

California State Assembly



Assembly Budget Agenda

Subcommittee No. 3 on Education Finance

Assemblymember David Alvarez, Chair

Wednesday, May 22, 2024

Upon Call of the Chair – State Capitol, Room 437
(Note time and room change)

INFORMATIONAL HEARING

1. Call to order
2. Member Comments and Questions
3. Public Comment

Major Issues - 2024 Budget

Introduction: All Education Finance

Assembly Budget Subcommittee #3 on Education Finance will conclude hearings on May 22, 2024 with one final opportunity for Members of the Assembly to provide input, make comments, or ask questions regarding education finance issues in the proposed 2024 budget. This memo highlights major issues considered by the Committee as the Assembly works to finalize the details of the 2024 budget.

Given the State's difficult fiscal position, the 2024 budget process was dominated by discussions of potential solutions to a budget problem. Including the May 22th hearing, the Subcommittee held 14 hearings to consider education budget issues this year.

The January Budget included the education finance architecture that remains under consideration today: a cost-shift in the Prior Year for school funding, almost no reductions for schools and community colleges, and deferred or flat spending for higher education.

\$1.55 billion in major general fund solutions for education, from the January Budget, were included in the Early Action bill AB 106, Chapter 9, Statutes of 2024. This included the delay of \$550 million in TK facilities funding to the 2025-26 school year, a \$500 million reduction in general fund for the School Facilities Program, in anticipation of a November 2024 ballot initiative for a TK-14 school bond, and the deferral of about \$500 million in ongoing General Fund for the University of California (UC) and California State University (CSU).

The May Revision maintained most of the TK-14 budget architecture, with the exception of recognizing ongoing declining costs in the Budget Year for the Local Control Funding formula and other average-daily-attendance driven categorical programs.

The Assembly will need to grapple with four major education finance questions for the Budget Act: 1) How to address the prior year Budget shortfall for schools, estimated at \$8.8 billion one-time at the May Revision; 2) How to address over \$2 billion in new school spending requested in the May Revision, that relies on Rainy Day funding; 3) how to support UC and CSU base operations; 4) and how to enact the Cal Grant Reform Equity Framework.

In higher education, the state's budget deficit threatens the Assembly's twin priorities of access and affordability. Discussion has centered around how the state can continue to support enrollment growth and expand financial aid programs to support more students and more of students' total costs of education, while also working with UC, CSU and the California Community Colleges (CCC) to weather the budget downturn. All three segments face growing operational costs, ranging from employee compensation to facilities maintenance. The Assembly must remain committed to expanding higher education to all California communities, particularly those underserved in the past, while also recognizing that resources are constrained and the

segments must play a role in balancing the state budget. Reductions must be aimed away from students and core campus missions.

Proposition 98 – Balancing the Budget Shortfalls

The May Revision includes several actions to mitigate the effects of lower Proposition 98 spending on schools. The primary actions are (1) reserve withdrawals, (2) cost shifts (called the “maneuver” below), and (3) repurposing of unspent/unused funds. Local school programs and ongoing education funding generally would not be reduced by these actions.

- Provides a total Proposition 98 General Fund funding level of \$97.5 billion in 2022-23, \$102.56 billion in 2023-24, and \$109.1 billion in the Budget Year.

Changes in Proposition 98 Estimates From June 2023 to May 2024				
<i>(Dollars in Millions)</i>				
	2022-23	2023-24	2024-25	Three-Year Totals
June 2023 Enacted Budget				
Proposition 98				
General Fund	\$78,117	\$77,457	\$79,739	\$235,314
Local property tax	29,241	30,854	31,881	91,977
Totals	\$107,359	\$108,312	\$111,621	\$327,291
General Fund tax revenue	\$204,533	\$201,213	\$203,116	\$608,862
May 2024 DOF May Revision				
Proposition 98				
General Fund	\$67,753	\$71,500	\$76,606	\$215,859
Local property tax	29,774	31,072	32,524	93,369
Totals	\$97,527	\$102,572	\$109,129	\$309,228
General Fund tax revenue	\$176,979	\$185,454	\$195,020	\$557,453
Change From Enacted Budget to May Revision				
Proposition 98				
General Fund	-\$10,364	-\$5,957	-\$3,133	-\$19,455
Local property tax	\$532	\$217	\$642	\$1,392
Totals	-\$9,832	-\$5,740	-\$2,491	-\$18,063
General Fund tax revenue	-\$27,554	-\$15,759	-\$8,096	-\$51,409

Source: LAO

- Provides a total of \$109.1 billion for Proposition 98 funding for 2024-25, which meets the Test One guarantee level, for state preschool, TK-12 public education, and community colleges. Proposes to rebench the guarantee to reflect the Proposition 28 arts funding and Universal Transitional Kindergarten growth.
- Proposes a total of \$8.4 billion in one-time withdrawals from the Proposition 98 “Rainy Day” fund, the Public School System Stabilization Account to support 2023-24 and 2024-25 school and community college expenditures. This proposal would exhaust the school Rainy Day fund completely. The proposed withdrawal in the current year would eliminate the existing statutory local reserves cap.
- Maintains the January Budget “maneuver” proposal to shift Proposition 98 costs from the 2022-23 Budget Act above the revised constitutional guarantee calculation to the 2025-26, 2026-27, and 2027-28 Budget years. This cost shift is now estimated at \$8.8 billion. These costs would be attributed to the non-Proposition 98 side of the budget.
- Assumes higher property tax estimates over the period, compared to the January Budget, to offset some of the drops associated with lower General Fund revenue.

Challenges for the Assembly for the Proposition 98 Architecture

How to Protect the Guarantee. The Administration’s proposal to hold schools harmless from any appropriation reductions in the prior year, current year, or ongoing Budget Year projections is the most generous recessionary proposal on record. The question is whether the proposal is constitutional, and whether it’s prudent.

While the Administration’s proposal directly ties the \$8.8 billion general fund maneuver to backfilling the Local Control Funding Formula’s continuous appropriation in the Prior Year, there are billions in one-time program funds built into the 2021-22 and 2022-23 Budget Years. These one-time investments were built into those Budget years precisely due to the perceived volatility of revenues at the time, and caution around on-going investments.

The California Teachers Association and the Education Coalition have outlined their concerns with the proposal, at public hearings and as part of their budget letters: they believe the proposal to not count \$8.8 billion in the Prior Year in general fund appropriations toward the Proposition 98 guarantee calculation is a direct violation of the State Constitution.

Should We Exhaust the Rainy Day Fund? The May Revision proposed to exhaust the PSSSA with \$8.4 billion in withdrawals to cover ongoing Current Year costs from enacted Budgets, and both ongoing and NEW costs in the Budget Year. Should the Legislature take actions to ensure

some Rainy Day funding remains available to protect prior, ongoing commitments in 2024-25 and 2025-26? Is full COLA in the Budget Year and out years worthy of reserve funding, if the Guarantee is insufficient? Should any new proposals be funded at the expense of Rainy Day funds?

What About Deferrals? While Proposition 98 deferrals were not a popular recession maneuver, the availability of local reserves may moderate many LEAs needs to rely on borrowing, should a minor June to July deferral become necessary to support current year or Budget Year spending.

It was made clear in the hearing that most LEAs have robust local reserves (+20% of budget), and how these reserves fit in the overall state plan for right-sizing the budget remains unclear.

Protect Priorities. The final Budget deal created a one-time spending buffer inside the 2022-23 Proposition 98 guarantee of over \$3 billion, and a multi-year one-time spending package of over \$15 billion. While the January Budget does not propose eliminating or delaying most of these one-time expenditures, the estimated \$8 billion one-time shortfall will require a re-prioritization of investments over the multi-year budget forecast. The Assembly's commitment to protect ongoing classroom funding may require a reexamination of all one-time appropriations.

Rebenching in a Recession. The final Universal Transitional Kindergarten (UTK) rebench in any budget year is intended to reflect actual enrollment growth. The Administration estimates that the full price tag for new enrollment will be approximately \$3 billion through 2025-26. Recent budgets have enjoyed both General Fund and Proposition 98 growth and surplus: as economic growth slows, the availability of General Fund for the rebench may come at a steep cost to programs funded outside the Proposition 98 guarantee. According to DOF, the annual variance in rebenching could range from \$50 million to \$200 million a year, based on factors like volatile post-pandemic ADA and UTK uptake rates.

The Rebench Split. According to DOF, the Governor's Budget proposes to maintain the Proposition 98 split between TK-12 schools and community colleges at 89.07% for TK-12 and 10.93% for community colleges across the budget window. Funding for other education agencies, adult education, adults in correctional facilities, and the K-12 adults in correctional facilities is taken off the top before computing this split.

Because the cost of expanded TK and Proposition 28 arts funding is unique to TK-12 schools, the reason for making this rebench subject to a split with community colleges is unclear.

Early & Accelerated UTK Plans. According to California Department of Education (CDE) surveys, many large LEAs planned to accelerate their new TK enrollment in the current year, including Long Beach, Los Angeles, San Diego, and Fresno USDs. These LEAs are offering TK enrollment to children younger than the statutory expansion timelines. While these younger students do not earn ADA in the Budget Year, they may impact near-term enrollment counts, and thus rebench calculations, dramatically. CDE should have an update on UTK enrollment for the current year later this spring.

TK-12 Public Education

Major Reductions – TK-12 Education

- Decreases Proposition 98 funding for the Local Control Funding Formula (LCFF) overall, reflecting declining enrollment and UTK growth, but also increases LCFF in the May Revision for a 1.07% percent cost-of-living adjustment (COLA) in 2024-25.
- Makes numerous adjustments to local assistance for May Revision average-daily-attendance and other actual cost estimates, including Home to School Transportation, Universal Transitional Kindergarten, and Proposition 28 Arts funding.
- Eliminates the planned \$550 million facility funding for preschool, TK, and kindergarten classrooms in the 2025-26 Budget Act in anticipation of a November 2024 School Bond initiative that is inclusive of PreK facilities.
- Eliminates the planned \$375 million in General Fund for the School Facilities Program in the 2024-25 Budget Year in anticipation of a November 2024 School Bond initiative. This is in addition to the \$500 million in General Fund reduced as part of the Early Action package earlier in year.
- Reverts \$60 million one-time General Fund appropriated in 2021-22, leaving \$50 million available from the original appropriation. Reduces the Golden State Teachers Program by \$60.2 million one-time, and restores program priorities.
- Withdraws January Budget proposal to expand the K12 Broadband program.
- Reverts Additional Unspent/Unallocated Funds. The Governor's budget obtained \$482 million in one-time savings from repurposing unspent or unallocated funds. Most of this amount consisted of State Preschool funds that exceeded the cost of existing rates and slots. The May Revision repurposes an additional \$327 million in unspent or unallocated

funds for total savings of \$809 million. Most of this increase is associated with unallocated funds in the Inclusive Early Education Expansion Program.

Challenges for the Assembly

The planned reductions for the Golden State Teachers Program will most likely end this program in the Budget Year, which has been a promising best practice for the decades-long teacher shortage in California. The program should instead be examined as a candidate for ongoing funding, tied to key shortage priorities for the state, long-term.

The proposed reductions to the TK facilities program, which has over \$1 billion in unfunded applications, catalyzes two questions: will LEAs be ready for full TK implementation in the 2025-26 school year, and how should TK be supported in the next K-14 school bond? The reductions seem prudent in light of the general fund situation.

The proposed reversions seem to be uneven in their policy. If it is prudent to revert unspent funds for the Inclusive Early Education Expansion Program, why isn't the same policy employed for \$1 billion in unspent Zero-Emission School Buses and Career Technical Education grants from the 2021-22 Budget Act?

Major Increases – TK-12 Education

- Cost of Living Adjustment: the May Revision proposes a 1.07% COLA for LCFF and all statutory categorical programs, including nutrition and preschool, and the new LCFF equity multiplier.
- Universal School Meals: proposes a \$179 million increase to the school meals program, to cover projected demand across the state.
- Provides an additional \$395 million (on top of the \$500 million included in the Governor's budget) for districts to purchase zero-emission school buses.
- Continues an existing State Park Pass program for fourth graders with a new \$2.1 million ongoing Proposition 98 funding, backfilling one-time General Fund for these purposes.
- Provides \$6 million one-time Proposition 98 to study remote learning models and student information systems attendance collection.
- Provides \$20 million one-time Proposition 98 for math coaching, in anticipation of a 2025 new math curricula adoption by the State Board of Education.
- Provides \$7 million one-time Proposition 98 for a science performance assessment bank.

- Increases the California College Guidance Initiative with \$2 million ongoing Proposition 98.
- Increases the K12 High Speed Network funding by \$3.2 million in ongoing Proposition 98 funding.
- Provides \$2 million ongoing for a state Technical Assistance Center on inclusive college readiness, and \$2.5 million one-time federal funds for a state Technical Assistance Center on homeless education.
- Provides \$3.4 million in one-time, and \$380,000 on-going general fund to the State Special Schools for IT infrastructure.
- Proposes \$35 million in professional support for educators in addressing student mental health needs, and a training mandate.
- Increases the Mandate Block grant for a 1.07 percent COLA in the Budget Year and by \$25 million ongoing for the planned 2025-26 Dyslexia screener implementation.
- Provides authority for a new \$17 million Youth Vaping Alternative Prevention program, funded by the JUUL Settlement.
- Provides the CDE with eleven new positions and authority, for prior enacted legislation.

Challenges for the Assembly

Is this Rainy Day Worthy? In light of the Proposition 98 guarantee forecast, it does not seem prudent to entertain any new one-time or ongoing spending proposals, and in particular, proposals that do not directly fund resources on a school site. All the new proposals, with a cost of over \$2 billion, are drawing from the PSSSA, the school Rainy Day fund. Any ongoing growth in the Prop 98 guarantee is available for the 2024-25 school year, the priority should be for funding ongoing prior year commitments.

Zero-Emission Buses. With the billions in federal and state funding options to potentially support zero-emission school buses, and the condition of the Proposition 98 guarantee, it does not seem prudent to expand this program in the current budget climate. The Committee may want to reconsider the original \$500 million program investment, as no applications have been awarded for local schools.

Park Passes. To the extent the Legislature is interested in supporting more equitable access to our state's parks for public school students, other direct supports could be explored, including fee exemptions, and providing information to local school leaders about how to leverage state parks for field trips aligned to the curricula. To the extent the Legislature is concerned about student access to open space, it may be of interest to examine school funding for playgrounds and open space, in a joint-use environment with local and state parks, including weekend, after school, and intersession use.

Major Trailer Bill Proposals – TK-12 Education

Attendance Recovery

Authorizes New Attendance Recovery Programs. The administration proposes to allow LEAs to provide instruction outside of the regular school day through “attendance recovery programs.” The intent is to allow opportunities for students who were absent to recover lost instructional time, as well as to offset funding losses associated with student absences. Attendance recovery programs would only be made available for students enrolled in classroom-based instructional programs.

Changes Chronic Absentee Data & Dashboard. In addition to generating additional funding for students that participate in attendance recovery programs, a student's attendance in these programs may be included in a school's chronic absenteeism calculations. By June 30, 2025, trailer legislation would require CDE to develop and maintain a webpage that provides guidance to LEAs in creating and developing attendance recovery programs, in conjunction with state-funded before and after school programs, such as ELOP.

Sets Programmatic Requirements for Attendance Recovery. The proposed attendance recovery programs may operate before and after school, and during intersessions. (School districts and COEs could continue to offer weekend makeup courses through their existing Saturday school programs.) Participating in these programs would be voluntary for all students. In addition, academic recovery programs must meet several requirements:

- Include content that is substantially equivalent to what the student would have received as part of their regular classroom-based instructional program.
- Have instruction provided by certificated staff.
- Have a maximum student-to-teacher of 20:1 for all grades except TK, which would have a maximum of 10:1.

Attendance recovery programs would be exempt from daily minimum minute requirements, and students would generate attendance in 15 minute increments for their participation. A student would be credited with a full day of attendance once they have met the minimum daily minute

requirement for their grade level and school type. Students would not be able to generate more than one day of attendance per calendar day through participating in attendance recovery programs. Furthermore, students would not be able to generate more than 15 days of attendance through attendance recovery programs within a school year. The proposal also specifies that for purposes of implementing an attendance recovery program, charter schools would need to comply with minimum daily minute requirements.

Allows ELOP Programs to be Repurposed. The trailer bill would also allow ELOP funds to be used to operate an attendance recovery program, as specified above.

This new attendance recovery policy would sunrise in the 2024-25 school year, and beginning in 2024-25, LEAs operating attendance recovery programs would be subjected to regular audits through their annual audit process.

Learning Recovery Block Grant

The proposed trailer bill would also increase standards for LEA expenditures under the Learning Recovery Block Grant, for funds remaining between July 1, 2024 and the encumbrance deadline of 2028. LEAs would be required to:

- Conduct a student absenteeism and academic performance needs assessment, as specified.
- Ensure expenditures are aligned the needs assessment and are evidence based.
- Comply with new reporting requirements.

The proposal would also specify that expenditures for professional development on the 2023 Math framework is allowable in the Block Grant.

According to DOF, these changes (with the exception of the math framework reference), are consistent with a state settlement in the Cayla J et.al. case.

Instructional Continuity

Replaces Short-Term Independent Study With New Instructional Continuity Program. The administration proposes to replace short-term independent study programs with new “instructional continuity” programs. (The Governor’s budget does not propose any changes to other independent study program requirements.) Similar to current short-term independent study, instructional continuity programs would provide limited-term options for students enrolled in classroom-based programs. Additionally, students that participate in instructional continuity programs would generate attendance through the time they spend in synchronous or asynchronous instruction, as well as through coursework they complete. Written agreements

would be more limited in scope compared to current short-term independent study and may be signed at any point throughout the school year.

Instructional Continuity Limited to 15 Days Per Year, With Exceptions. Students could generate up to 15 days of attendance through participation in instructional continuity programs throughout the school year. The proposed language allows students to participate for longer under certain circumstances. Students could participate for longer if they are undergoing necessary medical treatments, or other inpatient treatments, under the care of a licensed professional. Students could also participate for longer if they are participating due to emergency situations or are experiencing “significant personal difficulties” that impact their ability to attend school, such as homelessness or housing instability, family illness, or bereavement. CDE would be required to develop rules and regulations around instructional continuity programs. Local governing boards would be required to adopt policies that follow the new rules and regulations. Beginning in 2024-25, LEAs that operate instructional continuity programs would be subjected to regular audits through their annual audit process.

Proposes Changes for Emergency Attendance Funding. Trailer legislation proposes to change the requirements for LEAs to receive emergency-related attendance funding in the event of school closures or significant declines in attendance. LEAs must certify they have a plan to offer instruction following an emergency event within five calendar days of the first day of the closure—compared with ten days under current law. Additionally, after June 30, 2025, LEAs would have additional requirements within five days of a closure. Specifically, LEAs would need to demonstrate that they have offered all students either (1) access to instruction (either in-person or remotely) or (2) support to enroll or be temporarily assigned to another LEA.

Elementary Arts Career Technical Education Teaching Credential

Proposes authority for the Commission on Teacher Credentialing to create a new Arts and Music Career Technical Education credential. This bill would require the commission to issue an elementary authorization with a concentration in art, music, dance, or theater, or any combination of these subjects, aligning with an applicant’s industry experience, to an applicant who holds a clear designated subjects career technical education teaching credential with an authorization in the arts, media, and entertainment industry sector and meets specified coursework requirements. The bill would authorize a teacher who holds this authorization to serve as the teacher of record in a departmentalized general education classroom in preschool, kindergarten, and grades 1 to 6, inclusive, or for a noncore, academic course in art, music, dance, or theater. The bill would authorize the commission to issue a one-year emergency elementary arts education teaching permit that authorizes teaching in art, dance, music, or theater, or any combination of these subjects, as described above, provided that specified conditions are met.

The Budget also proposes to replace the basic skills requirement with a bachelor's degree and streamline subject matter completion review, for teacher credentials.

University of California

Base Funding. After two years of 5% base operating expenses, which grew ongoing General Fund support for UC from about \$4 billion in 2021-22 to \$4.7 billion in 2023-24, the 2024-25 UC budget is proposed to decline. Early action taken in April deferred a 5% ongoing increase for 2024-25 until 2025-26, as well as \$31 million ongoing General Fund intended to continue a program replacing nonresident students with California students at the Berkeley, Los Angeles and San Diego campuses. The May Revision proposes significant changes that alter the early action and are described by the LAO as “opaque and unnecessarily complicated.” The chart on the following page depicts this proposal. Under the May Revision, UC would see about a 3% dip in General Fund support in 2024-25 compared to the current year, but ongoing support would grow by about 3% in 2025-26. UC has stated it will use reserves, borrow from internal funds, and/or cut costs, such as not filling vacancies or postponing maintenance projects. UC warns that timely services for students could lessen and class sizes could grow in the next two years as it faces increasing cost pressures and less state funding than previously anticipated.

The previous increases were part of a 5-year compact signed between UC and the Governor, which called for growing annual support in exchange for annual 1% enrollment growth and progress on several other priorities, ranging from improving graduation rates to increasing affordability and improving pipelines to high-demand careers. UC officials have said they remain committed to the goals of the compact, but it is unclear what costs are associated with each goal, and how the university will successfully address the goals with less state funding than anticipated. Staff notes that the Legislature was not a party to the compact.

The Subcommittee has devoted significant time this Spring to preparing for potential cuts. Recent one-time programs added to UC could be reduced, as UC reported there was about \$225 million in unspent funds from more than 30 appropriations. In addition, UC has a significant number of long-standing state-funded programs, ranging from the Agricultural and Natural Resources Division to student outreach services intended to help more high school students become eligible for UC and CSU admission. At the May 16th Subcommittee hearing, there was discussion regarding how UC could weather the 2024-25 cuts without impacting students or core campus operations.

Enrollment. UC received significant enrollment growth funding in 2022-23 and 2023-24 but seems likely to miss its enrollment target in 2023-24. UC intends to make up the lesser enrollment and meet its enrollment target for 2024-25, as the chart shows. The Subcommittee may wish to consider a 2025-26 enrollment target for UC to ensure that enrollment growth continues.

UNIVERSITY OF CALIFORNIA ENROLLMENT GROWTH FROM 2021-22 TO 2023-24

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	Actual 2021-22	Actual 2022-23	Estimated 2023-24 ¹	Proposed 2024-25
Systemwide FTE CA Undergraduate Growth		1,250	5,490	4,586 ²
Total California Undergraduate Enrollment	195,861	197,111	202,601	206,588
Goal California Undergraduate Enrollment	195,861		203,661	206,588
Estimated Difference - Amount Could Change			-1,060	599

	2024-25
Governor's Budget, UC Funding	\$4,740.4
May Revision base reduction ^a	-125.0
Other May Revision reductions ^b	-26.5
May Revision Total	\$4,588.9
Change from prior year	-2.6%
	2025-26
Base restoration ^a	\$125.0
Base reduction ^a	-376.9
Compact base increases	
Year 3 deferred increase ^c	227.8
Year 4 increase	240.8
Nonresident enrollment reduction plan ^d	
Year 3 deferred increase ^c	31.0
Year 4 increase	31.0
One-time back payment ^c	258.8
May Revision Total	\$5,126.5
Change from prior year	11.7%

^a The May Revision proposes a 7.95 percent reduction to state operations for most state departments. For the universities, the May Revision proposes implementing part of their associated reduction in 2024-25, with the full reduction implemented in 2025-26. For the universities, the reduction is applied to their main General Fund appropriation, which supports administration as well as campus operations. The amount shown for 2025-26 is an estimate provided by the Department of Finance, reflecting 7.95 percent of CSU's 2024-25 base funding as of Governor's budget.

^b The May Revision proposes a \$13.5 million ongoing reduction to UC graduate medical education (residency training) and a \$13 million ongoing reduction to UC Labor Centers.

^c In addition to the ongoing increases proposed for 2025-26, the Governor proposes one-time back payments to cover funding deferred in 2024-25.

^d State law directs UC to reduce nonresident undergraduate enrollment at three high-demand campuses and replace with resident undergraduates. The state has been backfilling UC for the loss of nonresident supplemental tuition .

^e Under the May Revision, ongoing General Fund for UC would increase by \$154 million (3.3 percent) from 2024-25 to 2025-26.

Other Cuts. The May Revision proposes eliminating a General Fund backfill of Proposition 56 funding, which supports graduate medical education slots. The state has kept funding for additional slots at \$40 million annually for the past few years by using General Fund to cover for declining Prop 56 revenues, but the Administration is proposing to end this practice, which will lead to fewer slots.

The May Revision also proposes cutting \$13 million ongoing General Fund from the UC Labor Centers. This cut would rescind an augmentation made two years ago that has allowed each undergraduate-serving UC campus to open a labor center. The cut would result in immediate layoffs and the closure of five UC Labor Centers, according to Labor Centers official. It would impact work the Labor Centers have planned on issues such as the green economy workforce, automation and artificial intelligence's impact on employment and the future of work, and working conditions in low-wage industries.

The May Revision also proposes cutting \$13.7 million one-time General Fund from the UCLA Latino Policy and Politics Institute. This cut is from a \$15-million appropriation made in 2022-23 to create the Latina Future, 2050 Lab, which seeks to increase knowledge and insight through applied policy research on the contours of the economic, political, and social lives of Latinas living in the United States over the next several decades. The Lab notes that as much as \$4 million of the \$13.7 million is encumbered.

California State University

Base Funding. After two years of 5% base operating expenses, which grew ongoing General Fund support for CSU from about \$4.6 billion in 2021-22 to \$5.4 billion in 2023-24, the 2024-25 CSU budget is proposed to decline. Early action taken in April deferred a 5% ongoing increase for 2024-25 until 2025-26. The May Revision proposes significant changes that alter the early action and are described by the LAO as “opaque and unnecessarily complicated.” The chart on the next page depicts this proposal. Under the May Revision, CSU would see about a 1% dip in General Fund support in 2024-25 compared to the current year, but ongoing support would

grow by about 2% in 2025-26. CSU has stated it will use reserves and cut costs, such as not filling vacancies or postponing maintenance projects. CSU warns that timely services for students could lessen and class sizes could grow in the next two years as it faces increasing cost pressures and less state funding than previously anticipated. Discussion at the May 16th hearing raised questions about how the proposals would impact collective bargaining agreements with several CSU labor unions, which have clauses that could nullify compensation agreements if CSU funding is reduced.

The previous increases were part of a 5-year compact signed between CSU and the Governor, which called for growing annual support in exchange for annual 1% enrollment growth and progress on several other priorities, ranging from improving graduation rates to increasing affordability and improving pipelines to high-demand careers. CSU officials have said they remain committed to the goals of the compact, but it is unclear what costs are associated with each goal, and how the university will successfully address the goals with less state funding than anticipated. Staff notes that the Legislature was not a party to the compact.

	2024-25
Governor's Budget, CSU Funding^a	\$4,988.8
May Revision base reduction ^b	-75.0
May Revision increase ^c	5.5
May Revision Total	\$4,919.3
Change from prior year	-1.4%
	2025-26
Base restoration ^b	\$75.0
Base reduction ^b	-396.6
Compact base increases	
Year 3 deferred increase ^d	240.2
Year 4 increase	252.3
One-time back payment ^d	240.2
May Revision Total	\$5,330.5
Change from prior year	8.4%

^a Reflects CSU's main budget appropriation, excluding retiree health benefits and certain CalPERS cost adjustments.

^b The May Revision proposes a 7.95 percent reduction to state operations for most state departments. For the universities, the May Revision proposes implementing part of their associated reduction in 2024-25, with the full reduction implemented in 2025-26. For the universities, the reduction is applied to their main General Fund appropriation, which supports administration as well as campus operations. The amount shown for 2025-26 is an estimate provided by the Department of Finance, reflecting 7.95 percent of CSU's 2024-25 base funding as of Governor's budget.

^c The May Revision includes \$5.5 million to implement recent legislation that expanded eligibility for a tuition fee waiver applying primarily to the dependents of certain veterans.

^d In addition to the ongoing increases proposed for 2025-26, the Governor proposes one-time back payments to cover funding deferred in 2024-25.

^e Under the May Revision, ongoing General Fund for CSU would increase by \$96 million (1.9 percent) from 2024-25 to 2025-26.

The Subcommittee has spent considerable time this Spring discussing the potential of cuts. CSU reports about \$361 million in unspent funding from about 25 appropriations from the past few years. At the May 16th Subcommittee hearing, CSU suggested an unallocated cut would allow campuses the most flexibility in determining reductions.

Enrollment. CSU received significant enrollment growth funding in 2022-23 and 2023-24 and seems likely to hit its enrollment target in 2023-24, although the LAO has noted that CSU is about 5% below historic enrollment targets. CSU intends to make up the lesser enrollment and meet its historic enrollment target by 2026-27, as the chart shows. CSU is beginning a process in the 2024-25 budget year to shift some enrollment funding from campuses with less demand to campuses with higher demand. The Subcommittee may wish to consider a 2025-26 enrollment target for CSU to ensure enrollment growth continues.

	2021-22	2022-23	2023-24*	2024-25*	2025-26*	2026-27*
CA Resident FTES Target	374,246	383,680	387,114	390,582	394,085	397,623
Planned FTES Target Increase (New Undergraduate Growth)		2.5%	1.0%	1.0%	1.0%	1.0%
CA Resident FTES Actual	374,972	362,254	368,042	376,794	387,091	397,823
Planned Annual FTES Change			1.6%	2.4%	2.7%	2.8%

*Projected

California Community Colleges

Base Funding. The Governor's Budget and May Revision rely on a funding maneuver that borrows General Fund from the future to backfill for revised cuts to the 2022-23 Proposition 98 budget. The May Revision accrues an additional \$102.2 million in prior-year CCC payments to future years (for a total of \$1.0 billion attributed to CCC). The impact of the maneuver would continue to occur entirely on the non-Proposition 98 side of the budget beginning in 2025-26.

The maneuver allows colleges to avoid cuts to 2022-23 appropriations, but discussion in the Subcommittee this Spring has raised significant concerns about the proposal. While the May Revision sweeps about \$262.9 million in unspent funds from programs (part-time faculty health insurance funds from 2022-23, apportionment funds from 2022-23, Strong Workforce program funds from 2021-22, Student Success Completion Grant funds from 2022-23, and Classified Employee Summer Assistance Program funds from 2022-23), the LAO has identified an additional \$600 million in unspent funds that could be swept to address the 2022-23 deficit. Staff notes the Subcommittee has received numerous letters from districts urging against further cuts to the Strong Workforce program, as many districts and regions have plans for spending appropriated funds.

The May Revision also increases the amount of reserves withdrawn to fund 2023-24 and 2024-25 CCC apportionments costs from \$722.1 million in January to about \$985 million at the May Revision. This allows the Administration to support a 1.07% cost-of-living adjustment (COLA) for apportionments (\$100.2 million) and select categorical programs (\$13.1 million.) Subcommittee discussion has centered on the problem of using one-time funding sources such as reserves to support ongoing costs.

New programs. The May Revision includes support for four new programs with one-time funds. The proposals are:

- \$12 million to expand eTranscript California.
- \$12 million to support a common cloud data platform demonstration project.
- \$6 million to expand credit for prior learning programs.
- \$5 million to support a program that supports low-income workers in community college pathways programs.

Staff notes the Subcommittee has received information on the final proposal, which would support a partnership between the CCC Chancellor's Office and the United Domestic Workers union in supporting UDW members accessing community college programs. The program has begun in the San Diego and North Orange districts, and funding would allow it to expand to 12 more districts and offer advising, technology, and specific student services to up to 1,500 students. The Subcommittee has received very little information regarding the other three proposals.

Nursing Expansion. The Governor’s Budget includes \$60 million one-time Proposition 98 General Fund to expand community college nursing programs. The proposal is pursuant to an agreement in the 2023 Budget Act. Discussion in Subcommittee focused on differing regional demand for more nurses, the growth in partnerships between community colleges and universities to offer nursing bachelor’s degrees, interest in allowing community colleges to offer nursing bachelor’s degrees, and ways to address long-standing challenges to expanding nursing programs, such as a shortage of nursing faculty and a shortage of available placements in clinical settings to allow nursing students practical experiences. The Administration has indicated it is seeking legislative feedback in developing the details of the proposal.

Student Housing State Lease Revenue Bond. Per agreement in the 2023 Budget Act, the state will issue lease revenue bonds to support 13 community college student housing projects that were originally supported with cash. Trailer bill language authorizing the state Public Works Board to issue \$804.7 million in lease revenue bonds was released on May 15. The Subcommittee is anticipating feedback from community college stakeholders regarding this proposal.

California Student Aid Commission

Cal Grant Reform. The Department of Finance states in the May Revision that it does not believe there is sufficient funding available to launch Cal Grant Reform, which was agreed to in the 2022 Budget Act but subject to a trigger this May. The Administration does not support turning the trigger on. The reform will simplify and modernize the program, eliminate outdated barriers to Cal Grant for low-income students and allow as many as 137,000 more low-income California students to be newly eligible. The reform allows for a cost-of-living adjustment for community college Cal Grant recipients, and covers all four years of tuition for university students. The California Student Aid Commission estimates the reform will cost \$195 million ongoing, with additional one-time funds needed during the first four years of implementation.

Given the state’s budget condition, the Subcommittee has discussed options for partial implementation. Because financial aid programs operate on a two-year basis – with students applying for aid in one year, and receiving aid in the next – additional funding would not be needed until 2025-26 at the earliest. CSAC has developed several options that could lower costs by phasing in the full program, including continuing a 2.0 GPA requirement for community college students. The 2.0 GPA requirement is part of the current program and continuing this requirement would allow the program to begin with new costs of \$108 million one-time General Fund, and lesser costs the next few years.

The May 16th Subcommittee hearing included discussion of whether there will be savings in the Cal Grant program in 2024-25, due to problems this year implementing a new federal financial aid form (FAFSA), and whether those savings could be captured to help support the reform.

Middle Class Scholarship. The Governor's Budget proposed foregoing a planned \$289 million one-time General Fund augmentation that would have allowed the program to continue supporting about one-third of students' total cost of attendance. The May Revise continues that proposal and proposes a significant cut in ongoing funding. Combined, the two proposals would reduce the program from \$847 million in the current year to \$100 million in 2024-25. Students would see a dramatic reduction in awards. UC notes that its students would go from receiving an average of \$2,700 in 2023-24 to \$300 in 2024-25.

Discussion at the May 16th hearing focused on the fact that most recipients of this award have already received financial aid award letters from their campuses that assumed the January level of funding. Thus this cut would reduce students' state financial aid just a month or two before the start of the academic year.

Golden State Teacher Grants. The Golden State Teachers Grant Program was authorized in the 2019-20 Budget Act, to fund scholarship awards to aspiring teachers in high need fields and incentivize those new teachers to serve in high need public schools. The 2021-22 Budget Act made a \$500 million one-time General Fund investment in the program. Recipients receive up to \$20,000 to support their costs in receiving a teaching credential. The May Revision proposes pulling back \$60.2 million from the program, leaving it with about \$50 million. While the Administration believes that the remaining funds could allow the program to continue in 2024-25, current usage rates suggest that may not be the case. In addition, CSAC noted at the May 16th Subcommittee hearing that because some recipients receive the award in increments over multiple years, the reduced funding may not be enough to support existing students in the program.

Proposes trailer bill language intended to stretch the available funds further by making the following changes: (1) Reducing the maximum award amount from \$20,000 to \$10,000; (2) Reducing the service requirement from 4 years to 2 years, with conforming changes to the time frame for completing the requirement and repayment amounts; (3) Establishing income eligibility requirements aligned with the Pell Grant program; (4) Removing eligibility for students in intern credential programs.

California Student Aid Commission Spending Proposals Under Governor’s Budget and May Revision

General Fund Changes, 2024-25 (In Millions)

	Governor’s Budget	May Revision	Change
Ongoing Spending			
Cal Grant baseline adjustments ^a	\$148	\$88	-\$61
Middle Class Scholarship (MCS) reduction	—	-510	-510
MCS baseline adjustment ^a	16	-7	-23
Employee compensation adjustments	— ^b	— ^b	—
Subtotals	(\$164)	(-\$429)	(-\$593)
One-Time Initiatives			
Golden State Teacher Grants ^c	\$128	\$50	-\$78
Subtotals	(\$128)	(\$50)	(-\$78)
Totals	\$292	-\$379	-\$671

^a Adjustments are relative to 2023-24 spending as reflected in Governor’s January budget.

^b Less than \$500,000.

^c The 2021-22 Budget Act appropriated \$500 million to be spread over 2021-22 through 2025-26. The amount shown reflects anticipated spending in 2024-25. The May Revision reflects a \$60 million proposed reduction, along with an \$18 million downward adjustment due to higher-than-expected spending in 2023-24 (leaving less funding available in 2024-25).

California State Library

Proposed reductions. The May Revision proposes multiple cuts to library programs, and adjusts one proposal from January. While the Governor’s Budget proposed pulling back \$131 million one-time General Fund from a program to support local library infrastructure projects, the May Revision reduces the amount pulled back to about \$4 million, which is the amount left unencumbered in the program. The May Revision also proposes other reductions:

- It would eliminate state funding for the Lunch at the Library program, which provides federally-subsidized school lunches at libraries during the summer. The proposal would cut \$5.5 million ongoing General Fund.
- It would reduce funding for the Dolly Parton Imagination Library by \$40 million one-time General Fund. The action would leave about \$18 million in the program, which provides free books to children under age 5.
- It would reduce support for the California Library Services Act by \$1.8 million ongoing General Fund, leaving the program with about \$1.8 million ongoing General Fund. The Act supports shared local library programs, allowing libraries to share books and eBooks and eMagazine subscriptions.

The Subcommittee has received letters in support of the Lunch at the Library program, the California Library Services Act funding, and for online tutoring and workforce development programs that are set to run out of funding in June.

Staff notes that one Governor's Budget proposal – to pull back \$34 million one-time General Fund from an underused program to improve broadband connections to local libraries – was agreed to in the April early action package.

UC College of the Law San Francisco

Operational Cut. The May Revision continues a Governor's Budget proposal to provide a \$2.1 million ongoing General Fund increase in 2024-25, but then proposes to reduce funding for the college by \$2.2 million ongoing General Fund in 2025-26, as part of the 7.95% operational cut proposed for state agencies and departments. While the LAO noted in the May 16th hearing that this proposal would be simpler if the state did not provide an increase in 2024-25, the college argued the proposal would allow the college time to reduce costs or increase tuition for the 2025-26 year.

Scholarshare Investment Board

CalKIDS Program Cut. The May Revision proposes eliminating \$5 million ongoing General Fund that was designated for financial literacy outreach through the CalKIDS college savings program. The funding was first provided in 2022-23, but Scholarshare noted that it has been slow to implement the program because of the significant effort needed to launch the effort. Staff notes the LAO has identified \$9.5 million in unspent funds from this program, as well as potentially \$17 million in additional unspent funds from previous years. The Subcommittee has also received a request to expand the program to allow more foster youth to become eligible for college savings accounts.