

**AGENDA****ASSEMBLY BUDGET SUBCOMMITTEE NO. 2  
ON EDUCATION FINANCE****Assembly Member Kevin McCarty, Chair****TUESDAY, MAY 16, 2017  
9:30 AM, STATE CAPITOL ROOM 447****PROPOSITION 98 AND HIGHER EDUCATION MAY REVISION PROPOSALS**

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**ITEMS TO BE HEARD****6100 DEPARTMENT OF EDUCATION****6360 COMMISSION ON TEACHER CREDENTIALING****ISSUE 1: GOVERNOR'S MAY REVISION PROPOSALS: PROPOSITION 98 AND EARLY EDUCATION**

The Subcommittee will hear an overview of the Governor's 2017-18 May Revision related to overall Proposition 98 funding. The Subcommittee will also hear the major K-12 and early childhood education proposals included in the May Revision.

**PANELISTS**

- Department of Finance
- Legislative Analyst's Office
- Department of Education
- Commission on Teacher Credentialing

**BACKGROUND****Overall Proposition 98**

The Governor's 2017-18 May Revision increases overall Proposition 98 funding by \$1.5 billion, compared to the Governor's January budget. Specifically, the May Revision makes the following changes to the Proposition 98 funding levels:

- Increases Proposition 98 funding by \$433 million in 2015-16, totaling \$69.1 billion.
- Increases Proposition 98 funding by \$22 million in 2016-17, totaling \$71.4 billion.
- Increases Proposition 98 funding by \$1.1 billion in 2017-18, totaling \$74.6 billion.

These increases are not due to increases in the minimum guarantee. Over the three year period, the minimum guarantee decreased slightly due to decreased state revenue estimates. However, the May Revision provides funding above the minimum guarantee over the three year period. Providing funding above the minimum guarantee allows for the Governor's May Revision to rescind the January proposal to shift funding between fiscal years and to make an \$859 million payment deferral.

**May Revision Funds Above the Minimum Guarantee Each Year (In Millions)**

	2015-16	2016-17	2017-18
<b>Estimated Minimum Guarantee<sup>a</sup></b>			
General Fund	\$48,991	\$50,023	\$52,251
Local property tax	19,679	20,787	21,749
<b>Total</b>	<b>\$68,671</b>	<b>\$70,810</b>	<b>\$74,000</b>
<b>May Revision Proposed Funding</b>			
General Fund	\$49,424	\$50,602	\$52,852
Local property tax	19,679	20,787	21,749
<b>Total</b>	<b>\$69,103</b>	<b>\$71,390</b>	<b>\$74,601</b>
<b>Difference</b>			
General Fund	\$433	\$580	\$601
Local property tax	0	0	0
<b>Total</b>	<b>\$433</b>	<b>\$580</b>	<b>\$601</b>
<sup>a</sup> Assumes the state funds at the level required to meet the minimum guarantee each year. Reflects May Revision estimates of General Fund revenue.			

Source: Legislative Analyst's Office

The May Revision also proposes to suspend the Proposition 98 supplemental appropriation in 2016-17 and 2018-19 through 2020-21 (Test 3 years). In a Test 3 year, the minimum guarantee is based on the prior year Proposition 98 funding level adjusted for growth in average daily attendance and per capita General Fund plus 0.5 percent. Pursuant to current law, a supplemental appropriation is added to the Test 3 funding level to ensure that Proposition 98 funding grows at least as much as the non-Proposition 98 side of the budget. Relative to the Governor's Budget, the suspension does not impact the funding levels of the fiscal years included in this spending plan, 2015-16 through 2017-18. However, future Test 3 funding levels will be temporarily lower as a result. The Administration proposes this suspension due to the fact that out-year revenues are trending downward. Any funding reduced through this suspension would be added to the maintenance factor obligation and restored to schools in when revenue growth is strong relative to the economy.

The May Revision provides a maintenance factor payment of \$614 million in 2017-18, bringing the outstanding maintenance factor balance to \$823 million. The May Revision also proposes a settle-up payment of \$603 million in 2017-18.

The Governor's May Revision includes the following changes to the Proposition 98 spending plan:

### 2017-18 May Revision Proposition 98 Changes (In Millions)

	Governor's Budget	May Revision	Change
<b>2016-17 Revised Spending</b>	<b>\$71,368</b>	<b>\$71,390</b>	<b>\$22</b>
<b>Technical Adjustments</b>			
Make LCFF adjustments	\$65	\$157	\$92
Adjust categorical programs for changes in attendance	-9	-6	2
Revise estimate of energy efficiency funds	27	-25	-52
Make other adjustments	-24	-123	-98
<b>Subtotals</b>	<b>\$59</b>	<b>\$2</b>	<b>-\$56</b>
<b>Preschool</b>			
Increase Standard Reimbursement Rate by 6 percent	\$0	\$61	\$61
Annualize rate increases set to begin January 1, 2017	0	44	44
Annualize slots initiated April 1, 2017	24	24	0
Provide COLA	0	16	16
Add 2,959 full-day slots at LEAs starting April 1, 2018	0	8	8
<b>Subtotals</b>	<b>\$24</b>	<b>\$151</b>	<b>\$128</b>
<b>K-12 Education</b>			
Increase LCFF Funding	\$744	\$1,387	\$642
Provide discretionary one-time funding	0	1,012	1,012
Provide COLA for select categorical programs <sup>a</sup>	58	61	3
Add mandated reporter training to Mandates Block Grant	8	8	0
Support SCROC	0	4	4
Develop electronic LCAP template <sup>b</sup>	0	0	0
Defer payments from June to July 2017	859	0	-859
<b>Subtotals</b>	<b>\$1,670</b>	<b>\$2,473</b>	<b>\$803</b>
<b>California Community Colleges</b>			
Provide unallocated base increase	\$24	\$184	\$160
Fund guided pathways program (one time)	150	150	0
Provide COLA for apportionments	94	98	3
Fund enrollment growth	79	58	-22
Fund deferred maintenance (one time)	0	50	50
Fund Innovation Awards (one time)	20	20	0
Augment Online Education Initiative	10	10	0
Fund integrated library system (one time)	6	6	0
Increase Full-Time Student Success Grant	3	5	2
Provide COLA for selected student support programs <sup>c</sup>	4	4	0
<b>Subtotals</b>	<b>\$390</b>	<b>\$584</b>	<b>\$194</b>
<b>Total Changes</b>	<b>\$2,143</b>	<b>\$3,211</b>	<b>\$1,068</b>
<b>2017-18 Proposition 98 Spending</b>	<b>\$73,511</b>	<b>\$74,601</b>	<b>\$1,090</b>

a Includes special education, child nutrition, services for foster youth, adults in correctional facilities, and American Indian education.

b May Revision includes \$350,000 for this purpose.

c Includes Extended Opportunity Programs and Services, Disabled Students Programs and Services, CalWORKs student services, and the campus child care support.

Note: COLA increased from 1.48 percent under Governor's Budget to 1.56 percent under the May Revision.

Source: Legislative Analyst's Office

**Major K-12 Education Proposals:**

The May Revision proposes the following major K-12 education related spending proposals:

- Local Control Funding Formula. Increases funding for the Local Control Funding Formula (LCFF) by \$642 million, for a total increase of \$1.4 billion in 2017-18. The Administration estimates that this augmentation would fund the LCFF at 97 percent of full implementation.
- One-Time Discretionary Funds. Provides a total of \$1 billion in discretionary funding for K-12 schools in 2017-18, \$725 million more than the Governor's January budget. This funding would be allocated on a per-pupil basis and would offset any applicable mandate reimbursement claims for these schools. Consistent with the Governor's January Budget, the proposal includes intent language that the funding be used to further implement the state's content standards, purchase technology, provide professional development, and offer induction programs for beginning teachers. The Administration plans to propose additional trailer bill language to delay the release of this funding until May 2019, to allow for adjustments to be made to the 2017-18 Proposition 98 funding level, if revenues come in lower than currently projected. Specific language related to this proposal was not available at the time of writing this agenda.
- Payment Deferral. Eliminates the \$859 million LCFF payment deferral proposed in January, due to the additional resources available in 2015-16 and 2016-17.
- Teacher Recruitment and Retention. Proposes to direct federal funds to enhance the state's efforts to address teacher retention and recruitment issues. Specifically, the May Revision provides \$11 million in Title II federal funds for the Commission on Teacher Credentialing, in conjunction with the California Center on Teaching Careers, to develop a competitive grant program that assists local educational agencies with attracting and supporting teachers, principals and other school leaders. Specific trailer bill language was not yet available at the time of writing this agenda.
- Southern California Regional Occupational Center. Provides \$4 million in Proposition 98 funding in 2017-18 for the Southern California Regional Occupational Center (SoCal ROC) for instructional and operational costs. The May Revision includes funding over four years to help SoCal ROC transition to a fee-supported model as the LCFF reaches full implementation, including:
  - \$4 million in 2017-18
  - \$3 million in 2018-19
  - \$2 million in 2019-20
  - \$1 million in 2020-21

- Charter School Facilities Incentive Grant. Proposes trailer bill language to increase eligible grant awards for charter schools participating in the Charter School Facilities Incentive Grant program. The current program allows charter schools to receive a maximum of \$750 per unit of average daily attendance (ADA), or up to 75 percent of annual facilities costs. The May Revision proposal would increase the amount to \$1,236 of average daily attendance in 2017-18 or 75 percent of costs, whichever is less. The proposed language also adjusts the per ADA amount by cost-of-living annually going forward. The May Revision provides no additional funding for the Charter School Facilities Incentive Grant program.
- Special Education. Includes no proposal related to special education reform, and instead commits to spending additional time in the coming months examining the issue.

### **Other K-12 Adjustments:**

- Decreases the amount of Proposition 39 energy efficiency funds available to schools in 2017-18 by \$46.7 million, providing a total of \$376.2 million, due to reduced revenue estimates.
- Updates the estimated revenue and savings generated through Proposition 56 and Proposition 47. The May Revision provides a slight increase in these revenues.
- Includes the California Assessment of Student Performance and Progress (CASPP) mandate in the K-12 mandate block grant program and provides no additional funding to the block grant.
- Provides \$502,000 in Proposition 98 funding to support professional development for instructional leaders in the California Next Generation Science Standards.
- Provides \$350,000 in one-time Proposition 98 funding to develop an electronic template for the Local Control Accountability Plan (LCAP).
- Includes local property tax adjustments and adjustments due to a slight increase in attendance in 2016-17 and 2017-18, compared to January estimates. Also includes adjustments due to the change in the cost-of-living adjustment from 1.48 percent in January to 1.56 percent at the May Revision.

**Early Childhood Education:**

As shown in the chart below, the Governor's May Revision provides a total increase of \$198 million (all funds) for child care and preschool programs.

**2017-18 May Revision Child Care and Preschool Changes (In Millions)**

	Governor's Budget	May Revision	Change
<b>Reimbursement Rates</b>			
Increases Standard Reimbursement Rate (SRR) 6 percent starting July 1, 2017	\$0	\$93	\$93
Increases SRR to cover full-year cost of 10 percent increase set to begin January 1, 2017	\$0	\$68	\$68
Annualizes Regional Market Rate (RMR) increase initiated January 1, 2017	\$57	\$57	\$0
Increases RMR to the 75th percentile of the 2016 regional market survey starting January 1, 2018 <sup>a</sup>	\$0	\$42	\$42
Annualizes 5 percent license-exempt rate increase initiated January 1, 2017	\$11	\$11	\$0
<b>Subtotals</b>	<b>\$68</b>	<b>\$270</b>	<b>\$202</b>
<b>Preschool Slots</b>			
Annualizes State Preschool slots initiated April 1, 2017	\$24	\$24	\$0
Provides 2,959 full-day State Preschool slots at LEAs starting April 1, 2018	\$0	\$8	\$8
<b>Subtotals</b>	<b>\$24</b>	<b>\$31</b>	<b>\$8</b>
<b>Caseload Changes</b>			
Adjusts Transitional Kindergarten for changes in attendance and LCFF rates	\$8	\$31	\$23
Makes statutory adjustment to non-CalWORKs slots <sup>b</sup>	-\$7	-\$7	\$0
Makes CalWORKs caseload and average cost of care adjustments	-\$11	-\$76	-\$64
<b>Subtotals</b>	<b>-\$11</b>	<b>-\$52</b>	<b>-\$41</b>
<b>Other Adjustments</b>			
Provides 1.56 percent COLA to certain child care and preschool programs	\$0	\$29	\$29
Removes one-time funding	-\$7	-\$7	\$0
<b>Subtotals</b>	<b>-\$7</b>	<b>\$21</b>	<b>\$29</b>
<b>Totals</b>	<b>\$73</b>	<b>\$271</b>	<b>\$198</b>
<p><sup>a</sup> Includes a temporary hold harmless provision so that no provider receives less in 2017-18 than it received in 2016-17.</p> <p><sup>b</sup> Reflects 0.4 percent decrease in the birth-through-four population.</p> <p>LEA = local education agency; LCFF = Local Control Funding Formula; COLA = cost-of-living-adjustment</p>			

Source: Legislative Analyst's Office

The Governor's May Revision includes the following major proposals related to child care and preschool:

- Restores funding for child care and preschool programs agreed to in the 2016 Budget Act, including:
  - \$67.6 million (\$43.7 million Proposition 98 and \$23.9 million non-Proposition 98 General Fund) to provide the full 10 percent increase to the reimbursement rate for State Preschool and center-based child care providers and an additional \$92.7 million (\$60.7 million Proposition 98 and \$32 million non-Proposition 98 General Fund) to provide an additional six percent increase beginning July 1, 2017.
  - \$42.2 million General Fund to increase the reimbursement rate for voucher-based child care providers to the 75<sup>th</sup> percentile of the 2016 survey beginning January 1, 2018. Includes a one-year hold harmless provision to ensure that no provider will receive a lower reimbursement rate through December 31, 2018.
  - \$7.9 million in Proposition 98 funding for an additional 2,959 full-day State Preschool slots.
- Makes caseload adjustments due to a decrease in the CalWORKs Stage 2 and Stage 3 caseload.
- Proposes changes to the Governor's proposed trailer bill language aimed at aligning Transitional Kindergarten and preschool program requirements. These changes include:
  - Clarifies that part-day State Preschool programs can enroll three and four year-old children with exceptional needs whose family's income is above the income eligibility threshold, only after all otherwise eligible children have been enrolled.
  - Aligns teacher education requirements with existing Transitional Kindergarten requirements for State Preschool programs that utilize the higher 1:12 ratio proposed in the Governor's January budget.
  - Specifies the authorization of different lengths of school day for Kindergarten and Transitional Kindergarten classes at the same or different school sites.
  - Provides the CDE one year to implement any changes to licensing requirements for State Preschool programs operated at a local educational agency before exempting these programs from Title 22 health and safety regulations.



**STAFF COMMENTS/QUESTIONS:**

The Governor's May Revision makes some positive changes to the Governor's proposed budget from January, including eliminating the deferral and funding the child care and preschool increases agreed to in the 2016-17 budget. The Subcommittee will consider the Governor's May Revision proposals when adopting a Subcommittee plan next week.

**SUGGESTED QUESTIONS**

- What is the impact of suspending the Proposition 98 supplemental appropriation? What is the impact of providing funding above the Proposition 98 minimum guarantee?
- How would the proposed grant program for teacher recruitment and retention be structured?
- Why does the May Revision not include updating the income eligibility requirements for child care and preschool?

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**Staff Recommendation: Hold Open**

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## ITEMS TO BE HEARD

### 6120 CALIFORNIA STATE LIBRARY

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#### ISSUE 2: GOVERNOR'S MAY REVISION PROPOSALS

The Subcommittee will discuss two May Revision proposals regarding the State Library.

#### PANEL

- Bijan Mehryar, Department of Finance
- Natasha Collins, Legislative Analyst's Office
- Greg Lucas, California State Librarian

#### MAY REVISION PROPOSALS

The May Revision includes the following changes to the State Library budget.

**Asset Management System Replacement.** \$404,000 General Fund for replacement of the asset management system used by the California State Library. Of this amount, \$189,000 is ongoing to support costs of subscriptions and \$215,000 is one-time to support costs of implementation of the new system. A new system would allow the Library to improve organization of its collections, allow for better linkages with other libraries, and create efficiencies for other state agencies that choose to maintain their materials using the system.

**Assistant Bureau Chief, State Library Services Bureau.** \$137,000 General Fund for an Assistant Bureau Chief in the State Library Services Bureau. No position authority is requested. The State Library Services Bureau is the state's central reference and research library. An Assistant Bureau Chief would be responsible for general management of functions related to the library's collections and for coordination of the State Library's initiative to digitize state records. These responsibilities are currently being performed by the Bureau Chief.

#### STAFF COMMENT/QUESTIONS

Staff has no issue with the two proposals, as they both appear to be low-cost improvements to the library system. The Subcommittee has received requests to increase library funding to support the Civil Liberties program, the Career Online High School program, and to provide grants to local libraries to improve high-speed internet service.

**6440 UNIVERSITY OF CALIFORNIA****ISSUE 3: GOVERNOR'S MAY REVISION PROPOSALS**

The Subcommittee will discuss May Revision proposals for the University of California.

**PANEL**

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

**MAY REVISION PROPOSALS**

The May Revision includes the following changes to the UC budget:

***Withholding Funds.*** The May Revision notes that UC and the Administration agreed in 2015 on several initiatives to reduce the cost structure of the university. The Administration states that UC has not made progress consistent with the timelines in the agreement in two areas: activities-based costing pilot projects and ensuring that all campuses enroll at least one community college transfer student for every two freshmen. The Administration also notes its concern about the recent report from the State Auditor regarding the budget and operations of the Office of the President.

The Administration proposes to withhold \$50 million General Fund from UC's appropriation until May 1, 2018. This funding would be released if UC performs the following activities:

- (1) Complete pilot programs of activity-based costing at the Riverside campus in the College of Humanities, Arts, and Social Sciences, and at two other campuses in three departments each.
- (2) Take any actions necessary to attain a ratio at each of its campuses, except for the Merced and San Francisco campuses, of at least one entering transfer student for every two entering freshman students beginning in the 2018-19 academic year.
- (3) Take the actions the Regents of the University of California and the University of California Office of the President are directed by the California State Auditor in its audit report "Report 2016-130," dated April 25, 2017, regarding the University of California Office of the President, to take by April 1, 2018.

***Redirection to Cal Grant Program.*** The May Revision proposes a reduction of \$4 million General Fund from the UC appropriation, and redirects the funding to the Student Aid Commission to support Cal Grant awards for students attending private colleges and universities. This action, coupled with a similar redirection from California

State University, would allow the maximum Cal Grant award for students at private schools to remain at \$9,084. This amount was scheduled for a reduction to \$8,056. .

**Research programs.** The May Revision includes the following changes to UC research programs:

- An increase of \$2 million for the Breast Cancer Research Program, which would increase funding from \$5.1 million to \$7.2 million.
- An increase of \$3,000 to the Research Account in the Cigarette and Tobacco Products Surtax Fund, and an increase of \$1.2 million to the Cigarette and Tobacco Products Surtax Medical Research Program.
- An increase of \$5 million from the Road Maintenance and Rehabilitation Account, State Transportation Fund to the University of California for transportation research pursuant to Chapter 5, Statutes of 2017 (SB 1)

#### STAFF COMMENT/QUESTIONS

While the agreement between the Governor and UC in 2015 did not involve the Legislature, staff notes that activities-based costing studies would benefit future budget discussions, and improving transfer students' access to UC is in line with Assembly priorities. UC has agreed to implement all of the Auditor's recommendations.

The Governor's Budget and May Revision proposals do not address California enrollment growth, a key Assembly priority. UC has requested \$25 million General Fund to enroll 2,500 new California undergraduate students in the 2018-19 academic year, and \$9 million General Fund to enroll 900 new graduate students.

Additionally, the May Revision does not include the Auditor's recommendation to the Legislature, which is to separately budget and oversee the Office of the President.

#### Potential Questions

- Will UC complete the activities outlined in the May Revision?
- What is the Administration's position on creating a separate budget for the Office of the President?

**ISSUE 4: REQUIRING UNIVERSITY EMPLOYEES IN PUBLIC-PRIVATE PARTNERSHIPS**

The Subcommittee will discuss a request for trailer bill language that would require new buildings operated by a private contractor through a public-private partnership to use University of California employees in operating and maintaining the building.

**PANEL**

- Kieran Flaherty, University of California

**BACKGROUND**

The 2015 Budget Act included trailer bill language allowing the University of California to make availability payments to building operators through its capital outlay program. Included in this language was a requirement that for projects related to the UC Merced 2020 Project, private building operators of new buildings would hire UC employees.

The Subcommittee has received a request from AFSCME 3299 and the California Legislative Black Caucus to amend the statute to broaden this provision to all UC campuses. Proposed language would amend Education Code Section 92495 to require any new service job associated with a privately-operated building built on a UC campus be performed by a UC employee.

The language would apply to any new project. UC is currently pursuing or considering multiple public-private partnerships.

Potential Questions

- Is UC considering more public-private partnerships in which a private contractor would operate buildings?
- If so, is UC considering the same policy as the UC Merced project, in which building operations must use UC employees?
- What options is UC considering to ensure private contractors provide living wages and appropriate benefits to employees?

**ISSUE 5: OUTSOURCING MEDICAL LAB WORK**

The Subcommittee will discuss a potential University of California action to shift some medical lab functions from California to another state.

**PANEL**

- Kieran Flaherty, University of California

**BACKGROUND**

University of California medical centers contract with outside medical laboratories for some lab work and research projects. Currently UCLA and UCSF contract with Quest Diagnostics, which has four labs in California, while UC Irvine, UC Davis and UC San Diego all contract with a lab based in Utah.

On May 4, Quest Diagnostics was informed by UCLA that UCLA would terminate its contract with them within 90 days. The Subcommittee is aware of concerns that UC may be shifting all of its outside lab work to Utah without allowing California companies such as Quest to compete for the work.

Potential Questions

- Is UC consolidating outside lab operations for all five medical centers?
- If so, has UC sought information from California-based labs regarding this business?

**6610 CALIFORNIA STATE UNIVERSITY****ISSUE 6: GOVERNOR'S MAY REVISION PROPOSALS**

The Subcommittee will discuss May Revision proposals for California State University.

**PANEL**

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

**BACKGROUND**

The May Revision includes the following changes to the CSU budget:

***Redirection to Cal Grant Program.*** The May Revision proposes a reduction of \$4 million General Fund from the CSU appropriation, and redirects the funding to the Student Aid Commission to support Cal Grant awards for students attending private colleges and universities. This action, coupled with a similar redirection from UC, would allow the maximum Cal Grant award for students at private schools to remain at \$9,084. This amount was scheduled for a reduction to \$8,056. .

***Transportation Research.*** The May Revision proposes \$2 million from the Road Maintenance and Rehabilitation Account, State Transportation Fund, to the CSU for transportation research and transportation-related workforce education and training. Pursuant to Chapter 5, Statutes of 2017 (SB 1).

**STAFF COMMENT/QUESTIONS**

The Governor's Budget and May Revision proposals do not provide additional funding to CSU to implement Graduation Initiative activities or support additional California enrollment growth. CSU has requested \$168 million General Fund in addition to the Governor's Budget proposal, which it states it would use in part to rescind a tuition increase, support Graduation Initiative Activities, and support 1% enrollment growth.

Potential Questions

- What new costs or activities will CSU undertake within the May Revision amount of funding?

**6870 CALIFORNIA COMMUNITY COLLEGES****ISSUE 7: GOVERNOR'S MAY REVISION PROPOSALS**

The Subcommittee will discuss May Revision proposals for California Community Colleges.

**PANEL**

- Maritza Urquiza, Department of Finance
- Judy Heiman, Legislative Analyst's Office
- Mario Rodriguez, California Community Colleges

**BACKGROUND**

The May Revision includes the following significant changes to the California Community Colleges budget:

**Chancellor's Office Positions.** The May Revision rescinds a Governor's Budget proposal to provide 2 new Vice Chancellor positions and instead adds \$618,000 General Fund and \$454,000 reimbursements to provide the Chancellor's Office with 6 positions and funding to support a vacant Executive Vice Chancellor position that would be reclassified to a Deputy Chancellor. The resources would assist the Chancellor's Office in refocusing its efforts away from regulatory oversight and toward providing colleges with more direct technical assistance to help them improve student outcomes.

**Increase Base Apportionment Funding.** The May Revision proposes \$160 million Proposition 98 General Fund to reflect additional base apportionment funding in recognition of increased operating expenses in the areas of facilities, retirement benefits, professional development, full time faculty, and other general expenses. Combined with the amount provided in the Governor's Budget, this would direct \$183.6 million Proposition 98 General Fund to increased base apportionment.

**Reduce Enrollment Growth Funding.** The May Revision reduces the colleges' enrollment growth target from 1.34% to 1%. This would reduce spending on enrollment growth from \$79.3 million Proposition 98 General Fund, as proposed in the Governor's Budget, to \$57.8 million Proposition 98 General Fund.

**Physical Plant and Instructional Equipment Funding.** The May Revision includes a \$92.1 million Proposition 98 General Fund increase to the categorical program for deferred maintenance, instructional equipment or water conservation projects. Combined with the amount included in the Governor's Budget for this program, total spending is proposed for \$135.8 million.



**Guided Pathways Changes.** Trailer bill language establishing the Guided Pathways program is revised to: (1) further clarify the activities and practices that make up a “guided pathways program,” (2) further describe how funds could be used, (3) authorize the chancellor’s office to better assess a colleges commitment to implementing a guided pathway program, (4) authorize the chancellor’s office to release funds to community colleges in stages, (5) require the chancellor’s office to develop measures of early outcomes, and (6) clarify reporting requirement.

**Equal Employment Opportunity Funding.** The May Revision provides \$1.8 million from the Employment Opportunity Fund for activities designed to promote equal employment opportunities in hiring and promotion at community college districts.

**Extend Encumbrance Period for Apprenticeship Innovation Program.** The May Revision proposes budget bill and trailer bill language that would allow a five-year encumbrance period for the California Apprenticeship Initiative. The language would apply to past expenditures and those awarded in 2017-18.

**Provide Flexibility for Chancellor's Office Contracting.** Trailer bill language would exempt the Chancellor’s Office from the requirements of the competitive bidding process when contracting with community college districts, limited to new contracts of \$20 million or less. Any existing contracts that are up for renewal would not be subject to competitive bidding requirements if the contract would be with the same college district.

#### STAFF COMMENT/QUESTIONS

The May Revision includes \$141 million in new ongoing Proposition 98 General Fund for colleges, and \$79 million in new one-time Proposition 98 General Fund.

The May Revision proposes using most of the new funding for a larger base increase for colleges, providing nearly \$184 million total in ongoing funding. Base apportionment, which is flexible for colleges to spend on various operating costs, appears to be the top priority for many colleges and the Chancellor's Office. The Governor's proposal also includes \$49.5 million in new ongoing funding used for deferred maintenance, a one-time purpose.

The Subcommittee can consider the Governor's Budget, May Revision and other legislative priorities when finalizing the community college budget. For example, the Subcommittee can consider requests for funding for veterans resource centers, more faculty resources, and increased support for apprenticeship programs. Additionally, the Subcommittee has already taken two actions: to increase the Full-Time Student Success Grant by \$50 million Proposition 98 General Fund and to waive fees for all first-time, full-time freshmen in their first year of college.

**6980 CALIFORNIA STUDENT AID COMMISSION****ISSUE 8: GOVERNOR'S MAY REVISION PROPOSALS**

The Subcommittee will discuss May Revision proposals for the California Student Aid Commission.

**PANEL**

- Bijan Mehryar, Department of Finance
- Natasha Collins, Legislative Analyst's Office
- Lupita Cortez Alcalá, California Student Aid Commission

**BACKGROUND**

The May Revision includes the following significant changes to the California Student Aid Commission budget:

**Maintain Cal Grant amount for private colleges.** The May Revision includes \$7.9 million General Fund to maintain the maximum Cal Grant tuition award for students attending private institutions accredited by Western Association of Schools and Colleges at \$9,084. This amount was scheduled to decline to \$8,056. Budget bill language states that this funding will only be provided if it is accompanied by legislation that requires these institutions to increase the number of low-income students enrolled, ease transfer for students who have earned associate degrees for transfer, and expand online education. As noted earlier, this funding is redirected from the UC and CSU budgets.

**Increase Cal Grant spending to accommodate UC and CSU tuition increases.** The May Revision increases Cal Grant spending by \$20.9 million General Fund to reflect the costs of an increase in the maximum Cal Grant tuition award for students attending the University of California (UC). Because the Board of Regents approved an increase in tuition of \$282, the maximum award would increase by a corresponding amount. The May Revision assumes the maximum award would be \$12,630. The May Revision also increases Cal Grant spending by \$28 million General Fund to reflect the costs of an increase in the maximum Cal Grant tuition award for students attending the California State University (CSU). Because the Board of Trustees approved an increase in tuition of \$270, the maximum award would increase by a corresponding amount. The May Revision assumes the maximum award would be \$5,742.

**Decrease spending on Middle Class Scholarship Program.** The May Revision continues the Governor's proposal to phase out the Middle Class Scholarship program, and requests that the program be decreased by \$10 million for revised cost estimates related to participation in the program. The following chart indicates program costs based on keeping the program intact or phasing it out.

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**Change to Competitive Cal Grant Program.** The May Revision includes budget bill language authorizing the Student Aid Commission to make 35,000 initial award offers for the Competitive Cal Grant A and B award program for the 2017-18 award year. The Commission would be authorized to select the minimum scores used to determine which applicants receive offers based on the total offers specified in the item. Existing law authorizes the Commission to make 25,750 new competitive Cal Grant awards each year. The Commission currently limits initial award offers based on the number of statutorily authorized awards. However, many students who receive offers do not claim those awards. Therefore, to make the number of authorized awards, the Commission typically makes subsequent offers late in the award year. This proposal authorizes 35,000 award offers early in the year, based on recent data on the percentage of awards claimed, to better align Cal Grant notifications with student enrollment decisions.

**Grant Delivery System Modernization Project.** The May Revision proposes \$546,000 one-time General Fund for a final year of planning for the Grant Delivery System Modernization Project. The funds are for the costs of a project manager and for California Department of Technology project planning and support. The Commission uses the grant delivery system to accept financial aid applications, make financial aid offers to students, and process payments to institutions. The project, which would replace the Commission's legacy system, is currently in Stage 2 of the project approval lifecycle.

<b>STAFF COMMENT</b>
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The Subcommittee received numerous letters, calls and testimony during public hearings to maintain the Cal Grant award amount at current-year levels for students at private colleges. Staff concurs with the Administration's push to ensure these colleges enroll more low-income Californians and community college transfer students, but trailer bill language that would detail this proposal is not yet available.

The Subcommittee may wish to consider whether it is appropriate to redirect funding from UC and CSU to support this action.

The Administration's proposal to allow the Commission to make more initial award offers in the competitive Cal Grant program is aimed at providing more students with the award offer at the time they are making college decisions, which seems like an increased benefit to students.

Finally, staff notes that the Subcommittee took action on March 14 to create the new Degrees Not Debt program, which will begin 2018-19, and to reject the Governor's proposal to phase out the Middle Class Scholarship.