

COMMITTEE ON FINANCE

Report on the 2013-2014 Support Budget and Multi-year Funding/Performance Plan

Presentation By

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Background

The Governor's Budget released last January provides a programmatic increase of \$125.1 million from the state General Fund for support of the CSU. At the March 19-20, 2013 meeting of the Board of Trustees, the board reviewed and discussed the following revised spending plan tied to that amount:

- \$48.2 million for mandatory cost increases (health benefits, new space, and energy)
- \$38.0 million for a compensation increase "pool"; equivalent to an average increase of 1.2 percent.
- \$21.7 million for enrollment growth, averaging 1.45 percent systemwide.
- \$10.0 million, requested specifically by the Governor, to address course "bottlenecks" through innovative use of technology and online courses.
- \$7.2 million for various campus efforts in support of the Graduation Initiative and student success.

Legislative Hearings

The budget subcommittees for education finance in the Assembly and the Senate have held several hearings this spring on the Governor's higher education budget proposals. So far, they have focused more on policy changes contained in proposed budget bill or budget trailer bill language than on the proposed appropriation amounts. They have given particular attention to the \$10 million to address the problem of course "bottlenecks," yet have postponed action pending further development of details by the CSU (and the University of California and the community colleges). Many of the proposed policy changes are encountering resistance. For example, both

subcommittees have voted to reject trailer bill language that would conform provisions of collective bargaining law for the CSU related to employer/employee shares of health benefit premiums to the provisions governing this issue for the state Department of Human Resources and state unions. Subcommittee members have acknowledged that the CSU faces extraordinary cost pressures in this area, yet the majority believe the issue should be left to bargaining under current law.

The Governor's proposal to merge CSU and UC support and capital outlay budgets into the same appropriation, and to make future debt service on state bonds payable from the university appropriations, is also encountering legislative resistance. Both subcommittees have rejected the proposal and called on the Administration to provide a revised approach to meeting university capital outlay needs in the May Revision, specifically in the context of a statewide infrastructure plan that is due to the legislature under current law.

Multi-year Funding and Performance Plan

As part of his January budget proposal, the Governor called for a stable multi-year funding plan for the university systems under which state General Fund appropriations to the UC would grow in the following year by year sequence--5 percent, 5 percent, 4 percent and 4 percent—and appropriations to the CSU would grow by annual dollar amounts equal to the UC's growth. Under this plan, annual appropriations to each university system would grow by an estimated \$511 million by the fourth year (2016-2017). The Governor's Administration indicated that it would develop performance expectations tied to the annual funding increases for consideration by the Legislature during budget hearings.

In late April, the Department of Finance released an initial "long term funding and performance plan" to the budget subcommittees. The initial plan ties annual funding increases for each university system to the attainment of specified percentage improvements in seven outcome measures. Ultimately, the universities would be required to improve outcomes by 10 percent on each measure by the 2016-2017 fiscal year (relative to the outcomes attained in the designated base year of 2011-2012). The outcomes to be measured (systemwide, not campus by campus) are as follows:

- Four-year graduation rate for freshmen.
- Two-year graduation rate for transfers.
- Number of newly enrolled community college transfer students.
- Number of degree completions by students who entered CSU as freshmen.
- Number of degree completions by students who entered CSU as transfers.
- Number of degree completions by low-income students (both freshmen and transfers), with Pell grants as proxy for determining low-income.

- Number of undergraduate degree completions per 100 enrolled full-time equivalent students (FTES).

The 2014-2015 fiscal year would be the first year for which a funding increment would be “at risk,” given the unavoidable lag in the universities being able to report actual outcomes. Moreover, as initially proposed, funding increments for all four years are contingent on a tuition fee “freeze” for the entire period.

At the time this agenda item was prepared, the funding/performance plan had received an initial hearing in the Assembly budget subcommittee at which multiple concerns were expressed. In addition, the Chancellor and staff have been engaged with the Department of Finance in discussions aimed at assuring that an adopted funding/performance plan have measures and targeted rates of improvement that are appropriate to the CSU’s mission, the realities faced by many students who work full or part-time or who come to college in need of additional preparation, and the need to match ambitious performance goals with commensurate resources. Based on these discussions and the discussions in budget subcommittee, the May Revision may include a formal plan with revisions to address various expressed concerns.

May Revision

To date, the budget subcommittees have refrained from taking action on appropriation amounts for the higher education segments, based on an expectation that the May Revision will identify a substantially altered state revenue picture for the 2012-2013 and 2013-2014 fiscal years. Based on personal income tax collections during the month of April, it was apparent that the state will likely end the 2012-13 fiscal year with \$4.5 billion of revenue above the January budget forecast. At the time this agenda item was prepared, however, major uncertainties still existed, including:

- The extent to which higher revenue collections in 2012-2013 were due to lasting effects, such as economic recovery, or to one-time effects such as accelerations in tax payments by rich taxpayers in response to recent federal tax changes.
- Forecast economic growth and estimated revenues for the 2013-2014 fiscal year.
- The extent to which the state’s constitutional spending guarantee for K-12 schools and community colleges (Proposition 98) would claim additional state revenues.
- The extent to which the federal Affordable Care Act could increase state expenditures on health programs.

Summary

At the May 21-22 meeting the board will receive a full update on the May Revision and changes affecting the CSU budget and the Administration’s multi-year funding/performance plan.