AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

Assembly Member Kevin McCarty, Chair

TUESDAY, APRIL 5, 2022

9:00 A.M. - STATE CAPITOL, ROOM 447

We encourage the public to provide written testimony before the hearing. Please send your written testimony to: BudgetSub2@asm.ca.gov. Please note that any written testimony submitted to the committee is considered public comment and may be read into the record or reprinted. All are encouraged to watch the hearing from its live stream on the Assembly's website at https://www.assembly.ca.gov/todaysevents.

The hearing room will be open for attendance of this hearing. Any member of the public attending a hearing is strongly encouraged to wear a mask at all times while in the building. The public may also participate in this hearing by telephone.

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CALIFORNIA COMMUNITY COLLEGES

ITEMS TO BE HEARD

6870 CALIFORNIA COMMUNITY COLLEGES

The Governor's Budget proposes about $17.3 billion in support for the California Community Colleges (CCC) in 2022-23, with about $7.8 billion from state Proposition 98 General Fund, about $3.8 billion from local property taxes, and about $448 million from enrollment fees. The chart below was compiled by the LAO and indicates funding based on the Governor's Budget.

California Community Colleges Funding by Source

(Dollars in Millions Except Funding Per Student)

	2020-21 Revised	2021-22 Revised	2022-23 Proposed	Change From 2021-22	
				Amount	Percent
Proposition 98					
General Fund	$7,392	$7,528	$7,827	$299	4.0%
Local property tax	3,374	3,546	3,766	220	6.2
Subtotals	**($10,766)**	**($11,075)**	**($11,593)**	**($518)**	**(4.7%)**
Other State					
Other General Fund	$619	$644	$658	$13	2.1%
Lottery	275	273	273	--	-0.1[a]
Special funds	44	94	94	--	--
Subtotals	**($937)**	**($1,011)**	**($1,024)**	**($13)**	**(1.3%)**
Other Local					
Enrollment fees	$446	$446	$448	$1	0.3%
Other local revenue[b]	3,833	3,860	3,888	28	0.7
Subtotals	**($4,279)**	**($4,306)**	**($4,336)**	**($30)**	**(0.7%)**
Federal					
Federal relief funds[c]	$1,431	$2,648	--	-$2,648	-100.0%
Other federal funds	365	365	365	--	--
Subtotals	**($1,797)**	**($3,014)**	**($365)**	**(-$2,648)**	**(-87.9%)**
Totals	**$17,779**	**$19,405**	**$17,318**	**-$2,087**	**-10.8%**
FTE students[d]	1,097,850	1,107,543	1,101,510	-6,033	-0.5%[e]
Proposition 98 funding per FTE student[d]	$9,807	$9,999	$10,524	$525	5.3%

[a] Difference of less than $500,000.

[b] Primarily consists of revenue from student fees (other than enrollment fees), sales and services, and grants and contracts, as well as local debt-service payments.

[c] Consists of federal relief funds provided directly to colleges as well as allocated through state budget decisions.

[d] Reflects budgeted FTE students. Though final student counts are not available for any of the period shown, preliminary data indicate CCC enrollment dropped in 2020-21, with a likely further drop in 2021-22. Districts, however, have not had their enrollment funding reduced due to certain hold harmless provisions that have insulated their budgets from drops occurring during the pandemic.

[e] Reflects the net change after accounting for the proposed 0.5 percent systemwide enrollment growth together with all other enrollment adjustments.

FTE = full-time equivalent.

ISSUE 1: ENROLLMENT

The Subcommittee will discuss enrollment trends at community colleges, and the Governor's Budget proposals to provide $24.9 million ongoing General Fund to support 0.5% enrollment growth (about 5,500 full-time equivalent students), and $150 million one-time General Fund for student recruitment and retention strategies.

PANEL

- Daniel Hanower, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Lizette Navarette, California Community Colleges Chancellor's Office

BACKGROUND

Community college enrollment has declined by 20% during the pandemic. Preliminary Fall 2021 enrollment data suggests that community colleges have lost more than 316,000 students since Fall 2019. More substantial declines were among underrepresented students of color, male students, students with disabilities, and older students. The table on the next page was compiled by the Chancellor's Office in early March based on most colleges reporting their enrollment data.

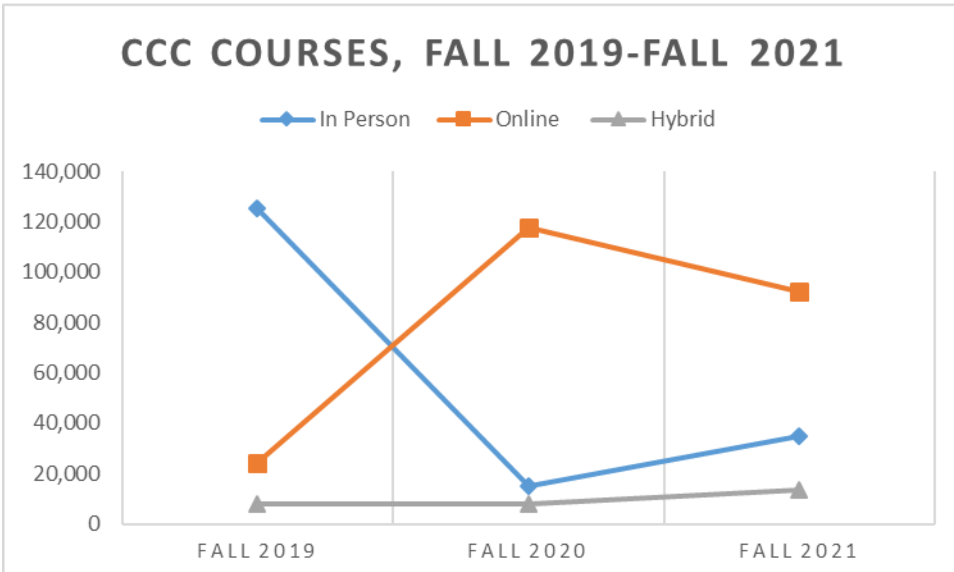
Several Factors Likely Contributing to Enrollment Drops. Enrollment drops nationally and in California have been attributed to various factors, including more student-parents staying home to provide child care, public health concerns, and disinterest among some students to taking courses online. (As of fall 2021, about two-thirds of colleges' course sections were still being taught fully online.) Rising wages, including in low-skill jobs, and an improved job market also could be reducing enrollment demand. In response to a fall 2021 Chancellor's Office survey of former and prospective students, many respondents cited "the need to work full time" to support themselves and their families as a key reason why they were choosing not to attend CCC. For these individuals, enrolling in a community college and taking on the associated opportunity cost might have become a lower priority than entering or reentering the job market.

Table 1: Preliminary system headcount change from F2019 to F2021 (for reporting colleges)

	Fall 2019	Fall 2020	Fall 2021	% Decline F19 to F20	% Decline F20 to F21	Total % Decline F19 to F21
Systemwide Headcount	1,553,191	1,330,717	1,236,957	-14%	-7%	-20%
Female	845,683	759,153	686,094	-10%	-10%	-19%
Male	685,184	553,342	529,869	-19%	-4%	-23%
Asian/Pacific Islander	215,373	186,093	167,395	-14%	-10%	-22%
Black/African-American	84,051	70,243	65,235	-16%	-7%	-22%
Native American/Alaskan Native	5,613	4,509	4,066	-20%	-10%	-28%
Hispanic	739,871	636,143	593,791	-14%	-7%	-20%
White Non-Hispanic	361,928	321,119	296,585	-11%	-8%	-18%
Less than 18	124,251	122,385	122,523	-2%	0%	-1%
18 to 19	341,268	302,526	277,384	-11%	-8%	-19%
20 to 24	443,526	381,067	338,410	-14%	-11%	-24%
25 to 29	199,605	175,075	152,959	-12%	-13%	-23%
30 to 34	117,136	106,216	101,357	-9%	-5%	-13%
35 to 39	81,051	68,919	68,633	-15%	0%	-15%
40 to 49	103,263	82,070	83,010	-21%	1%	-20%
50 +	142,674	92,260	92,518	-35%	0%	-35%
DSPS	73,308	52,792	51,170	-28%	-3%	-30%
Non DSPS	1,479,883	1,277,925	1,185,787	-14%	-7%	-20%

Colleges Have Been Trying a Number of Strategies to Attract Students. Using federal relief funds, as well as state funds provided in the 2021-22 budget, colleges generally have been trying many tactics to attract students. Many colleges are using student survey data to adjust their course offerings and instructional modalities. Colleges are beginning to offer more flexible courses, with shorter terms and more opportunities to enroll throughout the year (rather than only during typical semester start dates). Colleges have been offering students various forms of financial assistance. For example, all colleges are providing emergency grants to financially eligible students, and some colleges are offering gas cards or book and meal vouchers to students who enroll. Many colleges are loaning laptops to students. Many colleges have expanded advertising through social media and other means. Additionally, many colleges have increased outreach to local high schools and created phone banks to contact individuals who recently dropped out of college or had completed a CCC application recently but did not enroll.

Colleges slowly offering more in-person courses. As the initial phases of the pandemic have waned, colleges have moved from offering most courses online during 2020-21 to a mix of instructional modes this academic year. A December report to the Legislature indicated that the level of in-person courses grew in Fall 2021, but there were still far more online courses than in-person. Only about 25% of courses were offered in-person in Fall 2021, according to the report. Chancellor Eloy Ortiz Oakley, however, told the Subcommittee in a February hearing that about 60% of courses were being taught in-person this Spring.



Source: SB 129 Legislative Report, December 2021

GOVERNOR'S 2022-23 BUDGET PROPOSAL

The Governor's Budget proposes $24.9 million Proposition 98 General Fund for 0.5 percent systemwide enrollment growth (equating to about 5,500 additional FTE students) in 2022-23. (The state also provided funding for 0.5 percent systemwide enrollment growth in 2021-22.) Consistent with regular enrollment growth allocations, each district in 2022-23 would be eligible to grow up to 0.5 percent. Provisional budget language would allow the Chancellor's Office to allocate any ultimately unused growth funding to backfill any shortfalls in apportionment funding, such as ones resulting from lower-than-estimated enrollment fee revenue or local property tax revenue. The Chancellor's Office could make any such redirection after underlying data had been finalized, which would occur after the close of the fiscal year. (This is the same provisional language the state has adopted in recent years.)

The Governor's Budget also proposes $150 million one-time Proposition 98 General Fund for student recruitment and retention strategies. This is on top of the $120 million one time provided in the 2021-22 budget ($20 million approved through early action and $100 million approved through the final budget package). Like the initiative funded last year by the Legislature, the purpose of these proposed funds is for colleges to reach out to former students who recently dropped out and engage with prospective or current students who might be hesitant to enroll or reenroll at the colleges. Provisional language gives the Chancellor's Office discretion on the allocation methodology for the funds but would require that colleges experiencing the largest enrollment declines be prioritized. The provisional language also permits the Chancellor's Office to set aside and use up to 10 percent of the funds for statewide enrollment and retention efforts. (The state adopted these same provisions for the $100 million approved as part of the final 2021-22 budget package.)

In addition, the Governor's Budget Summary states that "it is the expectation of the Administration that community college districts aim to offer at least 50 percent of their lecture and laboratory course sections as in-person instruction for the 2022-23 academic year, provided the approach is consistent with student learning modality demand and public health guidelines in place at the time." There is no budget bill or trailer bill language regarding this intention, however.

LAO ASSESSMENT AND RECOMMENDATIONS

Assessment

Better Information Is Coming to Inform Legislature's Decision on Enrollment Growth. By the time of the May Revision, the Chancellor's Office will have provided the Legislature with final 2020-21 enrollment data and initial 2021-22 enrollment data. This data will show which districts are reporting enrollment declines and the magnitude of those declines. It also will show whether any districts are on track to earn any of the 2021-22 enrollment growth funds. If some districts are on track to grow in the current year, it could mean they might continue to grow in the budget year. Even if the entire amount ends up not being earned in the current year or budget year, remaining funds can be used to cover apportionment shortfalls. If no such shortfalls materialize, the funds become available for other Proposition 98 purposes, including other community college purposes.

Key Unknowns in Assessing One-Time Funding Proposal. Assessing the Governor's outreach proposal to fund additional student recruitment, reengagement, and retention is particularly challenging for a few reasons. First, the state does not know how much of last year's student outreach allocation colleges have been spent or encumbered to date. (Colleges are not required to report this information to the state.) Second, the state has no clear way of deciphering how effective colleges' spending in this area has been. Given continued enrollment declines, one might conclude that the funds have not achieved their goal of bolstering enrollment. Enrollment declines, however, might have been even worse without the 2021-22 student outreach funds. Third, some factors driving enrollment changes—including the economy, current favorable job market, students' need to care for family, and students' risk calculations relating to COVID-19—are largely outside colleges' control. To the extent these exogenous factors are stronger in driving student behavior than college advertisements or phone banks, student outreach might not be a particularly promising use of one-time funds.

Recommendations

Use Forthcoming Data to Decide Enrollment Growth Funding for 2022-23. We recommend the Legislature use updated enrollment data, as well as updated data on available Proposition 98 funds, to make its decision on CCC enrollment growth for 2022-23. If the updated enrollment data indicate some districts are growing in 2021-22, the Legislature could view growth funding in 2022-23 as warranted. Were data to show that no districts are growing, the Legislature still might consider providing some level of growth funding given that enrollment potentially could start to rebound next year. Moreover, the risk of over budgeting in this area is low, as any unearned funds become available for other Proposition 98 purposes.

Weigh Options on One-Time Funds. To the extent the Legislature thinks colleges can effectively implement strategies to recruit students who otherwise would not have enrolled, it could approve the Governor's student outreach proposal. The Legislature, however, could weigh funding for this proposal against other one-time spending priorities for community colleges. For example, were the Legislature concerned about colleges' ability to cover continued COVID-19-related costs in 2022-23 given the expiration of federal relief funds, it could create a COVID-19 block grant. Such an approach would give colleges more flexibility to put funds where they may be the most effectively used, such as for student recruitment, mental health services, or COVID-19 mitigation.

STAFF COMMENT/POTENTIAL QUESTIONS

Community colleges have suffered the worst enrollment drop of the three public higher education systems during the pandemic. The Chancellor's Office notes that community college students are more likely to be underrepresented students of color, low-income students, working students, students with dependent children, non-native speakers of English, first generation college students, and older students than students at the University of California (UC) or California State University (CSU). These populations, across a range of indicators, are experiencing far greater health and economic impacts of the pandemic. Further, these student may be choosing employment, amid rising wages for entry level or lower skill employment.

This decline seriously threatens college budgets in the long term, and seems likely to impact future enrollment at UC and CSU. (About half of CSU's undergraduates and about one-third of UC's undergraduates are community college transfer students.) There are now 300,000 fewer Californians accessing higher education than just a few years ago.

Colleges must act to broaden their pool of students, through programs like dual enrollment or adult education, and better support students, through short-term solutions such micrograants, and longer-term changes, such as more flexible course schedules. Staff notes that some legislators have wondered whether there is a correlation between enrollment declines and the continued persistence of online – instead of in-person – courses.

The Subcommittee could consider the following questions:

- Are any colleges or districts seeing stable or increased enrollment? If so, what are those colleges/districts doing to attract and retain students?

- Are there regional differences in enrollment trends, or are all regions seeing relatively equal losses?

- How are colleges using the $120 million provided last year for student retention and recruitment?

- Has the Chancellor's Office or anyone else developed best practices for programs that effectively recruit and retain students?

- Is there any further data available for the modality of courses this Spring and colleges' plans for next year? What percentage of courses will be in-person?

- The Administration states that it's intention is for at least 50% of courses to be in-person next Fall. Why isn't there budget bill language expressing this intent?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 2: APPORTIONMENTS/FUNDING FORMULA ISSUES

The Subcommittee will discuss Governor's Budget proposals to provide $409 million ongoing Proposition 98 General Fund to support a 5.33% cost-of-living adjustment (COLA), and trailer bill language that would create a new funding floor based on districts' hold harmless level at the end of 2024-25.

PANEL

- Daniel Hanower, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Lizette Navarette, California Community Colleges Chancellor's Office

BACKGROUND

Most CCC Proposition 98 Funding Is Provided Through Apportionments. Every local community college district receives apportionment funding, which is available for covering core operating costs. Although the state is not statutorily required to provide community colleges a COLA on their apportionment funding (as it is for K-12 schools), the state has a longstanding practice of providing one when there are sufficient Proposition 98 resources. The COLA rate is based on a price index published by the federal government that reflects changes in the cost of goods and services purchased by state and local governments across the country.

Compensation Is Largest District Operating Cost. On average, community college districts spend about 85 percent of their core operating budget on salary and benefit costs. While the exact split varies from district to district, salaries and wages can account for up to about 70 percent of total compensation costs. District pension contributions typically account for another 10 percent to 15 percent of total compensation costs. Health care costs vary among districts, but costs for active employees commonly account for roughly 10 percent of compensation costs, with retiree health care costs typically comprising less than 5 percent. Additionally, districts must pay various other compensation-related costs, including workers' compensation and unemployment insurance, which collectively tend to account for about 5 percent of total costs. Districts' other core operating costs include utilities, insurance, software licenses, equipment, and supplies. On average, about 15 percent of districts' operating budget is for these noncompensation-related expenses.

New funding formula enacted in 2018. The 2018 Budget Act created the Student Centered Funding Formula, which distributes apportionment funding to colleges based on enrollment (typically about 70% of the funding), enrollment of financially-needy students (about 20%), and several outcome measures (about 10%). Most of the formula is based on three-year averages of these components.

The new formula includes "hold harmless" provisions for community college districts that would have received more funding under the former apportionment formula than the new formula. Through 2024-25, these community college districts are to receive their total apportionment in 2017-18 adjusted for COLA each year of the period. About 20 districts were utilizing the hold harmless provision in 2020-21, according to the LAO.

Certain Aspects of Formula Have Been Temporarily Modified. While statute specifies the years of data that are to be used to calculate the amount a district receives under SCFF (that is, for districts that are not on hold harmless or basic aid districts), state regulations provide the Chancellor's Office with authority to use alternative years of data in extraordinary cases. Known as the "emergency conditions allowance," the Chancellor's Office has been allowing districts to use alternative (pre-pandemic) enrollment data for 2019-20, 2020-21, and 2021-22. The purpose of this emergency conditions allowance is to prevent districts from having their apportionment funding reduced due to enrollment drops resulting from the pandemic. (The emergency conditions allowance is only on the enrollment component of the SCFF. The supplemental and student success allocations continue to be based on the years specified in statute.) While final 2020-21 data will not be released by the Chancellor's Office until late February 2022, we estimate that about 40 of CCC's 64 local nonbasic-aid districts will have claimed COVID-19 emergency conditions allowance that year—likely providing them with a total of between $150 million and $200 million in funding protections. It is likely that about the same number are claiming the COVID-19 emergency conditions allowance in 2021-22. (Currently, four other districts can claim emergency conditions allowances for other extraordinary situations, such as from enrollment losses resulting from wildfires.)

Chancellor's Office Is Analyzing Data to Determine a Possible Emergency Conditions Allowance for 2022-23. In spring 2021, the Chancellor's Office issued a memo to community colleges signaling its intent to extend the COVID-19 emergency conditions allowance "for one final year" in 2021-22. According to the Chancellor's Office, the Board of Governors, which has the regulatory authority to adopt emergency conditions allowances, will revisit whether to extend the emergency conditions allowance in spring 2022. The decision about whether to extend the allowance through 2022-23 will be based on an examination of districts' current-year enrollment trends, actions taken by districts to mitigate enrollment declines, and the health safety conditions in the state.

GOVERNOR'S 2022-23 BUDGET PROPOSAL

The Governor's Budget proposes the following:

- $409 million ongoing Proposition 98 General Fund to cover a 5.33 percent COLA for apportionments. This is the same percentage as the Governor proposes for the K-12 Local Control Funding Formula.

- Trailer bill language to create a new funding floor based on districts' hold harmless level at the end of 2024-25. Specifically, the Administration proposes that, starting in 2025-26, districts be funded at their SCFF-generated amount that year or their hold harmless amount in 2024-25, whichever is higher. Whereas SCFF rates would continue to receive COLA in subsequent years, a district's hold harmless amount would not grow. The intent is to eventually get all districts funded under SCFF, with SCFF-generated funding levels over time surpassing districts' locked-in-place hold harmless amounts.

- The Governor also signals his interest in adopting the oversight committee's recommendation to incorporate first-generation college students into SCFF. Consistent with the committee's recommendation, the metric would be an unduplicated count (with a first-generation student who is also low income counting once for SCFF purposes). The Department of Finance indicates that colleges currently may not be collectively or uniformly reporting this data to the Chancellor's Office. (Currently, districts are relying on students self-identifying as first generation, and districts are not consistently reporting this information to the Chancellor's Office.) The Governor thus expresses his support to add this metric once "a reliable and stable data source is available."

LAO ASSESSMENT AND RECOMMENDATIONS

COLA Assessment

COLA Likely to Be Higher in May. The federal government released additional data used to calculate the apportionment COLA on January 27. Using this additional data, our office estimates the COLA for 2022-23 will be closer to 6.17 percent (about 0.8 percentage points higher than the Governor's January estimate). Covering this higher COLA rate for community college apportionments would cost about $475 million, or about $65 million more than included in the Governor's budget.

Districts Are Facing a Couple of Notable Compensation-Related Cost Pressures in 2022-23. Augmenting apportionment funding can help community colleges accommodate operating cost increases. One notable cost pressure in 2022-23 is salary pressure. With inflation higher than it has been in decades, districts are likely to feel pressure to provide salary increases. (If the total CCC salary pool were increased 3 percent to 6 percent, associated costs would range from roughly $200 million to $400 million.) A second notable cost pressure relates to districts' pension costs. Updated estimates suggest that community college pension costs will increase by a total of more than $120 million in 2022-23, which represents about 30 percent of the COLA funding proposed by the Governor. (Like the other education segments, community college districts also expect to see higher costs in 2022-23 for insurance, equipment, and utilities, though these cost increases could be partly offset by costs potentially remaining lower than normal in other areas, such as travel.)

Depending on Enrollment Demand, Districts Could Realize Some Workload-Related Savings. As a result of declining enrollment since the onset of the pandemic, districts generally have been offering fewer course sections. On a systemwide basis, districts offered 45,000 fewer course sections in 2020-21 than in 2019-20, which likely resulted in tens of millions of dollars in savings from needing to pay fewer part-time faculty. (When districts reduce course sections, they typically reduce their use of part-time faculty, who are considered temporary employees, compared to full-time faculty, who are considered permanent employees.) To the extent districts continue to experience soft enrollment demand in 2022-23, they potentially could continue to realize lower costs due to employing fewer part-time faculty. (On net, however, colleges are still expected to see notable upward pressure on their total compensation costs in 2022-23.)

Districts Face Cost Pressures Stemming From Expiration of Federal Relief Funds. Over the past two years, districts have used federal relief funds to cover various operating costs, including new COVID-19 mitigation-related costs. Once these federal relief funds are spent or otherwise expire, districts likely will assume responsibility for covering ongoing operating costs such as for personal protective equipment, additional cleaning, and potentially COVID-19 screening and testing. Districts also will need to begin covering the technology costs (such as for computer equipment for students and staff as well as software licenses) that federal relief funds have been covering. In addition, a number of districts have used federal relief funds to backfill the loss of revenue from parking and other auxiliary programs. The loss of federal funds will put pressure on district operating budgets to cover these costs should revenues from these auxiliary programs fail to return to pre-pandemic levels.

COLA Recommendation

Make COLA Decision Once Better Information Is Available This Spring. The federal government will release the final data for the 2022-23 COLA in late April 2022. By early May, the Legislature also will have better information on state revenues, which, in turn, will affect the amount available for new CCC Proposition 98 spending. If additional Proposition 98 ongoing funds are available in May, the Legislature may wish to provide a greater increase than the Governor's January budget proposes for community college apportionments. A larger increase would help all community college districts to address salary pressures, rising pension costs, and other operating cost increases while also helping them adjust to the expiration of their federal relief funds.

Hold Harmless Assessment

Assessment In Proposing a New Funding Floor, Governor's Goal Is Laudable. Based on preliminary 2020-21 Chancellor's Office data, hold harmless districts generally are funded notably above the amount they generate through SCFF. These districts thus potentially face a sizeable "fiscal cliff" in 2025-26 when their current-law hold harmless provision expires. (These districts' funding declines could be made worse were their enrollment not to recover to pre-pandemic levels.) We share the Governor's concern that having districts cut their budgets to such a degree likely would be disruptive to students and staff. A better approach would be to have a more gradual reduction, which the Governor is attempting to accomplish with his hold harmless proposal.

Hold Harmless Funding Creates Poor Incentives for Districts. At the same time, being funded according to the Governor's proposed hold harmless provision creates poor incentives. The poor incentives stem from districts receiving funding regardless of the number of students they serve, the type of students they enroll, or the outcomes of those students. That is, the hold harmless provision does not promote the state's value of promoting access, equity, and student success. Moreover, some districts under the Governor's proposal will remain funded under the hold harmless provision for several years. (The exact length of time will depend on how each district's enrollment changes, how far districts' hold harmless level is currently above SCFF, and the size of future apportionment COLAs.) In the meantime, those districts would not receive funding based on workload and performance. Instead, they would continue to have limited incentives to meet student enrollment demand, offer courses in the modality and during the times of day students prefer, and innovate in ways that improve student outcomes. All this time, these districts would be funded at higher per-student rates than their district peers without an underlying rationale.

Districts Currently Protected by Emergency Conditions Allowance Could Lose Enrollment Funding. Were the Board of Governors not to extend the emergency conditions allowance in 2022-23, districts that do not grow back to pre-pandemic enrollment levels in 2022-23 would generate less enrollment funding in 2023-24 than they are currently receiving. (Due to a statutory funding protection known as "stability," these districts would receive their 2021-22 SCFF funding level, plus any COLA, in 2022-23. Beginning in 2023-24, however, their SCFF allocation would reflect their lower enrollment levels.) The Legislature may wish to consider whether it would like districts to begin adjusting their budgets in response to current enrollment conditions or provide districts another year to see if they can increase their enrollment levels.

Increasing SCFF Base Rate Would Have Several Key Benefits. Increasing the SCFF base rate would help colleges in addressing several challenges. Not only would a higher base rate help districts respond to salary and pension pressures (as discussed in the "Apportionments Increase" section of this brief), but it also could help districts facing enrollment declines (as it would soften associated funding declines). Moreover, raising the base rate would have the effect of eliminating hold harmless funding more quickly. Districts would begin generating funding under SCFF sooner, and, in turn, their incentives to serve students would be stronger sooner. A higher base rate also could result in no district receiving less funding under SCFF compared to the former funding model—perhaps helping to bolster support of the formula itself and its focus on student outcomes and support.

Funding Formula Recommendations

Modify Governor's Hold Harmless Proposal by Setting a New Base SCFF Target. We recommend the Legislature begin exploring the possibility of raising base SCFF funding. Two options for raising base funding are to increase the base per-student rate and/or increase the basic allocation all districts receive to address their fixed costs. In deciding how much to increase base funding, the Legislature might consider various factors, including colleges' core cost drivers and student improvement goals. After deciding how to increase SCFF base funding and settling on a new level of base funding, the Legislature then could develop a plan for reaching the higher funding level, with the plan potentially stretching across several years. If the Legislature desired, it could start moving toward those higher rates in 2022-23 by redirecting some of the ongoing funds the Governor has proposed in his January 10 budget. (In the next section of this brief, we identify a potential area where the Legislature might free up ongoing Proposition 98 funds for this purpose.)

Also Move Toward Adding First Generation as a Metric. Once data are consistently reported by districts, the Legislature could further refine SCFF by adding a first-generation student metric to the SCFF supplemental and student success allocations, as recommended by the SCFF Oversight Committee. Were the Legislature to increase the SCFF base rate, it likely could integrate first generation as a metric into the formula while still preserving the overall 70/20/10 split among SCFF's three allocation components. Modeling how much to adjust the underlying SCFF rates will become easier once data on the counts of first-generation students becomes available. In the meantime, the Legislature could direct the Chancellor's Office to work with the colleges to improve data collection in this area.

Direct Chancellor's Office to Provide Update on Emergency Conditions Allowance Decision. Finally, we recommend the Legislature request the Chancellor's Office to clarify its intentions for next year with regard to the emergency conditions allowance. In particular, the Legislature should gain clarity on the specific criteria the Board of Governors intends to use in making such a determination. We recommend the Legislature direct the Chancellor's Office to report this information to the Legislature at spring hearings.

STAFF COMMENT

Staff notes that it seems likely the COLA will grow in the May Revise, reflecting increased costs, and that the Legislature has long supported providing the same COLA to colleges as it does to the K-12 system.

Regarding the funding formula and hold harmless proposal, staff notes that a more long-term fix to current issues with the formula is desirable this year, instead of recent actions to simply extend the hold harmless period. Broadly, the Legislature must balance its desire to continue to incentivize student access with the current enrollment challenges and cost pressures many districts are facing. It is alarming that most districts are either utilizing hold harmless or emergency provisions to receive funding, instead of the formula. Many of these districts could face a significant loss of revenue when these artificial protections expire.

The Subcommittee has received several letters from stakeholders advocating for changes to the Governor's proposal around the formula:

The Council of Faculty Organizations, which includes the Academic Senate, the Faculty Association of California Community Colleges (FACC), the California Federation of Teachers, the California Teacher's Association and the California Community College Independents, is urging the Legislature to allow districts in hold harmless beyond 2024-25 to receive a COLA.

Several groups, including the Community College League of California, the Association of California Community College Administrators, the Student Senate for California Community Colleges, and FACC, urge an increase to base apportionment of $300 million ongoing to support various costs, including.

The Chancellor's Office also is advocating for a $300 million base allocation increase, although more specifically targeted to support technology costs.

A large group of district and college chancellors and presidents urge using 2021-22 as the base hold harmless year and allowing for COLA on that figure until 2024-25, when the Governor's hold harmless provision would begin. A letter from Kern, Los Angeles, Peralta, San Francisco, San Diego, San Bernardino, and Yuba Community College Districts suggests a similar action.

Staff notes some consensus may be building among stakeholders. The Subcommittee could consider directing the LAO to explore scenarios for these suggestions, to better understand how both the Governor's proposal, and alternatives to the proposal, would impact the system and specific districts.

Staff Recommendation: Hold open until after the May Revision.

ISSUE 3: PART-TIME FACULTY HEALTH INSURANCE PROPOSAL

The Subcommittee will discuss the Governor's Budget proposal to provide $200 million ongoing Proposition 98 General Fund to support the Part-Time Faculty Health Insurance categorical program.

PANEL

- Daniel Hanower, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Lizette Navarette, California Community Colleges Chancellor's Office

BACKGROUND

Instruction at CCC Is Provided by a Mix of Full-Time and Part-Time Faculty. Instruction at the community colleges is provided by nearly 20,000 full-time faculty and about 35,000 part-time faculty. Districts generally require full-time faculty to teach 15 units (credit hours) per semester (commonly five three-unit classes). Full-time faculty are either tenured or on tenure-track and are considered permanent employees of the district. In contrast, districts can decide whether to retain part-time faculty, who are considered temporary employees, for any given term depending on course scheduling and other considerations. Statute limits part-time faculty to teaching 67 percent of a full-time load at a given district (about ten units per semester or about three classes). Many part-time faculty maintain an outside job, some are retired and teaching only a course or two, and others teach part time at two or more districts (with their combined teaching load potentially equaling, or even exceeding, a full-time teaching load).

Faculty Compensation Collectively Bargained at Local Level. Both full-time and part-time CCC faculty generally are represented by unions. Each district and its faculty group (or groups) collectively bargain salary levels and benefits. (In some districts, full-time and part-time faculty are part of the same bargaining unit. In other districts, they are in separate bargaining units.)

Pay for Full-Time Faculty Is Much Higher Than for Part-Time Faculty. In 2020-21, full-time faculty were paid an average of $105,000 annually. On average, districts paid part-time faculty $60 per hour of instruction, with a range between $20 per hour at the low end and $80 per hour at the upper end. (Part-time faculty generally are not compensated for time they spend in preparation for classes or grading assignments.) Based on average pay, a part-time faculty member teaching three three-unit courses (nine hours per week) both in the fall and spring semester would earn about $19,000 per year.

Districts Provide Health Insurance to Full-Time Faculty. All districts provide some level of funding for health care benefits for full-time faculty. Typically, the district offers several medical plan options (with various costs and coverage levels) and agrees to contribute a set amount toward premium costs, with a larger amount provided if the employee has a spouse or family. (A premium is the amount paid to an insurance company to have a health insurance plan. Health insurance plans also typically have patient copays and deductibles, which reflect direct out-of-pocket costs. For example, a plan might charge a patient a set amount for a particular medical service or hospital stay.) In many districts, the amount the district contributes covers the full or nearly full premium cost of the lowest-price plan for full-time faculty and all or most of the cost for the faculty's spouse and dependents. Employees are responsible for covering any remaining insurance premium costs not paid for by the district. In addition, districts often cover the full cost of dental and vision insurance for full-time faculty, with coverage also being extended to the faculty's dependents. Districts generally cover these health insurance costs using their unrestricted apportionment funding.

Decades Ago, Legislature Created a Program to Promote Part-Time Faculty Health Insurance. Part-time faculty collective bargaining agreements historically have not included district funding for health care benefits. In an effort to create an incentive for districts to negotiate and provide subsidized health care for part-time faculty, in the 1990s the Legislature created the Part-Time Faculty Health Insurance Program. For this program, part-time faculty are defined as those with teaching assignments equal to or greater than 40 percent of a full-time assignment (typically about two courses). Through collective bargaining, districts and faculty representatives decide what health coverage to offer (such as whether to extend coverage to an employee's family). They also decide the share of health premiums to be covered by the district and the employee. The program does not cover dental or vision insurance.

Program Designed to Cover a Portion of District Costs. The program reimburses districts (the employer) for up to half of their health insurance premium costs provided to part-time faculty. The Chancellor's Office determines the exact share of district premiums to cover based upon the annual budget appropriation for the program. Districts generally cover remaining costs using their unrestricted apportionment funding. For years, funding for the categorical program was $1 million ongoing. Due to the state's fiscal condition during the Great Recession, the program's budget was reduced to $490,000 in 2009-10. The program has been funded at $490,000 ongoing since that time.

Almost Half of Districts Participate but Program Covers Small Share of District Costs. Figure 4 shows that in 2020-21, 33 of CCC's 72 local districts submitted claims to the Chancellor's Office for reimbursement under the program. (Systemwide data are not available on all districts offering health insurance to part-time faculty. Some districts, however, do offer insurance to part-timers without seeking state reimbursement for a portion of those costs.) Just under 3,700 part-time faculty received health care coverage from these districts (about 10 percent of all part-time faculty). On average, districts covered about 80 percent of the $31 million in total premium costs, with part-time faculty paying the remaining amount. Program reimbursements covered about 2 percent of districts' premium costs.

Considerable Variation in Coverage Districts Offer to Part-Time Faculty. Among districts participating in the program in 2020-21, the amount of premium costs covered by the district ranged from 100 percent to under 30 percent. That is, participating part-time faculty in these districts paid between 0 percent to more than 70 percent of premium costs. In some cases, the amount the district covers for the insurance premium is based on a sliding scale of how many units a part-time faculty teaches, with a lower share of cost provided for those teaching fewer units or classes. Based on our discussions with the California Federation of Teachers and several districts, the insurance offered to part-time faculty varies significantly across the CCC system in other ways too. For example, some districts offer the same medical plans to part-time faculty as the full-time faculty, whereas part-time faculty in other districts are limited to choosing medical plans with less coverage or higher out-of-pocket costs. Some districts cover only the employee (known as "self only" coverage), whereas other districts offer at least some level of coverage to the employee's spouse and dependents too. Districts vary as well in the number of terms a part-time faculty member must teach in a row (or within a certain period of time) to be eligible for a district-provided plan

Figure 4

Summary of Part-Time Faculty Health Insurance Program

2020-21

Number of districts participating	33
Share of local districts participating	46%
Number of part-time faculty participating	3,691
Share of total part-time faculty participating	About 10 percent
Total premium costs	$31,481,326
Premium cost paid by district	$24,722,739
Premium cost paid by employee	$6,268,587
Annual program funding	$490,000
Percent of district premium cost covered by program	2%

GOVERNOR'S 2022-23 BUDGET PROPOSAL

The Governor's Budget proposes a $200 million ongoing Proposition 98 General Fund augmentation for the Part-Time Faculty Health Insurance Program. The Governor does not propose any other changes to the program itself.

LAO ASSESSMENT AND RECOMMENDATIONS

Assessment

Problem Is Unclear. The Governor indicates an interest in expanding medical coverage for part-time faculty. The administration, however, has not yet provided any data on the number of part-time faculty who do not have health insurance. The administration also has not provided any data on the share of part-time faculty who access health insurance through an outside job, spouse, Medi-Cal, Medicare, or Covered California. (District administrators we spoke with believed that most part-time faculty have health insurance through one of these means.) Without these data, determining whether a problem exists involving health care access or affordability is not possible.

Some District-Provided Health Care Coverage May Be Disadvantaging Certain Part-Time Faculty. Some part-time faculty working in districts that offer health insurance could be worse off than had their district not offered health care. This is particularly the case if employers provide plans that keep premium costs for the employee to less than 9.6 percent of household income but provide little or no contribution toward covering the employee's family. In such cases, coverage through the district-provided plan for a spouse or dependents might cost more than coverage through a Covered California plan. Nonetheless, the availability of the district plan for the employee would prevent the family from receiving financial assistance if they enroll in a Covered California plan due to the family glitch. In such circumstances, the family could have higher health insurance costs than if no district-provided plan had been offered. Like other related data in this area, the administration has not yet provided data on how many part-time faculty are being negatively affected in this way.

Part-Time Faculty Face Greater Uncertainty With District-Provided Coverage. Given declining enrollment across the CCC system, districts have been reducing course section offerings. These reductions mean fewer teaching opportunities for part-time faculty. If part-time faculty are not hired or fall below a certain number of teaching units, they stand to lose district-provided health care or see an increase in their premium costs. Even were districts to offer robust coverage for part-time faculty and their families, the Legislature thus faces the policy question of whether this CCC program is the best way to provide them health insurance— with part-time faculty potentially fluctuating in and out of district-provided coverage. Potentially having to change health plans frequently might be less optimal for part-time faculty than remaining insured under Covered California.

Proposal Raises Equity Issues for Other Part-Time Workers in State. California has many part-time employees throughout state and local government. Yet, the state generally does not fund a special health care program for these other groups. Expanding a program for part-time CCC faculty thus could create an inequity relative to other part-time workers. Also, such a major expansion of the current program for CCC part-time faculty could set a greater precedent for dealing with each group of part-time workers separately, potentially introducing further inequities.

Proposal May Not Be the Best Approach to Improve Health Care Affordability. If the goal is to improve health care affordability and statewide coverage, the Governor's proposal might not be the best approach as it likely would only impact a relatively small number of residents. Notably, a recent report from Covered California highlights various options to offer increased financial assistance to a much broader group of Californians than this proposal, with state costs ranging from $37 million to $452 million. These options are designed to reduce or eliminate various health care costs (such as the amount patients must pay for certain medical services and the maximum they are required to pay out-of-pocket in a given year) for low- and middle-income Californians who have purchased health plans through Covered California.

Recommendation

More Information Is Needed to Assess How Best to Enhance Health Coverage. The Legislature needs additional information if it is to assess the implications of the Governor's proposal. In particular, the Legislature needs clarification about what problem the administration is trying to solve, the extent of the problem, and why the proposal in the Governor's budget is the most optimal solution. The Legislature also needs information allowing it to compare the health coverage for part-time faculty to other part-time workers in the state. Without this information, moving forward with the Governor's proposal could have unintended, counterproductive effects— potentially exacerbating rather than mitigating health coverage inequities. Furthermore, gathering more information on these issues likely would take several months, making budget action for 2022-23 impractical.

Legislature Could Task Administration With Providing This Information. If the Legislature is interested in enhancing health coverage for part-time workers, it could direct the administration, in coordination with the Chancellor's Office, to obtain more information on the insured status of part-time faculty and on the part-time faculty health care plans currently offered by districts. The Chancellor's Office could survey part-time faculty and districts to learn, at a minimum:

- What percent of part-time faculty have health insurance? What is the source of their health insurance?

- What factors are driving whether districts offer health insurance to part-time faculty and what factors are driving the type of coverage they provide?

- For districts that offer health insurance to part-time faculty, does the coverage extend to the employee's family? If so, how much of the premium is covered by the district? How many part-time faculty are on this type of coverage?

The Legislature similarly could direct the administration to work with other state agencies to gather comparable information for other part-time workers in the state. The Legislature could give the administration until October 2022 to submit this information. With such information, both the administration and Legislature would be much better positioned to inform potential budget decisions for 2023-24 and decide how best to enhance health coverage for part-time workers in California.

STAFF COMMENT/POTENTIAL QUESTIONS

Staff notes that the Legislature has previously sought to increase support for part-time faculty, particularly though the part-time faculty office hours categorical program and by providing funding to increase the number of full-time faculty, which can allow part-time instructors to become full-time.

The Governor's proposal addresses a significant problem for many part-time faculty. Staff notes that should the Legislature support this new funding, it may also wish to consider whether other changes are needed to this program, which was created about 30 years ago and has been minimally funded. It is unclear whether the program's design will accommodate such a dramatic spending increase.

A letter from the California Federation of Teachers to the Subcommittee suggests changes to the program, including relaxing or changing the matching fund requirement on districts if there are funds remaining after the initial disbursement, and allowing part-time faculty that combine to teach at least 40-percent of a full-time load across multiple community college districts, but is otherwise ineligible for healthcare at any one district, to be eligible to receive proportional reimbursements through this program

The Subcommittee may wish to ask the following questions:

- Does the Chancellor's Office believe most districts will participate in this program with this increased funding?

- How should the Legislature address the issue of faculty who teach at multiple districts who might not be eligible for this program?

- How will this proposal interact with local collective bargaining?

ISSUE 4: DEFERRED MAINTENANCE/CAPITAL OUTLAY

The Subcommittee will discuss the Governor's Budget proposals to provide $388 million one-time Proposition 98 General Fund for deferred maintenance.

PANEL

- Daniel Hanower, Department of Finance
- Randall Katz, Department of Finance8
- Paul Steenhausen, Legislative Analyst's Office
- Lizette Navarette, California Community Colleges Chancellor's Office

BACKGROUND

CCC Maintains Inventory of Facility Conditions. Community college districts jointly developed a set of web-based project planning and management tools called FUSION (Facilities Utilization, Space Inventory Options Net) in 2002. The Foundation for California Community Colleges (the Foundation) operates and maintains FUSION on behalf of districts. The Foundation employs assessors to complete a facility condition assessment of every building at districts' campuses and centers on a three- to four-year cycle. These assessments, together with other facility information entered into FUSION, provide data on CCC facilities and help districts with their local planning efforts.

State Has a Categorical Program for Maintenance and Repairs. Known as "Physical Plant and Instructional Support," this program allows districts to use funds for facility maintenance and repairs, the replacement of instructional equipment and library materials, hazardous substances abatement, architectural barrier removal, and water conservation projects, among other related purposes. To use this categorical funding for maintenance and repairs, districts must adopt and submit to the CCC Chancellor's Office through FUSION a list of maintenance projects, with estimated costs, that the district would like to undertake over the next five years. In addition to these categorical funds, CCC districts fund maintenance from their apportionments and other district operating funds (for less expensive projects) and from local bond funds (for more expensive projects). Statute requires districts to spend at least 0.5 percent of their current general operating budget on ongoing maintenance. Statute also contains a maintenance-of-effort provision requiring districts to spend annually at least as much on facility operations and maintenance as they spent in 1995-96 (about $300 million statewide), plus what they receive from the Physical Plant and Instructional Support program. (Given inflation since 1995-96, coupled with the 0.5 percent general operating budget requirement, districts tend to be spending far above this maintenance-of-effort level.)

State Has Provided Substantial Funding for Categorical Program Over Past Several Years. Historically, the Physical Plant and Instructional Support categorical program has received appropriations when one-time Proposition 98 funding is available and no appropriations in tight budget years. Since 2015-16, the Legislature has provided a total of $955 million for the program. The largest appropriation came from the 2021-22 budget, which provided a total of $511 million. According to the Chancellor's Office, thus far districts have chosen to use nearly three-quarters (about $365 million) of these 2021-22 funds for deferred maintenance and other facility-related projects, with the remaining one-quarter of funds intended for instructional support purposes.

Even With Recent Funding, Chancellor's Office Reports Sizeable Maintenance Backlog. Entering 2021-22, the Chancellor's Office reported a systemwide deferred maintenance backlog of about $1.6 billion. Because of the funds provided in the 2021-22 budget (plus local spending on projects), the backlog has been reduced to about $1.2 billion. This is the same size as the CCC backlog identified back in 2017-18. Since that time, state funding effectively has kept the backlog from growing but not shrunk it.

State Funds Community College Facilities through General Obligation Bonds. The state typicallyissues general obligation bonds to cover a portion of the cost of community college facility projects. A majority of voters must approve these bonds. From 1998 through 2006, voters approved four facility bonds that provided a total of $4 billion for community college facilities. Virtually no funding remains from these facility bonds.

State Bond Approved in 2016. After a ten-year gap, voters approved Proposition 51 in November 2016. The measure authorizes the state to sell $2 billion in general obligation bonds for community college projects. The funds may be used for an array of CCC projects, including buying land, constructing new buildings, modernizing existing buildings, and purchasing equipment.

Community College Districts Raise Local Funding for Facilities. The bulk of community college facility costs are covered with local funds. Districts typically sell local general obligation bonds to raise this support. Districts currently must get at least 55 percent of their voters to approve the sale of these local bonds. Since 1998 (when the voting threshold for local facility bonds was reduced from two-thirds), community college districts have sold $26 billion in local general obligation bonds for facility projects.

Community College Facility Projects Ranked by Chancellor's Office and Reviewed by the State. To receive state bond funding, community college districts must submit project proposals to the Chancellor's Office. The chancellor's office reviews each project based on the age of the building, enrollment growth, existing inventory, project design, assignable square footage change and local contribution. The Chancellor's Office ranks all submitted facility projects using prioritization criteria adopted by the Board of Governors. Projects are prioritized in the following order:

1. Life safety projects, projects to address seismic deficiencies or risks, and infrastructure projects (such as utility systems) at risk of failure.
2. Projects to increase instructional capacity.
3. Projects to modernize instructional space.
4. Projects to complete campus build-outs.
5. Projects that house institutional support services.

Within these categories, projects with a local contribution receive greater consideration. After ranking the projects, the Chancellor's Office submits capital outlay project proposals to the Legislature and Governor in the fall. The projects are reviewed as part of the annual state budget process.

GOVERNOR'S 2022-23 BUDGET PROPOSAL

The Governor's Budget proposes $388 million one-time Proposition 98 General Fund for the Physical Plant and Instructional Support Program. Of this amount, $109 million is 2022-23 Proposition 98 General Fund and a total of $279 million is Proposition 98 settle-up funds ($182 million attributed to 2021-22 and $97 million attributed to 2020-21). The Governor excludes all $388 million from SAL. In addition to the categorical program's existing allowable purposes, proposed trailer language would allow districts to use the funds for energy efficiency projects. Districts would have until June 30, 2024 to encumber the funds.

The Governor's budget proposes General Obligation bond funding of $373 million one-time state general obligation bond funding for the construction phase of 17 projects anticipated to complete design by spring 2023, and the working drawings phase of one project. This allocation represents the next installment of the $2 billion available to CCCs under Proposition 51. The Governor's budget does not fund any new CCC capital projects. The chart below was compiled by the LAO and shows the proposed projects.

California Community Colleges Continuing Capital Outlay Projects

(In Thousands)

		2022-23		All Years	
College	Project	Phase	State Cost	State Cost	Total Cost[a]
Mount San Antonio	Technology and health building replacement	C	$77,425	$82,668	$197,852
Fullerton	Music/drama complex replacement	C	40,492	43,787	102,447
Los Angeles Trade-Technical	Design and media arts building replacement	C	35,782	38,192	90,883
Los Angeles Valley	Academic building 2 replacement	C	23,743	25,380	61,135
El Camino	Music building replacement	C	27,087	29,056	58,476
Saddleback	Science/math building replacement	C	20,342	21,642	49,647
Los Angeles Pierce	Industrial technology building replacement	C	16,998	18,180	44,012
Sierra	Gymnasium renovation and expansion	C	26,479	28,888	38,549
Cypress	Fine arts building renovation	C	19,377	20,889	34,365
West Hills Lemoore	New instructional center, phase 1	C	23,543	25,177	34,086
Mission	New performing arts building	C	14,430	15,454	33,582
East Los Angeles	Facilities maintenance and operations building replacement	C	11,588	12,417	29,764
Rio Hondo	Music/theater renovation	C	11,559	12,538	28,817
Los Angeles Mission	Plant facilities warehouse and shop replacement	W	208	7,118	23,624
Santa Rosa	Tauzer gym renovation	C	9,873	10,760	21,321
West Los Angeles	Plant facilities/shop replacement	C	5,728	6,173	15,182
Santa Rosa (Public Safety Training Center)	Center Expansion	C	4,925	5,323	7,940
Yuba	Life and physical science building renovation	C	3,464	3,854	4,915
Totals			**$373,043**	**$407,496**	**$876,597**

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

C = construction. W = working drawings.

LAO ASSESSMENT AND RECOMMENDATIONS

Assessment

Proposal Reflects a Prudent Use of One-Time Funding. Providing funds for deferred maintenance projects would address an existing need among districts. Addressing this need can help avoid more expensive facilities projects, including emergency repairs, in the long run. Funding energy efficiency projects also could be beneficial, as these projects are intended to reduce districts' utility costs over time. In addition, instructional equipment and related support is core to CCC's mission of delivering quality educational services to students.

One-Time Funding Does Not Address Underlying Cause of Backlog. Deferred maintenance backlogs tend to emerge when districts do not consistently maintain their facilities and infrastructure on an ongoing basis. Although one-time funding can help reduce the backlog in the short term, it does not address the underlying ongoing problem of underfunding in this area. Though districts are required to spend a certain share of their general operating funds on ongoing maintenance, the current rate (0.5 percent) may not be sufficient given the maintenance backlog exists and would have grown absent state categorical funding the past several years.

Recommendations

Consider Governor's Proposal as a Starting Point. To address CCC's maintenance backlog, we recommend the Legislature provide at least the $388 million proposed by the Governor. As it deliberates on the Governor's other one-time proposals and receives updated revenue information on the Proposition 98 minimum guarantee in May, the Legislature could consider providing CCC with more one-time funding for this purpose.

Consider Developing Strategy to Address Ongoing Maintenance Needs. In addition to providing one-time funding for deferred maintenance, we encourage the Legislature to begin developing a long-term strategy around CCC maintenance. Potential issues to consider include whether the current statutory expectation around district spending on maintenance is sufficient, what fund sources to use for maintenance, the mix of funding provided ongoing versus on a one-time basis, the period over which to address the existing maintenance backlog, and associated reporting. Given the magnitude of maintenance needs at CCC, developing such a strategy would likely require planning beyond the 2022-23 budget cycle.

STAFF COMMENT

Regarding deferred maintenance, staff notes that this Subcommittee has discussed this issue with all three public higher education segments. While community colleges appear to have a significantly smaller maintenance backlog than the University of California or California State University, the same problem remains: despite years of increased budgets, colleges continue to report deferred maintenance. Staff concurs with the LAO recommendation that a long-term plan to eliminate this backlog and ensure that CCC can properly maintain its buildings is needed.

Staff has no concerns with the capital outlay proposals. All of the projects have received previous funding for planning or other costs; the Governor's Budget would support the next phase of the project.

Staff Recommendation: Hold open until after the May Revision.

ISSUE 5: STUDENT SUPPORT PROPOSALS

The Subcommittee will discuss various Governor's Budget proposals to increase student supports, including a $100 million ongoing Proposition 98 General Fund increase for the Student Success Completion Grant program, $10 million ongoing Proposition 98 General Fund to increase support for the financial aid administration categorical program, $10 million ongoing Proposition 98 General Fund to increase support for the NextUp foster youth support program, $1.1 million ongoing Proposition 98 General Fund to support African American Male Education Network and Development (A2MEND) Student Charters, $25 million one-time General Fund for Program Pathways Mapping Technology, $20 million one-time Proposition 98 General Fund for student emergency financial aid, $179,000 one-time Proposition 98 General Fund to support a study of Umoja program practices, and cost-of-living adjustments for the following categorical programs: Extended Opportunity Programs and Services (EOPS), Disabled Students Programs and Services (DSPS), Apprenticeship, CalWORKs Student Services, Mandates Block Grant and Reimbursements, and the Childcare Tax Bailout.

PANEL

- Daniel Hanower, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Lizette Navarette, California Community Colleges Chancellor's Office

BACKGROUND

California Community Colleges have numerous programs to support students, many of which are funded by the state through categorical programs in the Budget Act. The 2021 Budget Act saw a significant new spending or increases for many student support programs and initiatives, including:

- $150 million one-time Proposition 98 General Fund for emergency financial aid.
- $100 million one-time Proposition 98 General Fund to support student basic needs.
- $30 million ongoing Proposition 98 General Fund to support basic needs centers at all community colleges
- $30 million ongoing Proposition 98 General Fund to support student mental health services
- $4.9 million ongoing Proposition 98 General Fund for Umoja
- $8.2 million ongoing Proposition 98 General Fund for MESA
- $7.3 million ongoing Proposition 98 General Fund for Puente
- $20 million ongoing Proposition 98 General Fund for EOPS
- 1.3 million ongoing Proposition 98 General Fund for the HBCU Transfer program

- $23.8 million ongoing to increase support for the Student Equity and Achievement Program
- Cost-of-living adjustments to the following categoricals: EOPS, campus child care, CalWORKS, DSPS, child nutrition and mandates block grant
- $5.8 million ongoing Proposition 98 General Fund to increase funding for dreamer resource liaison
- $10 million one-time Proposition 98 General Fund to support LGBTQ+ student support centers
- $10 million ongoing Proposition 98 General Fund to create the Rising Scholars program to support justice-involved students.

In addition, the Student Success Completion Grant program provides financial aid to community college students who receive a Cal Grant and are taking 12 or more units per semester. According to the Chancellor's Office, this program has provided about 80,000 students annually with a cash grant of about $1,800. State spending on the program has been about $143 million annually over the last two years.

GOVERNOR'S 2022-23 BUDGET PROPOSALS

The Governor's Budget includes the following proposals:

- $100 million ongoing Proposition 98 General Fund increase for the Student Success Completion Grant program. Because this program supports community college students who receive a Cal Grant, and the number of Cal Grant recipients at community colleges is growing significantly due to Cal Grant reform enacted last year, the Administration is proposing this increase to allow students to continue receiving about the same level of funding as they have in previous years.

- $10 million ongoing Proposition 98 General Fund to increase support for the financial aid administration categorical program. This program supports campus financial aid offices, which face cuts due to declining community college enrollment, but also face increased workload due to Cal Grant and other recent and upcoming state and federal financial aid reforms.

- $10 million ongoing Proposition 98 General Fund to increase support for the NextUp foster youth support program. The proposal would increase funding from $20 million annually to $30 million. Budget bill language states this would allow 30 districts to provide the program.

- $1.1 million ongoing Proposition 98 General Fund to support African American Male Education Network and Development (A2MEND) Student Charters. The program matches students with an administrator who serves as a mentor and provides networking opportunities and other programs. There are currently 24 A²MEND student charters across the system, but there is no state support.

- $25 million one-time General Fund for Program Pathways Mapping Technology. The proposed funding is to facilitate the procurement and implementation of software that clearly maps out intersegmental curricular pathways, in order to help students select a pathway, facilitate streamlined transfer between segments, and reduce excess unit accumulation. Currently, Bakersfield Colleges uses this technology.

- $20 million one-time Proposition 98 General Fund for student emergency financial aid.

- $179,000 one-time Proposition 98 General Fund to support a study of Umoja program practices.

- Cost-of-living adjustments for the following categorical programs: Extended Opportunity Programs and Services (EOPS), Disabled Students Programs and Services (DSPS), Apprenticeship, CalWORKs Student Services, Mandates Block Grant and Reimbursements, and the Childcare Tax Bailout.

STAFF COMMENT/POTENTIAL QUESTIONS

Staff notes that many of these proposals support programs that were created by or previously supported by the Legislature. For example, the Student Success Completion Grant was created in the budget to help support more students attending community college full time, and the Umoja program first received state funding due to actions of this Subcommittee.

Staff would also highlight the importance of increasing support for financial aid administration. As discussed in a previous Subcommittee hearing, Cal Grant reforms enacted last year have allowed as many as 100,000 more community college students to become eligible for Cal Grant. Thus, financial aid offices will have an increased workload this year and into the future, warranting increased funding.

The Subcommittee may wish to ask the following questions:

- How does the Mapping Technology program interact with the Guided Pathways program? Doesn't Guided Pathways already provide students with this type of technology?

- Is information available on how colleges have used the emergency aid funding in the current year? What size of grants are students receiving? How do they apply for this funding? Would colleges use funding in a similarly next year?

- How will the proposed funding for the A2MEND program be distributed? How many colleges or districts would receive funding?

Staff Recommendation: Hold open until after the May Revision.

ISSUE 6: CHANCELLOR'S OFFICE POSITIONS

The Subcommittee will discuss the Governor's Budget proposal to support 19 new positions at the Chancellor's Office with $2.8 million ongoing General Fund.

PANEL

- Jennifer Kaku, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Lizette Navarette, California Community Colleges Chancellor's Office

BACKGROUND

Chancellor's Office Has Several Key Systemwide Responsibilities. Located in Sacramento, the Chancellor's Office is led by a Chancellor who has overall leadership and responsibility for the office. The Chancellor is appointed by the Board of Governors—the governing body entrusted with overseeing the CCC system. (The CCC system consists of 72 local districts and 115 local community colleges, along with the state-level Calbright College.) The Chancellor continues to serve as long as he or she remains in good standing with the board. Key responsibilities of the Chancellor's Office include:

- Setting and enforcing minimum standards for districts (such as student graduation requirements);
- Allocating state funds to districts and monitoring district fiscal health;
- Monitoring district compliance with state and federal law;
- Centrally collecting and reporting student data (such as enrollment and graduation rates).

Chancellor's Office Is Organized Into Units by Programmatic and Functional Areas. The Chancellor's Office is organized into nine divisions, each of which is led by a vice chancellor. The divisions are:

- College Finance and Facilities Planning
- Communications and Marketing
- Digital Innovation and Infrastructure
- Educational Services and Support
- General Counsel
- Governmental Relations
- Institutional Effectiveness
- Internal Operations
- Workforce and Economic Development.

Non-Proposition 98 General Fund Is Chancellor's Office's Main Source of Support. In 2021-22, the Chancellor's Office is budgeted $30 million (all funding sources) for personnel and other operational expenses (including its office lease and supplies). The Chancellor's Office's largest single funding source for its operations is non-Proposition 98 General Fund ($21 million in 2021-22). (Historically, the Chancellor's Office has not directly received Proposition 98 funds for its operations.) The Chancellor's Office operating budget also relies on reimbursements from other departments (such as a contract with the California Department of Education to provide technical assistance for the federal Perkins program) as well as certain fee-for-service agreements with districts (totaling $6.8 million in 2021-22). In addition, the Chancellor's Office received $2.5 million from bond funds and one-time funds for specified programs in 2021-22.

As the LAO chart below indicates, the Chancellor's Office has grown in size during the past decade. The Chancellor's Office also has had its workload increased, due to legislation and budget actions, such as the Guided Pathways Initiative and various efforts to improve student transfer programs and processes.

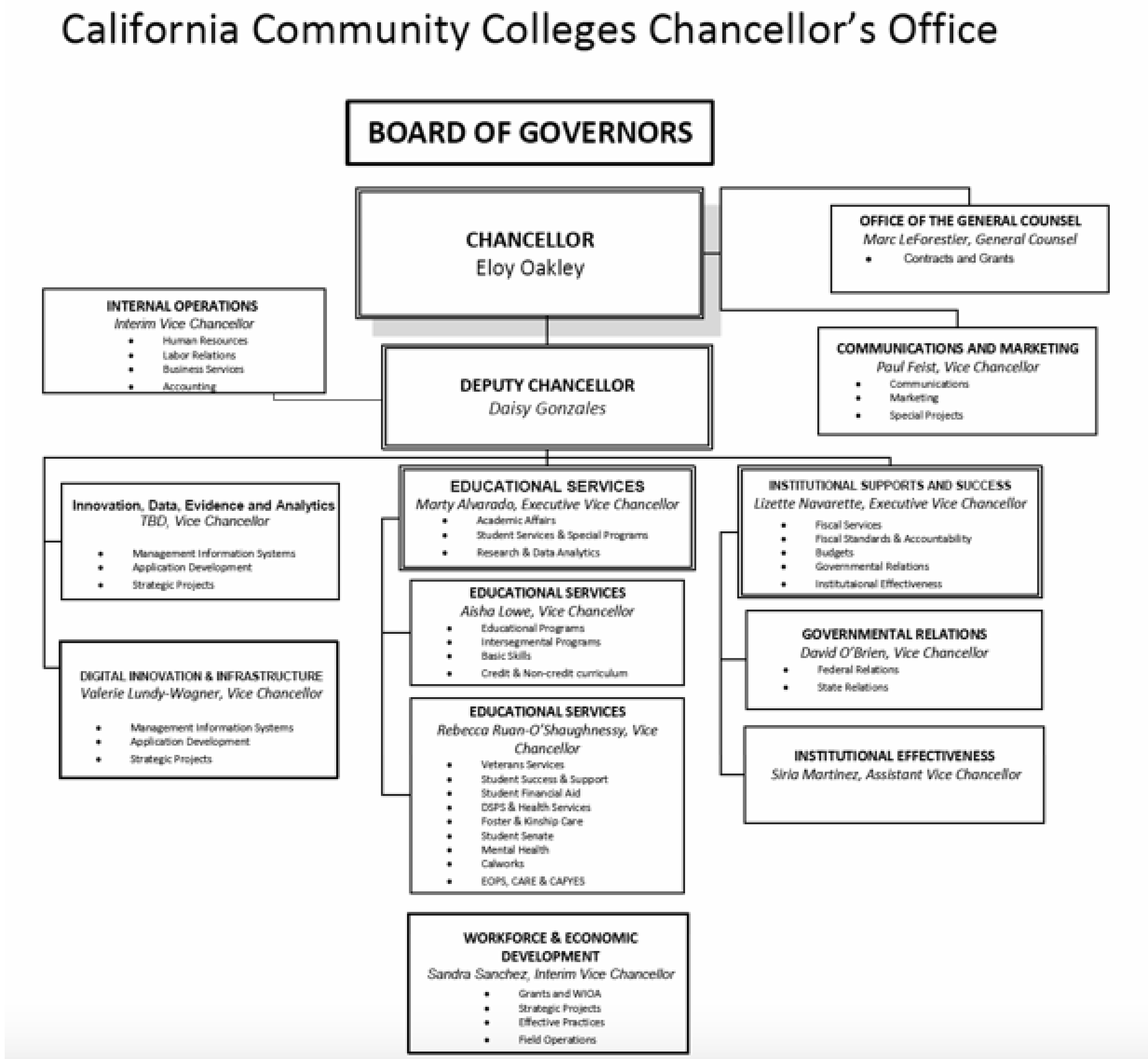
Figure 1

Chancellor's Office Has Grown Somewhat in Recent Years

	Authorized Positions	Filled Positions	Vacancy Rate
2012-13	146	136	7%
2013-14	151	139	8
2014-15	160	144	10
2015-16	166	140	16
2016-17	166	141	15
2017-18	172	141	18
2018-19	172	134	22
2019-20	176	137	22
2020-21	177	146	18
2021-22	177	154[a]	13

[a] Through December 31, 2021.

An organizational chart of the office is displayed on the following page.



GOVERNOR'S 2022-23 BUDGET PROPOSAL

The Governor's Budget proposes a two-year staffing increase for the Chancellor's Office, totaling 19 positions and $2.8 million ongoing General Fund. Of the new positions, the Governor proposes adding nine in 2022-23 and ten in 2023-24. The chart below was compiled by the LAO and indicates the proposed positions.

Figure 2

Governor Proposes a Total of 19 New Chancellor's Office Positions Over Next Two Years

General Fund (In Thousands)

Division	Proposed Positions	Cost[a]
2022-23 (Nine Positions)		
Digital Innovation and Infrastructure	Information Technology Specialist II	$170
	Specialist	157
	Specialist	157
	Research Data Specialist II	139
Educational Services and Support	Specialist, Academic Affairs	157
	Specialist, Academic Affairs	157
	Specialist, Academic Affairs	157
	Program Assistant II	136
	Program Assistant II	136
Subtotal		($1,366)
2023-24 (Ten Positions)		
College Finance and Facilities Planning	Specialist	$157
	Specialist	157
	Associate Governmental Program Analyst	116
Digital Innovation and Infrastructure	Research Data Specialist II	139
	Research Data Specialist I	127
Educational Services and Support	Specialist, Student Services	157
	Specialist, Student Services	157
	Staff Services Analyst	88
General Counsel	Attorney III	213
Governmental Relations	Staff Services Manager I	136
Subtotal		($1,447)
Total		**$2,813**

[a] Reflects salary, benefits, and operating/equipment costs associated with each position.

LAO ASSESSMENT AND RECOMMENDATIONS

Proposal Has Some Merit and Some Shortcomings. As described below, the Governor's proposal to fund 19 new positions over the next two years is a mixed bag. We find a few of the proposed positions to be justified, though not as permanent positions or in the fiscal year proposed by the Governor. The Governor's other proposed positions either are not justified or to date have not been sufficiently justified to warrant legislative approval.

Two Positions Justified but Not as Permanent, Recommend Making Limited Term. We find that the two Specialist positions proposed in 2022-23 for supporting implementation of certain transfer reforms (as required by Chapter 566) are justified. In particular, the new positions would support the Chancellor's Office in chairing the first two years of a statutorily required transfer-reform implementation committee, as well as provide assistance to colleges on complying with the legislation. Although we think the positions are needed given the additional workload stemming from the legislation, we do not think permanent authority is justified. Statute requires the relevant activities be completed by July 2025, with Chapter 566 sunsetting at that time. For these reasons, we recommend the Legislature approve these positions and the associated funding but only on a three-year, limited-term basis (through 2024-25).

Two Proposed 2023-24 Positions Are Justified, but Recommend Funding in Budget Year. We see merit for two of the proposed positions in the Educational Services and Support Division. Specifically, the two Specialist positions proposed for 2023-24 would help the Chancellor's Office administer the recently created ongoing basic needs program and other student service programs. Because these programs are already authorized and currently being developed by community colleges, we are unclear as to why the administration postpones funding the associated staffing positions until 2023-24. We recommend the Legislature modify the Governor's proposal by approving these positions and the associated funding beginning in 2022-23.

Given Chancellor's Office Existing Staff, Recommend Rejecting Two Positions. The Governor's budget proposes two other positions—a Program Assistant II and a Specialist—in the Educational Services and Support Division that would work on ethnic studies curriculum and competency-based education. Chancellor's Office documentation provided to our office shows that the agency already assigns two staff to overseeing those issues. Given the Governor's proposal appears to duplicate already authorized and assigned positions, we recommend the Legislature reject these proposed positions.

Insufficient Detail on Remaining Positions, Withhold Recommendation. The Chancellor's Office may need some of the remaining requested positions but without better back-up and justification, the Legislature is unable to make this determination. For example, a proposed Information Technology Specialist II position would support "critical upgrades" to CCC's centralized data system. The administration, however, has provided no information on what the critical upgrades are, how long they will take, and how often they need to occur. Similarly, a proposed Staff Services Analyst position in the Educational Services and Support Division would "provide administrative and staff support services associated with the entire division's workload." No detail, however, is provided on current unmet workload needs in the division and what workload the proposed position would cover. In the case of the attorney position, the administration identifies the general nature of the work the attorney is to undertake but provides no backup information suggesting that the current number of attorneys in the Chancellor's Office is insufficient given workload. Rather than rejecting the remaining positions at this time given this lack of specificity and justification, the Legislature could give the administration an opportunity to submit improved proposals before the May Revision. Such proposals should include more details on the specific workload the proposed positions would undertake and why current staffing levels in those areas is insufficient. Until such proposals are provided, we withhold recommendation on the associated positions.

STAFF COMMENT

Staff notes that legislative policy and budget actions during the past several years have definitely increased workload for the Chancellor's Office. Issues such as the elimination of remedial education, implementation of the complex new funding formula, and numerous other programs, such as Rising Scholars, LGBTQIA+ Centers, Veterans Resource Centers, mental health services and student basic needs all required significant effort for the office. In addition, while it is difficult to compare central offices, the office could be considered under-staffed when compared to other central offices. For example, the California Department of Education has 2,522 positions and oversees about $99 billion in K-12 total funding; that's one position for every $39.3 million in systemwide funding. The Chancellor's Office has 177 positions and oversees about $17 billion in total systemwide funding, which equates to about one position for every $96 million. Some increase in position authority seems warranted.

However, staff concurs with the LAO that the Administration and Chancellor's Office has provided limited documentation for some of the proposed positions. Most state agencies provide thorough workload information when proposing position increases through the Budget Change Proposal process. As the LAO suggests, the Subcommittee could direct the Chancellor's Office to provide more information regarding this proposal during the next few months, before final decisions are made in May and June.

Staff Recommendation: Hold open until after the May Revision.

ISSUE 7: CYBERSECURITY PROPOSAL

The Subcommittee will discuss the Governor's Budget proposal to provide $100 million Proposition 98 General Fund ($25 million ongoing, $75 million one-time) for the California Community Colleges to upgrade their cybersecurity.

PANEL

- Daniel Hanower, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Lizette Navarette, California Community Colleges Chancellor's Office

BACKGROUND

Colleges Are Largely Responsible for Their Cybersecurity. The state subjects most state agencies, including the CCC Chancellor's Office, to cybersecurity standards developed by the California Department of Technology (CDT) and federal government. In addition, CDT and the California Military Department (and, in some cases, third party vendors) conduct audits to bolster state agencies' compliance with cybersecurity standards. In contrast, the state does not require community colleges to follow specific standards, and community colleges are not routinely subject to oversight or audits of their cybersecurity programs and processes. As locally governed entities, community colleges also make their own decisions about budgeting for technology and data security, including setting their associated staffing levels and deciding how much to spend on hardware and software purchases. Colleges typically use apportionments (general-purpose monies) to fund cybersecurity costs.

CCC Information Security Center Offers Some Assistance to Colleges. Though colleges manage their own information security, certain systemwide resources and tools are available to them through the CCC Technology Center, which is administered by Butte College. This center is funded by the state through a technology categorical program supported with ongoing Proposition 98 General Fund. In 2016-17, the center added a division, the Information Security Center, focused primarily on cybersecurity issues. In 2021-22, the Information Security Center is receiving $3 million ongoing Proposition 98 General Fund from the categorical program. The Information Security Center's services include making available sample security plans for colleges to adopt, offering vulnerability scans and risk analyses, providing recommendations to colleges in the event of a data breach, and enhancing colleges' security monitoring and "threat intelligence" (knowledge that helps identify security threats). The funding also supports a CCC systemwide committee that discusses current cybersecurity threats facing colleges.

Colleges Have Seen a Recent Surge in Fraud Attempts. CCC has a common online admissions application known as CCCApply. The Chancellor's Office contracts with the CCC Technology Center to administer the application platform. Colleges upload completed applications and process them. Through CCCApply, bad actors attempt to submit fraudulent applications—sometimes hundreds at a time at multiple colleges using automated technology. Upon acceptance, these bad actors can register for classes, allowing them potentially to gain access to certain financial aid benefits. Though some fraudulent activity occurred prior to the pandemic, such attempts increased notably with the availability of a significant amount of federal relief funds for student emergency financial aid.

Colleges Face Other Threats to Information Security. Colleges maintain databases with sensitive information on students (and their families) and staff. In addition, colleges operate other technology such as e-mail and phone systems. These types of systems are routinely the subject of cyberattacks, ransomware, and other malware of varying scales. Recently, several community colleges reported major cyberattacks on their information and other technology systems.

GOVERNOR'S 2022-23 BUDGET PROPOSAL

The Governor's Budget proposes $100 million Proposition 98 General Fund, consisting of $25 million ongoing and $75 million one time, to address cybersecurity issues. The $25 million ongoing is primarily for college cybersecurity staffing, whereas the $75 million one-time is primarily for security network upgrades, general security software, and anti-fraud technology. Of the proposed funding, $92 million would be allocated directly to colleges. The Chancellor's Office would award the remaining $8 million via contracts with certain districts to provide specified systemwide services and oversight. The chart on the following page contains more detail.

Although not specified in budget or trailer bill language, the Chancellor's Office indicates that it plans to require districts to meet certain requirements as a condition of receiving any of the proposed ongoing or one-time cybersecurity funding. Specifically, colleges would be required to (1) complete an annual cybersecurity self-assessment based on state and national standards and identify needed improvements; (2) submit quarterly status updates on progress toward meeting state and national standards; (3) submit a monthly report on any incidents of application, enrollment, and financial aid fraud; and (4) submit a report of all cybersecurity incidents that resulted in a breach of personally identifiable information or disruption of services (such as through ransomware). The Chancellor's Office indicates that these requirements would be made through both systemwide guidance and changes in CCC regulations.

In addition to the $100 million Proposition 98 General Fund, the Governor's budget includes a proposal to add two new positions at the Chancellor's Office and an associated $314,000 non-Proposition 98 General Fund to support CCC cybersecurity efforts. This was discussed in Issue 6.

Figure 1

Governor Provides Mix of Ongoing and One-Time Funds for Local and State-Level Purposes

Proposition 98 General Fund (In Millions)

Description	Proposed Amount	Purpose of Funding	Funding Allocation Method
Ongoing Funds			
District cybersecurity staff	$23.0	Hire staff to monitor and combat cyberattacks and fraud. (Districts with limited access to these staff may share staff on a regional basis.)	Funding for each district. (No specific formula is proposed.)
Statewide cybersecurity teams	1.0	Contract with independent consultants to assess district compliance with cybersecurity standards.	Chancellor's Office to contract with a district to administer on behalf of CCC system.
System-level oversight	0.5	Provide direction and oversight to district (and regional) staff and statewide cybersecurity teams on cybersecurity standards and incidence response. Provide support to colleges needing assistance.	Chancellor's Office to contract with a district to administer on behalf of CCC system.
CCCApply operations	0.5	Cover hosting and maintenance costs.	Chancellor's Office to contract with CCC Technology Center (Butte College).
Subtotal	($25.0)		
One-Time Funds			
College network security upgrades	$40.0	Obtain assessments of system vulnerabilities. Purchase hardware and software to prevent cyberattacks.	Funding for each college based on enrollment size, with larger colleges receiving a larger amount.
College enrollment anti-fraud technology	29.0	Purchase fraudulent application detection software. Provide anti-fraud training for staff.	Funding for each college based on enrollment size, with larger colleges receiving a larger amount.
CCCApply upgrades	5.0	Redesign platform (with input from student focus groups), adding and testing security features. Streamline number of questions applicants are required to answer. Add capacity to report data on applicants that started but did not complete application.	Chancellor's Office to contract with CCC Technology Center (Butte College).
CCCApply training	1.0	Once CCCApply upgrades are completed, provide training to college staff.	Chancellor's Office to contract with a district to administer on behalf of CCC system.
Subtotal	($75.0)		
Total	**$100.0**		

LAO ASSESSMENT AND RECOMMENDATIONS

Assessment

Given State's "Fifty Percent Law," Merit to Having an Ongoing Cybersecurity Categorical Program. Given the highly sensitive nature of the data that colleges maintain, together with the recent cyberattacks, colleges have a local interest in dedicating staff to cybersecurity issues and putting in place robust defensive systems. Colleges, however, receive no state funding specifically for these purposes. Moreover, under state law, colleges must use at least half of their general-purpose funding on salaries and benefits of classroom faculty and aides. Spending on other college staff, including information technology (IT) personnel, counts against the 50 percent requirement, as do other costs, such as anti-fraud software licenses and consulting services with cybersecurity experts. Colleges that fall below the 50 percent mark can be subject to financial penalties by the Chancellor's Office. Because of this law, some colleges might refrain from using sufficient apportionment funding to achieve adequate ongoing cybersecurity protection. Given this consideration, we think the Governor's proposal to provide ongoing cybersecurity categorical program funds, which would not be subject to the fifty percent law, is reasonable.

Merit to Enhanced Ongoing State-Level Role for CCC Cybersecurity Issues... Beyond bolstering local cybersecurity staffing on an ongoing basis, we believe a stronger state-level role also is worth considering. While CCC has an advisory committee to discuss cybersecurity threats and incidents systemwide, community colleges currently lack a strong central information hub to detect patterns and promote coordination. Colleges do not have to report incidents of cyberattacks or suspected fraud to the Chancellor's Office. This is the case even though scams and cyberattacks often target multiple colleges simultaneously. Currently, districts also do not need to show that they are either meeting state and national cybersecurity standards or have adopted plans and are making progress toward meeting these standards. Providing more state direction and support in these areas could lead to overall improvements in colleges' cybersecurity programs and processes.

...But Potential Issues With How New Oversight and Support Model Would Work. The Governor's ongoing cybersecurity components include (1) creating statewide cybersecurity teams, (2) funding a system-level entity that oversees both local colleges and the statewide cybersecurity teams, and (3) providing two new positions at Chancellor's Office. This approach creates a complex organizational structure in which exactly what functions and role each entity would have is unclear. In some cases, the roles and responsibilities of the various entities appear to overlap. For example, under the Governor's proposal, the statewide cybersecurity teams would monitor colleges' compliance with cybersecurity standards. Yet, the system-level oversight entity also would be charged with monitoring standards and providing support to colleges, in addition to providing direction and oversight to the statewide cybersecurity teams. Moreover, the Chancellor's Office indicates it too would be charged with overseeing the statewide cybersecurity teams. We also have concerns that the administration's proposal could create a conflict of interest for the system-level oversight entity, which, as characterized by the Chancellor's Office, would help colleges with implementation while at the same time monitoring and holding colleges accountable for what they implement. Moreover, it is unclear if the Chancellor's Office's goal is for the statewide cybersecurity teams to assess all colleges annually or instead some subset of districts, with a focus on high-risk colleges.

Merit to Funding Cybersecurity Upgrades at Colleges... Based on anecdotal information, the Chancellor's Office has heard that community colleges vary in terms of their cybersecurity preparedness and anti-fraud detection capabilities. Whereas some colleges have staff dedicated to cybersecurity and relatively sophisticated defensive systems in place, other colleges rely on IT generalists that lack expertise in cybersecurity. Potentially, the state could strategically allocate funding, including the proposed one-time funding, to assist colleges in obtaining a certain level of cybersecurity preparedness.

...But Opportunities to Improve How One-Time Funds Would Be Allocated to Colleges. The Governor's proposed approach of allocating the one-time funds to colleges based on enrollment size has some merit, as potential cybersecurity and fraud risks can increase based on the technology usage at a college. A better approach, though, would be to base allocations on need as well—providing more funding to colleges that need more cybersecurity upgrades. Though there currently is no inventory of where each college is relative to state and national standards and what each would need to do to meet standards, the Chancellor's Office is in the process of identifying the current preparedness level for each college. The Chancellor's Office believes it might have the initial inventory prepared by June 2022. Such an inventory could be used to track need and allocate a share of 2022-23 funding accordingly.

Governor Proposes One-Time Funds for Ongoing Purposes. Though some initial one-time funding could help with initial cybersecurity upgrades among colleges, much of what the Governor has proposed as one-time costs are more likely ongoing costs. Typically, a college would be expected to undergo independent security assessments every few years, pay for network security and anti-fraud software licenses annually, and make network upgrades periodically. As a result of these factors, the proposed level of ongoing funding for college cybersecurity and anti-fraud detection likely is underestimated. Importantly, the administration and the Chancellor's Office have not yet identified what they believe to be entailed in terms of funding to ensure colleges have a minimum level of ongoing cybersecurity and fraud detection. Lacking clarity in this area, the existing budget back-up is inadequate, as it neither clearly distinguishes one-time from ongoing costs nor includes detailed cost estimates.

Administration Has Provided Incomplete Information on CCCApply Proposal. The Governor's cybersecurity packages includes $6 million one time primarily to upgrade CCCApply's anti-fraud features and provide related college training, as well as $500,000 ongoing for hosting and maintenance of the redesigned portal. We concur with the administration that such enhancements are warranted and would have systemwide benefits for colleges and students. The amounts proposed by the administration, however, have only been partially justified. Specifically, of the $6 million proposed for one-time purposes, the administration has only provided workload justification for $3.4 million. The remaining $2.6 million in proposed costs either have no backup details or are labeled in documents provided to our office as "TBD" (to be determined). The administration does not provide any backup on how it estimated the ongoing cost. Without such information, the Legislature is unable to determine whether the proposed amount is justified to accomplish the administration's objectives for CCCApply.

Recommendations

Approve Funds for College Cybersecurity Staff. As a starting point, we recommend the Legislature approve the $23 million in ongoing funding for district cybersecurity staff. We think the state has an interest in making sure every district has at least one staff person dedicated to cybersecurity. Multi-college districts, however, may warrant more funding. We recommend directing the Chancellor's Office to develop an allocation method for these funds that ensures a minimum level of funding for each district while accounting for any other relevant factors. (Districts with existing cybersecurity staff could be permitted to use their allocations to increase their number of staff or improve their cybersecurity preparedness in other ways.)

Request Better Information on Proposed State-Level Structure. We recommend the Legislature postpone consideration of the $1.8 million in ongoing funding for the proposed state-level cybersecurity structure ($1.5 million Proposition 98 General Fund and $314,000 non-Proposition 98 General Fund) pending receipt of better information. Specifically, we recommend the Legislature request the administration and Chancellor's Office to clarify the specific role and functions of: (1) the existing staff at the Information Security Center, (2) the proposed statewide cybersecurity teams, (3) the proposed system-level oversight body, and (4) the proposed two additional cybersecurity positions at the Chancellor's Office. As part of this reporting, the Chancellor's Office should clarify how the statewide cybersecurity teams would prioritize their work and how much workload they are expected to accomplish annually given the proposed funding.

Modify Allocation Methodology of One-Time Funding for Colleges. We recommend the Legislature appropriate the $69 million in one-time funding for the colleges but direct the Chancellor's Office to allocate this funding in a way that accounts not just for enrollment but also for need, with less prepared colleges receiving somewhat more funding than more prepared colleges of the same size. Colleges could use their allocations for independent security assessments, network upgrades, software licenses, and related technology costs. The Chancellor's Office's initial inventory of colleges' cybersecurity preparedness levels could be used as a basis for the allocation of the one-time funds. As discussed below, we recommend requiring the Chancellor's Office to work with districts and submit certain information to the Legislature prior to release of the one-time funding.

Use Additional Information From Chancellor's Office to Guide Allocation and Future Funding Decisions. Specifically, we recommend requiring the Chancellor's Office to submit documentation on (1) the basic requirements for colleges to achieve a minimum level of security, (2) estimates of the associated one-time and ongoing costs, and (3) a proposed formula for distributing the one-time funding to colleges in accordance with size as well as identified needs and costs. We recommend requiring the Chancellor's Office to provide this documentation to the administration and Legislature by October 15, 2022, with the findings informing release of the one-time funds as well as potential 2023-24 budget decisions.

With better information, the Legislature not only could identify how much one-time funding colleges need but also the annual amount of state funding needed to cover colleges' ongoing cybersecurity costs. If more ongoing funding is provided in the future, we recommend the Legislature consider at that time how best to allocate the additional funding among colleges. Ideally, over the next few years, the Chancellor's Office and colleges will learn more about the main risk factors underlying cyberattacks and enrollment fraud, such that the Legislature can align funding increases with those risk factors and potential cost drivers.

Direct Administration to Provide Cost Detail for CCCApply. Given the administration has provided workload justification for only $3.4 million in costs for CCCApply, we recommend the Legislature treat this amount as a starting point. We recommend the Legislature direct the administration to provide full justification for the remaining $2.6 million one-time funding it proposes as well as the $500,000 in proposed ongoing costs. The Legislature could give the administration until the May Revision to provide such information and use it to determine the amount to provide for 2022-23.

STAFF COMMENT

Staff concurs with the LAO recommendations. More spending and more positions related to cybersecurity does seem warranted, given recent attempts to defraud the system to gain access to federal and state financial aid. However, there does appear to be a need to develop more clarity in this proposal to ensure there is not duplication of duties or confusion about responsibilities between the Chancellor's Office and districts, and to consider need in allocating funding to districts.

Staff notes that students have long complained about difficulties in using the CCCApply system. Any effort that can both improve the system to add protections and streamline the application process is worthy of consideration!

Staff Recommendation: Hold open until after the May Revision.

ISSUE 8: CALBRIGHT COLLEGE UPDATE

The Subcommittee will hear an update on Calbright College.

PANEL

- Ajita Talwalker Menon, Calbright College

BACKGROUND

The 2018 Budget Act created a new online community college to be administered by the CCC Board of Governors. The online college was intended to focus on short-term programs for working adults who have no postsecondary credentials. Trailer bill language required the college to develop at least three short-term program pathways linked with industry needs, and to use existing industry certifications, competency-based learning, and prior learning assessments to reduce the amount of additional courses students need to complete their pathway. The Budget Act provided $20 million ongoing and $100 million Proposition 98 General Fund to launch the college, which is now called Calbright.

The 2020 Budget Act reduced support for the college by $5 million ongoing and $40 million one-time, leaving the college with $15 million ongoing and $60 million one-time. Calbright has provided the following updates regarding enrollment, faculty and staffing, budget information and partnership plans.

2021 audit was critical of college. A report released by the California State Auditor in May 2021 included several critiques of the college, including:

- Its former executive team's poor management contributed to ineffectively setting up the college.
- There is no detailed strategy for spending the more than $175 million that it expects to receive in state funding.
- It failed to follow sound hiring practices, resulting in a substantial lack of needed experience across key positions.
- It delayed setting up a student support system.
- It's methods for ensuring that students succeed are inadequate—most students have either dropped out or stopped progressing.
- It has not developed a process for helping students obtain well-paying jobs.
- Although Calbright has made recent mprovements, it has yet to develop a clear and robust strategy to accomplish its mission.

The Auditor recommended that the Legislature eliminate Calbright as an independent community college district if it did not demonstrate substantive improvements by December 2022. For Calbright, the Auditor recommended the following:

- Develop an implementation plan that outlines the specific steps necessary for it to accomplish its mission, and it should complete the planning process and begin following the plan by November 2021. The plan should include a specific timeline for performing each of the steps it identifies, as well as the estimated costs.

- By November 2021, Calbright should develop and implement specific strategies for the following:
  - Developing educational programs that can benefit its target student population.
  - Enrolling its target student population.
  - Ensuring that its students receive the support they need to graduate.

Calbright reports about 1,000 students currently enrolled and 80 graduates. Calbright has three programs currently accepting students: information technology support, cybersecurity, and customer relationship management. A fourth program, medical coding, is not currently accepting applications. The college is also working in partnership with Service Employees International Union-United Healthcare Workers West on a training program for Licensed Vocational Nurses.

The college currently has about 1,000 students enrolled, and in February, the college reported that 80 students had completed a program. Labor market outcomes for the students who have completed a program is not available.

The college reports 557 withdrawals since its launch in late 2019.

Most students are older; about one-third have a bachelor's degree. About 49% of Calbright students are ages 25-39, and another 42% are over 40. Notably, 33% of students already have a bachelor's degree, and another 10% already have an associate's degree. About 37% of students are white, 32% are Latinx, about 24% are African American, 19% are Asian and 4% are American Indian or Alaskan Native. About 40% of students reported that they were unemployed.

Calbright now has more than 60 employees and 25 contractors. Calbright reports 62 full-time employees, including nine full-time faculty, 19 non-faculty staff, 29 administrative staff and five confidential staff. Faculty employees have created an academic senate, and have affiliated with the California Teachers Association as their bargaining representative. Non-faculty staff are represented by the California School Employees Association.

In addition, Calbright reports 25 contractors, with expenditures on contractors expected to total $924,000 in the current fiscal year.

Budget. Calbright budget documents indicate the college spent plans to spend its $15 million ongoing Proposition 98 General Fund allocation in the current year, and about $44.4 million in one-time funding. This would leave the college with about $5.6 million in unspent ongoing funding and $33.8 million in unspent one-time funding. The chart below indicates proposed spending for the current fiscal year and is from a July 2021 report.

Fiscal Year 2021-2022 Budget Overview

	Annual Funding	One-Time	Total
Beginning balance	$5,495,000	$77,382,000	$82,877,000
Revenue			
Other General Apportionments	$15,000,000	$0	$15,000,000
Local Revenue	$100,000	$800,000	$900,000
Total Revenue	***$15,100,000***	***$800,0000***	***$15,900,000***
Expenses			
Academic Salaries	$2,988,667	$326,000	$3,315,000
Non Academic Salaries	$4,935,000	$6,556,000	$11,491,000
Benefits - Academic	$976,000	$840,000	$1,816,000
Benefits - Non Academic	$1,955,000	$1,699,000	$3,654,000
Supplies and Materials	$466,000	$630,000	$1,096,000
Operating Expenses	$3,685,000	$23,566,000	$27,250,000
Capital Outlay	$0	$10,750,000	$10,750,000
Total Expenses	***$15,007,000***	***$44,367,000***	***$59,372,000***
Ending Balance	**$5,588,000**	**$33,815,000**	**$39,403,000**
Restricted	$0	$33,815,000	$33,815,000
Unassigned	$5,588,000	$0	$5,588,000
Contingency Reserve			**9.4%**

2023 goals include significant enrollment and completion increases. According to Calbright's 2021 budget report, the college plans to achieve the following by December 2023:

- Enrollment of 5,000 students
- 1,200 students have completed a Calbright program
- Between 250-550 students(depending on pace of economic recovery) will have attained a positive labor market outcome
- 10 new programs launched, including at least one developed with another California Community College
- 20 external partners
- Full accreditation

STAFF COMMENT/POTENTIAL QUESTIONS

Calbright College has been much discussed in this Subcommittee. The goals of the college – to provide easily accessible certificate programs to unemployed or under-employed adult students - are very worthy. But even before the COVID-19 pandemic, this Subcommittee questioned whether a brand new college, starting without accreditation, faculty, or name recognition, was the right strategy for delivering these programs. Since the pandemic, colleges across the state have developed robust online programs that lead to further questions about the need for an expensive start-up.

As the 2021 audit notes, a new management team that took over in 2020 has improved some aspects of the college's operations. A partnership with a labor union, for example, was long discussed but is now in place. Many questions remain, however, about the effectiveness of this program and whether local colleges could do this work better.

The Subcommittee could consider the following questions:

- Why are there so few students who have completed what are intended to be short-term programs?

- The college cannot provide labor outcomes for its graduates. Why not, and when will that information be available? How can the Legislature determine whether a Calbright certificate has value and improves students' wages?

- Why do one-third of students already have a bachelor's degree? Aren't these programs designed for students without a degree?

- Does Calbright need special, ongoing funding forever? Should the Legislature move the college into the apportionment system, with all other colleges?

- Has the college completed all recommendations made by the auditor?