California State Assembly

Agenda

Assembly Budget Subcommittee No. 3
on Education Finance

Assemblymember David Alvarez, Chair

Tuesday, May 6, 2025
9:00 A.M. – State Capitol, Rm 447

ITEMS TO BE HEARD

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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

6440 University of California
6610 California State University
6870 California Community Colleges

Issue 1: Facilities Update

The Subcommittee will discuss higher education facilities issues, including capital outlay and deferred maintenance processes, funding and needs, and ideas for better addressing facilities needs in the future.

Panel 1

- Jennifer Pacella and Ian Klein, Legislative Analyst's Office

Panel 2

- Nathan Brostrom, University of California Office of the President
- Paul Gannoe, California State University Chancellor's Office
- Chris Ferguson, California Community Colleges Chancellor's Office

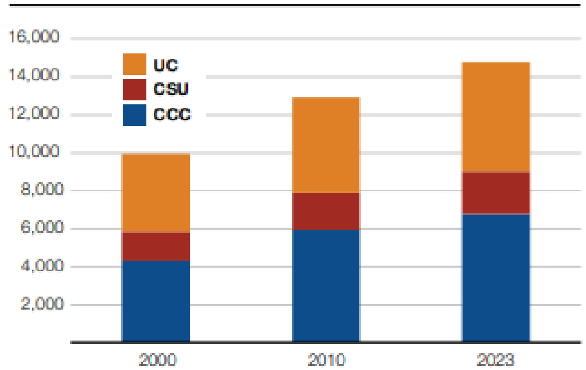
Background

The University of California (UC), California State University (CSU) and California Community Colleges (CCC) all manage millions of square feet of facilities at campuses across the state. According to a recent LAO report, *Trends in Higher Education: Facilities*, all three segments have expanded their physical footprint in the last two decades, as the charts on the next page indicate. The LAO will present their report to begin this hearing.

All three segments spend some portion of their annual budgets on facilities. For example, according to the Governor's Budget, CSU is spending about $1.3 billion on infrastructure, or about 10% of its core budget. All three segments use a variety of funds to support capital projects, including state funds, internal funds, and borrowing. Community colleges have the authority to seek bonding authority from local voters, while UC and CSU can issue systemwide lease revenue bonds.

Number of Buildings Continues to Increase at All Three Public Segments...

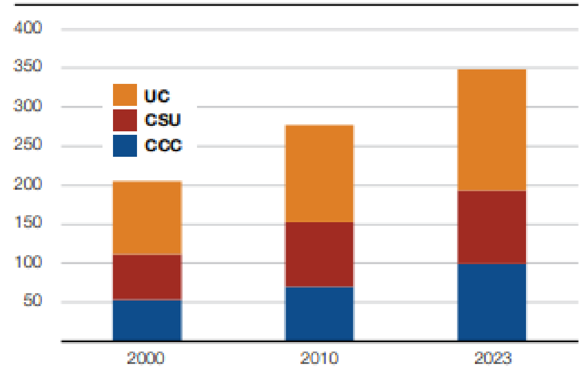
Number of Buildings



Note: In the first bar, the CCC and UC data are from 2000, whereas the CSU data are from 2003. In the third bar, the UC data are from 2022.

...As Does Amount of Physical Space

Gross Square Footage of All Facilities (In Millions)



Note: In the first bar, the CCC and UC data are from 2000, whereas the CSU data are from 2003. In the third bar, the UC data are from 2022. In addition to their main campuses, all three segments operate at other locations, such as off-campus centers and district offices. At CSU, these locations comprise less than 1 percent of overall square footage. At CCC, these locations comprise less than 10 percent of overall square footage. Comparable data is not readily available for UC.

State has used multiple strategies to support higher education capital needs. The last general obligation bond for universities was nearly 20 years ago. The state sells general obligation bonds to receive up-front funding for project costs. It then repays these bonds with interest over a period of time (typically about 35 years) using non-Proposition 98 General Fund. Under the State Constitution, voters must approve general obligation bonds. From the 1980s through 2006, the Legislature routinely placed on the ballot bonds for public elementary, secondary, and postsecondary education, with most bonds earning voter approval. In 2006, voters approved Proposition 1D, authorizing the sale of $10.4 billion in general obligation bonds of which about $3.1 billion was earmarked for higher education facilities. Of this amount, $1.5 billion was provided for CCC facilities, $890 million was provided for the UC, and $690 million was provided for the CSU.

All Proposition 1D higher education facilities funds have since been depleted, and no new general obligation bonds supporting UC and CSU facilities have been approved. Community colleges have received state bond funding twice in the last eight years as part of K-14 bonds approved by voters. Proposition 51 in 2016 provided $2 billion for colleges' capital outlay, and 2024's Proposition 2 provided $1.5 billion. Proposition 13 in 2020 called for issuing $15 billion in bonds to support K-12 and all three higher education segments, but that bond was rejected by voters.

In the absence of bond funding, budget actions taken in 2013 and 2014 sought to help support UC and CSU capital outlay. Under this system, UC and CSU are authorized to sell university bonds and use a portion of its annual state appropriation to cover associated debt service. Since this new system has been in place, the state has given UC authority to finance $4 billion in facility projects using university bonds and CSU about $4.8 billion, according to the LAO. Trailer bill language adopted in the budget allow UC to spend up to 15 percent of its General Fund support budget on capital outlay, while CSU is allowed to spend up to 12 percent.

Finally, in recent years, the state has approved capital outlay projects for the universities and community colleges and agreed to support debt service costs with ongoing General Fund. The state is providing debt service support for student housing projects at UC and CSU, and is issuing state lease revenue bonds to support CCC student housing projects. The state is also supporting several capital projects at UC and CSU, including new buildings on the UC Merced and UC Riverside campuses, as well as projects for Cal Poly Humboldt, CSU San Bernardino's Palm Desert Center, and San Diego State's Brawley Center.

The Governor's Budget provides UC with $84 million ongoing General Fund to support bond costs associated with eight student housing projects, and three other capital projects. The Governor's Budget provides CSU with $99.7 million ongoing General Fund to support 12 student housing projects and eight other capital projects. The Governor's Budget also provides $1.3 million ongoing General Fund to support state bond costs for community college projects, although this number will increase in future years as more bonds are sold.

All three segments have capital planning processes and report to the Legislature. The UC, CSU and CCC governing boards all approve multi-year capital outlay plan, based on system and campus priorities and long-term plans, and all submit routine reports to the Legislature on plans. Below is a brief summary of each segment's current plan:

- *UC Capital Financial Plan*. The 2023-29 UC Capital Financial Plan was approved by the UC Board of Regents in November 2023 and details $30 billion in capital outlay projects planned for the next five years. The plan notes that projects are driven by system and campus strategic and academic plans, as well as long range development plans. A key driver in UC planning is enrollment growth, with UC in the middle of a 10-year plan to add 23,000 more students by 2030. Other issues like seismic safety requirements, aging buildings, and energy efficiency also inform capital outlay planning.

  UC identifies $46.7 billion in proposed projects that are needed but do not have a funding source.

- *CSU Five-Year Capital Outlay Plan.* The CSU Board of Trustees adopted the Five-Year Plan covering the period from 2025-2026 through 2029-2030 in September 2024. The plan totals over $30.9 billion in academic and self-support projects, with the total for 2025-26 at $4.9 billion, including $1.4 billion in deferred maintenance projects and $740 million in infrastructure improvement projects. The report notes that projects in the current plan focus on addressing critical infrastructure deficiencies, renovation or replacement of obsolete or deficient buildings, and growth projects particularly in the areas of allied health and science, technology, engineering, and math (STEM) programs.

CSU's plan identifies $30.9 billion in unfunded capital projects.

- *CCC Five-Year Capital Outlay Plan.* The CCC Board of Trustees approved a plan covering the period from 2025-26 through 2029-30 in November 2024. The plan totals $28.3 billion in projects, including $5.7 billion for construction of new facilities for enrollment growth and $22.6 billion for modernization of existing facilities.

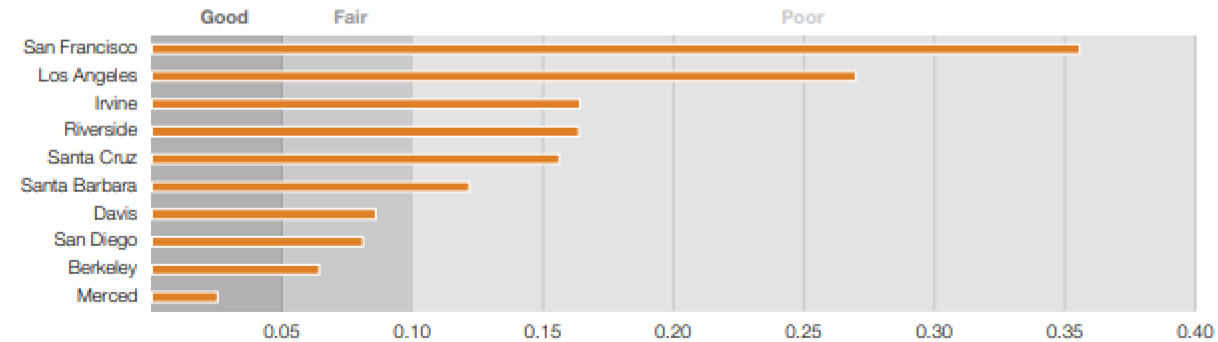
  The Community Colleges' Five-Year Plan notes more than $33 billion in unmet need.

Deferred maintenance continues to be an issue. All three segments report a significant number of older buildings, and all three have struggled to provide proper maintenance of these buildings. The LAO notes that roughly 30 percent of UC and CSU buildings were constructed before 1970, and nearly 40 percent were constructed from 1970 through 1999.

All three segments report a significant backlog in addressing building maintenance issues: UC reports $8.5 billion in unfunded deferred maintenance, CSU lists a $7.4 billion backlog, and CCC's maintenance backlog is about $2 billion. The LAO charts on the next page indicate facility conditions at UC and CSU.

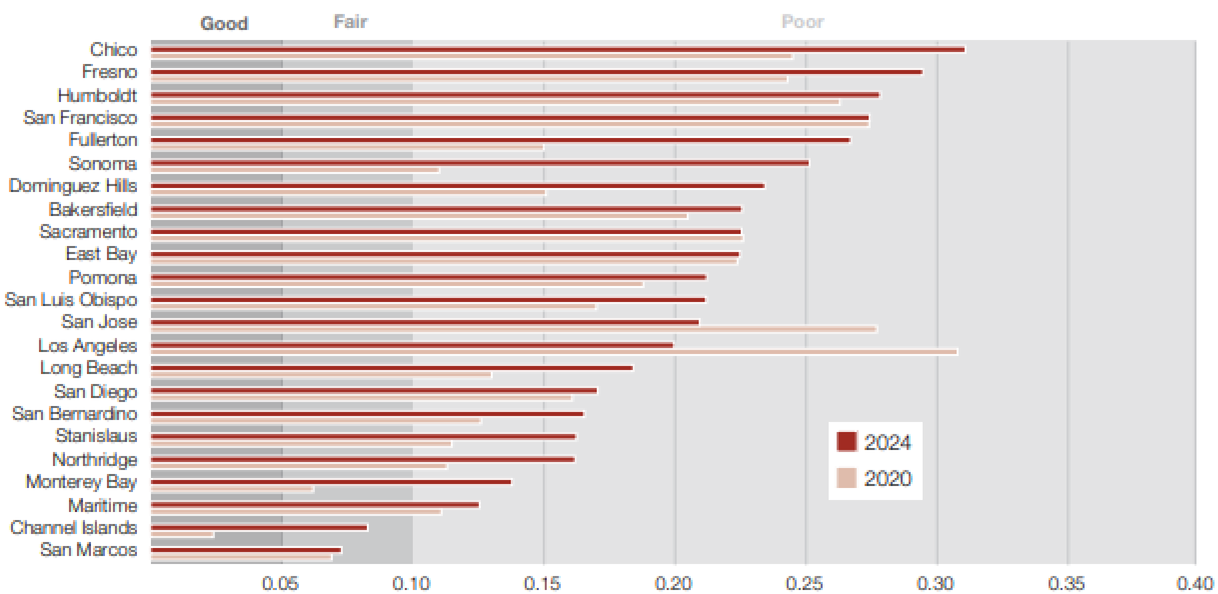
Many UC Campuses Have Poor Facility Conditions

Facility Condition Index by UC Campus, 2021



Facility Conditions Have Worsened at Almost All CSU Campuses Since 2020

Facility Condition Index by CSU Campus, 2020 Compared to 2024



Note: Among CSU campuses, only Los Angeles and San Jose had better facility conditions in 2024 compared to 2020.

Note: CCC does not have comparable facility condition index data.

The state has provided one-time General Fund to the segments for deferred maintenance. Since 2015-16, the state has provided total deferred maintenance funding of $689 million for UC, $784 million for CSU, and an estimated $904 million for CCC.

The LAO published a report in 2023 regarding deferred maintenance issues for UC and CSU, which included several recommendations, including developing a long-term plan to address deferred maintenance that would share costs between the state and segments. The LAO will also discuss this report at the hearing.

All three segments seek to build more student housing. UC and CSU have built and operated student housing projects on all of their campuses, and a handful of community colleges have student housing. As housing supply has tightened and housing costs have grown dramatically in California, and as more data indicates on-campus housing produces better student outcomes, all three segments are seeking to increase their housing programs. Traditionally, UC and CSU have used bond funds supported by their own housing programs to build new projects. As noted earlier, the state in recent years has provided funding to build student housing that allows the segments to offer below-market rates for students. The state is currently supporting about $2.2 billion worth of projects at the three segments, paying annual debt service to cover these bond costs.

All three segments have plans to build significantly more housing. A March 2023 report to the UC Board of Regents noted that the system plans to add more than 20,000 beds in the next six years. A 2022 report from CSU to the Legislature indicated a future unmet housing need of more than 32,000 beds. And the CCC Chancellor's Office received 34 new student housing projects proposed by colleges totaling $2.4 billion in cost.

Legislation would authorize a new higher education bond. AB 48 (Alvarez) has been approved by the Assembly Committee on Higher Education and the Assembly Committee on Housing and Community Development. The bill creates the College Health and Safety Bond Act of 2026 as a state general obligation bond act that would support the construction and modernization of education facilities. The bond act would only become operative if approved by the voters at an unspecified statewide election in 2026 and states the bond would:

- Upgrade public school facilities for earthquakes and other emergencies;
- Provide emergency funding to reopen schools following major disasters, including fires;
- Remove mold, asbestos, and other hazardous materials from classrooms and lead from school drinking water;
- Repair and replace aging public school buildings;
- Provide space for school nurses and counselors to increase student access to health care and mental health services;
- Modernize job, career, and vocational training facilities, including for veterans returning from duty;
- Construct, renovate, and expand affordable student and employee housing at public universities and community colleges to address critical shortages;
- Modernize existing student housing facilities to meet health, safety, and accessibility standards;
- Require independent audits and public hearings to provide accountability for taxpayer dollars; and,
- Cap administrative costs at 5%.

Potential Questions:

1. What are the most pressing capital needs for each segment? What types of new facilities are needed over the next 5 to 10 years?

2. All three segments report billions of dollars in proposed capital projects without an identified funding source. What types of projects are these? What would the segments do if there is not additional state funding for these projects?

3. How has limited state bond funding over the last 20 years impacted UC and CSU campuses? Are campuses constrained from growing enrollment due to facilities issues?

4. How are segments thinking about addressing deferred maintenance going forward? What impacts does deferred maintenance issues have on students, faculty and staff?

5. What are the pros and cons of additional state support for student housing projects?

Staff Recommendation: This is an Oversight Item

6870 California Community Colleges

Issue 2: Proposition 2 and 51 Proposals

The Subcommittee will discuss the Governor's Budget proposals to support 29 new capital outlay projects using Proposition 2 funding and two projects using Proposition 51 funding.

Panel

- Alexandra Wildman and Michael McGinness, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Chris Ferguson, California Community Colleges Chancellor's Office

Background

Voters Recently Passed a New State Education Facilities Bond. In the November 2024 election, voters approved a new education facilities bond, Proposition 2. This measure provides $1.5 billion for community college facilities. (Proposition 2 also provides $8.5 billion for K-12 school facilities.) These funds may be used for various purposes, including constructing new buildings, renovating existing buildings, acquiring land, and purchasing equipment. The measure does not specify how the funds are to be allocated among these specific purposes. In addition to this state general obligation bond, voters in the same election approved 14 local general obligation bonds totaling $9.9 billion for community college facilities.

Chancellor's Office Is Using New Scoring System to Select Projects. To receive state bond funding, community college districts must submit project proposals to the Chancellor's Office. The Chancellor's Office selects among these project proposals using a scoring system adopted by the CCC Board of Governors. The Board of Governors adopted a new scoring system in September 2020. Because the majority of Proposition 51 bond funding had already been committed by that time, relatively few projects under that earlier bond were selected under the new scoring system. The Chancellor's Office intends to use the new scoring system, however, to select projects under Proposition 2.

Under New Scoring System, Funding Is Allocated Among Three Categories of Projects. As Figure 1 shows, the old scoring system used six funding categories reflecting the purpose of the project (life safety, modernization, or growth) and the type of space (instructional, institutional support, or other). In contrast, the new scoring system uses the three categories reflecting the purpose of the project but does not distinguish among different types of space. In allocating funding among the three categories, the Chancellor's Office first designates funding for life safety projects. These projects must be accompanied by a third-party study identifying imminent health or safety risks, seismic risks, or failing infrastructure. The district is generally required to cover at least 25 percent of the associated project costs. The Chancellor's Office may designate up to 50 percent of state funding each year for life safety projects, though the amount needed to fund all project proposals in this category is typically much lower. After addressing life safety projects under the new scoring system, the Chancellor's Office then allocates 65 percent of the remaining funding for modernization projects that renovate existing space and 35 percent for growth projects that add new space.

Chancellor's Office Then Ranks Projects Within Each Category. Districts typically submit more modernization and growth project proposals than available state bond funding can support. Each year, the Chancellor's Office uses certain scoring metrics to rank projects within these two categories. Modernization projects receive points based on the age and condition of the facility. Meanwhile, growth projects receive points based on projected enrollment growth at the campus, as well as how its existing space capacity compares to its enrollment level. Projects in both categories also receive points based on the amount of the local contribution, with districts generally required to cover at least 25 percent of total project costs and receiving more points for covering a larger share. In addition, projects in both categories receive points for certain other metrics, including campus size and region.

The LAO chart on the next page shows the scoring system used by the Chancellor's Office.

CCC Uses Certain Scoring Metrics to Rank Project Proposals

Metric	Description	Points
Modernization Projects		
Facility age	Provides points based on the age of the facility, with older facilities receiving more points.	60
Local contribution	Provides points based on the share of project costs covered by local funds, with larger local contributions receiving more points.	50
Facility condition	Provides points based on facility condition, with facilities in worse conditions receiving more points.	40
CTE status	Provides points to projects that add space for CTE programs.	25
Campus size	Provides points based on campus size, with larger campuses receiving more points.	20
Region	Provides points to projects in the Central Valley, Sierras, Inland Empire, and Far North.	5
Total		**200**
Growth Projects		
Enrollment growth	Provides points based on projected enrollment growth over the next five years, with faster-growing campuses receiving more points.	50
Existing capacity	Provides points based on usage of existing space, with more highly used space (at or exceeding capacity) receiving more points.	50
Local contribution	Provides points based on the share of project costs covered by local funds, with larger local contributions receiving more points.	50
CTE status	Provides points to projects that add space for CTE programs.	25
Campus size	Provides points based on campus size, with larger campuses receiving more points.	20
Region	Provides points to projects in the Central Valley, Sierras, Inland Empire, and Far North.	5
Total		**200**

CTE = career technical education.

Governor's 2025-26 Budget

Using the scoring system described above, the Chancellor's Office selected 29 new capital outlay projects to request Proposition 2 funding for in 2025-26. The Governor proposes to fund all of the requested projects. The Governor's Budget includes $51 million Proposition 2 bond funds for the preliminary plans and working drawings phases of these projects. The total cost across all phases of these projects is $1.6 billion, with the state covering $729 million (46 percent) and districts covering $842 million (54 percent). Of these projects, 17 are modernization projects, 8 are growth projects, and 4 are life safety projects. (The Chancellor's Office indicates it has submitted one additional life safety project with an estimated total state cost of $61 million to the administration for inclusion in the May Revision.)

The Governor's Budget also includes $29 million in 2025-26 for the construction phase of two projects initiated in previous years. These projects are funded under an earlier state general obligation bond, Proposition 51 (2016). The total cost across all phases of these projects is $84 million, with the state covering $31 million (37 percent) and districts covering $53 million (63 percent). Both of these are modernization projects.

The chart on the following page lists the projects.

Governor's Budget Funds New and Continuing CCC Capital Outlay Projects

Bond Funds (In Thousands)

		2025-26		All Years	
College	Project	Phase	State Cost	State Cost	Total Cost[a]
Proposition 2 (2024)					
Los Angeles Trade-Tech	Advanced transportation and manufacturing building replacement	P, W	$6,047	$91,161	$219,471
Mt. San Antonio	Library replacement	P, W	3,896	57,958	160,190
Citrus	Career technical education building replacement	P, W	3,226	47,520	116,852
Moreno Valley	New Library Learning Resource Center	P, W	2,997	44,420	106,322
Norco	Library Learning Resource Center and student services center replacement	P, W	2,512	34,340	82,749
Golden West	Physical education gym replacement	P, W	2,002	29,421	57,790
Fullerton	STEM vocational center replacement	P, W	1,922	27,496	56,417
Bakersfield	Center for Student Success replacement	P, W	1,934	28,786	56,256
Merritt	Gymnasium and locker room replacement	P, W	1,676	22,834	54,805
De Anza	Physical education complex renovation	P, W	3,386	41,090	54,422
Long Beach (Liberal Arts Campus)	Building B replacement	PC[b]	382	24,782	51,641
Riverside	Cosmetology building replacement	P, W	1,617	20,196	48,782
Clovis	New kinesiology and wellness center	P, W	1,682	24,374	48,607
Merced	Music Art Theater Complex renovation	P, W	1,469	24,379	48,009
Antelope Valley	Gymnasium replacement	P, W	1,622	24,601	46,711
Rio Hondo	Business and art building replacement	P, W	1,594	23,233	45,813
Los Angeles City	Kinesiology South building replacement	P, W	1,294	17,592	41,958
Ben Clark Training Center[c]	New Education Center Building 2, Phase 1	P, W	1,335	16,246	39,489
Hartnell	Gymnasium renovation	P, W	1,764	19,603	38,310
Reedley	Agriculture instruction complex renovation	P, W	1,295	16,806	32,405
Grossmont	Gymnasium replacement	P, W	1,175	15,006	29,604
Willits Center[d]	Willits Center expansion, Phase 2	P, W	1,343	14,609	28,647
Orange Coast	Skills lab replacement	P, W	1,110	13,418	26,435
Imperial Valley	Gymnasium renovation	P, W	1,039	12,798	25,677
Shasta	Life sciences building renovation	P, W	680	8,569	16,832
El Camino	Hydronic line replacement	P, W	813	9,155	12,206
Los Angeles Pierce	Sewer utility infrastructure replacement	P, W	692	7,385	9,847
Los Angeles Valley	Sewer utility infrastructure replacement	P, W	591	5,885	7,845
Skyline	Boiler plant replacement	P, W	393	5,132	6,843
Subtotals			**($51,488)**	**($728,795)**	**($1,570,935)**
Proposition 51 (2016)					
Alameda	Aviation complex replacement	C	$13,836	$14,889	$52,178
Golden West	Fine Arts building renovation	C	14,740	16,132	31,609
Subtotals			**($28,576)**	**($31,021)**	**($83,787)**
Totals			**$80,064**	**$759,816**	**$1,654,722**

[a]Community college districts issue local general obligation bonds to pay for a share of project costs.

[b]The performance criteria phase is the initial phase of this design-build project.

[c]Center operated by Riverside Community College District.

[d]Center operated by Mendocino-Lake Community College District.

P = preliminary plans; W = working drawings; STEM = science, technology, engineering, and mathematics PC = performance criteria; and C = construction.

LAO Comments

Key Factors to Consider in Deciding How Much Proposition 2 Funding to Commit Now. Under the Governor's budget, the state would commit roughly half of CCC Proposition 2 funding. (The Chancellor's Office intends to request about $400 million in Proposition 2 funding for additional projects in 2026-27 and the remainder in 2027-28.) The Legislature could choose to allocate a different amount of Proposition 2 funding in 2025-26. One factor to consider in making this decision is cost escalation. Allocating a significant portion of the available bond funds in the first year allows districts to begin projects as soon as possible, avoiding cost escalation that typically occurs due to inflation over time. Beyond the projects included in the Governor's budget, the Chancellor's Office reports that districts submitted an additional 25 eligible project proposals for 2025-26, with total associated state costs of roughly $650 million. The quality of projects, however, is another basic factor to consider. These additional 25 projects scored lower than the projects included in the Governor's budget. Moreover, districts submit a new round of project proposals each year, and some new projects submitted over the next year or two might have stronger justification (thereby scoring higher) than these additional projects for 2025-26. Furthermore, additional life safety projects could emerge over the next couple of years.

New Scoring System Has Several Positive Aspects. The Proposition 2 projects included in the Governor's budget were selected using the Chancellor's Office's new scoring system. We think parts of the new scoring system are reasonable. First, the scoring system reflects a consistent, transparent way of reviewing districts' project proposals. Second, the scoring system places the highest priority on life safety projects, with requirements in place to ensure that districts submit only immediate needs under this category. Third, the system uses several relevant scoring metrics to rank all other projects, namely facility age and condition for modernization projects and enrollment projections and existing capacity for growth projects. Finally, the scoring system requires districts to provide a local contribution for all categories of projects and creates incentives to provide more than the minimum local contribution for modernization and growth projects.

Share of Funding Allocated for Modernization Projects Could Be Too Low. At the time the new scoring system was adopted in September 2020, the allocation of funding between modernization projects (65 percent) and growth projects (35 percent) generally reflected the system's identified capital outlay needs. Over the past few years, however, those needs have shifted. In CCC's most recent five-year capital outlay plan, modernization projects account for about 80 percent of the capital outlay needs identified for 2025-26 through 2029-30, while growth projects account for only about 20 percent. The shift away from growth projects likely reflects in part the increase in online education, which reduces the need for colleges to add new space. The use of online and other distance education at CCC remains significantly above pre-pandemic levels, accounting for an estimated 42 percent of full-time equivalent (FTE) students in fall 2024, compared to 17 percent in fall 2019. The Chancellor's Office has not yet revisited the split of funding between modernization and growth projects to reflect this trend. Under the current split, modernization projects are somewhat more likely to go unfunded. Of the project proposals that districts submitted for 2025-26, 17 out of 36 eligible modernization projects (47 percent) were included in the Governor's budget, compared to 8 out of 14 eligible growth projects (57 percent). Whereas modernization projects address deficiencies with existing space, growth projects add new space, thereby contributing to higher ongoing operational costs.

Nearly One-Third of Selected Projects Are Gymnasiums. Gymnasiums account for 9 of the 29 new projects included in the Governor's budget—a much higher share of projects than in previous years. For comparison, only 8 out of more than 100 projects funded under the previous facilities bond, Proposition 51, were gymnasium projects. This shift is likely related to the new funding categories. Under the old scoring system, gymnasium projects (along with projects relating to child development facilities, performing arts facilities, and certain other noninstructional facilities) were in a separate category eligible for up to 15 percent of available funding. Under the new scoring system, gymnasiums compete with all other types of facilities within each category. That is, gymnasiums effectively are treated the same as other academic space. Given that Proposition 2 funding covers only a portion of CCC's identified capital outlay needs, the state faces trade-offs between funding gymnasiums and funding other facilities that more directly support instruction. Although colleges use gymnasiums for courses in physical education and related disciplines, some of these courses are not core to CCC's instructional mission. For example, these courses commonly include practice and conditioning time for intercollegiate athletics teams, as well as fitness courses.

Rationale for Certain Scoring Metrics Is Unclear. Although the new scoring system includes several relevant scoring metrics, it also includes a couple of metrics for which the rationale is less clear. First, projects receive more points if they are located on a campus with more FTE students. The Chancellor's Office indicates this is because larger campuses require more space than smaller campuses. Other scoring metrics, however, already provide more points based on enrollment growth and having insufficient existing space. Second, projects receive more points if they are located in the Central Valley, Sierras, Inland Empire, and Far North regions. The Chancellor's Office indicates this metric is intended to target funding toward regions that have historically had lower educational attainment rates. The state likely has more direct ways, however, to increase educational attainment in these regions, such as by continuing to provide districts with supplemental funding for enrolling and supporting low-income students under the Student Centered Funding Formula.

Recommend Directing Chancellor's Office to Justify and Potentially Adjust Parts of New Scoring System. During spring hearings, we recommend the Legislature direct the Chancellor's Office to further explain the rationale for the current split of funding between modernization and growth projects, the large number of gymnasium projects selected for funding, and the inclusion of campus size and region in its scoring metrics. If these or other issues raise notable concerns for the Legislature, it could direct the Chancellor's Office to adjust its scoring system accordingly. For example, this might mean allocating a larger share of funding toward modernization projects or capping the amount of funding for gymnasium projects. The Chancellor's Office could then use the adjusted scoring system to select a revised set of projects for 2025-26.

Staff Comments

As the prior item indicated, there is significant unmet need in the community college system for capital outlay, so Proposition 2 offers critical state support to colleges and will help districts modernize buildings and increase capacity. Staff notes that the Subcommittee received one letter of support for the Governor's Budget proposals, from the Community College Facility Coalition, which notes that: "Facilities are critical to supporting the mission of community colleges. Specialized facilities support hands-on job training in critical fields like health care, green energy, technology, and more. Facilities support student success and basic needs, providing spaces to access important services like food, health care, counseling, and financial aid, to help students reach their educational goals. The Governor's proposal begins to make the important investments authorized by voters after the resounding passage of Proposition 2."

The LAO notes that the Chancellor's Office revamped its review and scoring process for community colleges in 2020, but Proposition 2 is the first major funding that will utilize this new process. While the new process is simpler than the previous one and has clear rationale, staff does concur with the LAO's concern that an unusually large amount of gymnasiums are being supported in this first round. While gymnasiums are often used for multiple academic programs on a campus, it is unclear if these projects should be among the highest priority for new state funding.

Suggested Questions:

1. Why did the Chancellor's Office change the scoring system for projects? What is the rationale for the new system?

2. Why are so many gymnasiums included in the first round of projects?

3. How is the Chancellor's Office thinking about the split between modernization and enrollment growth projects?

Staff Recommendation: Hold Open

0954 Scholarshare Investment Board

Issue 3: CalKIDS Update and Proposals

The Subcommittee will discuss the California Kids Investment and Development Savings (CalKIDS) Program, and Governor's Budget proposals to add three positions to the program and trailer bill language requiring tax preparation software providers to notify qualified taxpayers about the CalKIDS program.

Panel

- Chris Hill and Amanpreet Singh, Department of Finance
- Natalie Gonzalez, Legislative Analyst's Office
- Cassandra DiBenedetto, Executive Director, Scholarshare Investment Board

Background

Scholarshare Investment Board (SIB) Administers California's 529 Program. Section 529 of the Internal Revenue Code allows states to administer college savings accounts that provide certain tax advantages. SIB launched California's 529 program, known as Scholarshare 529, in 1999. Under the Scholarshare 529 program, individuals can open a college savings account, often on behalf of a child, and make associated contributions. Earnings from 529 plans are not taxable if the student uses the funds for qualifying education expenses. Qualifying expenses include tuition and fees, books and supplies, and room and board.

CalKIDS Program Provides College Savings Accounts to Children. The state created the CalKIDS program in the 2019-20 budget package. Under the program, 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, Spring 2023 or Spring 2024 are currently eligible for college funding.

CalKIDS has opened more than 4.4 million college savings accounts and distributed more than $18 million. CalKIDS is required to submit a report to the Legislature each September that provides information on program expenditures, account information, participation results, marketing efforts, and recommendations to improve the program. The following charts are from the report and indicate the number of accounts opened, total state and non-state contributions to the college savings accounts, and participation.

CalKIDS has opened more than 4.4 million accounts so far in its two programs, with most accounts related to students in first grade in 2023 or 2024, or students who were in grades 1-12 in 2021-22. The accounts include nearly $2 billion in state funding. Some families have made contributions to a college saving account linked to the state account as well.

CalKIDS Accounts and Contributions

	Newborns	Students	Total
Number of CalKIDS Accounts Opened	764,525	3,665,607	4,430,132
Total State Contributions to CalKIDS Accounts	$48,035,975	$1,934,265,500	$1,982,301,475
Total Non-State Contributions to CalKIDS Accounts	$0	$34,700	$34,700

CalKIDS reports three types of family engagement with the accounts:

- Claims: The eligible CalKIDS participant has logged in to the Program's online portal to claim their CalKIDS account.
- Linkages: The eligible CalKIDS participant has claimed their account and has linked an individual ScholarShare 529 account to view both the CalKIDS account balance and their own savings in one place.
- Distribution Requests: The eligible CalKIDS participant has claimed their account and requested the distribution of funds to pay for an eligible expense at an institution of higher education.

The chart below includes information as of June 30, 2024, and shows that about 368,000 students have claimed their account, about 35,000 have linked their CalKIDS account to another college savings account, and about $18 million has been distributed to higher education institutions in support of individual students.

Active Participant Account Engagement

	Newborns	Students	Total
Claims	55,785	312,056	367,841
ScholarShare 529 Linkages	18,164	17,159	35,323
Distribution Requests	N/A	36,097	36,097
Number of Participants Who Requested a Distribution	N/A	34,639	34,639
Amount Distributed	N/A	$18,034,534	$18,034,534

SIB Has Four Positions Dedicated to the CalKIDS Program. SIB has two managers and two staff administering the CalKIDS program. One manager is responsible for providing programmatic direction and oversight for areas such as content development, marketing and outreach, data management, and customer service. The other manager is responsible for oversight of various operational and administrative activities. The two staff—Associate Governmental Program Analyst (AGPA) positions—are responsible for providing general programmatic support, including outreach, stakeholder engagement, data management, and customer service.

State has supported 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.

Governor's 2025-26 Budget

The Governor's Budget provides $566,000 ongoing General Fund and three new positions for the CalKIDS program. SIB indicates that as the CalKIDS program continues to grow, the department cannot sustain necessary program functions at its current staffing level, including responsibilities related to marketing and outreach. Specifically, the three positions are:

- ***Staff Services Manager I (SSMI)*** who will be responsible for developing and executing marketing strategies, building a strategic outreach plan, overseeing marketing contracts, and analyzing engagement trends.

- ***Outreach AGPA*** who will be responsible for assisting with various marketing and outreach efforts, such as conducting educational workshops, developing requests for proposals, and monitoring engagement trends.

- ***Data/Customer Support AGPA*** who will be responsible for data analysis and customer support, including tasks such as responding to program inquiries, troubleshooting user-experience issues, and analyzing participation and account data.

The Governor's Budget also includes proposed trailer bill language that would require tax preparation software providers to notify a qualified taxpayer who claims a dependent on their income tax return that is filed using the provider's tax preparation software that the qualified taxpayer may be eligible for the CalKIDS program.

LAO Comments

SIB Indicates It Is Experiencing Challenges Handling CalKIDS Workload. SIB shared that it is experiencing CalKIDS workload challenges related to data management and analysis, customer service, communications, and outreach. Most notably, SIB indicates the two current AGPAs do not have the capacity to perform all necessary tasks related to their workload. Specifically, one AGPA does not have time to perform various data-related tasks, such as analyzing and reporting on data trends, due to other workload responsibilities, such as handling participant inquiries. Additionally, the other AGPA does not have the capacity to conduct all outreach activities, as many participants are in hard to reach areas and require personalized outreach efforts. Given these identified issues, the new data/customer support AGPA would be responsible for participant inquiries, and the new outreach AGPA would be responsible for outreach efforts.

Marketing Efforts Are Still Underway to Determine Best Approach for Increasing Claim Rates. To date, SIB has received $14.3 million in one-time funding for marketing efforts. Of this amount, $9 million is state funding and $5.3 million is private funding. The state provided SIB with one-time marketing funds with the goal of implementing different marketing activities and analyzing best practices for increasing CalKIDS claim rates. Though SIB has analyzed its completed paid media campaigns, the department is still in the process of spending down one-time state funding for marketing. Specifically, SIB is in the midst of spending the remaining $7.5 million in one-time state funds on a two-year marketing campaign in partnership with an external marketing firm. SIB has on-boarded the firm, and primary marketing activities are set to begin in spring 2025. As part of the marketing contract, the firm is to conduct an analysis to determine the effectiveness of different marketing strategies. Additionally, SIB is working with the Los Angeles Unified School District and Riverside County Office of Education to increase CalKIDS participation. SIB will submit a report on these local efforts by September 30, 2025. Therefore, data will continue to be collected over the next couple of years to understand what marketing efforts have the greatest impact on increasing claim rates.

With Another Manager, CalKIDS Staffing Would Remain Top Heavy. The CalKIDS program currently has one manager position for every one staff position. This ratio is much higher than the state average. As of March 2024, the average statewide ratio of supervisorial positions (such as SSMIs) to non-supervisorial positions (such as AGPAs) is one-to-six. Under the new SIB staffing request, the CalKIDS staffing ratio would remain high, having three supervisorial positions to four non-supervisorial positions.

Administration Exempted SIB From State Operation Reductions. To balance the 2024-25 budget, the state authorized reductions in most agencies' state operations funding. Specifically, most agencies were subject to reductions of up to 7.95 percent, in addition to having certain vacant positions eliminated. Because SIB is such a small department, the administration exempted it from both of these reductions. (The administration indicates it exempted all departments with 20 or fewer positions from these reductions.) The state is facing projected out-year deficits too—meaning additional budget solutions could be needed in 2026-27 to balance the budget. Any ongoing spending increases the Legislature approves in 2025-26 could come at the expense of other programs the following year. For this reason, we recommend (throughout our office's initial budget publications this year) that the Legislature set a high bar for approving any new ongoing spending.

Recommend Approving Two AGPA Positions. For the CalKIDS program to expand college access, families need to know about the funds deposited into their child's account and how funds can be used. Thus, marketing and outreach activities are central to the success of the program. Given current staff cannot perform all necessary responsibilities, including areas such as marketing and outreach, as well as data management and customer service, we recommend the Legislature approve both AGPA positions. The two new AGPA positions will cost $384,000 ongoing General Fund. (This is 32 percent less than the proposed request of $566,000.)

Recommend Revisiting Request for SSMI Position in the Future. SIB has already spent or is in the process of spending state funding dedicated to marketing activities. Additionally, SIB has already onboarded the external marketing firm that will complete CalKIDS marketing activities using the remaining one-time state funds. Thus, the new SSMI will not need to conduct work related to onboarding new marketing firms at this time. SIB is also still in the exploratory phase of understanding which marketing and outreach efforts yield the highest results. Given this exploratory phase is still underway, it is difficult to know what marketing and outreach strategies a new SSMI should focus on. We recommend the Legislature reevaluate the request for a marketing and outreach SSMI once SIB has completed the marketing activities currently in progress, analyzed their impacts, and provided data on best practices. This new information will help inform the Legislature about what workload gaps related to marketing exist and if an additional manager or lower-level staff position is warranted. The job classification of any additional positions will be important to consider given the CalKIDS ratio of management to staff positions is currently above the state average.

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.

Staff notes that all of these programs have had relatively low participation. For CalKIDS, about 8% of families have logged on and "claimed" their account. The subcommittee may wish to ask Scholarshare for an update on outreach and marketing strategies that could help increase participation.

Given the size and complexity of the program, staff concurs with the LAO that at least two new positions appears reasonable. However, the Legislature faces difficult budget decisions this year, and most state agencies and departments are facing reductions in personnel support. Thus, this proposal must be weighed in context with the overall budget.

Staff notes two other issues regarding CalKIDS:

- The Riverside County Superintendent of Schools is asking for an extension of one year regarding the data-sharing pilot program it runs with CalKIDS. The program allows the Riverside County Office of Education information that allows it to reach out to students throughout Riverside County to make them aware of the program. In a letter to the Subcommittee, the Superintendent notes that Riverside County represents over 16 percent of all claimed accounts in the state, with more than $26 million claimed for county students. A report on this program is due this September, but Riverside notes that a delay in finalizing an agreement with CalKIDS did not allow them a full two years to execute this pilot as was originally intended.

- AB 2508 (McCarty) was signed by the Governor last year and requires SIB to open a CalKIDS account for a student in the foster care system in grades one to 12 if an account has not already been established; and, requires the account of a student in the foster care system to receive a one-time enhanced deposit of $500. It further authorizes the additional enhanced deposit of $500 for those foster youth who did not previously receive an enhanced deposit that was previously provided to low-income students. While the cost to implement this program is estimated to be about $11 million one-time General Fund, there has been unspent funds identified from previous state appropriations to CalKIDS that could be used to cover these expenses. The Governor's Budget does not implement this bill.

Suggested Questions:

1. What marketing and outreach efforts are underway to improve participation?
2. What recommendations does Scholarshare have for the Legislature in terms of program improvement?
3. Why is a new manager position needed?
4. How many businesses would be impacted by the trailer bill language? What is the Administration's goal with this language?

Staff Recommendation: Hold Open.