

California State Assembly



Agenda

Assembly Budget Subcommittee No. 3 on Education Finance

Assemblymember David Alvarez, Chair

Tuesday, May 7, 2024
9:00 A.M. – State Capitol, Rm 447

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Public Comment will be taken in person before or after the completion of all panels and any discussion from the Members of the committees, at the discretion of the chair.

Items To Be Heard

6120 California State Library

Issue 1: Budget Overview/Local Library Facilities Improvement Program Proposal

The Subcommittee will discuss the State Library Budget and the Governor's Budget proposal to pull back \$131 million one-time General Fund from the local library infrastructure grant program, and forego \$100 million spread across the 2024-25 to 2026-27 fiscal years that would have supported the program.

Panel 1

- Devin Mitchell, Department of Finance
- Ian Klein, Legislative Analyst's Office
- Greg Lucas, California State Librarian

Background

State Library Oversees Both State Activities and Local Assistance Programs. Located in Sacramento, the State Library serves as the central library for state government. The State Library collects, preserves, and publicizes state literature and historical items. It maintains an extensive collection of documents from the state's history. State employees, as well as visitors, may access the State Library's collections. Those with State Library cards may borrow designated library materials at no charge. The State Library also provides specialized research services to the Legislature and the Governor. In addition, the State Library passes through state and federal funds to local libraries for specified purposes and provides related oversight and technical assistance. These local assistance programs fund literacy initiatives, Internet services, and resources sharing, among other activities.

Public Libraries Are Run and Funded Primarily by Local Governments. In California, local public libraries can be operated by counties, cities, special districts, or joint power authorities. Usually the local government operator designates a central library to coordinate activities among all the library branches within a jurisdiction. Currently, 186 library jurisdictions with 1,127 sites (including central libraries and their branches) are operating in California. Local libraries provide various services that are influenced by the characteristics of their communities. A core part of the mission of all libraries, however, is to provide patrons with access to books, media, and other informational material. Around 95 percent of local library funding comes from local governments and the remaining 5 percent comes from the state and federal governments.

State Library Relies Primarily on State and Federal Funds. Approximately 70 percent of the State Library’s ongoing budget is supported by the state General Fund. Nearly 25 percent comes from federal funds, with the remainder coming from special funds and reimbursements. For 2024-25, the Governor’s budget includes \$40 million in ongoing state operations funding for the State Library and \$34 million in ongoing local assistance funding. The Governor’s budget also includes \$155 million one-time General Fund, nearly all of which reflects carryover funds associated with one-time local assistance initiatives funded in recent years.

California State Library Budget

(Dollars in Millions)

	2022-23 Actual	2023-24 Revised	2024-25 Proposed	Change from 2023-24	
				Amount	Percent
Local Assistance					
Library Services and Technology Act	\$10.6	\$11.3	\$11.3	—	—
Library Literacy and English Acquisition	7.3	7.3	7.3	—	—
Lunch at the Library	5.5	5.5	5.5	—	—
California Library Services Act	4.6	4.6	4.6	—	—
Statewide Library Broadband Services	3.5	4.0	4.1	\$0.1	1.3%
Telephonic Reading for the Blind	0.6	0.6	0.6	—	—
California Newspaper Project	0.4	0.4	0.4	—	—
State Government Oral Histories	0.1	0.1	0.1	—	—
One-time initiatives	553.0	21.0	2.4	-19.0	-88.8
One-time carryover ^a	2.9	11.8	141.1	129.3	1,093.5
Subtotals	\$588.5	\$67.0	\$177.3	(\$110.3)	(164.7%)
State Operations					
State Library Services	\$27.6	\$31.4	\$42.3	\$10.9	34.7%
Library Development Services	6.8	5.6	5.6	— ^b	— ^b
Information Technology Services	3.2	3.7	3.7	— ^b	— ^b
Subtotals	(\$37.6)	(\$40.7)	(\$51.6)	(\$10.9)	(26.9%)
Totals	\$626.0	\$107.7	\$228.9	\$121.3	112.6%
Funding					
General Fund—Ongoing	\$37.0	\$52.3	\$52.5	\$0.3	0.5%
General Fund—One-Time	568.6	33.4	154.5	121.0	362.2
Federal Trust Fund	15.7	18.4	18.4	— ^b	— ^b
Other ^c	4.6	3.6	3.5	-0.1	-1.6

^a The 2021-22 and 2022-23 amounts reflects carryover from an original 2021-22 appropriation for the California English Acquisition and Literacy program. The 2023-24 amount reflects carryover from appropriations made in 2022-23 for local library infrastructure grants and disaster preparedness.

^b Less than \$500,000 or 0.5 percent.

^c Includes California State Law Library Special Account, Central Service Cost Recovery Fund, and the Deaf and Disabled Telecommunications Program Administrative Committee Fund.

State Recently Provided Substantial One-Time Funding for Local Infrastructure Projects.

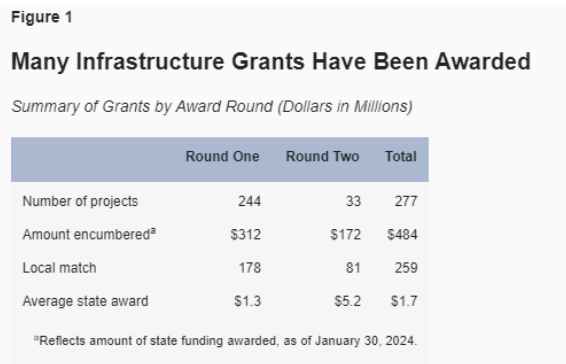
Chapter 21 of 2021 (AB 128, Ting) appropriated \$439 million one-time General Fund to support local library infrastructure projects. Chapter 249 of 2022 (AB 179, Ting) appropriated an additional \$50 million one-time General Fund for the same purpose. The combined \$489 million represents the largest single, state-funded initiative for California’s local libraries. Beyond these appropriations, the 2022-23 budget package included intent language to provide an additional \$100 million General Fund in 2023-24 for local library infrastructure projects. Subsequently, the 2023-24 budget package delayed the additional \$100 million until future years. Specifically, \$33 million was delayed until 2024-25, \$33 million was delayed until 2025-26, and \$34 million was delayed until 2026-27.

Initiative Supports Various Types of Local Library Infrastructure Projects.

In response to the state appropriations and certain state programmatic requirements, the State Library created the Building Forward Library Facilities Improvement Program. This program gives funding priority to libraries located in communities with poverty rates higher than the statewide poverty rate. The program has a local matching requirement, with grant recipients generally required to contribute half of the funding for a project. The State Library, however, may reduce the local match if a local library demonstrates it has insufficient financial resources to meet the full matching requirement. To date, grant recipients have made approximately \$260 million in local matching contributions. The state funds, together with these local matching funds, support new capital projects, maintenance projects, broadband and technology upgrade projects, and device purchases.

Grants Have Been Awarded for the Program.

The State Library announced the first round of infrastructure grant awards in October 2022. As Figure 1 shows, the State Library approved awards for 244 projects in the first round, with associated General Fund costs totaling \$312 million. Per-project award amounts ranged from just under \$14,000 to \$10 million. The State Library announced the second round of grant awards in October 2023. The second round consisted of 33 award winners, with associated General Fund costs totaling \$172 million. Per-project award amounts in the second round ranged from just over \$13,000 to \$10 million. The State Library reports that of the \$489 million General Fund appropriated for this program, only \$4.8 million remains unencumbered.



Governor's 2024-25 Budget

The Governor's Budget proposes to revert \$131 million one-time General Fund from the Building Forward Library Facilities Improvement Program, along with forgoing the additional \$100 million in program funding that the state had intended to spread across the next three years.

LAO Recommendation

Revert Available Prior-Year Funds From the Infrastructure Grant Program. We recommend the Legislature approve the Governor's basic proposal to revert any unspent one-time General Fund for the Building Forward Library Facilities Improvement Program. The State Library, however, reports that only \$4.8 million, rather than \$131 million, is available for reversion as of January 30, 2024. We recommend the Legislature revert at least the \$4.8 million. If additional budget solution were needed, the Legislature could work with the State Library and Department of Finance to determine if any other program funding could be reverted at this point without notable project disruption. Some local library grant recipients, for example, could still be in early project planning phases. Given the state's projected budget deficits, we also recommend the Legislature adopt the proposal to forgo an additional \$100 million one-time General Fund that the state intended to provide in 2024-25 through 2026-27.

Staff Comments

The library infrastructure program is the largest state investment ever made to local libraries, and has provided critical funding to hundreds of libraries. Projects have ranged from upgrading 17 library branches in Kern County, seismic repairs in Sonoma County, and installing a reliable cooling center at the city of Hemet's public library. The funds are also helping build 14 new libraries, including a replacement for Porterville after a fire destroyed its library in 2020. The program has supported an overwhelming need: a 2023 report from the State Library reported about \$4 billion in modernization, renovation, and replacement costs identified by the state's public libraries.

Staff notes there is concern among libraries regarding the Administration's proposal to pull back previously-appropriated funding, as most of the funding has been awarded. For example, the city of San Leandro wrote a letter to the Assembly and Senate Budget Committees noting that about half of their \$4.1 million award through this program has not been disbursed yet, but they were expecting full funding to help support the construction of a new branch library. The new library is intended to serve a neighborhood that does not have easy access to other libraries.

The California Library Association has provided a letter to the Subcommittee opposing the pulling back of funds, noting that the State Library typically sends awards in several check distributions to each library, with the final check distribution only coming once the library can

demonstrate completion of the project. CLA is concerned that any pledged (encumbered) but currently unissued dollars that are swept could lead to major financial problems for libraries.

Staff notes that the proposal to forego the planned future funding for this program may need to be considered, depending on the state's budget position. This funding has not been awarded and would be less disruptive to libraries if it was not provided.

Suggested Questions:

- How much of the past funding has been awarded? What would the impact to local libraries be if the Legislature swept the \$131 million in funding?
- How many applicants has the State Library received for this program? How many applicants did not receive funding?
- What other sources of funding are available to libraries to support infrastructure improvements?

Staff Recommendation: Hold Open

Issue 2: Past Appropriations Review

The Subcommittee will discuss previous appropriations for the State Library. The item is intended to provoke conversation about state support for the State Library during the state budget downturn.

Panel

- Ian Klein, Legislative Analyst's Office
- Devin Mitchell, Department of Finance
- Greg Lucas, California State Librarian

Background

Recent state budgets have allowed the Administration and Legislature to support numerous initiatives for both the State Library and local libraries. In addition to the local library infrastructure grants discussed in the previous item, new funding has supported an online tutoring program in six languages, an online job training program, and to expand the Dolly Parton Imagination Library program in California. The program provides free books every month to children up to age 5.

The LAO chart on the next page indicates one-time General Fund initiatives over the past few years. As the chart shows, a total of \$200 million one-time General Fund was provided for 12 initiatives in the *2021-22 Budget Act* and *2022-23 Budget Act*. The LAO notes that of that amount, \$132 million had been encumbered or spent as of January 1, 2024.

Staff notes that the Legislature included one library expenditure in its early action package in April. The action pulled back \$34 million one-time General Fund that was intended to expand local library broadband access in isolated and under-served communities. To date, only one project had received funding (\$250,000) from the program. According to the LAO, the State Library attributed low program demand to the complexity of the application process, and, in the case of rural areas, the need to synchronize projects with the construction of fiber backbone via the California Middle Mile Broadband Initiative. Most of this backbone is not expected to be completed for at least a few more years

Figure 2

Two-Thirds of Recent One-Time Funding Has Been Spent or Encumbered

Estimates of General Fund Spent or Encumbered as of January 1, 2024 (In Millions)

One-Time Initiatives	Year Funded	Appropriation	Amount Spent or Encumbered ^a
Statewide Imagination Library	2022-23	\$68.2	\$9.3 ^b
Local library infrastructure grants	2022-23	50.0	49.9
English as a second language programs	2021-22	15.0	15.0
Digitization of state agency resources	2022-23	12.7	4.6
Online job training and workforce development	2022-23	10.2	10.2
Outreach Grants to Ethnic Media Program	2021-22	10.0	9.7
Online tutoring for K-12 students	2021-22	6.4	6.4
Broadband connectivity	2021-22	6.0	6.0
Inland Congregations United for Change Parent and Youth Civic Engagement	2021-22	6.0	6.0
Civil Liberties Public Education Act	2021-22	5.0	5.0 ^c
Early learning and after-school programs	2021-22	5.0	5.0
Ethnic media grants	2022-23	5.0	4.8
Total		\$199.5	\$131.9

^aThe definition of "encumbrance" used by the State Library includes any funds that have a drafted award letter and have been encumbered in the State's Financial Information System for California. In some cases, grant awards that are pending executed agreements are considered encumbered. Encumbered amounts also include allowed administrative funds that the State Library has submitted requests to use.

^bIncludes \$777,000 associated with a pending application.

^cIncludes \$1.7 million that will be encumbered in April 2024. Applications for those funds are currently under review.

LAO Comments

Revert Unspent One-Time Funding From Other Prior-Year Initiatives. Based on a data request to the State Library, our preliminary estimate is that \$68 million one-time General Fund from other prior-year State Library initiatives has not yet been encumbered or spent as of January 1, 2024. None of this \$68 million is included in the Governor’s budget. Most of the remaining funding is associated with the Statewide Imagination Library initiative. We recommend the Legislature pull back all of the unencumbered and unspent one-time funds from these initiatives, achieving a like amount of General Fund savings.

Staff Comments

The state’s budget situation requires difficult conversations about support for the State Library, and how to continue important library projects amid a revenue downturn. Most of the one-time funding provided to the State Library in the last few years has been spent or encumbered, so budget savings for library programs may be difficult to come by.

The Imagination Library program provides age-appropriate books on a monthly basis, at home, to each child registered in the program, from birth to their fifth birthday, inclusive, at no cost to families. The program was funded and established by SB 1183 (Grove) in 2022 and requires a dollar-for-dollar match from a local entity. Funding is managed by a 501(c)3 non-profit organization, which partners with affiliates around the state, including First 5, Friends of the Library, Kiwanis Clubs, United Way chapters, and county offices of education.

Staff notes that the California Library Services Board, which includes Assembly, Senate and Administration appointees representing public, school and special libraries, wrote a letter in support of the statewide online tutoring program, and the online job training programs. The board noted that the online tutoring program provides tutoring in English, Spanish, Mandarin, Cantonese, Vietnamese and Tagalog, and provided more than 250,000 one-on-one tutoring sessions in its first nine months of operations, and services such as practice tests and virtual study rooms were used 1.5 million times. The job training program, called CAreer Pathways, offers multiple programs ranging from free college courses to digital literacy and entrepreneurship programs. CAreer Pathways reports more than 864,000 courses accessed in calendar year 2023. Funding for both of these programs will run out at the end of this fiscal year.

Suggested Questions:

- Does the Library have updated expenditure/encumbrance information for these programs?
- What is the expenditure plan for the Imagination Library program?
- Will the State Library and local libraries continue the online tutoring and job training programs if state funding runs out?

Staff Recommendation: Hold Open

6600 UC College of the Law, San Francisco**Issue 3: Budget Overview/Base Operations Increase Proposal**

The Subcommittee will discuss the UC College of the Law, San Francisco (UC Law) budget and the Governor's Budget proposal to provide a \$2.2 million ongoing General Fund increase to the college's operations budget.

Panel

- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office
- David Faigan, Chancellor and Dean, UC College of the Law, San Francisco
- David Seward, Chief Financial Officer, UC College of the Law, San Francisco

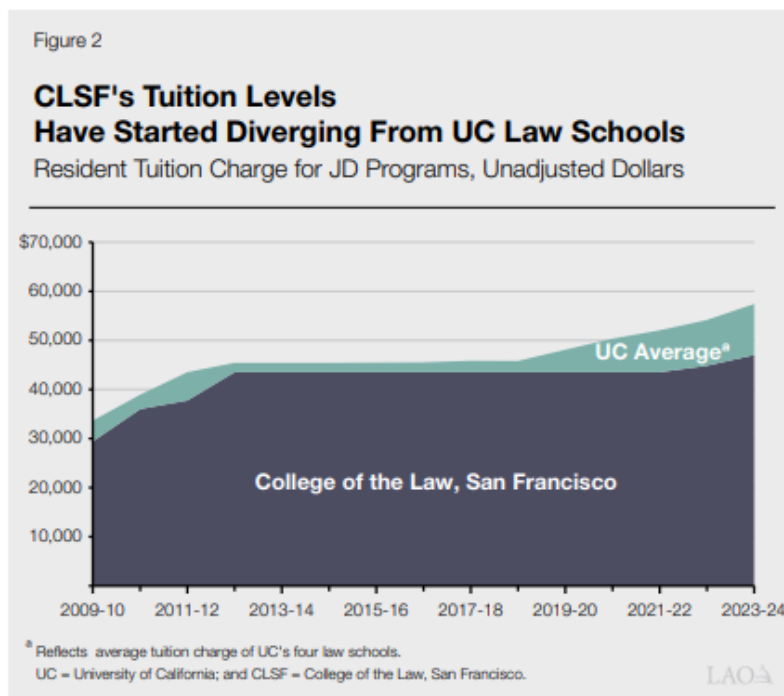
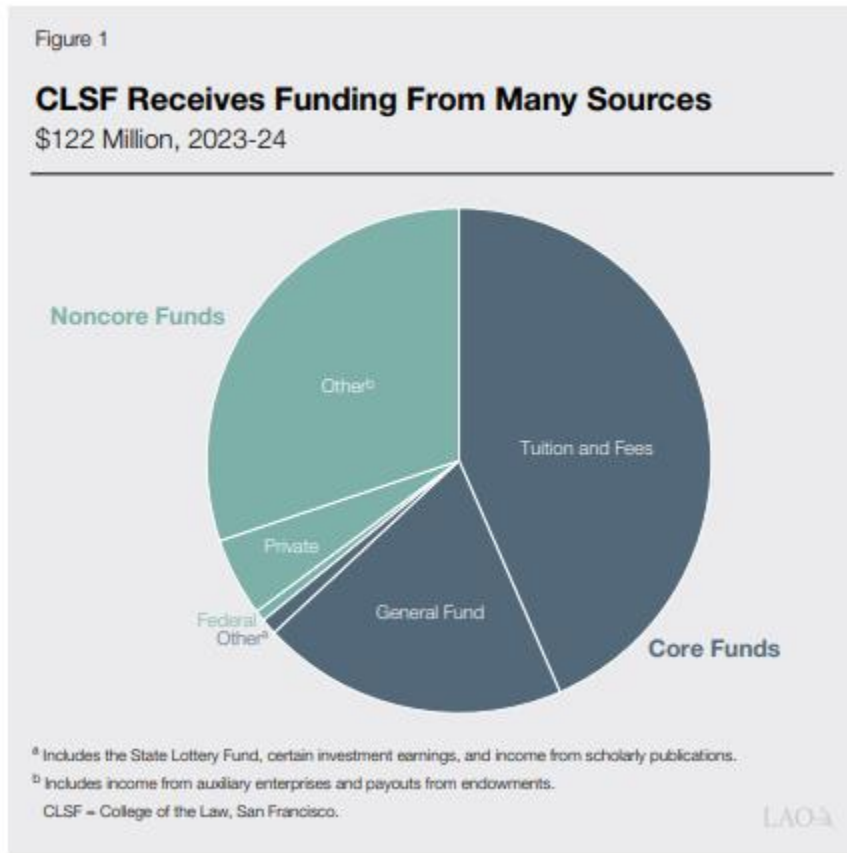
Background

UC Law Is a Public Law School. UC Law, formerly Hastings College of the Law, is affiliated with the University of California (UC) but has its own governing board - the Board of Directors. The Board of Directors oversees the school's finances and makes key decisions, such as setting employee compensation levels. The board also sets the school's tuition levels and enrollment targets. Of the school's approximately 1,100 students in 2023-24, 95 percent are enrolled in the Juris Doctor (JD) program (the most common degree students pursue to enter the legal field). The school also offers three law-related master's programs.

Tuition Revenue Is Law School's Largest Fund Source. UC Law received a total of \$122 million in ongoing funding in 2023-24. As Figure 1 on the next page shows, this funding came from "core" and "noncore" sources. Of the school's core funding, 68 percent comes from student tuition and fee revenue and 31 percent comes from state General Fund. Remaining core funding comes from various sources, including the State Lottery Fund, certain investment earnings, and income from scholarly publications. Beyond core funding, UC Law receives noncore funding from certain self-supporting auxiliary programs (including its housing and parking programs). In addition, the school receives noncore funding from private donations as well as external grants and contracts.

UC Law Recently Increased Its Tuition Charges. As Figure 2 on the next page shows, UC Law increased its JD tuition charges during and shortly after the great recession, then held tuition flat from 2012-13 through 2021-22. For the past two consecutive years, UC Law has raised JD tuition charges—by 3 percent in 2022-23 and 5 percent in 2023-24. Nonresident students pay a supplemental tuition charge. UC Law has also recently increased these charges by 7 percent

in 2022-23 and 8 percent in 2023-24. Despite the recent increases, UC Law tuition charges remain lower than the average tuition charges of UC's four JD programs.



While resident UC Law JD tuition was about 5 percent below the resident tuition levels of UC’s JD programs from 2012-13 through 2018-19, it was almost 20 percent below in 2023-24.

State Often Provides Base General Fund Augmentations. Some years, the primary way UC Law has covered its operating cost increases has been through state General Fund base augmentations. As Figure 3 shows, the size of the UC Law’s base adjustments has varied over the past eight years. UC Law also receives state General Fund adjustments for its lease revenue bond debt service and, in certain years, specific program initiatives. Unlike UC and the California State University (CSU), the state has not funded enrollment growth at UC Law directly, and there is no marginal cost calculation used to determine state funding per student. In the past, the state has provided General Fund base augmentations to the school regardless of whether enrollment increased or decreased.

Figure 3

State Has Provided Law School With Base Augmentations in Most Years

(Dollars in Millions)

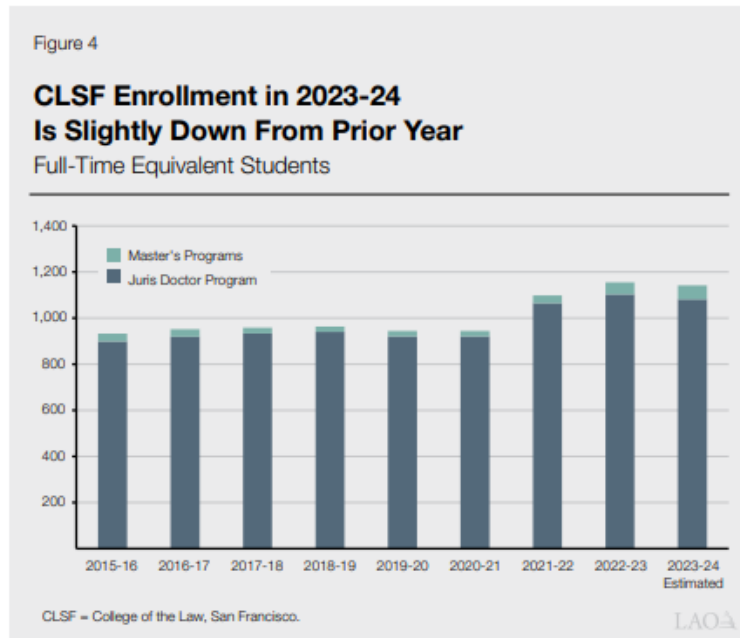
	2016-17	2017-18	2018-19	2019-20	2020-21 ^a	2021-22	2022-23	2023-24
Base General Fund adjustment	\$1.0	\$1.1	\$1.1	\$1.4	-\$0.5	\$2.1	\$2.0	\$2.2
Percent change in General Fund ^b	10%	9%	9%	10%	-4%	14%	12%	12%
Percent change in ongoing core funds ^c	1.9	1.9	1.9	2.5	-0.9	3.5	3.0	3.0

^a Base General Fund was reduced in response to the pandemic-related recession.

^b Reflects base General Fund adjustment over the amount of total ongoing General Fund provided the previous year.

^c Reflects base General Fund adjustment over total ongoing core funds provided the previous year.

Total Enrollment Is Almost Flat in 2023-24. As Figure 4 shows, UC Law enrollment remained nearly flat from 2015-16 through 2020-21. The college then experienced two years of notable growth—with enrollment increasing 16 percent in 2021-22, followed by 5.1 percent in 2022-23. During these two years, enrollment grew in the school’s JD program as well as its master’s programs. In 2023-24, UC Law expects total enrollment to decline by 13 full-time equivalent (FTE) students (1.1 percent). The majority of the decline is from the JD program, which is expected to decline by 22 FTE students. UC Law did not meet its entering JD class target in 2023-24. This decline in JD enrollment is expected to be partially offset by enrollment increases in two master’s programs.



Employee Compensation Is School’s Largest Expense. Each year, UC Law faces pressure to cover cost increases associated with the school’s operations. Personnel costs (including salaries and benefits) comprise roughly 50 percent of the school’s total operating costs. Roughly 60 percent of the school’s personnel (including faculty) are not represented, whereas 40 percent are represented by labor unions. Specifically, school personnel is represented by the American Federation of State, County and Municipal Employees (AFSCME) and the American Federation of Teachers (AFT). In prior years, UC Law has provided general salary increases and merit increases, as applicable, for its non-represented personnel. It has provided salary adjustments for its represented employees consistent with their associated collective bargaining agreements. The current AFSCME and AFT bargaining agreements expire June 30, 2024 and October 31, 2024, respectively. New agreements are still under negotiation for 2024-25. Given its small size and affiliation with UC, UC Law participates in certain UC benefit programs, including the University of California Retirement Plan and UC health and retiree health programs. The costs of these programs have been increasing over time. In addition to personnel costs, UC Law spends around 30 percent of the tuition revenue it generates from each JD cohort on financial aid.

UC Law Maintains Reserves. Like other higher education segments, UC Law maintains reserves to mitigate risks and manage potential cash flow issues. The Board of Directors adopted a policy to maintain a minimum reserve level equivalent to 5 percent of the school’s total annual operating revenues. As of 2021-22, UC Law had built up its reserve to 5.5 months of operating expenditures. This level has since declined to 4.2 months of operating expenditures as a result of UC Law using some reserves to offset increased ongoing operating costs in 2023-24.

Governor's 2024-25 Budget

The Governor's Budget proposes to provide UC Law with an ongoing General Fund base augmentation of \$2.2 million (11 percent) to "support operating costs." The Governor does not propose to defer this base augmentation as he does with the UC and CSU base augmentations. The administration indicates it took a different approach because UC Law is a small agency with smaller reserve amounts and less access to borrowing.

UC Law Spending Plan

UC Law Is Planning to Increase JD Student Tuition Charges. Resident tuition is scheduled to increase by \$2,352 (5 percent), reaching \$49,383 in 2024-25. The nonresident supplemental tuition charge is also scheduled to increase for the third consecutive year. It is set to grow by \$554 (8 percent), reaching \$7,488 in 2024-25. Even with these tuition increases, the school's JD tuition would remain below the tuition level of all of UC's JD programs.

UC Law Enrollment Is Projected to Remain Nearly Flat in 2024-25. The school is projecting a second consecutive year of nearly flat total enrollment. UC Law anticipates JD enrollment to decline by 8 FTE students (0.7 percent) in 2024-25. The school expects this drop to be partially offset by a small anticipated increase in master's program enrollment (expected to grow by 5 FTE students).

Core Funding Per Student Is Increasing. Beyond the Governor's proposed \$2.2 million General Fund increase, the school expects to generate an additional \$2.3 million in tuition revenue as a result of its planned tuition increases. Altogether, the school expects its core funding to increase \$4.5 million (5.6 percent). As Figure 5 shows, on a per-student basis, the school's core funding increases by approximately \$4,100 (5.9 percent).

Figure 5

School’s Core Funding Continues to Increase

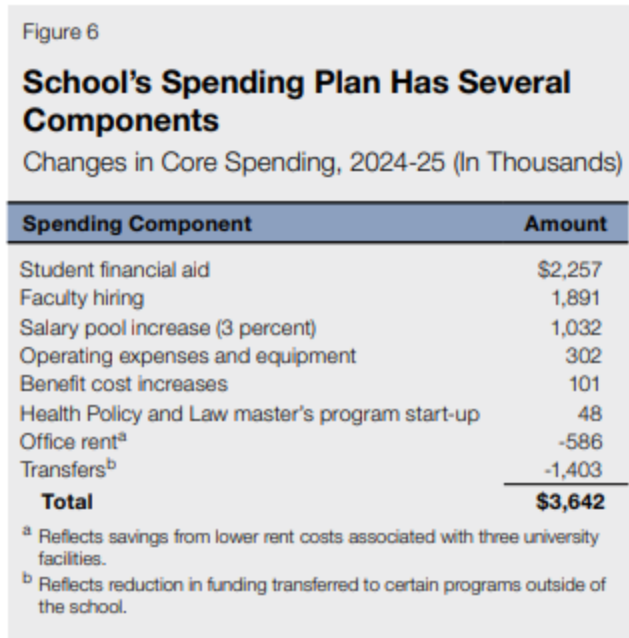
(Dollars in Millions, Except Per-Student Amounts)

	2022-23 Actual	2023-24 Revised	2024-25 Proposed	Change From 2023-24	
				Amount	Percent
Core Ongoing Funding					
Student tuition and fees	\$51.0	\$53.2	\$55.4	\$2.3	4.2%
General Fund ^a	18.8	21.0	23.2	2.2	10.6
Other ^b	3.3	1.3	1.3	—	2.9
Totals	\$73.1	\$75.4	\$79.9	\$4.5	5.6%
Full-time equivalent students	1,155	1,142	1,139	-2.8	-0.2%
Funding per student	\$63,280	\$66,046	\$70,170	\$4,124	5.9

^a Excludes lease revenue bond debt service and one-time funds.
^b Includes State Lottery Fund, certain investment earnings, and income from scholarly publications.

UC Law Is Budgeting for Several Cost Increases. As Figure 6 shows, UC Law is planning for several cost increases in 2024-25. Its largest planned cost increase is for student financial aid. UC Law also plans to fund a total of nine new positions, including six new tenure-track faculty and three lecturers. UC Law reports that despite the anticipated decline in enrollment, the college is hiring additional faculty to work towards an American Bar Association goal of having a minimum share of classes taught by full-time faculty. Beyond these expenses, UC Law intends to increase its overall employee salary pool by 3 percent as well as cover employee benefit cost increases. These costs are partially offset by savings associated with a reduction in certain rental payments and transfers.

UC Law Plans to Use Reserves to Cover Some Operating Costs. To cover expected operating costs, UC Law plans to use \$4.2 million of its reserves in 2024-25. This would be the third consecutive year that UC Law went into its reserves to pay for some of the school’s ongoing operating costs. UC Law estimates its reserves will drop to \$24 million as of June 30, 2025. Even with the projected decline in reserves, UC Law still would have reserves equating to 3.3 months of operating expenses. UC Law projects that its reserves will begin to increase again in 2027-28.



LAO Comments

Reject Proposed General Fund Base Augmentation. As we discuss in The 2024-25 Budget: Overview of the Governor’s Budget, the state faces large projected operating deficits over the next few years. Providing UC Law with an ongoing General Fund base augmentation in 2024-25 contributes to those deficits. We recommend the Legislature reject this proposal and retain state funding for UC Law at its existing level. Without a General Fund augmentation, the school still would have \$2.3 million in additional tuition and fee revenue that it could use to cover some components of its spending plan. Given it could not cover all of its spending priorities, the school indicates it likely would consider various cost-containment measures, including potentially providing smaller salary increases or hiring fewer new faculty. If the state budget situation were to improve in 2025-26, the state could offer UC Law a base increase at that time that it could afford.

Staff Comments

UC Law is a stand-alone law school, and therefore faces budget challenges that other UC Law schools, which are part of larger campuses, do not. The Legislature and Administration have recognized that in the past few years, providing healthy annual increases. While the Governor’s Budget proposes a relatively small amount of new funding, the state’s budget challenge requires further discussion this year of UC Law’s budget and how the state and the college can potentially weather a few years of strained state budgets.

Staff notes that in addition to recent base increases, the 2022 Budget Act provided UC Law with \$90 million one-time General Fund to support the seismic strengthening of a student housing structure built in 1929. The project includes seismic structural upgrades conforming to UC Law's Seismic Safety Policy, partial replacement of systems including fire/life safety, window replacement and interior remodeling to achieve compliance with ADA/Title 24. The project also renovates space on the building's lower levels that would be used for academic purposes. Renovation of McAllister Tower will maintain 252 campus housing units at below-market rents that would otherwise no longer be available and add an estimated five new campus housing units for a total of 257 units at below-market rents. The project, which is in the first phase of construction now, will house UC Law students, but is also available to students at UC San Francisco, San Francisco State University, and other nearby university programs.

The state also provided \$3 million one-time General Fund in the 2023 Budget Act to support the Urban Alchemy program, which provides security for the college using non-traditional policing methods, including employing the formerly-incarcerated. The funding is to be used over a three-year period.

Suggested Questions:

- How will UC Law use the increased funding? How would the college handle its budget if this funding was not available?
- Can the college provide an update on the new student housing project?
- Can the college provide an update on the Urban Alchemy program?
- What are the college's enrollment plans over the next several years?

Staff Recommendation: Hold Open.

0954 Scholarshare Investment Board**Issue 4: CalKIDS Program Update**

The Subcommittee will hear an update on the California Kids Investment and Development Savings (CalKIDS) college savings program.

Panel

- Julio Martinez, Executive Director, Scholarshare Investment Board
- Noah Lightman, Manager, Children’s Savings Accounts Initiatives, Scholarshare Investment Board
- Lisa Qing, Legislative Analyst’s Office
- Jessica Deitchman, Department of Finance

Background

CalKIDS Program Provides College Savings Accounts to Children. The state created the CalKIDS program in the 2019-20 budget package. Under the program, the Scholarshare Investment Board (SIB) opens college savings accounts and makes deposits for eligible children. The deposits are invested so they have the potential to grow over time. (Parents cannot contribute to these accounts, but they may open a Scholarshare 529 account to save their own funds.) To access funds in a CalKIDS account, a family must register on SIB’s online portal. Once the child goes to college, the funds in their CalKIDS account can be spent on qualified higher education expenses—generally tuition and fees, books and supplies, computer equipment, and room and board costs. The funds can be spent at any higher education institution eligible for federal financial aid as well as registered apprenticeship programs. If the funds are not spent by the time the beneficiary reaches age 26, the funds revert to the CalKIDS program.

All Newborns Receive Seed Deposits. The CalKIDS program has two main components. Under the first component, SIB is to open a college savings account for every child born in California and provide a seed deposit of at least \$100 in each account. This component is universal, meaning all newborns receive seed deposits regardless of their financial need. The state is providing \$15 million ongoing General Fund to support seed deposits for children born on or after July 1, 2022.

Low-Income First Graders Receive Additional Deposits. Under the second component of the CalKIDS program, SIB is to provide a deposit of \$500 to each first grader who is low-income (as defined under the Local Control Funding Formula). First graders qualify for an additional \$500 deposit if they are foster youth and an additional \$500 deposit if they are homeless, leading to a maximum deposit of \$1,500. SIB is to add these deposits to the existing CalKIDS accounts of

any first graders who had an account created as a newborn, while creating new accounts for any first graders who do not already have one. The state provided \$170 million ongoing General Fund to support deposits for low-income first graders beginning in 2022-23. Additionally, the 2021-22 Budget Act provided \$1.8 billion one time for deposits to low-income students enrolled in grades 1 through 12 in that year. Thus, eligible high school seniors who graduated in Spring 2022 and Spring 2023 are currently eligible for college funding.

State has funded several CalKIDS marketing and outreach efforts. The 2022 and 2023 Budget Acts included the following actions to support SIB for CalKIDS marketing and outreach:

- \$5 million ongoing for financial literacy outreach to CalKIDS participants and their families.
- \$5 million one-time for contracts with local college savings account programs to conduct outreach and coordinate with the CalKIDS program.
- \$3.1 million one-time and \$900,000 ongoing to send notification letters informing participants' families of their accounts.
- \$8 million in unspent program funds to support a statewide marketing and outreach campaign.
- Authorized a pilot program to allow Scholarshare to enter into data-sharing agreements with the Riverside County Office of Education and the Los Angeles Unified School District to increase outreach and participation in the CalKIDS program.

Millions of college savings accounts have been opened, more than \$12 million in support for college costs have been distributed, but participation is low so far. Scholarshare has provided the Subcommittee with participation information from the start of the program – July 1, 2022 – through the end of March 2024. The data indicates that:

- Scholarshare has opened accounts for about 3.6 million students and 667,000 newborns.
- About 7% of newborns and students who have had an account opened for them have registered with the program.
- More than 31,000 Scholarshare accounts have been linked to CalKIDS accounts, and nearly 30,000 personal accounts have been newly opened in conjunction with the CalKIDS accounts.
- About 24,000 students who have graduated from high school have requested funding, out of about 571,000 students who were eligible. (Eligible students are low-income students who graduated from high school in 2022 or 2023.)
- Students who are in college now have received about \$12.4 million in support for college costs.

CalKIDS Participation Results – Since Inception (July 1, 2022 – March 31, 2024)

Participant Group	Enrollments	Online Portal Registrations ³	Percent Registered ⁴	Online Distribution Requests	Amount of Distribution Requests (\$)	Scholar Share 529 Accounts Linked	Average Scholar Share 529 Account Savings	New Scholar Share 529 Accounts Opened and Linked ⁵	Opted Out Accounts
Newborns ¹	667,167	42,312	6.3%	N/A	N/A	14,971	\$3,280	14,862	49
Students ²	3,665,607	271,133	7.4%	24,044	\$12,366,837	16,353	\$2,533	14,528	24
Foster	30,786	2,008	6.5%	137	\$136,335	127	\$578	115	0
Homeless	172,165	9,398	5.5%	862	\$836,432	515	\$656	482	0
Foster & Homeless	1,383	83	6.0%	11	\$15,856	6	\$533	6	0
TOTAL	4,332,774	313,445	7.2%	24,044	\$12,366,837	31,324	\$2,890	29,390	73

Note: Approximately 3.6 million eligible student participants and over 667,000 newborns were automatically enrolled into the Program.

¹ Data for the newborn participants is reflective of births for months of July 2022 – March 2024.

² Foster, Homeless, and Foster & Homeless are subsets of the entire eligible student population.

³ Registrations mean the participant has viewed their account.

⁴ Percent Registered means the percentage of children registered compared to the enrollment amounts.

⁵ Linked New ScholarShare 529 Accounts means new accounts opened during this time period.

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Governor’s Budget 2024-25

The Governor’s Budget includes \$190.3 million ongoing General Fund for the CalKIDS program, which includes \$45.3 million to create new college savings accounts for newborns, \$140 million to create new college savings accounts for first-graders, and \$5 million for financial literacy outreach activities.

LAO Comments

We recommend reverting up to \$26.5 million in previous General Fund appropriations.

Recommend Reverting Unspent 2019-20 CalKIDS Funds. The 2019-20 budget appropriated \$25 million one-time General Fund for SIB to launch CalKIDS accounts for newborns. In 2021-22, the state provided \$15.3 million ongoing General Fund for the newborn accounts. Because the ongoing funding has fully covered the cost of the newborn accounts since they launched (July 1, 2022), SIB has not needed the 2019-20 one-time appropriation for this purpose. To date, SIB reports it has encumbered or spent \$380,000 of this appropriation for program administration and marketing. It is in the process of awarding an additional \$7.6 million for marketing, pursuant to a provision in last year’s trailer legislation. After accounting for this anticipated spending, we estimate \$17 million of the 2019-20 appropriation remains available. Given these funds are no longer needed to cover program costs, we recommend reverting them to address the state budget deficit. (The funds have not reverted automatically because they are being held a special account—the CalKIDS Program Fund.)

Recommend Reverting Unspent 2022-23 and 2023-24 Funds for Financial Literacy Outreach. The 2022-23 budget provided \$5 million ongoing General Fund to SIB for a financial literacy outreach program serving CalkIDS participants and their families. This program remains under development. SIB reports it encumbered or spent \$500,000 of the 2022-23 appropriation, leaving \$4.5 million unspent. We are working with SIB to determine whether it has spent any funds from the 2023-24 appropriation. We recommend reverting the \$4.5 million in unspent 2022-23 funds, along with any unspent funds (up to \$5 million) from the 2023-24 appropriation. Under this approach, SIB still would retain \$5 million ongoing for the program in 2024-25, and it could use these funds for any program activities it anticipates launching in the coming months.

Staff Comments

College savings account programs can be an important tool in increasing college access and completion. Research has shown that when kids have a college savings account in their own name – even with less than \$500 in it – they’re three times as likely to attend college, and four times more likely to finish college. Programs such as CalkIDS are now becoming more common, in California and around the country. California cities and counties, including San Francisco, Oakland, Los Angeles, and San Joaquin County, have programs, as do states such as Tennessee, Pennsylvania, Indiana and Maine. California’s program is by far the largest in the country.

As the data indicates, the challenge for CalkIDS is in outreach and marketing, to ensure that California families understand that there is free money for college available to them. With only about 7% of families registering for their accounts, and only 4% of eligible students who have graduated from high school accessing their money, there is a clear need to increase awareness of the program. Scholarshare officials note that these participation rates are not significantly different from those in other states. Both the Legislature and Scholarshare have taken steps to address this issue.

Scholarshare has redesigned its website this year and made changes to initial letters to improve communication around the program. They have also sought to advertise the program in various media, from billboards to social media. Scholarshare reports it is close to awarding a contract for a large-scale media campaign using the \$8 million in funding provided in the 2023 Budget Act, and it awarded funding to 11 local college savings programs in May 2023, allowing those programs to conduct locally-based outreach. Based on trailer bill language in the 2023 Budget Act, Scholarshare and the Riverside County Office of Education have signed a data-sharing agreement that will allow Riverside access to Scholarshare data to understand which eligible students are not participating in the program, and to conduct outreach to those students.

Scholarshare notes that the complexity of the program makes marketing more difficult, as there are multiple target audiences: families of newborns, families of low-income first-graders, and

families of older students who are eligible for funding now or in the near future. It is unclear if administrative support is sufficient for a program of this size: CalKIDS has three staff.

In addition to administrative support, staff notes that it is unclear if the funding appropriated so far for this program is the right amount. Funding levels to launch the programs were set based on projected birthrates and K-12 enrollment, and an estimated start date, and the Department of Finance has confirmed that about \$120 million has been over-appropriated in previous years as actual enrollment and birthrates have been less than projected. That funding has already been swept.

Staff also notes that the Subcommittee has received a request from the John Burton Advocates for Youth to provide the current \$500 augmentation awarded to foster youth to all school age foster youth rather than only students who are in the foster care system during the first grade. This request is in line with a policy bill (AB 2508, McCarty.)

Suggested Questions:

- What are Scholarshare's participation goals going forward? What more can be done in the next year to improve visibility and understanding of the program?
- Has the \$8 million marketing contract been awarded? What are the goals of that contract?
- What is the current amount of unspent funds in the program?
- What is Scholarshare's response to the LAO recommendations to pull back some funding from this program?
- Can Scholarshare provide an update on the data-sharing agreement with Riverside County Office of Education? What are the goals for this project?
- Are there ideas for simplifying this program?

Staff Recommendation: Hold Open

This agenda and other publications are available on the Assembly Budget Committee's website at: [Sub 3 Hearing Agendas | California State Assembly](#). You may contact the Committee at (916) 319-2099. This agenda was prepared by Mark Martin.