for 2015-16 is reasonable. Recommend adopting.
- The May Revision does not acknowledge that lower-than-anticipated participation in 2015-16 likely will impact 2016-17 participation levels.
- Recommend assuming spending is \$42 million lower than the statutory appropriation for 2016-17. This assumes participation grows in line with UC and CSU enrollment and accounts for the scheduled ramping up of award amounts.
- Recommend budget bill language allowing DOF to increase funding up to the statutory limit if actual expenditures are higher than budgeted. This would ensure award amounts are not reduced due to insufficient funds.

State Operations



Background

- The 2015-16 budget provided CSAC with four positions and \$840,000 (\$511,000 one time and \$329,000 ongoing) to begin planning for a new IT system.
- After the enactment of the 2015-16 budget, the Department of Technology determined that CSAC was not ready to undertake all the funded planning activities.
- CSAC then redirected a portion of the \$511,000 in one-time planning funding to hire consultants to assess security risks with its current IT system.
- The security risk assessment identified numerous serious vulnerabilities with CSAC's current IT system.



May Revision Proposals

- Provides \$2 million (\$1.4 million one time and \$526,000 ongoing) for security upgrades to CSAC's current IT system.
- Provides \$396,000 (one time) for CSAC to continue planning for a new IT system.



California Student Aid Commission

(Continued)

State Operations (Continued)



Assessment and Recommendation

- CSAC spent funding provided by the Legislature for one purpose (planning for a new IT system) on a different purpose (assessing the security risks of its current IT system), without legislative approval.
- Nonetheless, the risk assessment identified serious vulnerabilities in the current IT system. While the state is planning to replace this IT system, CSAC will need to continue using it for the next few years.
- Recommend adopting May Revision proposals to establish better interim data security in the current IT system, while continuing to develop a new IT system.



California Student Aid Commission

(Continued)

Cal Grant Spending								
<i>(Dollars in Millions)</i>								
	2015-16			2016-17			Year-to-Year Change at May Revision	
	Governor's Budget	May Revision	Change	Governor's Budget	May Revision	Change	Amount	Percent
Total Spending	\$1,966	\$1,915	-\$51	\$2,103	\$2,005	-\$98	\$90	5%
By Segment:								
UC	\$887	\$865	-\$22	\$943	\$890	-\$53	\$25	3%
CSU	669	650	-19	734	698	-36	48	7
Private nonprofit institutions	253	247	-6	261	253	-9	6	2
CCC	137	132	-4	146	145	-1	12	9
Private for-profit institutions	21	21	-1	19	18	-1	-2	-11
By Program:								
High School Entitlement	\$1,595	\$1,547	-\$48	\$1,711	\$1,637	-\$74	\$90	6%
CCC Transfer Entitlement	209	217	9	204	190	-15	-28	-13
Competitive	157	145	-12	184	172	-12	27	19
Cal Grant C	5	5	— ^a	4	5	1	— ^a	— ^a
By Award Type:								
Cal Grant A	\$1,115	\$1,084	-\$31	\$1,178	\$1,122	-\$57	\$38	3%
Cal Grant B	846	826	-20	921	878	-43	52	6
Cal Grant C	5	5	— ^a	4	5	1	— ^a	— ^a
By Renewal or New:								
Renewal	\$1,365	\$1,352	-\$13	\$1,480	\$1,419	-\$60	\$67	5%
New	601	563	-39	624	585	-39	22	4
By Funding Source:								
General Fund	\$1,443	\$1,392	-\$51	\$1,276	\$890	-\$385	-\$502	-36%
Federal TANF	521	521	—	826	1,109	283	588	113
College Access Tax Credit Fund	2	2	—	2	5	3	3	166
^a Less than \$500,000 or 0.5 percent. TANF = Temporary Assistance for Needy Families.								



California Student Aid Commission

(Continued)

Cal Grant Recipients								
	2015-16			2016-17			Year-to-Year Change at May Revision	
	Governor's Budget	May Revision	Change	Governor's Budget	May Revision	Change	Amount	Percent
Total Recipients	340,539	330,650	-9,889	361,608	347,936	-13,672	17,286	5%
By Segment:								
CSU	125,595	121,514	-4,081	136,110	128,956	-7,154	7,442	6%
CCC	108,074	105,107	-2,967	114,011	112,725	-1,286	7,618	7
UC	73,398	71,638	-1,760	77,639	73,384	-4,255	1,746	2
Private nonprofit institutions	29,057	28,386	-671	30,093	29,107	-986	721	3
Private for-profit institutions	4,415	4,005	-410	3,755	3,764	9	-241	-6
By Program:								
High School Entitlement	255,904	247,595	-8,309	273,062	262,770	-10,292	15,175	6%
Competitive	50,627	48,507	-2,120	56,170	54,215	-1,955	5,708	12
CCC Transfer Entitlement	26,562	27,632	1,070	25,712	23,951	-1,761	-3,681	-13
Cal Grant C	7,446	6,916	-530	6,664	7,000	336	84	1
By Award Type:								
Cal Grant B	216,439	209,835	-6,604	232,184	223,585	-8,599	13,750	7%
Cal Grant A	116,654	113,899	-2,755	122,760	117,351	-5,409	3,452	3
Cal Grant C	7,446	6,916	-530	6,664	7,000	336	84	1
By Renewal or New:								
Renewal	205,959	201,986	-3,973	222,500	214,991	-7,509	13,005	6%
New	134,583	128,668	-5,915	139,109	132,944	-6,165	4,276	3

Totals do not match across all categories due to modeling issues.