

# California State Assembly



## Assembly Budget Agenda

### Subcommittee No. 3 on Education Finance

Assemblymember David A. Alvarez, Chair

Tuesday, February 18, 2025

9:30 A.M. – State Capitol, Room 447

## Informational Hearing

- I. Welcome, Introductions and Opening Statements**
- II. Governor's Budget Overview**
  - Gabriela Chavez, Devin Mitchell, Justin Hurst, Department of Finance
  - Jennifer Pacella, Legislative Analyst's Office
- III. Segment Leaders' Perspectives**
  - Sonya Christian, Chancellor, California Community Colleges
  - Mildred Garcia, Chancellor, California State University
  - Michael Drake, President, University of California
- IV. Public Comment**
- V. Adjournment**

**6400 University of California**  
**6610 California State University**  
**6870 California Community Colleges**

**Issue 1: Current Higher Education Issues and Governor's Budget Overview**

The Subcommittee will discuss the Governor's Budget proposals for the University of California (UC), California State University (CSU), and the California Community Colleges (CCC), and hear perspectives from the segment leaders and the public.

**Background**

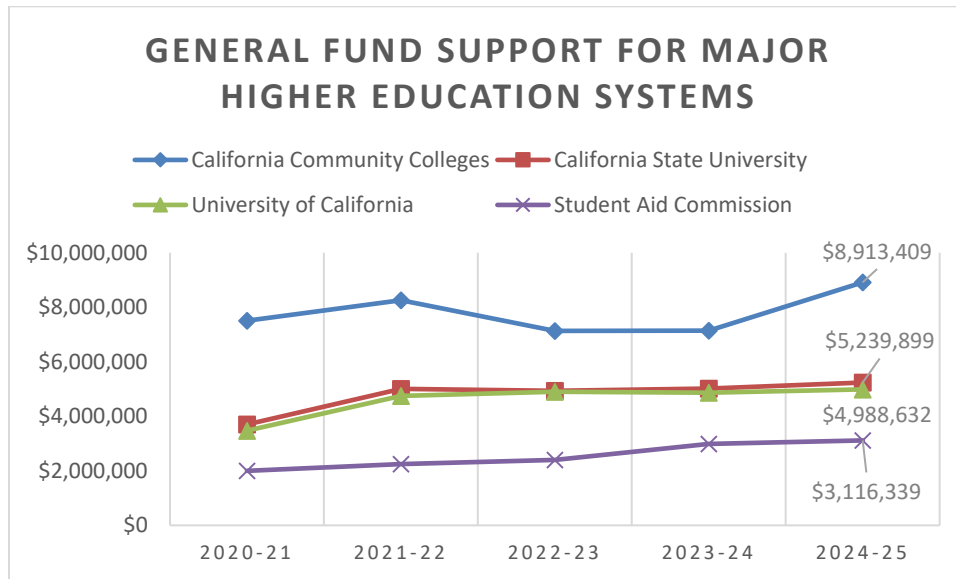
The final 2024 Budget Act averted state General Fund reductions for California public universities and student financial aid, allowing for 5 percent increases for both UC and CSU to support enrollment growth, improved student outcomes and rising operational costs. Community colleges, which are supported by Proposition 98 General Fund, received a small (1.07 percent) cost-of-living adjustment and support for some (0.5 percent) enrollment growth. The augmentations allowed the Legislature to continue to support its key higher education priorities of access and affordability.

This year, however, California higher education faces numerous challenges that present difficult choices for the Legislature. Increased state funding in the last budget act for universities and student aid were coupled with deferrals and cuts intended for the 2025-26 fiscal year. The cuts to UC and CSU, as proposed in the Governor's Budget as part of a statewide reduction impacting most state agencies and departments, would constitute the largest ongoing decreases to universities since the Great Recession. Compounding these cuts are inflationary cost increases, reasonable demands from employees for higher compensation, and actions or proposed actions from the Trump Administration that could dramatically reduce federal support for both campuses and students. While both UC and CSU have recently adopted tuition increases for students that is bringing in more revenue, campuses simultaneously face constrained budgets, higher costs, and a chaotic and threatening federal landscape.

And while the Administration's expectations are to pay back the UC/CSU deferrals over a two-year period, overall General Fund projections indicate multi-billion dollar General Fund deficits in those out years.

The charts on the next page indicate recent General Fund support for the main higher education programs, and recent enrollment trends at the three segments. (As the enrollment chart indicates, enrollment has fluctuated at all three segments during and after the COVID-19 pandemic.) This hearing is intended to kick off Spring budget discussions, which will likely focus on weathering fiscal uncertainty and protecting priorities, ranging from ensuring that access is available to students where there is demand, financial aid is used effectively and efficiently, and

support programs for students remain strong. This agenda will recap previous budget actions, summarize the Administration’s proposals for 2025-26, and provide some issues for the Subcommittee to consider as it begins deliberations.



FTE CA Undergraduate Enrollment	2020-21	2021-22	2022-23	2023-24	2024-25*
UC	200,076	195,861	197,111	203,649	209,858
CSU	353,262	335,726	326,022	333,608	332,370
CCC	1,149,664	1,065,592	974,383	1,008,567	

\*2024-25 enrollment numbers are estimated for UC and CSU, and not yet available for CCC

**2024 Budget Act supported ongoing costs and enrollment growth, but proposed significant deferrals and cuts in 2025.** The final 2024 Budget Act provided additional funding to the segments, but also included intent language to reduce funding for UC and CSU in 2025-26. Higher education actions from last year included:

- *Ongoing Increases and one-time cuts.* 5% increases in ongoing General Fund support for both UC and CSU, marking the third year of 5% increases in accordance with the Administration’s compact with both segments. UC received a \$227.8 million increase, while CSU received \$240.2 million.

The Newsom Administration announced five-year agreements, or compacts, with all three segments in 2022 that included ongoing funding increases in conjunction with specific goals or activities. Most notably, the compacts with UC and CSU require 1 percent enrollment growth each year. Other compact goals include improving graduation rates, reducing costs for students, and increasing online course offerings. The compacts were not agreed to by the Legislature, and spending increases must be determined by the Legislature annually in the Budget Act.

These ongoing increases were paired with one-time cuts, however, with UC receiving a \$125 million cut and CSU receiving a \$75 million reduction. Overall General Fund support grew by nearly 6 percent for UC and 3 percent for CSU.

- *Future ongoing cuts and deferrals.* Budget language stating intent to defer planned 5% ongoing General Fund increases for UC and CSU in 2025-26. Specifically, a \$272 million ongoing General Fund increase for UC originally planned for 2025-26 would be deferred until 2026-27, and a \$252 million ongoing General Fund increase for CSU planned for 2025-26 would be deferred to 2026-27. UC and CSU also were included in statewide operational cut of up to 7.95% in 2025-26.
- *COLA, deferral and reserves.* A cost-of-living adjustment (COLA) of 1.07% for CCC, which amounted to \$100.2 million Proposition 98 General Fund. Some categorical programs also received the COLA. Like the TK-12 system, the community college budget also relied on using Proposition 98 reserves and a deferral, deferring 246.7 million Proposition 98 General Fund from 2024-25 to 2025-26.
- *Enrollment targets for all three segments.* UC was required to increase California undergraduate enrollment by 2,927 full-time equivalent students (FTES) in 2024-25 when compared to 2023-24, CSU was required to increase California undergraduate enrollment by 6,338 FTES in 2024-25 when compared to 2023-24, and CCC received funding to support 0.5% enrollment growth, or about 5,500 FTES. UC also was required to continue a program that is replacing nonresident students with California students at the Berkeley, Los Angeles and San Diego campuses, although the budget included language stating intent to defer funding for this program in 2025-26 to 2026-27.
- *Preserved several programs.* Rejected proposed cuts to several programs, including the UC Labor Centers, the UCLA Latino Policy and Politics Institute – Latina Future 2050 Lab and the CSU Immigration Legal Services Project.

### Governor's 2025-26 Budget Proposals

The Governor's Budget reduces overall General Fund support for higher education by about 2%, or \$360 million, although reductions are concentrated at UC and CSU, while Student Aid Commission spending is flat and community colleges experience slight increases. The charts on the next page are produced by the LAO. Overall funding for each of these systems is impacted by state cuts and augmentations, as well as changes in other revenue sources. For example, CSU receives increased state funding for pension and retiree health care benefits, which are driven by formula, which offset some of the base funding decreases, and ongoing community college funding is available in 2025-26 as one-time spending from previous years

expires. In addition, as the second chart indicates, both UC and CSU are receiving increased revenue due to tuition hikes, and community colleges benefit from higher property tax revenue.

Figure 1

**Total General Fund Support for Higher Education Declines Somewhat in 2025-26**

Ongoing General Fund (Dollars in Millions)

	2023-24 Revised	2024-25 Revised	2025-26 Proposed	Change From 2024-25	
				Amount	Percent
CCC	\$7,955	\$9,689	\$9,722	\$33	0.3%
CSU	5,391	5,526	5,403	-122	-2.2
UC	4,717	4,858	4,587	-272	-5.6
CSAC	2,468	2,729	2,730	1	—
<b>Totals</b>	<b>\$20,532</b>	<b>\$22,802</b>	<b>\$22,442</b>	<b>-\$360</b>	<b>-1.6%</b>

Note: Amounts reflect Governor’s new proposals, as well as reductions applied pursuant to Control Section 4.05 and Control Section 4.12 of the 2024-25 Budget Act. The CCC amounts consist of Proposition 98 General Fund and non-Proposition 98 General Fund. In 2023-24, CCC received \$788 million in Proposition 98 Reserve funds on top of the amount shown. All other amounts are non-Proposition 98 General Fund.

CSAC = California Student Aid Commission.

Figure 2

**Increases in Other Core Funds Help Mitigate General Fund Reductions**

Ongoing Core Funds (Dollars in Millions)

	2023-24 Revised	2024-25 Revised	2025-26 Proposed	Change From 2024-25	
				Amount	Percent
<b>CCC</b>					
General Fund <sup>a</sup>	\$7,410	\$9,048	\$9,041	-\$6	-0.1%
Local property tax <sup>a</sup>	4,070	4,304	4,538	233	5.4
Additional General Fund <sup>b</sup>	545	641	681	39	6.1
Additional local property tax <sup>b</sup>	454	481	509	27	5.7
Student fees	482	482	484	2	0.3
Lottery	364	316	316	—	—
Subtotals	(\$13,324)	(\$15,273)	(\$15,569)	(\$295)	(1.9%)
Proposition 98 Reserve	\$788	—	—	—	—
<b>Totals</b>	<b>\$14,111</b>	<b>\$15,273</b>	<b>\$15,569</b>	<b>\$295</b>	<b>1.9%</b>
<b>CSU</b>					
General Fund <sup>d</sup>	\$5,391	\$5,526	\$5,403	-\$122	-2.2%
Student tuition and fees	3,267	3,477	3,665	188	5.4
Lottery	83	76	76	— <sup>c</sup>	0.3
<b>Totals</b>	<b>\$8,741</b>	<b>\$9,078</b>	<b>\$9,144</b>	<b>\$66</b>	<b>0.7%</b>
<b>UC</b>					
General Fund	\$4,717	\$4,858	\$4,587	-\$272	-5.6%
Student tuition and fees	5,268	5,498	5,740	241	4.4
Lottery	65	59	59	—	—
Other <sup>e</sup>	409	401	401	—	—
<b>Totals</b>	<b>\$10,460</b>	<b>\$10,817</b>	<b>\$10,787</b>	<b>-\$30</b>	<b>-0.3%</b>

<sup>a</sup> Funds that count toward the Proposition 98 minimum guarantee. Excludes Proposition 98 Reserve funds.

<sup>b</sup> "Additional General Fund" refers to non-Proposition 98 funds for CCC state operations, certain pension costs, and debt service. "Additional local property tax" refers to "excess" revenue for basic aid districts that does not count toward the Proposition 98 minimum guarantee.

<sup>c</sup> Less than \$500,000.

<sup>d</sup> Includes funding for pensions and retiree health benefits.

<sup>e</sup> Includes a portion of overhead funding on federal and state grants and a portion of patent royalty income.

Specific Governor's Budget proposals for UC and CSU include:

- A deferral of the 5 percent base increases for UC (\$241 million ongoing General Fund) and CSU (\$252 million ongoing General Fund). Under the Governor's plan, the segments would receive a 5 percent ongoing General Fund increase in 2026-27, plus a one-time back payment for the 2025-26 deferral, before receiving the deferred 2025-26 funding as ongoing in 2027-28.
- A deferral of \$31 million ongoing General Fund for UC in the fourth year of a five-year plan to replace nonresident students with California students at the Berkeley, Los Angeles and San Diego campuses. This deferral is treated in the same manner as the other deferrals, with an ongoing payment in 2026-27 and a one-time back payment, while receiving the deferred ongoing funding in 2027-28.
- Ongoing General Fund cuts of \$397 million to UC and \$375 million to CSU as part of the state operations reductions first agreed to in the 2024 Budget Act. The cuts are partially mitigated, however, because the one-time cuts to UC (\$125 million General Fund) and CSU (\$75 million General Fund) from 2024-25 are restored in 2025-26. Thus, base reductions for the segments could be considered as \$272 million ongoing General Fund for UC and \$300 million for CSU.

The charts on the next page compiled by LAO depict the next three years of state base funding for UC and CSU under the Governor's Budget. As the charts indicate, the proposal calls for wildly fluctuating funding over the next three years, with reduced state support in 2025-26, and increasing support in the next two years after that.

### Changes to UC's Base Funding Over Next Three Years

Reflects Multiyear Assumptions Under Higher Education Budget Plan, General Fund (Dollars in Millions)

	2025-26 Year 4 <sup>a</sup>	2026-27 Year 5 <sup>a</sup>	2027-28
<b>Ongoing Changes</b>			
Base reduction	-\$397		
Deferral of year 4 base increase <sup>b</sup>			\$241
Deferral of year 4 nonresident replacement funding <sup>b</sup>			31
Anticipated year 5 base increase		\$254	
Anticipated year 5 nonresident replacement funding		30	
<b>One-Time Back Payments</b>			
Base costs		\$241	\$241
Nonresident replacement costs		31	31
<b>One-Time Adjustments<sup>c</sup></b>			
	\$125		-\$272
<b>Total</b>	<b>\$4,587</b>	<b>\$5,142</b>	<b>\$5,413</b>
Change from previous year	-5.6%	12.1%	5.3%

<sup>a</sup> In 2025-26, the Governor will be entering year 4 of his compact with the UC President. The fifth and final year of this compact is 2026-27. A new governor will take office in 2027-28.

<sup>b</sup> The Governor proposes to defer the year 4 base increase and nonresident replacement funding from 2025-26 to 2027-28. In 2026-27, he proposes to provide a one-time back payment to 2025-26. In 2027-28, he proposes to provide a one-time back payment to 2026-27, while also providing the deferred base increase.

<sup>c</sup> In 2025-26, reflects the restoration of \$125 million one-time base reduction applied in 2024-25. In 2027-28, reflects removal of prior-year, one-time back payments.

### Changes to CSU's Base Funding Over Next Three Years

Reflects Multiyear Assumptions Under Higher Education Budget Plan, General Fund (Dollars in Millions)

	2025-26 Year 4 <sup>a</sup>	2026-27 Year 5 <sup>a</sup>	2027-28
<b>Ongoing Changes</b>			
Base reduction	-\$375		
Two-year deferral of year 4 base increase <sup>b</sup>			\$252
Anticipated year 5 base increase		\$265	
<b>One-Time Back Payments</b>			
Base costs		\$252	\$252
<b>One-Time Adjustments<sup>c</sup></b>			
	\$75		-\$252
<b>Total General Fund</b>	<b>\$5,403</b>	<b>\$5,921</b>	<b>\$6,173</b>
Change from previous year	-2.2%	9.6%	4.3%

<sup>a</sup> In 2025-26, the Governor will be entering year 4 of his compact with the CSU Chancellor. The fifth and final year of this compact is 2026-27. A new governor will take office in 2027-28.

<sup>b</sup> The Governor proposes to defer the year 4 base increase from 2025-26 to 2027-28.

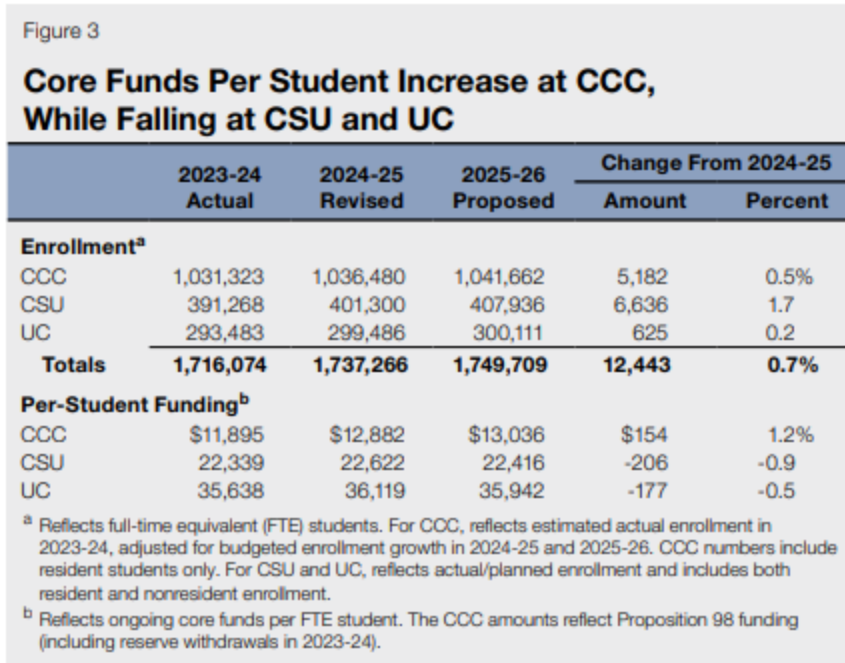
<sup>c</sup> In 2025-26, reflects the restoration of \$75 million one-time reduction applied in 2024-25. In 2027-28, reflects removal of prior-year, one-time back payment.

Other higher education proposals include:

- A reduction to the Middle Class Scholarship of \$109 million ongoing General Fund. Coupled with the expiration of one-time funding, support for the program will drop from \$925 million in 2024-25 to \$527 million in 2025-26. (Financial aid issues will be discussed at the March 4 Subcommittee hearing.)
- Support for a 2.43% COLA for CCC apportionments (\$230 million Proposition 98 General Fund) and some categorical programs, and for .5% enrollment growth, which is about 5,400 FTE students.
- Support for two large CCC information technology projects that would create a systemwide common cloud data system and standardized systemwide technology applications and administrative systems for districts. Combined, the two projects are proposed to receive \$302 million one-time Proposition 98 General Fund and \$29 million ongoing Proposition 98 General Fund.
- Support to expand credit for prior learning and to create a new Career Passport program, which are both related to the Administration's "Master Plan on Career Education" effort. The Governor's Budget provides \$7 million ongoing Proposition 98 General Fund and \$43 million one-time Proposition 98 General Fund to scale up the California Mapping Articulated Pathways Initiative, by supporting colleges' efforts to award units to students who have completed educational programs in different settings, such as the military. The Career Passport program would create an online resource for students to display educational and other certificates, awards and achievements that potential employers could use in hiring. The budget provides \$50 million one-time Proposition 98 General Fund for this program.
- A \$30 million ongoing Proposition 98 General Fund increase to support the Rising Scholars Network, which supports incarcerated and formerly incarcerated students, increasing ongoing funding to \$55 million. Accompanying trailer bill language would delete a limit on the number of colleges that receive funding for this program.

The chart on the next page was compiled based on LAO data and indicates ongoing core spending per FTES for the 2023-24, 2024-25 and 2025-26 fiscal years under the Governor's Budget proposal.





**Staff Comment/Suggested Questions**

The Subcommittee this year must balance its goals of increasing access and affordability in higher education with the reality of the state budget problem and uncertainty in Washington. The proposed cuts to UC and CSU are significant, and both segments are advocating for relief and warning of impacts to students. Against this funding challenge, segments face numerous other challenges, including statewide demographic changes that are impacting enrollment, higher costs, and continuing food and housing insecurity among students. Economic data continues to indicate that California will need more college degree recipients to support the economy, and the value of a college degree for individual families remains transformational. Among issues for the Subcommittee to consider this spring:

**UC and CSU are bearing a large proportion of the statewide operational reduction.** The Governor’s Budget scores \$1.4 billion in General Fund savings due to the reductions in statewide operations funding. With the one-time cuts to UC and CSU made in the current year restored, the ongoing reductions to UC and CSU (\$572 million) account for about 40 percent of those savings. The LAO notes that a key difference in the universities’ budgets when compared to other state agencies and departments may contribute to this large share of the cut. Unlike most other departments, the state provides both segments with one large allocation, instead of breaking their budgets up into “state operations” and “local assistance.” Thus all university spending at both the system and campus levels are designated as state operations. Applying a flat percentage reduction to state operations funding for the universities therefore results in a much more sizeable cut than other departments and agencies. A more apples-to-apples

approach could reduce funding for the UC Office of the President and the CSU Chancellor's Office, and possibly campus administration.

***UC and CSU face deficits and are making cuts now.*** Even as the state increased funding for UC and CSU during the past several years, and as tuition revenue has grown, campuses have struggled to balance their budgets amid rising costs. Many UC campuses are making reductions this year. All CSU campuses are in deficit, and several campuses that have suffered significant enrollment declines appear to be in crisis. Sonoma State University, for example, announced in January that it would lay off tenured faculty, cancel some majors and end its entire athletics program.

In addition, reserves appear to be tight. According to the LAO, as of June 30, 2024, CSU reported \$2.4 billion in total core reserves. Of that amount, \$777 million is reserved for economic uncertainties, which equates to 34 days of operations (or 9.1 percent of total annual core operating expenditures). UC reported \$1.5 billion in total core reserves. Of that amount, \$155 million is reserved for economic uncertainties. This amount equates to six days of operations (or 1.6 percent of total annual core operating expenditures).

***Administration's intent to pay back deferrals may be difficult, given state's budget situation.*** As the charts on page 7 of this agenda indicate, the Administration plans to pay back UC and CSU for the deferred 5 percent increase, and provide a final 5 percent pay increase, in the two years following 2025-26. Staff notes that the plan would require \$1.6 billion in new ongoing General Fund by 2027-28, when there will be a new Governor. This large increase could be difficult, given budget forecasts that show a nearly \$20 billion General Fund deficit in 2027-28.

***Students and segments face numerous challenges under Trump Administration.*** Numerous proposed moves by the Trump Administration could have significant negative impacts on California higher education. Notably, amid proposals for mass deportations, campuses report that some students who are eligible for federal aid but may have an undocumented family member are hesitating to complete the Free Application for Federal Assistance, or FAFSA, which provides family information to the federal government. According to information from the Student Aid Commission, as of Feb. 3, there were about 166,000 fewer FAFSA submissions at this point in the 2025-26 FAFSA cycle when compared to the 2023-24 cycle. Applications for the California Dream Act, which provides Cal Grant and other state and institutional aid for students not eligible for federal aid, are also down. (The UC Student Association sued the Trump Administration this month to prevent the newly-created Department of Government Efficiency from accessing student loan and financial aid information.) The president's threat to abolish the Department of Education, which administers the Pell Grant and work-study programs, poses numerous questions about the future of federal financial aid. California students receive more than \$4 billion in Pell Grants annually.

Additionally, several Trump Administration proposals would reduce federal funding for research. Earlier this month the administration announced it would cut the amount of National Institutes of Health (NIH) funding that universities and colleges can use to support laboratory and other ongoing operational costs. UC reports it receives about \$2 billion in NIH funding, while CSU receives about \$158 million. (Private universities in California such as Stanford and the University of Southern California also receives significant federal research funding.) If enacted, the proposal would likely lead to hundreds of millions in cuts to California university research programs. California and 21 other states have sued to prevent this change.

***While enrollment demand remains strong for most UC campuses, community college and CSU enrollment demand varies widely by campus. How can the state and segments ensure that access is supported where demand is strongest?*** Staff notes that UC appears to have hit its 2024-25 state enrollment target, and the key UC enrollment issue remains the high demand and low admissions rates for several UC campuses. Six of the nine undergraduate-serving UC campuses admitted less than half of freshmen applicants in Fall 2024, including an 11 percent admission rate at Cal and a 9 percent admission rate at UCLA.

Enrollment is much more varied at CSU and community colleges. While some CSU campuses are growing and can meet state enrollment growth targets, many campuses lost significant enrollment during or even before the COVID-19 pandemic and are struggling to regain past enrollment levels. Preliminary 2024-25 undergraduate enrollment data suggests the CSU will not hit the target called for in the 2024 Budget Act. Most Northern California campuses are under-enrolled. The CSU has begun an effort to redirect some enrollment funding from declining-enrollment campuses to high-demand campuses. The Subcommittee may wish to focus attention this Spring on the disparate enrollment trends, and how state funding can help in-demand campuses enroll more students while also helping declining-enrollment campuses improve outreach or make other reforms to provide more access, or cut costs.

Like CSU, community colleges are seeing varying levels of enrollment demand. While 2024-25 enrollment will be better known later this Spring, data provided to the Legislature by the Chancellor's Office in October indicates that more than half of community college districts in 2023-24 are likely to be funded through enrollment protection mechanisms, meaning those districts will receive more enrollment funding than actual enrollment. At the same time, several districts suggest they are exceeding recent enrollment growth targets and are now underfunded based on their actual enrollment. The Subcommittee may wish to focus this Spring on this imbalance, and ensuring that state dollars are supporting access in ways that continue to incentivize growth.

***Governor's community college proposals focus on long-term IT infrastructure. Campuses and students may have more pressing short-term needs.*** With some new Proposition 98 General Fund available, the Governor's Budget spends most of the new funding on long-term projects that may not show benefits to campuses, students or the state for several years. Nearly \$400 million is earmarked for statewide technology improvements or the Career

Passport program, which will require significant efforts to ensure that higher education, industry and students all utilize this new tool. Meanwhile, community colleges, like universities, are facing higher operational costs, and students face the potential of less federal financial aid while still dealing with high housing and other living costs. The Subcommittee will have to weigh the Administration's long-term proposals against more immediate system and student needs.

Potential Questions:

- How will university campuses cope with reduced state funding? How can access and student support programs be protected?
- How are universities planning for the next three years, given the state's potential budget deficits?
- Do the universities plan to continue all activities related to the compacts, including enrollment growth, despite the cuts and deferrals proposed for 2025-26?
- With numerous CSU campuses facing significant deficits, what are creative solutions to increase revenue, decrease costs or become more attractive to potential students?
- What short-term community college and community college student needs are campuses facing? Are there student support or other programs that could benefit from increases?
- How long will the IT, Career Passport, and credit for prior learning proposals take to implement? What are future costs of these projects, for the state and districts?
- Based on current information, what is community college enrollment in 2024-25, and what is likely in 2025-26? How should the Legislature consider supporting unfunded enrollment in the community college system?
- What are the most significant areas in which reduced federal funding could impact universities, community colleges and students? Given the difficult state budget situation, how should the state respond?
- How are campuses working to support undocumented students, LGBTQ+ students, or other students potentially impacted by new Trump Administration policies?

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.