Senate Budget and Fiscal Review

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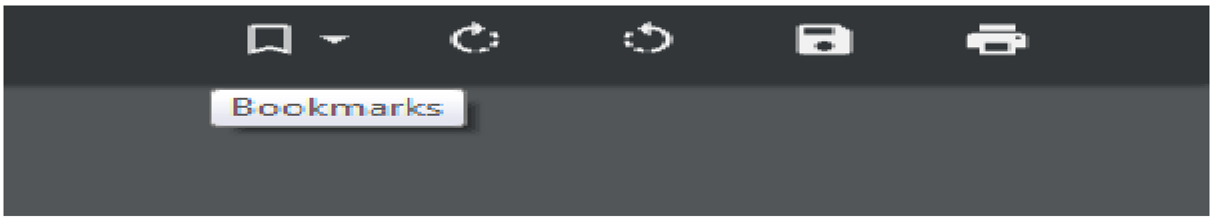

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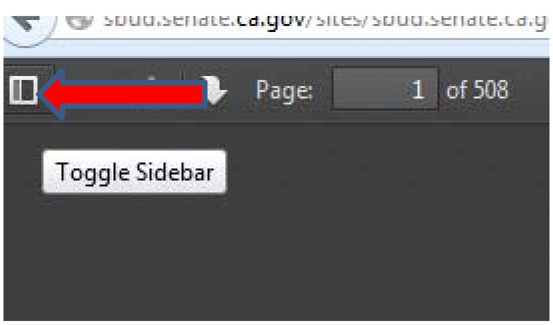

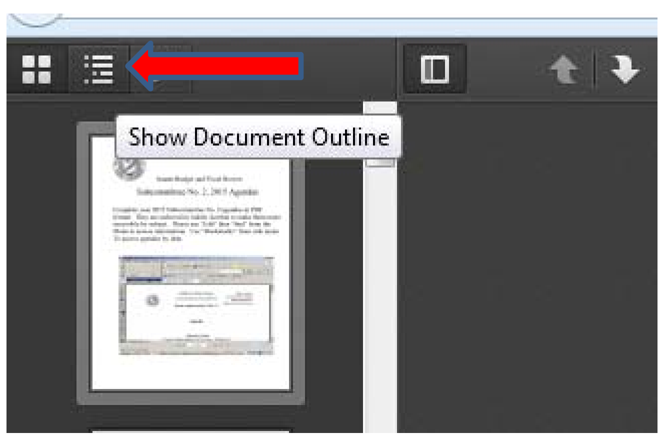

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Rosilicie Ochoa Bogh
Senator Lola Smallwood-Cuevas

Thursday, March 2, 2023
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 2100

Consultant: Yong Salas

Public Comment

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6100 Department of Education

Issue 1: State of Education

Panel.

- Superintendent of Public Instruction, Tony Thurmond

Background.

The Superintendent of Public Instruction will provide an update on the state of K-12 education in California. This item is informational only.

Issue 2: Proposition 98 Overview and Structure

Panel.

- Amanpreet Singh, Department of Finance
- Ken Kapphahn, Legislative Analyst's Office

Proposition 98.

California provides academic instruction and support services to nearly six million public school students in kindergarten through twelfth grades (K-12) and 1.8 million students in community colleges. There are 58 county offices of education, approximately 1,000 local K-12 school districts, more than 10,000 K-12 schools, and nearly 1,300 charter schools throughout the state. Of the K-12 students, approximately 3.3 million are low-income, English learners, or foster youth students or some combination of those categories. Approximately 1.13 million of the K-12 students served in public schools are English learners. There are also 73 community college districts, 116 community college campuses, and 72 educational centers. Proposition 98, which was passed by voters as an amendment to the state Constitution in 1988, and revised in 1990 by Proposition 111, was designed to guarantee a minimum level of funding for public schools and community colleges.

For 2023-24, the proposed budget includes $108.8 billion in Proposition 98 funding. The Governor's budget also proposes to provide total Proposition 98 funding for 2021-22 of $110.4 billion, an increase of $178 million over the 2022 final budget act level. For 2022-23, the Governor estimates a decrease in the total Proposition 98 minimum guarantee of $3.4 billion for a total of $107 billion. These adjustments are primarily also the result of lower than anticipated General Fund revenues than projected at the 2022 final budget act.

Proposition 98 Funding. State funding for K-14 education—primarily K-12 local educational agencies and community colleges—is governed largely by Proposition 98. The measure, as modified by Proposition 111, establishes minimum funding requirements (referred to as the "minimum guarantee") for K-14 education. General Fund resources, consisting largely of personal income taxes, sales and use taxes, and corporation taxes, are combined with the schools' share of local property tax revenues to fund the Proposition 98 minimum guarantee. These funds typically represent about 80 percent of statewide funds that K-12 schools receive. Non-Proposition 98 education funds largely consist of revenues from local parcel taxes, other local taxes and fees, federal funds and proceeds from the state lottery. In past years, there have been two statewide initiatives that increased General Fund revenues and therefore, the Proposition 98 minimum guarantee. Proposition 30, passed by the voters in 2012, raised sales and income taxes, but was designed to phase out over seven years. Anticipating the expiration of the Proposition 30 taxes, Proposition 55 was passed by voters in 2016, extending the income tax portion of Proposition 30 for another 12 years.

The table below summarizes overall Proposition 98 funding for K-12 schools and community colleges since 2007-08, or just prior to the beginning of the Great Recession. 2011-12 marks the low point for the guarantee, with steady increases since then. The Great Recession impacted both

General Fund resources and property taxes. The amount of property taxes has also been impacted by a large policy change in the past few years—the elimination of redevelopment agencies (RDAs) and the shift of property taxes formerly captured by the RDAs back to school districts. The guarantee was adjusted to account for these additional property taxes, so although Local Educational Agencies (LEAs) received significantly increased property taxes starting in 2012-13, they received a roughly corresponding reduction in General Fund.

The Governor's 2023-24 proposed budget includes significant increases in comparison to the 2022 Budget Act, as revenues during the pandemic have come in lower than anticipated.

Proposition 98 Funding
Sources and Distributions
(Dollars in Millions)

	Pre-Recession **2007-08**	Low Point **2011-12**	Revised **2021-22**	Revised **2022-23**	Proposed **2023-24**
Sources					
General Fund	42,015	33,136	83,630	79,103	79,613
Property taxes	14,563	14,132	26,785	27,889	29,204
Total	**56,577**	**47,268**	**110, 415**	**106,991**	**108,816**
Distribution					
K-12	50,344	41,901	94,403	93,535	95,881
CCC	6,112	5,285	12,301	12,360	12,569
PSSSA	N/A	N/A	3,710	1,096	365

Source: Legislative Analyst's Office

Calculating the Minimum Guarantee. The Proposition 98 minimum guarantee is determined by comparing the results of three "tests," or formulas, which are based on specific economic and fiscal data. The factors considered in these tests include growth in personal income of state residents, growth in General Fund revenues, changes in student average daily attendance (ADA), and a calculated share of the General Fund. When Proposition 98 was first enacted by the voters in 1988, there were two "tests", or formulas, to determine the required funding level. Test 1 calculates a percentage of General Fund revenues based on the pre-Proposition 98 level of General Fund that was provided to education, plus local property taxes. The Test 2 calculation is the prior year funding level adjusted for growth in student ADA and per capita personal income. K-14 education was initially guaranteed funding at the higher of these two tests. In 1990, Proposition 111 added a third test, Test 3, which takes the prior year funding level and adjusts it for growth in student ADA and per capita General Fund revenues. The Proposition 98 formula was adjusted to compare Test 2 and Test 3, the lower of which is applicable. This applicable test is then compared to Test 1; and the higher of the tests determines the Proposition 98 minimum guarantee. Generally, Test 2 is operative during years when the General Fund is growing quickly and Test 3 is operative when General Fund revenues fall or grow slowly.

Proposition 98 Tests
Calculating the Level of Education Funding
(Including the 2022-23 Governor's Budget Estimate)

Test	Calculated Level	Operative Year	Times Used
Test 1	Based on a calculated percent of General Fund revenues (currently around 38 percent).	If it would provide more funding than Test 2 or 3 (whichever is applicable).	10
Test 2	Based on prior year funding, adjusted for changes in per capita personal income and attendance.	If growth in personal income is ≤ growth in General Fund revenues plus 0.5 percent.	16
Test 3	Based on prior year funding, adjusted for changes in General Fund revenues plus 0.5 percent and attendance.	If statewide personal income growth > growth in General Fund revenues plus 0.5 percent.	8

Source: Legislative Analyst's Office

The Governor's proposal assumes that in 2021-22, 2022-23, and 2023-24 the Proposition 98 minimum guarantee is calculated under Test 1.

Generally, the Proposition 98 minimum guarantee calculation was designed in order to provide growth in education funding equivalent to growth in the overall economy, as reflected by changes in personal income (incorporated in Test 2). In a Test 3 year, the Proposition 98 minimum guarantee does not grow as fast as in a Test 2 year, recognizing the fact that the state's General Fund is not reflecting the same strong growth as personal income and the state may not have the resources to fund at a Test 2 level; however, a maintenance factor is created, as discussed in more detail later.

The Test 1 percentage is historically-based, but is adjusted, or "rebenched," to account for large policy changes that impact local property taxes for education or changes to the mix of programs funded within Proposition 98. In the past few years, rebenching was done to account for property tax changes, such as the dissolution of the redevelopment agencies (RDAs), and program changes, such as removing childcare from the Proposition 98 minimum guarantee and adding mental health services. For 2023-24, the Governor's Budget adjusts the Test 1 percentage for the expansion of transitional kindergarten from 38.3 percent in 2022-23 to 38.6 percent in 2023-24. The 2023-24 Proposition 98 guarantee is likely to remain a Test 1 even with some changes in factors at the May Revision.

Suspension of Minimum Guarantee. Proposition 98 includes a provision that allows the Legislature and Governor to suspend the minimum funding requirements and instead provide an alternative level of funding. Such a suspension requires a two-thirds vote of the Legislature and the concurrence of the Governor. To date, the Legislature and Governor have suspended the Proposition 98 minimum guarantee twice; in 2004-05 and 2010-11. While the suspension of Proposition 98 can create General Fund savings during the year in which it is invoked, it also creates obligations in the out-years, as explained below.

Maintenance Factor. When the state suspends the Proposition 98 minimum guarantee or when Test 3 is operative (that is, when the Proposition 98 minimum guarantee grows more slowly due to declining or low General Fund growth), the state creates an out-year obligation referred to as the "maintenance factor." When growth in per capita General Fund revenues is higher than growth in per capita personal income (as determined by a specific formula also set forth in the state Constitution), the state is required to make maintenance factor payments, which accelerate growth in K-14 funding, until the determined maintenance factor obligation is fully restored. Outstanding maintenance factor balances are adjusted each year by growth in student ADA and per capita personal income.

The maintenance factor payment is added on to the minimum guarantee calculation using either Test 1 or Test 2.

- In a Test 2 year, the rule of thumb is that roughly 55 percent of additional revenues would be devoted to Proposition 98 to pay off the maintenance factor.

- In a Test 1 year, the amount of additional revenues going to Proposition 98 could approach 100 percent or more. This can occur because the required payment would be a combination of the 55 percent (or more) of new revenues, plus the established percentage of the General Fund— roughly 38 percent—that is used to determine the minimum guarantee.

Prior to 2012-13, the payment of maintenance factor was made only on top of Test 2; however, in 2012-13, the Proposition 98 guarantee was in an unusual situation as the state recovered from the recession. It was a Test 1 year and per capita General Fund revenues were growing significantly faster than per capita personal income. Based on a strict reading of the Constitution, the payment of maintenance factor is not linked to a specific test, but instead is required whenever growth in per capita General Fund revenues is higher than growth in per capita personal income. As a result, the state funded a maintenance factor payment on top of Test 1 and this interpretation can result in the potential for up to 100 percent or more of new revenues going to Proposition 98 in a Test 1 year with high per capita General Fund growth. This was the case in 2014-15, when the maintenance factor payment was more than $5.6 billion. However, since the last recession the state has significantly increased funding for K-14 education due in part to payments made towards reducing the maintenance factor balance. As a result, the maintenance factor obligation was paid off in 2017-18.

Average Daily Attendance. One of the factors used to calculate the Proposition 98 minimum guarantee level is growth in ADA. In a Test 2 or Test 3 year, the guarantee is adjusted for changes in ADA. However, there is a hold harmless provision for reductions in ADA. Under that provision, negative growth is only reflected if the preceding two years also show declines. Under current projections, which reflect birth rates and migration, K-12 ADA is expected to decline slightly in coming years and the hold harmless will no longer apply for the guarantee calculation, contributing to a dampening effect on Proposition 98 guarantee growth in future years.

Proposition 98 Certification. The 2018 budget package included a new process for certifying the Proposition 98 guarantee and the 2019 budget package made additional changes to this process. Under current statute, certification of the guarantee is a process by which the Department of Finance (DOF), in consultation with the Department of Education and the Chancellor's Office of the Community Colleges, verifies the factors for the calculation of the Proposition 98 guarantee and the appropriations and expenditures that count towards the guarantee level. Certifying the guarantee results in a finalized guarantee level for the year, as well as finalizing any settle-up owed as a result of changes in the guarantee level. Adjustments will be made to increase the guarantee after the fiscal year is over if the calculation results in an increase in a prior year, but makes no changes in the event of a decrease in a prior year. Prior to this new process, the guarantee was last certified for 2008-09. In August 2018, DOF released the proposed certification for the 2009-10 through 2016-17 fiscal years. The most recently certified year is 2020-21.

Public School System Stabilization Account (PSSSA). The state's Proposition 98 Rainy Day Fund was established with the passage of Proposition 2 in 2014. Proposition 2 also requires a deposit in a Proposition 98 Rainy Day Fund under certain circumstances. These required conditions are that maintenance factor accumulated prior to 2014-15 is paid off, Test 1 is in effect, the Proposition 98 guarantee is not suspended, and no maintenance factor is created. The 2023-24 proposed budget requires deposits for 2021-22, 2022-23, and 2023-24 payments of $3.7 billion, $1.1 billion, and $365 million, respectively, for a total balance of approximately $8.5 billion.

Additionally, this level of PSSSA reserves triggers a statutory requirement that LEAs may not have local reserves in excess of 10 percent of their total annual expenditures, in the year after the state reserve balance is equal to or greater than 3 percent of the total TK-12 share of the annual Proposition 98 guarantee level. The balance of $8.1 billion in 2022-23 continues to trigger school district reserve caps in 2023-24.

Proposition 98 K-12 Proposals:

The proposed budget includes a Proposition 98 funding level of $95.9 billion for K-12 programs. This includes a year-to-year increase of $2.3 billion in Proposition 98 funding for K-12 education, as compared to the revised Proposition 98 K-12 funding level for 2022-23. Under the Governor's proposal, ongoing K-12 Proposition 98 per pupil expenditures increase from $16,967 provided in 2022-23 (revised) to $17,534 in 2023-24, an increase of 3.3 percent.

Governor's Budget Contains $6 Billion in Proposition 98 Spending Proposals
(In Millions)

K-12 Education	
Ongoing	
LCFF Growth and COLA (8.13 percent)	$4,117
Transitional kindergarten expansion[a]	856
COLA for select categorical programs (8.13 percent)[b]	669
LCFF equity multiplier add-on	300
State Preschool for students with disabilities	64
Access to opioid overdose reversal medication	4
K-12 High Speed Network	4
California College Guidance Initiative	4
Preschool assessment tool	1
Fiscal Crisis and Management Assistance Team	1
Subtotal	$6,018
One Time	
Arts, Music, and Instructional Materials Discretionary Block Grant	-$1,174
Literacy coaches and reading specialists	250
Arts and cultural enrichment	100
Charter School Facility Grant Program	30
CCEE adjustment for unspent prior year funds	-4
Testing consortium membership fee	1
Update to digital learning and standards integration guidance	0.1
Subtotal	-$798
Total K-12 Education	$5,221
California Community Colleges	
Ongoing	
COLA for apportionments (8.13 percent)	$653
COLA for select categorical programs (8.13 percent)[c]	92
Enrollment growth (0.5 percent)	29
Fiscal Crisis and Management Assistance Team	0.2
Subtotal	$774
One Time	
Student enrollment and retention strategies	$200
Forestry/fire protection workforce training	14
Fiscal Crisis and Management Assistance Team	—[d]
Facilities maintenance and instructional equipment	-213
Subtotal	$1
Total California Community Colleges	$775
Total Spending Proposals	**$5,996**

[a] Reflects additional LCFF costs associated with serving more students in transitional kindergarten, including costs of lower transitional kindergarten staffing ratios.

[b] Applies to the Foster Youth Program, American Indian Early Childhood Education, Special Education, Preschool, Child Nutrition, K-12 Mandates Block Grant, and Charter School Facility Grant Program.

[c] Applies to the Adult Education Program, apprenticeship programs, CalWORKs student services, campus child care support, Disabled Students Programs and Services, Extended Opportunity Programs and Services, and mandates block grant.

[d] Reflects $75,000.

Source: Legislative Analyst's Office

K-12 Local Control Funding Formula. The bulk of funding for school districts and county offices of education for general operations is provided through the Local Control Funding Formula (LCFF) and is distributed based on the number of students served and certain student characteristics. The state fully funded the LCFF in 2018-19 and has annually adjusted the grant amounts by a cost-of-living adjustment (COLA). The budget proposes an LCFF COLA of 8.13 percent, and when combined with growth adjustments, results in $4.2 billion in additional discretionary funds for local educational agencies. The budget proposes $613 million in one-time resources to support the ongoing cost of LCFF in 2022-23 and $1.4 billion in one-time resources to support the ongoing cost of LCFF in 2023-24.

The budget also proposes an "equity multiplier" outside of LCFF, and will be allocated based on school-site eligibility.

K-12 Special Education. The proposed budget includes statutory changes to special education, including:

- Limiting the amount of additional funding that Special Education Local Plan Areas (SELPAs) are allowed to retain for non-direct student services before allocating special education base funding to their member local educational agencies.

- Stabilizing current SELPA membership by extending the moratorium on the creation of new single-district SELPAs by two years from June 30, 2024 to June 30, 2026.

- Increasing fiscal transparency by requiring the California Department of Education to post each SELPA's annual local plan, including their governance, budget and service plans, on its website.

Literacy. The budget proposes $250 million one-time Proposition 98 General Fund to build upon the existing Literacy Coaches and Reading Specialists Grant Program. The budget also proposes $1 million one-time General Fund to create a Literacy Roadmap to help educators navigate various literacy-related resources.

School Facility Program. The budget proposes a decrease of $100 million General Fund in planned support for the School Facility Program, taking the planned allocation in 2023-24 from approximately $2.1 billion to $2 billion.

Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program (FDK Program). The 2022 Budget Act reflected $550 million in 2023-24 to support the FDK Program. The proposed budget delays this investment to the 2024-25 fiscal year.

Child Nutrition. The budget continues to fund universal access to school meals and the additional enhanced meal rate, so that students who want a meal will have access to two free meals each day.

Kitchen Infrastructure and Training Funds. The 2022 Budget Act included $600 million in one-time Proposition 98 General Fund to assist local educational agencies for infrastructure and training to provide universal school meals. The budget proposes to use $15 million of the $600 million for commercial dishwasher grants.

Reversing Opioid Overdoses. The budget proposes an increase of $3.5 million ongoing Proposition 98 General Fund for all middle and high school sites to maintain at least two doses of naloxone hydrochloride or another medication to reverse an opioid overdose on campus for emergency aid.

Arts and Music in Schools-Funding Guarantee and Accountability Act (Proposition 28). The budget includes $941 million to fund Proposition 28 outside of Proposition 98 funding levels. To accommodate this cost pressure as well as one-time costs related to LCFF, the budget proposes to reduce the Arts, Music, and Instructional Materials Discretionary Bock Grant, for which the 2022 Budget Act included $3.5 billion Proposition 98 General Fund, by $1.2 billion, for a revised level of $2.3 billion Proposition 98 General Fund.

Further Access to Art Enrichment Activities. The budget proposes $100 million one-time Proposition 98 General Fund ($200 per every 12th grade student enrolled in California public schools) to provide high school seniors with access to cultural enrichment experiences across the state.

Cost-of-Living Adjustments. The proposed budget provides $669 million Proposition 98 General Fund to support an 8.13 percent COLA for categorical programs that are not included in LCFF. These programs include special education and child nutrition, State Preschool, Youth in Foster Care, Mandates Block Grant, Adults in Correctional Facilities Program, Charter School Facility Grant Program, American Indian Education Centers, and the American Indian Early Childhood Education Program. The proposed funding level for the LCFF includes COLAs for school districts and county offices of education.

County Offices of Education. The proposed budget includes $51.7 million ongoing Proposition 98 General Fund to reflect the 8.13 percent COLA and ADA changes applicable to the LCFF.

Local Property Tax Adjustments. The proposed budget includes a decrease of $153 million in ongoing Proposition 98 General Fund in 2022-23, and a decrease of $1.3 billion in Proposition 98 General Fund in 2023-24 for school districts and county offices of education related changes to offsetting local property taxes.

California College Guidance Initiative. The budget proposes an increase of $3.9 million ongoing Proposition 98 General Fund to support the California College Guidance Initiative.

K-12 High Speed Network. The budget proposes an increase of $3.8 million ongoing Proposition 98 General Fund to support the K-12 High Speed Network program.

Data Support (State Operations). The budget proposes an increase of $2.5 million General Fund and 15 positions for the California Department of Education to meet state and federal data and accountability reporting requirements, support data exchanges with other agencies, and to quickly respond to data requests.

Fiscal Crisis and Management Assistance Team. The budget proposes an increase of $750,000 ongoing Proposition 98 General Fund to support the professional development of local educational agencies' Chief Budget Offers through mentorship programming by the Fiscal Crisis and Management Assistance Team.

Child Care and Early Education

Transitional Kindergarten. The 2022 Budget Act provided $614 million to support the first year of expanded eligibility for transitional kindergarten, in addition to $383 million to add one additional certificated or classified staff person to transitional kindergarten classrooms to meet ratio requirements. The budget revises these estimates from $614 million to $604 million for expanded access, and $383 million to $337 million for the additional certificated or classified staff. The budget also proposes to include $690 million to implement the second year of transitional kindergarten, and $165 million to support the addition of certificated or classified staff in transitional kindergarten classrooms. These funds will increase the Proposition 98 Guarantee through the process of rebenching.

State Preschool Program. Consistent with the 2022 Budget Act, the budget proposes $64.5 million Proposition 98 General Fund and $51.8 million General Fund to continue a multi-year plan to ramp up the inclusivity adjustments for the State Preschool Program. The 2023-24 year will be the second year of the three-year ramp up process, and students with disabilities will be required to make up at least 7.5 percent of State Preschool Program providers' enrollment.

Preschool Classroom Assessment Scoring System. The budget proposes $763,000 Proposition 98 General Fund to support the preschool Classroom Assessment Scoring System.

Legislative Analyst's Office.

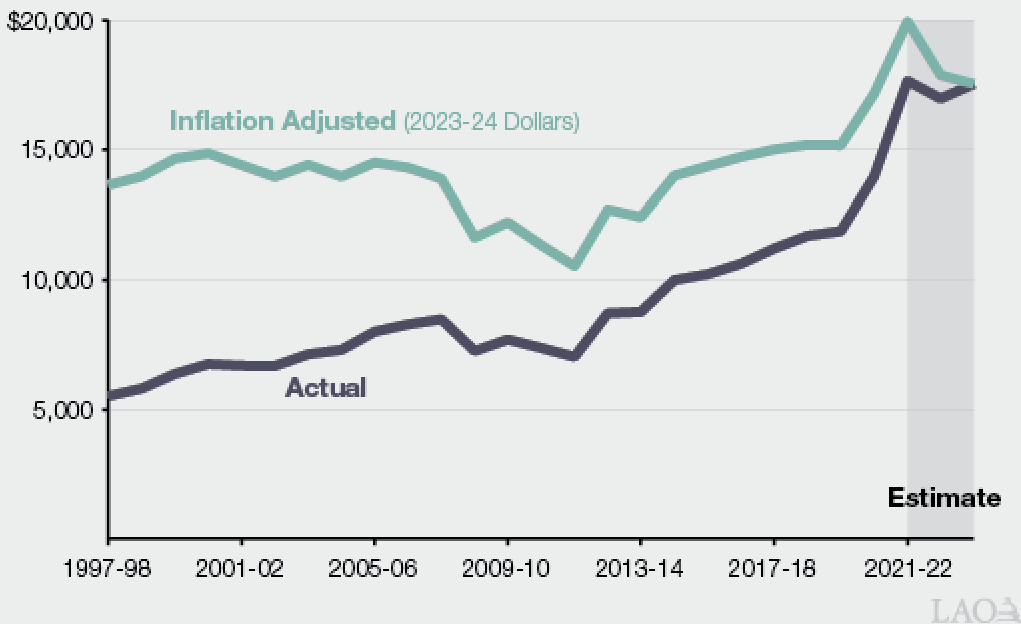
The LAO's recent publication, *The 2023-24 Budget: Proposition 98 Overview and K-12 Spending Plan*, included an analysis of the Governor's Proposition 98 Proposals. While the Governor's Budget estimates the Proposition 98 Guarantee is decreasing by $3.4 billion in 2022-23 and $1.5 billion in 2023-24, the LAO estimates that the guarantee is likely to decline further so that the guarantee is roughly $2 billion below the Governor's Budget level in each year, and potentially offset by higher local property tax revenue. Below are comments provided by the LAO.

School Funding Remains Relatively Strong Despite Tighter Budget Picture. Although the Governor's budget reflects a decrease in the guarantee relative to the previously enacted budget, Proposition 98 funding remains strong by historical standards. Between 2019-20 and 2021-22, the minimum guarantee grew by $31.1 billion (39.2 percent)—the fastest increase over any two-year period since the passage of Proposition 98 in 1988. Overall funding for schools remains relatively high even though the drop in 2022-23 erodes some of this gain. Figure 6 illustrates this point by showing how funding per student under the Governor's budget compares with funding over the previous 25 years.

Figure 6

K-12 Funding Remains Strong by Historical Standards

Proposition 98 Funding Per Student



School Funding Also Fares Relatively Well Compared With the Rest of State Budget. In contrast to the relatively modest changes affecting K-12 schools, the Governor's budget proposes notable reductions affecting many other state programs. The Governor's budget addresses a shortfall of approximately $18 billion across all programs in the state budget. The Governor's proposed changes to programs outside of Proposition 98 include (1) delaying more than $7 billion in spending to future years, (2) eliminating more than $6 billion in previously approved augmentations (some of these reductions would be restored if revenue improves), and (3) shifting more than $4 billion in General Fund costs to various special funds. In addition, the budget provides limited or no COLA for most state programs funded outside of Proposition 98.

Statutory COLA Rate for 2023-24 Likely to Be Slightly Higher by May. On January 26, the federal government published a new quarter of data affecting the calculation of the COLA rate. Based on the new data and our latest projections, we estimate the statutory COLA rate in 2023-24 is 8.4 percent. Covering this higher rate would increase ongoing costs for LCFF and other K-12 programs by approximately $220 million (relative to the Governor's budget). The state will be able to finalize its calculation of the statutory rate on April 27 when the federal government releases the final quarter of data used to calculate the 2023-24 COLA.

Governor's Plan to Avoid Discretionary Reserve Withdrawal Is a Prudent Starting Point. Although the state likely meets the conditions to declare a budget emergency, the Governor does not propose any discretionary withdrawals from the Proposition 98 Reserve. We think this approach is a fiscally prudent starting point because (1) funding for school programs remains relatively strong under the Governor's budget, and (2) saving reserves now gives the state a way to address further reductions in the guarantee that would occur if revenue deteriorates. This budgeting approach seems especially important this year given our outlook for lower General Fund revenues and the heightened risk of a recession. Saving reserves preserves a key tool the state could decide to use later to avoid program reductions or deferrals in a recession scenario. The Governor's approach to the Proposition 98 Reserve also mirrors the approach to the Budget Stabilization Account (BSA)—the state's main rainy day fund. One difference between these accounts is that the state might be required to make withdrawals from the Proposition 98 Reserve if revenues were to decline significantly, whereas the rules governing the BSA do not require automatic withdrawals.

Proposed Proposition 98 Budget Would Create a Deficit for Next Year. Using one-time funds to cover ongoing costs creates a deficit in the Proposition 98 budget the following year. Under the Governor's budget, the Proposition 98 guarantee would need to grow at least $1.4 billion in 2024-25 to cover the portion of LCFF paid with one-time funds in 2023-24. If the state were in recession, this deficit would compound an already difficult budget situation and make program reductions or deferrals more likely or more severe. Even if the guarantee were growing more quickly, the deficit would reduce the funding available to cover COLA and other priorities. Recognizing these risks, the Legislature generally has avoided adopting Proposition 98 budgets that contain these deficits except during severe downturns.

Growth in Guarantee Might Not Be Enough to Support Full COLA in 2024-25. Although the administration anticipates the Proposition 98 guarantee will grow 3.9 percent annually over the next four years, some of that increase is reserved for specific program expansions—most notably, the expansion of transitional kindergarten and new funding for arts instruction under Proposition 28. After accounting for these costs and various other adjustments, we estimate the annual growth in the guarantee available to fund COLA or other new commitments would be about 3.2 percent. Using the administration's assumptions about the guarantee and future COLA rates, we estimate the guarantee would be about $500 million short of the amount required to cover the COLA in 2024-25. In that scenario, the administration would have the authority under existing law to reduce the COLA to rate to fit within the available funding. For 2025-26 and 2026-27, we estimate the guarantee would be just above the level necessary to fund the COLA under the administration's assumptions. All of these calculations are sensitive to small changes in assumptions about the economy.

LAO Recommendations. The LAO recommends that the Legislature (1) build a budget without creating future deficits, (2) consider funding a lower COLA rate, (3) consider changes to the LCFF equity multiplier proposal that would ease budget pressure, (4) consider certain reductions for expanded learning opportunities program, and (5) consider reductions for state preschool.

Suggested Questions.

- DOF: What were the factors that went into the decision to reduce the Arts, Music, and Instructional Materials Block Grant, instead of other one-time investments, and at the same time propose significant new, one-time investments?

- LAO: In light of a 6.56 percent COLA and a 6.28 percent LCFF base increase funded in the 2022-23 Budget, would there be any negative impacts for LEAs if the Legislature and the Administration funded a lower COLA rate in the 2023-24 budget?

- DOF/LAO: Outside of the statutorily required conditions to withdraw from the Public School System Stabilization Account (PSSSA), what kind of considerations should be made before withdrawing from the PSSSA?

Staff Recommendation. Hold open.

Issue 3: Local Control Funding Formula (LCFF)

Panel.

- Michael Alferes, Legislative Analyst's Office
- Katie Lagomarsino, Department of Finance
- Mary Nicely, Department of Education

Background.

K-12 School Finance Reform. Commencing in the 2013-14 fiscal year, the state significantly reformed the system for allocating funding to LEAs - school districts, charter schools, and county offices of education (COEs). The LCFF replaced the state's prior system of distributing funds to LEAs through revenue limit apportionments (based on per student average daily attendance) and approximately 50 state categorical education programs.

Under the previous system, revenue limits provided LEAs with discretionary (unrestricted) funding for general education purposes, and categorical program (restricted) funding was provided for specialized purposes, with each program having a unique allocation methodology, spending restrictions, and reporting requirements. Revenue limits made up about two-thirds of state funding for schools, while categorical program funding made up the remaining one-third portion. That system became increasingly cumbersome to LEAs as they tried to meet student needs through various fund sources that were layered with individual requirements.

Local Control Funding Formula. The LCFF combines the prior funding from revenue limits and more than 30 categorical programs that were eliminated, and uses new methods to allocate these resources, additional amounts of new Proposition 98 funding since 2013-14, and future allocations to LEAs. The LCFF allows LEAs much greater flexibility in how they spend the funds. There is a single funding formula for school districts and charter schools, and a separate funding formula for COEs that has some similarities to the district formula, but also some key differences.

School Districts and Charter Schools Formula. The LCFF is designed to provide districts and charter schools with the bulk of their resources in unrestricted funding to support the basic educational program for all students. It also includes additional funding based on the enrollment of low-income students, English learners, and foster youth for increasing or improving services to these high-needs students. Low-income students, English learners, and foster youth students are referred to as “unduplicated” students in reference to the LCFF because, for the purpose of providing supplemental and concentration grant funding, these students are counted once, regardless of if they fit into more than one of the three identified high-need categories. Major components of the formula are briefly described below.

- **Base Grants** are calculated on a per-student basis (measured by student ADA) according to grade span (K-3, 4-6, 7-8, and 9-12) with adjustments that increase the base rates for grades K3 (10.4 percent of base rate) and grades 9-12 (2.6 percent of base rate). The adjustment for grades K-3 is associated with a requirement to reduce class sizes in those grades to no more than 24 students by 2020-21, unless other agreements are collectively bargained at the local level. The adjustment for grades 9-12 recognizes the additional cost of providing career technical education in high schools. For school districts, funded ADA is equal to the greater of current or prior year ADA.

- **Supplemental Grants** provide an additional 20 percent in base grant funding for the percentage of enrollment that is made up of unduplicated students.

- **Concentration Grants** provide an additional 65 percent above base grant funding for the percentage of unduplicated students that exceed 55 percent of total enrollment.

- **Categorical Program** add-ons for Targeted Instructional Improvement Block Grant and Home-to-School Transportation provide districts the same amount of funding they received for these two programs in 2012-13. The transportation funds must be used for transportation purposes. Charter schools are not eligible for these add-ons.

- **LCFF Economic Recovery Target** add-on ensured that districts receive, by 2020-21, at least the amount of funding they would have received under the old finance system to restore funding to their 2007-08 level adjusted for inflation. Districts are not eligible for this add-on if their LCFF funding exceeds the 90th percentile of per-pupil funding rates estimated under the old system.

- **Hold Harmless Provision** ensures that no school district or charter school will receive less funding under the LCFF than its 2012-13 funding level under the old system.

Budget Appropriations. The LCFF established new “target” LCFF funding amounts for each LEA, and these amounts are adjusted annually for COLA and pupil counts. When the formula was initially introduced, funding all school districts and charter schools at their target levels was expected to take eight years and cost an additional $18 billion, with completion by 2020-21. However, Proposition 98 growth exceeded expectations and LCFF was fully funded in the 2018-19 fiscal year for school districts and charter schools. COEs reached their target funding levels in 2014-15, which adjusts each year for COLAs and ADA growth. The 2018-19 budget also provided an additional amount above the required COLA to provide a $670 million increase to LCFF grants. With full-funding of the formula, LEAs and stakeholders can see how much funding is received through base, supplemental, and concentration grants on the CDE website and reported through each LEA’s local control and accountability plan (LCAP). Most recently, the 2022-23 budget included a 6.28 increase to the LCFF base grant, in addition to a 6.56 percent COLA, and smoothed out the year-to-year funded average daily attendance by allowing LEAs to be funded by either their current year, past year, or average of the three prior years' average daily attendance. The 2022-23 budget also provided a "boost" for the funded 2021-22 average daily attendance for LEAs that provided independent study offerings to students.

Restrictions on Supplemental Funding. Statute requires LEAs to increase or improve services for unduplicated students in proportion to the supplemental funding LEAs receive for the enrollment of these students. The law also allows this funding to be used for school-wide and district-wide purposes. The State Board of Education (SBE) adopted regulations governing LEAs expenditures of this supplemental funding that require an LEA to increase or improve services for unduplicated students, compared to the services provided for all students, in proportion to the supplemental funding LEAs receive for the enrollment of these students. LEAs determine the proportion by which an LEA must increase or improve services by dividing the amount of the LCFF funding attributed to the supplemental and concentration grant by the remainder of the LEA's LCFF funding. Whereas, this percentage (known as the minimum proportionality percentage (MPP)), relied on an LEA's estimates during the transition period, under a fully funded system is based on the actual allocation to each LEA as determined by the CDE. The regulations allow an LEA to meet this requirement to increase or improve services in a qualitative or quantitative manner and detail these expenditures in their LCAP.

County Offices of Education Formula. The COE formula is very similar to the school district formula, in terms of providing base grants, plus supplemental and concentration grants for the students that COEs serve directly, typically in an alternative school setting. However, COEs also receive an operational grant that is calculated based on the number of districts within the COE and the number of students county-wide. This operational grant reflects the additional responsibilities COEs have for support and oversight of the districts and students in their county.

Similar to the LCFF formula for school districts and charter schools, COEs were also guaranteed that they would not get less funding than was received in 2012-13. In addition, COEs were held harmless for the amount of state aid (essentially the value of the categorical funding) received in 2012-13. Unlike school districts, for COEs this minimum state aid amount floats above their target, meaning that as local property tax revenue grows in a county over time and funds their LCFF allocation, the minimum state aid allotment for that COE becomes a new bonus in base funding on top of the their LCFF level.

Governor's Budget Proposal.

The proposed budget includes a COLA of 8.13 percent, which, coupled with growth adjustments, costs approximately $4.1 billion for the LCFF. The budget also uses one-time funding of $613 million in 2022-23 and $1.4 billion in 2023-24 to cover costs for LCFF.

Legislative Analyst's Office.

The Legislative Analyst's Office recommends reducing the ongoing spending in 2023-24 to avoid passing a budget that creates a deficit in 2024-25. The Legislative Analyst's Office suggests options for making ongoing reductions, including (1) funding a lower COLA; (2) rejecting or delaying implementation of new ongoing funding for high-poverty schools, or (3) making certain reductions to existing programs, such as the Expanded Learning Opportunities Program or State Preschool. Taking one or a combination of these actions would free up room to fund 2023-24 LCFF costs with ongoing funds, which would then free up 2021-22 funds that can be used to minimize or eliminate the need for reducing the discretionary block grant.

Suggested Questions.

- DOF: How does the Administration plan to address the ongoing costs in the outyears if we are using one-time funds to help cover LCFF in 2022-23 and 2023-24?

- LAO: What are some of the ways that LCFF can be improved to help provide more equitable outcomes for students?

Staff Recommendation. Hold open.

Issue 4: Fiscal Health of School Districts

Description.

The Fiscal Crisis and Management Assistance Team (FCMAT) provides a statewide resource to help monitoring agencies in providing fiscal and management guidance and helps local education agencies (LEAs) - school districts, county offices of education (COEs), and charter schools, as well as community college districts - fulfill their financial and management responsibilities. Lead FCMAT staff will provide a general overview of the fiscal health of school districts.

Panel.

- Mike Fine, Chief Executive Officer, FCMAT

Background:

Assembly Bill 1200 (Eastin), Chapter 1213, Statutes of 1991, created an early warning system to help LEAs avoid fiscal crisis, such as bankruptcy or the need for an emergency loan from the state. The measure expanded the role of COEs in monitoring school districts and required that they intervene, under certain circumstances, to ensure districts can meet their financial obligations. The bill was largely in response to the bankruptcy of the Richmond School District, and the fiscal troubles of a few other districts that were seeking emergency loans from the state. The formal review and oversight process requires that the county superintendent approve the budget and monitor the financial status of each school district in its jurisdiction. COEs perform a similar function for charter schools, and the California Department of Education (CDE) oversees the finances of COEs. There are several defined "fiscal crises" that can prompt a COE to intervene in a district: a disapproved budget, a qualified or negative interim report, or recent actions by a district that could lead to not meeting its financial obligations.

Beginning in 2013-14, funding for COE fiscal oversight was consolidated into the Local Control Funding Formula (LCFF) for COEs. COEs are still required to review, examine, and audit district budgets, as well as annually notify districts of qualified or negative budget certifications, however, the state no longer provides a categorical funding source for this purpose.

AB 1200 also created FCMAT, recognizing the need for a statewide resource to help monitoring agencies in providing fiscal and management guidance. FCMAT also helps LEAs fulfill their financial and management responsibilities by providing fiscal advice, management assistance, training, and other related services. FCMAT also includes the California School Information Services (CSIS). LEAs and community colleges can proactively ask for assistance from FCMAT, or the Superintendent of Public Instruction (SPI), the county superintendent of schools, the FCMAT Governing Board, the California Community Colleges Board of Governors or the state Legislature can assign FCMAT to intervene or provide assistance. Ninety percent of FCMAT's work is a result of an LEA inviting FCMAT to perform proactive, preventive services, or professional development. Ten percent of FCMAT's work is a result of assignments by the state Legislature and oversight agencies to conduct fiscal crisis intervention. The office of the Kern County Superintendent of Schools was selected to administer FCMAT in June 1992.

Interim Financial Status Reports. Current law requires LEAs to file two interim reports annually on their financial status with the CDE. First interim reports are due to the state by December 15 of each fiscal year; second interim reports are due by March 17 each year. Additional time is needed by the CDE to certify these reports.

As a part of these reports, LEAs must certify whether they are able to meet their financial obligations. The certifications are classified as positive, qualified, or negative.

- A positive certification is assigned when an LEA will meet its financial obligations for the current and two subsequent fiscal years.
- A qualified certification is assigned when an LEA may not meet its financial obligations for the current and two subsequent fiscal years.
- A negative certification is assigned when an LEA will be unable to meet their financial obligations in the current year or in the subsequent fiscal year.

AB 1200 states the intent that the legislative budget subcommittees annually conduct a review of each qualifying school district (those that are rated as unlikely to meet their fiscal operations for the current and two subsequent years), as follows: "It is the intent of the Legislature that the legislative budget subcommittees annually conduct a review of each qualifying school district that includes an evaluation of the financial condition of the district, the impact of the recovery plans upon the district's educational program, and the efforts made by the state-appointed administrator to obtain input from the community and the governing board of the district."

First Interim Report. The first interim report has not yet been published by CDE. However, according to FCMAT, two LEAs have negative certifications for the first interim report, as of January 20, 2023. These LEAs that have negative certifications will not be able to meet their financial obligations for 2022-23 or 2023-24, based on data generated by LEAs in Fall 2022, prior to release of the Governor's January 2023-24 budget. The first interim report also identified 9

LEAs with qualified certifications. LEAs with qualified certifications may not be able to meet their financial obligations for 2022-23, 2023-24, or 2024-25. For comparison, the first interim report in fiscal year 2021-22 identified 24 LEAs with qualified certifications, and in fiscal year 2020-21 52 LEAs were identified with qualified certifications.

Second Interim Report. The second interim report, which covers the period ending January 31, 2023, is due March 17th.

State Emergency Loans. A school district governing board may request an emergency apportionment loan from the state if the board has determined the district has insufficient funds to meet its current fiscal obligations. Existing law states the intent that emergency apportionment loans be appropriated through legislation, not through the budget. The conditions for accepting loans are specified in statute, depending on the size of the loan. For loans that exceed 200 percent of the district's recommended reserve, the following conditions apply:

- The county superintendent shall assume all the legal rights, duties, and powers of the governing board of the district.
- The county superintendent, with concurrence from both the SPI and the president of the state board of their designee, shall appoint an administrator to act on behalf of the SPI.
- The school district governing board shall be advisory only and report to the state administrator.
- The authority of the county superintendent and state administrator shall continue until certain conditions are met. At that time, the county superintendent, with concurrence from both the SPI and the president of the state board of their designee, shall appoint a trustee to replace the administrator.

For loans equal to or less than 200 percent of the district's recommended reserve, the following conditions apply:

- The county superintendent, with concurrence from the SPI and the president of the state board or their designee, shall appoint a trustee to monitor and review the operation of the district.
- The school district governing board shall retain governing authority, but the trustee shall have the authority to stay and rescind any action of the local district governing board that, in the judgment of the trustee, may affect the financial condition of the district.
- The authority of the county superintendent and the state-appointed trustee shall continue until the loan has been repaid, the district has adequate fiscal systems and controls in place,
- and the SPI has determined that the district's future compliance with the fiscal plan approved for the district is probable.

State Emergency Loan Recipients. Nine school districts have sought emergency loans from the state since 1991. The table below summarizes the amounts of these emergency loans, interest rates on loans, and the status of repayments. Five of these districts: Coachella Valley Unified, Compton Unified, Emery Unified, West Fresno Elementary, and Richmond/West Contra Costa Unified have paid off their loans. Four districts have continuing state emergency loans: Oakland Unified, South Monterey County Joint Union High (formerly King City Joint Union High), Vallejo City Unified, and Inglewood Unified School District. The most recently authorized loan was to Inglewood Unified School District in 2012 in the amount of $55 million from the General Fund and the California Infrastructure and Economic Development Bank (I-Bank). Of the four districts with continuing emergency loans from the state, Inglewood Unified School District is the only district operating under an administrator and has a positive certification list at first interim in 2022-23. Oakland Unified School District continues to be on the qualified certification list in the first interim report in 2022-23.

Emergency Loans to School Districts
1990 through 2022

District	Tenure of Administrators and Trustees	Amount of State Loan	Interest Rate	Outstanding Balance of I-Bank and General Fund Loans	Amount Paid By District Including Principal & Interest	Pay Off Date
Inglewood Unified	Administrator 10/03/12–Present	$7,000,000 $12,000,000 $10,000,000 **= $29,000,000** ($55 million authorized)	2.307%	$20,975,274 as of 07/01/22	$12,823,888	11/01/34 GF
South Monterey County Joint Union High (formerly King City Joint Union High)	Administrator 07/23/09–06/30/16 Trustee 07/01/16–Present	$2,000,000 $3,000,000 $8,000,000 **= $13,000,000**	2.307%	$6,307,855 as of 07/01/22	$12,639,237	October 2028 I-bank
Vallejo City Unified	Administrator 06/22/04–03/31/13; Trustee 07/13/07–Present	$50,000,000 $10,000,000 **= $60,000,000**	1.5%	$7,420,366 as of 07/01/22	$61,812,324	January 2024 I-bank 08/13/24 GF
Oakland Unified	Administrator 06/16/03–06/28/09; Trustee 07/01/08–Present	$65,000,000 $35,000,000 = **$100,000,000**	1.778%	$11,842,547 as of 07/01/22	$107,438,594	January 2023 I-bank 6/29/26 GF
West Fresno Elementary	Administrator 03/19/03–06/30/11;	$1,300,000 ($2,000,000 authorized)	1.93%	-0-	$1,425,773	12/31/10 GF

	Trustee 08/26/08–12/04/09					
Emery Unified	Administrator 08/07/01–06/30/04; Trustee 07/1/04–07/29/11	$1,300,000 ($2,300,000 authorized)	4.19%	-0-	$1,742,501	06/20/11 GF
Compton Unified	Administrators 07/93–12/10/01; Trustee 12/11/01–06/02/03	$3,500,000 $7,000,000 $9,451,259 **= $19,951,259**	4.40% 4.313% 4.387%	-0-	$24,358,061	06/30/01 GF
Coachella Valley Unified	Administrators 05/26/92–09/30/96; Trustee 10/01/96–12/20/01	$5,130,708 $2,169,292 **= $7,300,000**	5.338% 4.493%	-0-	$9,271,830	12/20/01 GF
West Contra Costa Unified (formerly Richmond Unified)	Pre-AB 1200 Trustee 07/01/90–05/01/91; Administrator 05/02/91–05/03/92; Trustee 05/04/92–05/31/12	$2,000,000 $7,525,000 $19,000,000 **= $28,525,000**	1.532% 2004 refi rate	-0-	$47,688,620	05/30/12 I-bank

Source: California Department of Education

Suggested Questions:

- It is notable that the number of LEAs with qualified certifications have gone down in the past few years when there have been an abundance of resources available. Is this a result of improved fiscal governance, or do we expect to see the number of LEAs with qualified certifications to increase when the economy begins to show signs of weakness?

Staff Recommendation. Hold open.

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Lola Smallwood-Cuevas
Senator Rosilicie Ochoa Bogh

Thursday, March 9, 2023
9:30 a.m. or Upon Adjournment of Session
1021 O Street, Room 2100

Consultant: Christopher Francis, Ph.D.

Items for Discussion

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

6610 CALIFORNIA STATE UNIVERSITY (CSU)

Overview

The California State University (CSU) is comprised of 23 campuses. Its 23 campuses enroll more than 468,000 students. All campuses offer undergraduate and graduate instruction for professional and occupational goals and liberal education programs. For undergraduate programs, each campus requires a basic program of general education regardless of the major selected by the student. In addition to master's-level graduate programs, the CSU offers doctoral-level programs in education, nursing practice, physical therapy, and audiology. The CSU also offers some doctoral degrees jointly with the University of California and with private institutions. In 2021-22, the CSU awarded more than 132,000 degrees.

The university is governed by the Board of Trustees, which includes the following 25 members: five ex officio members, 16 members appointed by the Governor to eight-year terms, three members appointed by the Governor to two-year terms (two student representatives, one voting and one non-voting, and one faculty representative), and one alumni representative appointed to a two-year term by the CSU Alumni Council. The Trustees appoint the Chancellor and the campus presidents. The Trustees, the Chancellor, and the presidents develop systemwide policy. The systemwide Academic Senate, made up of elected faculty representatives from the campuses, recommend academic policy to the Board of Trustees through the Chancellor.

The CSU's goals include:

- Offering degree programs in academic and applied areas that are responsive to the needs of citizens of this state and providing for regular review of the nature and extent of these programs.
- Providing public services to the people of California.
- Providing services to students enrolled in the university.
- Offering instruction at the doctoral level jointly with the University of California and with private institutions of postsecondary education, or independently in the fields of education, nursing practice, physical therapy, and audiology.

Governor's Budget Plan in 2023-24 for CSU. The Governor's largest proposal for CSU is $227 million ongoing General Fund for a five percent unrestricted base increase. Consistent with the compact, CSU is to cover the cost of one percent resident enrollment growth from this base increase. The Governor's Budget Summary specifies that ongoing General Fund support for CSU also increases by $36 million to cover higher retiree health benefit costs and by $3 million to cover higher pension costs. The Governor does not propose any new one-time funding for CSU in 2023-24, beyond funding one initiative consistent with last year's budget agreement.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2021-22	2022-23	2023-24	2021-22*	2022-23*	2023-24*
5560	Support	48,971.6	49,439.1	49,439.1	$12,992,242	$11,960,780	$11,878,070
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**48,971.6**	**49,439.1**	**49,439.1**	**$12,992,242**	**$11,960,780**	**$11,878,070**

FUNDING		**2021-22***	**2022-23***	**2023-24***
0001	General Fund	$5,517,732	$5,005,794	$4,922,584
0895	Federal Funds - Not In State Treasury	1,575,568	1,654,918	1,654,918
0948	California State University Trust Fund	5,897,442	5,298,068	5,298,068
3290	Road Maintenance and Rehabilitation Account, State Transportation Fund	1,500	2,000	2,500
TOTALS, EXPENDITURES, ALL FUNDS		**$12,992,242**	**$11,960,780**	**$11,878,070**

Issue 1A: State of CSU: Core Operations

Staff notes that Issue 1 contains three parts. The subcommittee will hear a status update from Interim Chancellor Koester, discuss implementation updates and existing challenges for a variety of programs, and the Governor's proposals related to core operations, resident enrollment, and student housing. These major themes are grouped together given their impacts across the CSU system.

Panel

- Jolene Koester, Interim Chancellor, California State University
- Ryan Storm, California State University
- Jennifer Louie, Department of Finance
- Lisa Qing, Legislative Analyst's Office

Governor's Budget

Base Budget Increase. The Governor's budget proposes an increase of $227.3 million General Fund ongoing for operating costs, representing a five-percent base increase in ongoing General Fund resources that is consistent with the Governor's multi-year compact with CSU. Consistent with the compact, CSU is to cover the cost of one percent resident enrollment growth from this base increase.

CSU Board of Trustees Budget Request

The CSU requests $513 million General Fund in 2023-24 and ongoing to support core operations, a $286 million above the Governor's proposed base budget increase. Within its operating budget request, CSU proposes using its compact funding for the following purposes:

CSU Proposed Uses with Governor's Proposed Base Increase	
Purpose	**General Fund Amount ($ in millions)**
Compensation pool increases	$92
Health care premium increases	51
Enrollment growth **(Discussed in Issue 2)**	35
Graduation Initiative 2025	30
Liability and property insurance premium increases	14
Operations and maintenance of new facilities	6
Total	$227

The CSU also proposes using the additional $286 million General Fund for the following purposes:

CSU Requested Funding Above Governor's Proposal	
Purpose	**General Fund Amount ($ in millions)**
Compensation pool increases	$168
Academic Facilities and Infrastructure	50
Graduation Initiative 2025	25
Inflation related to non-personnel costs	23.03
Basic Needs	20

Total above Governor's proposal	$286
[a]Reflects CSU's employer contributions on behalf of active employees	

Background

CSU Has Several Core Operating Costs. CSU spends the majority of its ongoing core funds (about 75 percent in 2020-21) on employee compensation, including salaries, employee health benefits, and pensions. CSU has about 45,000 Full-Time Equivalent (FTE) employees. Of these employees, about 45 percent are faculty, about 45 percent are staff, and the remaining 10 percent are managers and executives. Beyond employee compensation, CSU spends its core funds on other annual costs, such as paying debt service on its system-wide bonds, supporting student financial aid programs, and covering other operating expenses and equipment (OE&E). Each year, campuses typically face pressure to increase employee salaries at least at the pace of inflation, with certain other operating costs (such as health care, pension, and utility costs) also tending to rise over time. Though operational spending grows in most years, CSU has pursued certain actions to contain this growth. For example, CSU has pursued certain procurement practices and energy efficiency projects with the aim of slowing associated cost increases.

State Contributions to Base Budget (2013-2020). Since 2013, following the Great Recession, the state provided CSU annual base increases ranging from $125 million ongoing in 2013 to $323 million ongoing General Fund in 2019. However, in 2020, the impact of the COVID-19 pandemic and the associated economic downtown led the state to reduce state support at CSU. While the 2020 budget provided a base increase of $199 million General Fund ongoing to CSU, the budget also included a $498 million reduction, this resulted in a net reduction of $299 million ongoing or 7.4 percent. The budget bill specified that this reduction would be restored if federal funding was provided to the state by October 2020. However, this did not occur. The 2020 budget included intent language that CSU use reserves to mitigate cuts, and that the cuts do not have a disproportionate impact on low-income students, students from underrepresented minority groups and other disadvantaged groups.

The 2020 budget also required CSU to report on level of cuts by campus, a description of the stakeholder consultation process used to make the cuts an explanation of how those actions were decided, and a description of how the CSU's decisions minimize harm to the enrollment of and services provided to students eligible for Pell Grants, students from underrepresented minority groups, and other disadvantaged students. In November 2020, the CSU submitted the report to the Legislature, and noted that after consultation sessions with campus presidents and stakeholders, it was decided that the reduction would be allocated to campuses based on two methodologies: (1) a pro-rata across-the-board reduction based on 2019-20 campus operating budgets, and (2) a campus reduction based on the number of students that were not Pell Grant eligible in 2018-19, this resulted in each campus base budget being reduced by $793 for every non-Pell grant eligible student enrolled at the campus. Each methodology was applied to half of the budget shortfall. Campus reductions ranged from $5.6 million to $28.9 million.

CSU utilized a number of one-time sources to temporarily support the $299 million funding drop for 2020-21, including the use of designated balances and reserves, the federal CARES Act funding (described below), a slowdown in hiring and a halt on travel. The Chancellor's Office surveyed campuses in August 2020 and January 2021 and found that campuses planned to use over $200 million or about half of their unrestricted reserves in the 2020 to help address the budget shortfall. However, based on data released at the end of 2020-21, unrestricted reserve levels were up from one year before. This is due to the availability of three rounds of federal assistance. The impact of these reductions varied by campus, for example, prior to the COVID-19 pandemic, San Francisco State already had operating budget challenges due to declining enrollment, whereas other campuses have been able to avoid layoff notices by implementing budget savings strategies.

Recent Contributions to Base Budget (2021-2022). The 2021 Budget Act provided an increase of $299 million ongoing General Fund to backfill a reduction made in the 2020-21 Budget Act. Additionally, the budget approved an increase of $185.9 million ongoing General Fund to reflect a five percent base increase. CSU used the funds primarily to restore budget cuts, expand course offerings and student supports related to Graduation Initiative 2025, and cover employee compensation cost increases. The 2021 Budget Act also included a net increase of $50 million for adjustments specifically to CSU retiree health benefit and pension costs. The Budget Act of 2022 provided $211.1 million General Fund in 2022-23 and ongoing for a five percent base increase to support CSU operations. This base increase was consistent with a compact between the Governor and CSU that focus on shared priorities benefitting students.

Graduation Initiative 2025. Historically, CSU's four-year graduation rate for incoming freshmen was below 20 percent and the two-year graduation rate for transfer students was below 30 percent. To address its low graduation rates, CSU launched the Graduation Initiative 2025 and set a systemwide goal to increase the four-year graduation for first time freshman at 40 percent, and the two-year transfer graduation rate at 45 percent by 2025.

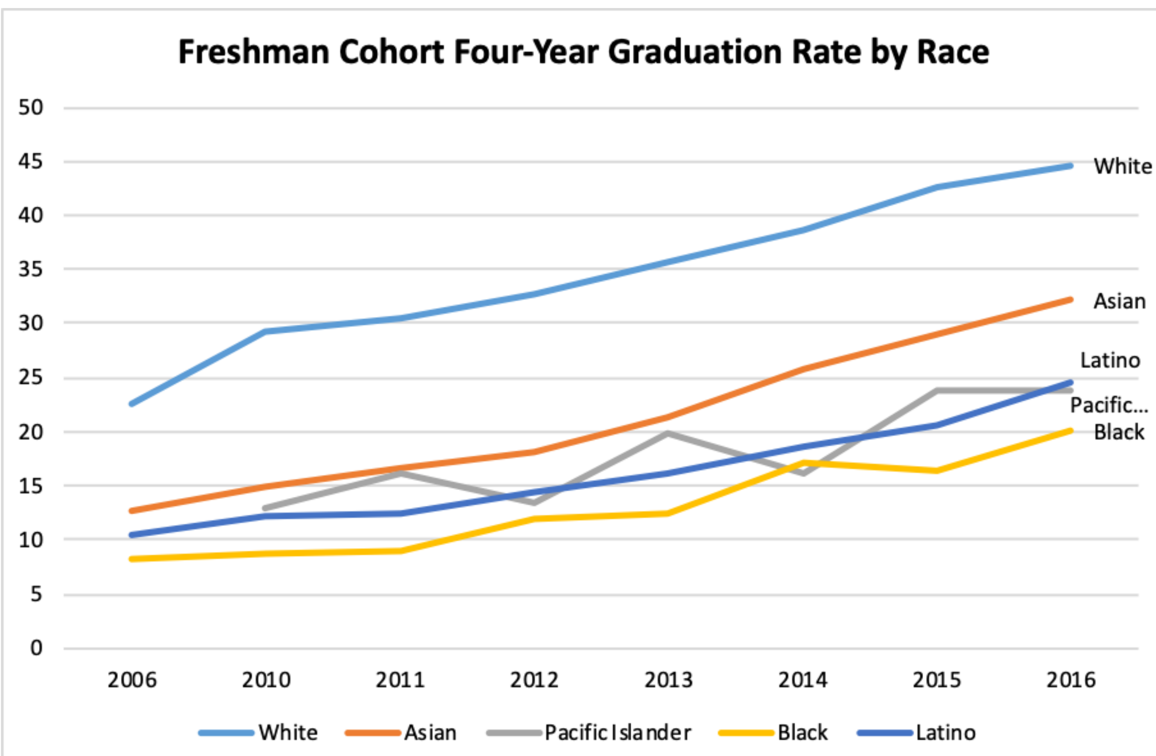
Over the last five years, the state has made significant investments in the CSU Graduation Initiative 2025, totaling $390 million General Fund ongoing and $42.5 million General Fund one-time (see chart below). Because of these investments, CSU states that it has achieved all-time highs in four- and six-year graduation rates for first-time students and two- and four-year rates for transfer students and is on track to meet the GI 2025 goals.

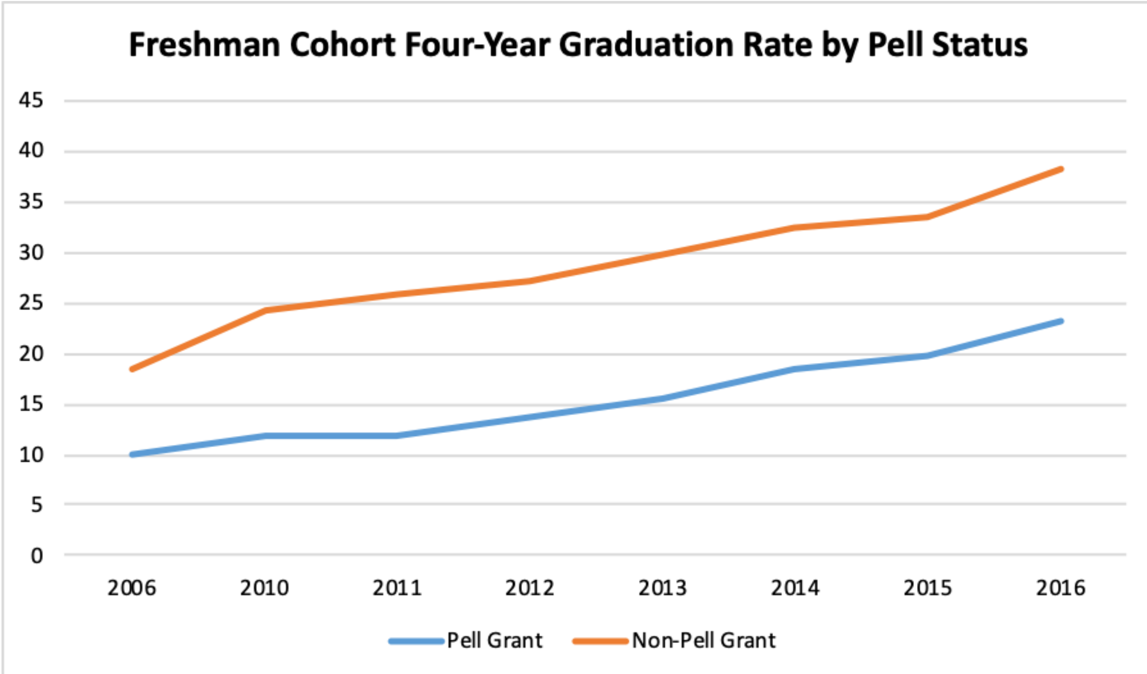
Figure: Graduation Initiative 2025 General Fund Support

Budget Year	Ongoing Funding ($ in millions)	One-Time Funding ($ in millions)
2017-18	75	12.5
2018-19	75	0
2019-20	45	30
2020-21	0	0
2021-22	150	0
2022-23	45	0
TOTAL (2017-18 to 2022-23)	390	42.5
2023-24 (Requested)	55 (30 within compact + additional 25)	0

Currently, the systemwide four-year graduation rate is 33 percent for first time students and the two-year graduation rate is 44 percent for transfer students. Despite the increases in graduation rates for first-time and transfer students, the initiative has struggled to meet its goals to close equity gaps for underrepresented students. As shown in the table from CSU and graphs below, four-year graduation rates across various student groups have increased overtime, however, there has not been significant systemwide changes in closing the achievement gap. The CSU noted in 2020 that systemwide, the gap between Pell-recipient students and their peers narrowed one percentage point from 10.2 to 9.2. In 2021, the gap has increased back to 10.2. The CSU also slightly narrowed the equity gap for students who identify as Black, Native American or Latinx from 11.1 percentage points to 10.5 percentage points in 2020. This number has now increased to 12.4 percentage points.

			2016	2017	2018	2019	2020	2021	2025 GOAL
GRADUATION RATES	First-Time Students	4-Year	21%	23%	25%	27%	31%	33%	40%
		6-Year	59%	59%	61%	62%	62%	63%	70%
	Transfer Students	2-Year	33%	35%	38%	40%	44%	44%	45%
		4-Year	74%	75%	77%	77%	79%	80%	85%
EQUITY GAPS (in percentage points)	Underserved Students of Color		12.0	12.2	10.5	11.1	10.5	12.4	0.0
	Pell Grant Recipients		10.0	10.6	9.5	10.2	9.2	10.2	0.0





The CSU convened an advisory committee in 2021 to address these remaining gaps with a specific focus on the following:

- Implement universal adoption of strategies with demonstrated efficacy in improving student retention and graduation;
- Establish campus-based metrics that would assist with accountability and allocation of Graduation Initiative 2025 legislative funding;
- Determine viable strategies to more aggressively close equity gaps, with targeted campus-by-campus analysis and adaptation; and
- Disseminate and review progress reports for the system and campuses to guide future areas of focus.

The committee submitted a report in July 2021 with a set of recommendations and strategic imperatives to address equity gaps and the CSU subsequently adopted five recommendations:

(1) Reengage and reenroll underserved students such as students of color, Pell Grant recipients, and first-generation students
(2) Expand credit opportunities with summer/intersession
(3) Ensure "equitable access" to digital degree planners that help students navigate the registration process, select core courses, and stay on track for timely graduation
(4) Eliminate administrative barriers to graduation such as fee assessments, registration holds, and cumbersome processes.
(5) Promote "equitable learning practices" and reduce non-passing (D-F-Withdraw) rates and providing opportunities for additional learning when needed

To launch each of these five efforts, the CSU has annually reallocated and reshuffled existing resources to begin more focused work in each area. Within its system wide request, CSU indicates that it will support these five recommendations with its base budget increase.

Labor and Employee Relations at CSU. About 90 percent of CSU's employees are represented by a union. The largest unions are the California Faculty Association, which comprises about half of CSU's salary pool, and the California State University Employees Union, which represents support staff and comprises about one-quarter of CSU's salary pool. Whereas the Legislature ratifies collective bargaining agreements for most represented state employees, state law authorizes the CSU Board of Trustees to ratify collective bargaining agreements for CSU's employees. These collective bargaining agreements determine salary increases for represented employees. The agreements also often indirectly drive salary increases for the remaining 10 percent of CSU employees (primarily consisting of managers and executives) who are not represented by a union.

On December 20, 2021, CSU and the California Faculty Association (CFA) reached a tentative agreement on a successor contract. The agreement covers the 29,000 instructional faculty, coaches, librarians and counselors across the 23 CSU campuses and, upon ratification by the CSU Board of Trustees and CFA membership, will run through June 30, 2024. The agreement calls for faculty to receive the following: 1) A one-time payment of $3,500, prorated by each faculty member's 2020-21 time-base, 2) a four percent general salary increase (GSI), retroactive to July 1, 2021, 3) up to a four percent GSI, effective July 1, 2022, dependent on the state budget allocation to the CSU, 4) a 2.65 percent service salary increase (SSI) during fiscal years 2021-22 and 2023-24 for all eligible faculty, including coaches, counselors and librarians and 5) a 2.65 percent post-promotion increase (PPI) during fiscal year 2022-23 for eligible faculty, including coaches, counselors and librarians. Separately, in December 2021, the CSU also initiated a faculty employee salary study, with results to be released in the Spring 2023.

Additionally, the 2021 Budget Act provided $2 million one-time General Fund to the CSU Chancellor's Office, in consultation with the Department of Finance's Office of State Audits and Evaluations, to support a study on CSU non-faculty salary structure, salary inversion and to provide any recommendations for alternative salary models. The CSU was directed report to the Department of Finance and the Legislature by April 30, 2022 on the findings and recommendations. Moreover, budget bill language stated the intent of the Legislature that the recommendations and transitional and ongoing cost information from the evaluation will be incorporated into the CSU annual budget request. In July and August of 2021, CSUEU (CSEA SEIU 2579) and the Teamsters served on the CSU Request for Proposal Committee to select an independent research firm to perform the Salary Study, ultimately selecting Mercer due to their experience, capacity, and ability to work on labor- management partnerships. Mercer began work in November 2021. In December 2021, Mercer conducted extensive focus groups to develop their recommendations, receiving input from over 5,000 employees in the staff bargaining units. The study was completed in Spring 2022 and Mercer determined that the CSU's wage structure issues can be addressed through a $288 million ongoing budget augmentation. The amounts needed to implement the studies' recommendations were not covered with CSU's base increase in 2022-23 and is not part of CSU's request or proposed use of funds for 2023-24. Most recently, CSUEU and CSU re-opened bargaining over wages as permitted by the current MOU. Overall, CSU indicates that additional, ongoing funding beyond the amount requested in their plan is require to implement any cost-creating recommendations of either study.

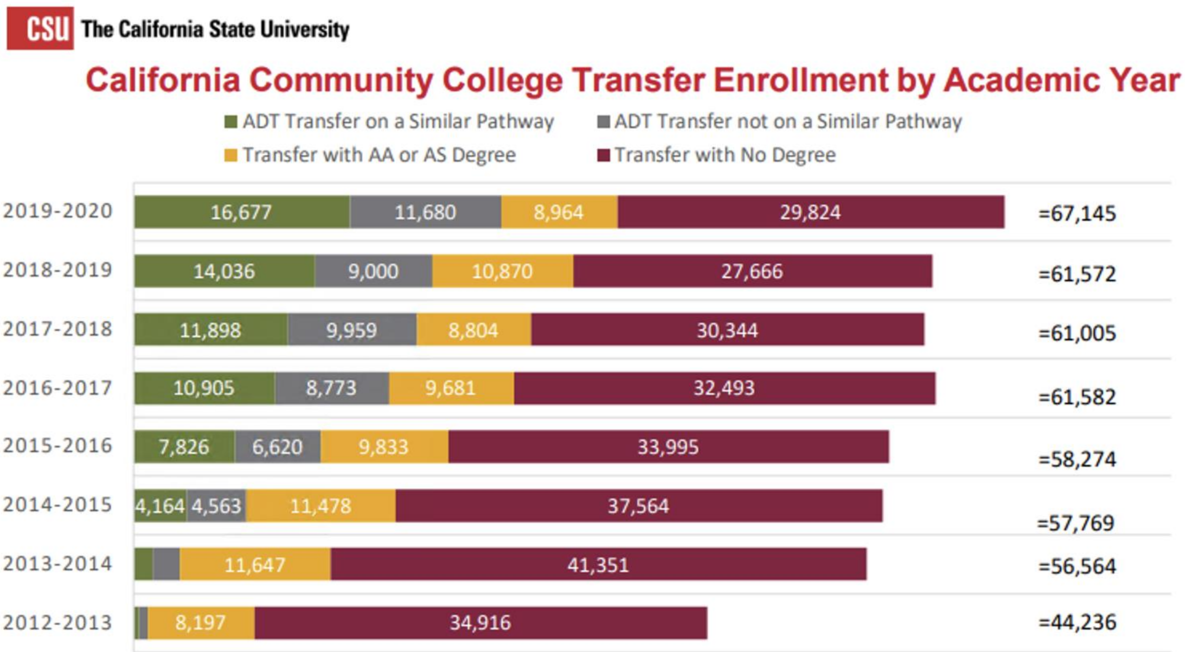
CSU Financial Aid. According to CSU, 81 percent of all students receive financial aid and 60.5 percent of all enrolled undergraduate students receive non-loan aid to cover the full cost of tuition. Since 2011-12, tuition rates have remained relatively constant with an increase of $270 in 2017-18 to support the first year of funding dedicated to Graduation Initiative 2025. The CSU systemwide tuition is $5,742 per year for a resident undergraduate student. In addition to the systemwide tuition, each campus also charges mandatory campus-based fees, which on average is $1,697. The CSU tuition and fee average is $7,439.

The CSU currently provides nearly $945 million of institutional aid, which includes $701 million for the State University Grant (SUG) program. According to CSU, over 140,000 students received a SUG award in 2020-21. An additional $821 million from the state Cal Grant program and over $1 billion from the federal Pell Grant program help CSU undergraduate students cover tuition, fees, and some personal expenses. These CSU, state, and federal financial aid programs help defray the cost of attendance for the lowest-income students and keep CSU student debt well below the national average. In 2020-21, CSU baccalaureate degree recipients have lower average debt ($17,966) than other students in California ($21,125) compared to the 2019-20 national average ($28,950).

CSU Transfer and Associate Degree for Transfer (ADT). There are currently multiple paths a student may take to transfer to a CSU, such as through an ADT, associate degree, or transfer after earning a few credits, or earning enough credits to reach junior standing and transfer. Navigating the numerous transfer pathways, including the different admission requirements, general education and major requirements, which vary across systems and campuses, often created confusion and barriers for a students' academic success. In an effort to create clearer pathways from California Community Colleges (CCC) to CSU, SB 440 (Padilla), Chapter 428, Statutes of 2010, and SB 1440 (Padilla), Chapter 20, Statutes of 2013, established the ADT at the CCC.

A CCC student earns an ADT after completing 60 transferable coursework, including a minimum of 18 units in a major or area of emphasis and either 39 or 42 units of general education. Existing law requires the CSU to guarantee admission with junior status to CCC students who earns an ADT and has at least 2.0 GPA. Junior status means that a student can complete their bachelor's degree within two years of transferring. CSU is also required to grant ADT students priority admission over all other community college transfer students. While a student is guaranteed admission, some CSU campuses and programs are impacted and cannot offer a slot to every eligible applicant. Statute specifies that the ADT does not guarantee admission for a specific major or campus. CSU is instead required to grant student priority admission to their local CSU campus, and a program or major that is similar to their CCC major and area of concentration. The determination of which ADT programs are "similar" is left to the discretion of CSU campuses. Moreover, statute requires CSU to redirect students who complete ADTs but are denied admission to the campus they applied to another CSU campus with available capacity. Statute also requires CSU to annually report by December 1st the number of students admitted with an ADT, the proportion of ADT students who graduate from CSU within two or three years, number of ADT student who were redirected, and enrolled.

On January 26, 2021, the CSU Board of Trustees Committee on Education heard an update on the ADT. The Board agenda item notes that there are currently 40 ADT pathways and all community colleges (except Calbright College) offers an ADT program. CSU notes that when reviewing the major preferences of students transferring from a CCC to a CSU, these pathways account for 90 percent of their preferred majors. The CSU notes that the top CSU majors of ADT transfer students are psychology with almost 3,000 students, followed by business administration, sociology and criminal justice. As shown on the display below, in 2019-20, more than 28,000 new transfer students enrolled at the CSU having first earned an ADT, this is about five percentage points over the prior academic year. Since 2012, students transferring with an ADT grew from three percent to about 42 percent. While the number of ADTs and transfer students have grown over the last several years, about 41.2 percent of new ADT transfers were enrolled in a pathway not similar to their ADT.



CSU also notes that 55 percent of ADT students who transferred into a similar pathway in fall of 2018 were able to graduate in two years. This compares to about 47 percent of ADT students enrolled in a not similar pathway and 40 percent of students who had no degree or an AA degree.

While the number of students who have transferred over the decade increased, the Campaign for College Opportunity's recent report, *10 Years After Historic Transfer Reform – How Far Have We Come and Where Do We Need to Go?*, noted that share of ADT transfers on a similar path upon enrollment varies greatly across the CSU campuses. For example, just 11 percent of Pomona's, 12 percent of San Luis Obispo's and 13 percent of Humboldt's new transfer students were enrolled in a similar pathway compared to 43 percent of Fullerton's, 29 percent of San Diego's and 30 percent of Long Beach's new transfer students. A majority of CSU campuses have less than 25 percent of their transfer students on an ADT similar pathway.

Legislative Analyst's Office (LAO) Comments and Recommendations

LAO Assessment:* *Unrestricted Base Increase Lacks Transparency and Accountability. The Governor's proposed unrestricted base increase for CSU lacks transparency, as the funds are not designated for particular purposes. CSU has added some transparency to the Governor's proposal by providing a spending plan, thereby allowing the Legislature to consider whether the funds would likely be used in ways that align with its priorities. Unlike with other types of augmentations, however, no statutory language requires CSU to spend the base increase consistent with its initial plan. As a result, the Legislature does not have assurance that the funds will be spent in ways that advance the outcomes it desires. While some amount of spending discretion can be appropriate when the state has put in place accountability systems with clear fiscal incentives for performance (such as the Student Centered Funding Formula for community colleges), the state has not put these conditions in place for CSU. Despite the performance expectations included in the Governor's compact, no clear mechanism exists to increase or decrease CSU's funding in response to its outcomes.

***LAO Assessment:* Amount of Governor's Proposed Base Increase Is Arbitrary.** The amount of the proposed 2023-24 base increase was determined in an agreement made between the Governor and CSU, without being codified by the Legislature. At the time of the initial agreement, the Governor did not provide clear justification for the proposed amount based on CSU's identified operating costs. Moreover, since the initial agreement was made last year, new information has become available on CSU's cost increases as well as the state budget condition. The LAO believes these factors warrant revisiting the amount of General Fund augmentation proposed for CSU in 2023-24.

***LAO Assessment:* Proposed General Fund Augmentation Does Not Fully Cover CSU's Projected Cost Increases.** Under the Governor's proposed General Fund augmentation of $227 million, some of CSU's projected operating cost increases would not be covered in 2023-24. For example, CSU's associated spending plan for the proposed base increase does not include funding for projected cost increases due to inflation on OE&E. CSU's spending plan also does not provide any funding for projects to address the system's large and growing capital renewal needs. Under the multiyear compact, CSU would likely continue to have unaddressed costs in the out-years and the Governor's proposed General Fund increases would fall short of covering CSU's projected operating cost increases every year through 2026-27.

***LAO Assessment:* CSU Is Likely to Face Heightened Salary Cost Pressures.** Notably, CSU's spending plan for the proposed $227 million base increase in 2023-24 accommodates a less than two percent increase to its compensation pool. CSU, however, faces significant upward pressure on employee compensation. Over the past year, both inflation and wage growth (across the nation and in California) were at their highest levels in several decades. Furthermore, inflation and broad-based wage growth are expected to exceed two percent in 2023. Two employee compensation studies are also likely to contribute to salary cost pressures at CSU. The Budget Act of 2021 provided funding for a staff salary structure study, which was submitted to the Legislature in spring 2022. The study found wage stagnation at CSU relative to other higher education and general industry employers, with CSU salaries falling 12 percent below the market median on average. (The study did not examine differences in employee benefits.) In addition to the staff salary study, CSU has initiated a study focused on faculty salaries. It expects the findings of the faculty salary study to be available in spring 2023, in time to inform the Legislature's final budget deliberations.

***LAO Recommendation:* Link CSU's General Fund Augmentation to Spending Priorities.** Rather than give CSU an unrestricted base increase, the LAO recommends that the Legislature determine which of CSU's potential operating cost increases it wishes to support in 2023-24 and then provide associated funding designated for those particular purposes. For example, with the same total ongoing funding increase that the Governor proposes for CSU ($227 million), the Legislature could fund a three percent increase in CSU's employee compensation pool ($157 million), projected employee health benefit increases ($51 million), and some capital renewal projects ($20 million). The Legislature also could provide more or less than the Governor's proposed amount, depending on its priorities and the state's budget capacity. For example, if the Legislature wishes to support additional employee compensation increases, CSU estimates every one percent increase in the compensation pool would cost $52 million.

***LAO Recommendation:* Consider Expanding Budget Capacity at CSU Through Tuition Increases.** Given that the Governor's proposed General Fund increases fall short of covering CSU's projected operating cost increases every year of the compact period, the Legislature could consider supporting tuition increases at CSU. Pursuing tuition increases in 2023-24 would require CSU to take quick action over the next few months, including calling a special meeting of the Board of Trustees in the first half of May. Pursuing tuition increases in 2024-25 would allow greater time for student consultation and public notification. CSU recently indicated that it does not intend to pursue a tuition increase in 2023-24 and has not yet made a determination for 2024-25. CSU estimates that a 5 percent increase in systemwide tuition charges for all students would generate $83 million in net tuition revenue, as well as $42 million in additional funding for institutional financial aid. If the tuition increase were applied to the incoming student cohort only (similar to the model recently adopted by UC), additional revenue would be significantly lower in the first year but increase over the next several years. Under both models, students who receive tuition coverage through either the state's Cal Grant program or CSU's institutional financial aid program would not face higher costs. The state, however, would see higher Cal Grant costs. The LAO estimates that Cal Grant costs would increase by approximately $30 million ongoing if a five percent tuition increase were applied to all students, or by a smaller but growing amount if the tuition increase were applied to the incoming cohort only.

Suggested Questions

Base Increase and Cost Pressures

- Please walk the committee through its planned uses with the proposed base increase.
- Are the compensation costs associated with the implementation of a salary step study recommendations for non-faculty staff and a CFA agreement from December 2021 covered by the Governor's proposed base increase? If not, how much of those agreements will be covered by the base increase?
- Are inflationary costs covered by this base increase? If not, what is the estimated shortfall due to inflation?
- Please provide an update on bargaining units. When are the next contracts up and what are are the cost increases associated with each unit's current contract?

Graduation Initiative 2025

- What is CSU doing to close equity gaps as part of its GI 2025? How will decline in enrollment impact GI 2025 goals? Are there any remaining, unfunded actions that CSU hopes to take before 2025 to hit its goals?
- The total amount requested by CSU in 2023-24 for GI 2025 is less than the amount that would be covered in the Governor's base budget increase. If only a base budget increase, and no additional amount above this base increase, is included in the final budget agreement, then how does this impact CSU's plan to implement its initiatives?
- The Budget Act of 2022 included $35 million General Fund ongoing for CSU's Graduation Initiative 2025. How were these funds allocated and used by the campuses?

Staff Recommendation. Hold Open.

Issue 1B: State of CSU: Resident Enrollment

Panel

- Jolene Koester, Interim Chancellor, California State University
- Ryan Storm, California State University
- Nathan Evans, California State University
- Jennifer Louie, Department of Finance
- Lisa Qing, Legislative Analyst's Office

Governor's Budget Proposals

Enrollment Funding in 2023-24. As part of the multiyear compact established between the Governor and CSU, CSU is to cover the cost of one percent resident enrollment growth (3,434 FTE students) in 2023-24 from the $227.3 million base increase proposed in the Governor's budget.

Enrollment Growth Expectation beyond 2023-24. The Governor also expects CSU to continue increasing resident undergraduate enrollment by one percent annually through 2026-27 (the last year of the compact). The compact does not specify the number of students CSU is to enroll each year, but it sets forth that CSU is to add approximately 14,000 FTE students in total over the next four years. Rather than provide designated funding for this enrollment growth, the Governor expects CSU to cover the associated cost from within its base increase each year.

Background

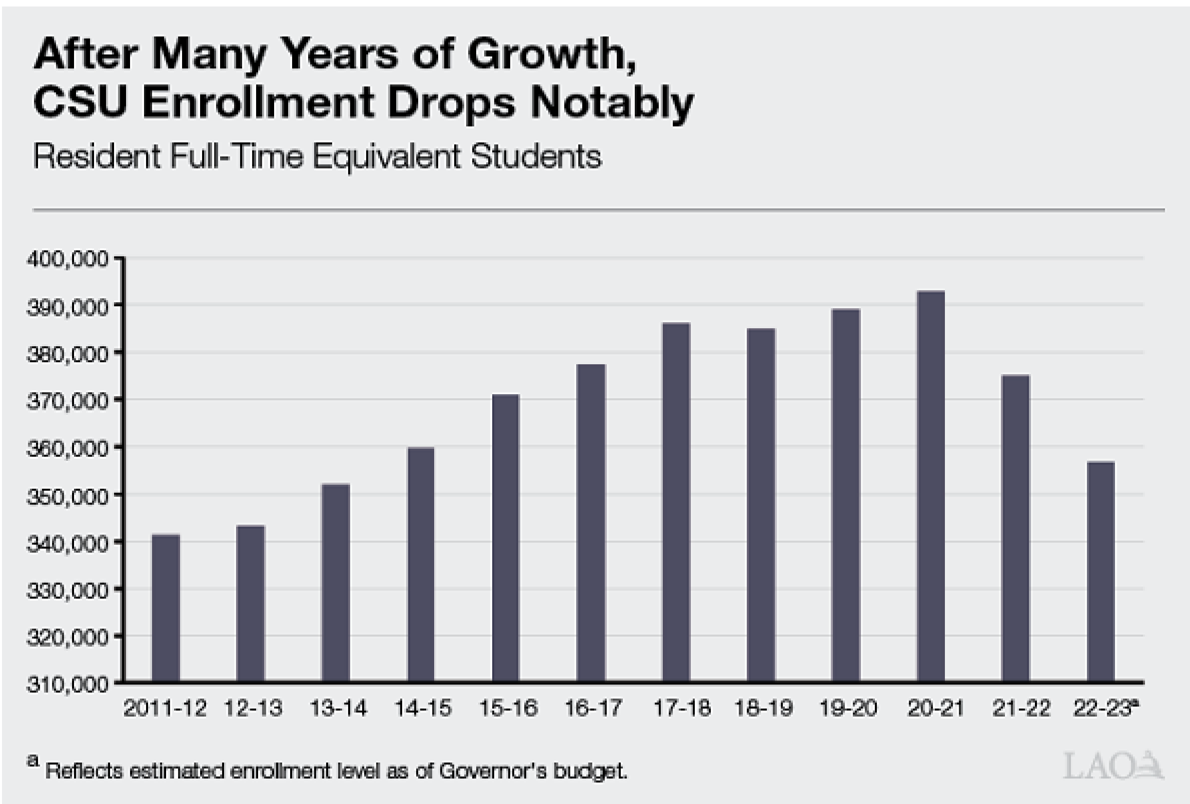
Most CSU Students Are Resident Undergraduates. About 85 percent of CSU's students are resident undergraduates. Undergraduates may enter CSU either as freshmen or as transfer students. Historically, roughly half of CSU's incoming class each year has consisted of freshmen, and the other half has consisted of transfer students. In addition to resident undergraduates, CSU also enrolls resident postbaccalaureate and graduate students (comprising about 10 percent of its students) as well as nonresident students (comprising about 5 percent of its students).

State Budget Typically Sets Enrollment Growth Expectations for CSU. In most years, the state sets enrollment growth expectations for CSU in the annual budget act. These growth expectations historically applied to all resident students, but in recent years the state has applied them to resident undergraduates only. In addition, whereas the state historically set growth expectations for the budget year, some recent budgets have set an expectation for the following year. This approach of setting expectations one year in advance gives campuses more time to plan for growth, particularly since campuses make most of their admissions decisions for any given year before the budget is enacted in June.

State Typically Funds Enrollment Growth According to Per-Student Formula. Typically, the state supports enrollment growth at CSU by providing a General Fund augmentation based on the number of additional students CSU is to enroll. The per-student funding rate is derived using a "marginal cost" formula. This formula estimates the cost of the additional faculty, support services, and other resources required to serve each additional student. It then shares those costs between state General Fund and anticipated tuition revenue.

Last Year's Budget Provided Enrollment Growth Funding for 2022-23. The Budget Act of 2021 included legislative intent to provide ongoing resources in 2022-23 to enroll 9,434 new resident undergraduates in 2022-23 and noted $81 million ongoing General Fund for this purpose. The Budget Act of 2022 upheld this agreement by providing $81 million General Fund in 2022-23 and ongoing for CSU to grow resident undergraduate enrollment by 9,434 FTE students from 2021–22 to 2022–23. The funding level was calculated at the 2021-22 marginal cost per student of $13,087, with a state share of $8,586. (The state used the 2021-22 rate because it had originally signaled its enrollment growth expectation that year, providing CSU more time to plan for growth.) Should CSU not meet the enrollment target, provisional language in the Budget Act of 2022 directed the Administration to reduce the enrollment growth funding in proportion to the shortfall.

CSU Enrollment Continues to Decline in 2022-23. As the figure from the LAO below shows, CSU enrollment increased over much of the past decade, growing at an average annual rate of 1.6 percent from 2011-12 through 2020-21. CSU enrollment peaked in 2020-21 at 392,793 resident FTE students. In the past two years, enrollment has decreased notably. In 2021-22, enrollment decreased by 17,820 resident FTE students (4.5 percent) from the previous year. Though 2022-23 enrollment data are not yet finalized, preliminary estimates show enrollment decreasing by an additional 18,125 resident FTE students (4.8 percent)—bringing enrollment down to 356,848 resident FTE students.

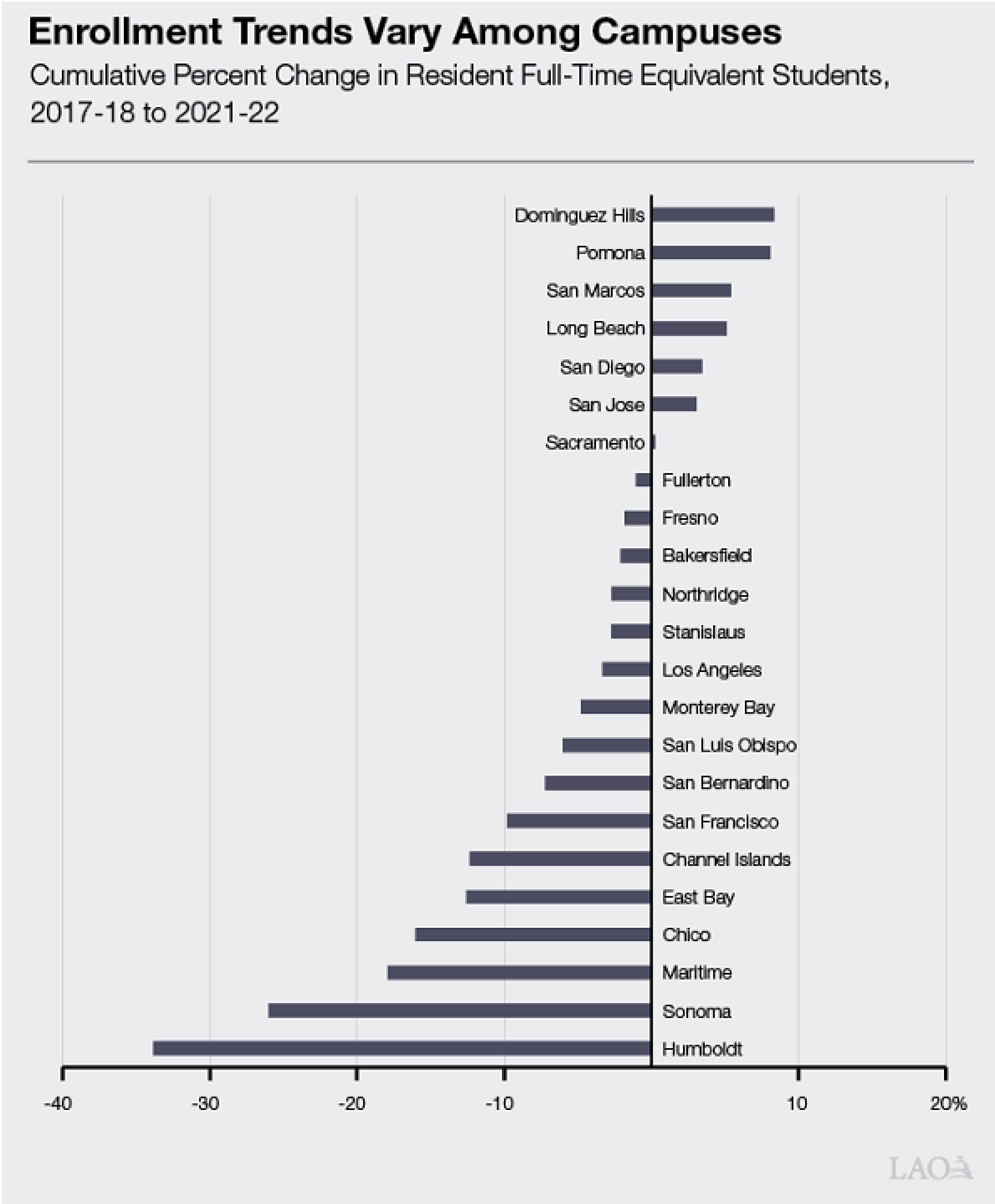


Increase in New Freshmen Is Offset by Larger Drop in New Transfer Students. In fall 2022, the number of new resident freshmen enrolling at CSU increased 8.6 percent over the previous year. This rebound brings the number of new freshmen closer to pre-pandemic levels. However, the increase in new freshmen was more than offset by a 12 percent decrease in incoming transfer students. The steep decrease in transfer students is linked to community college enrollment declines, which accelerated at the start of the pandemic.

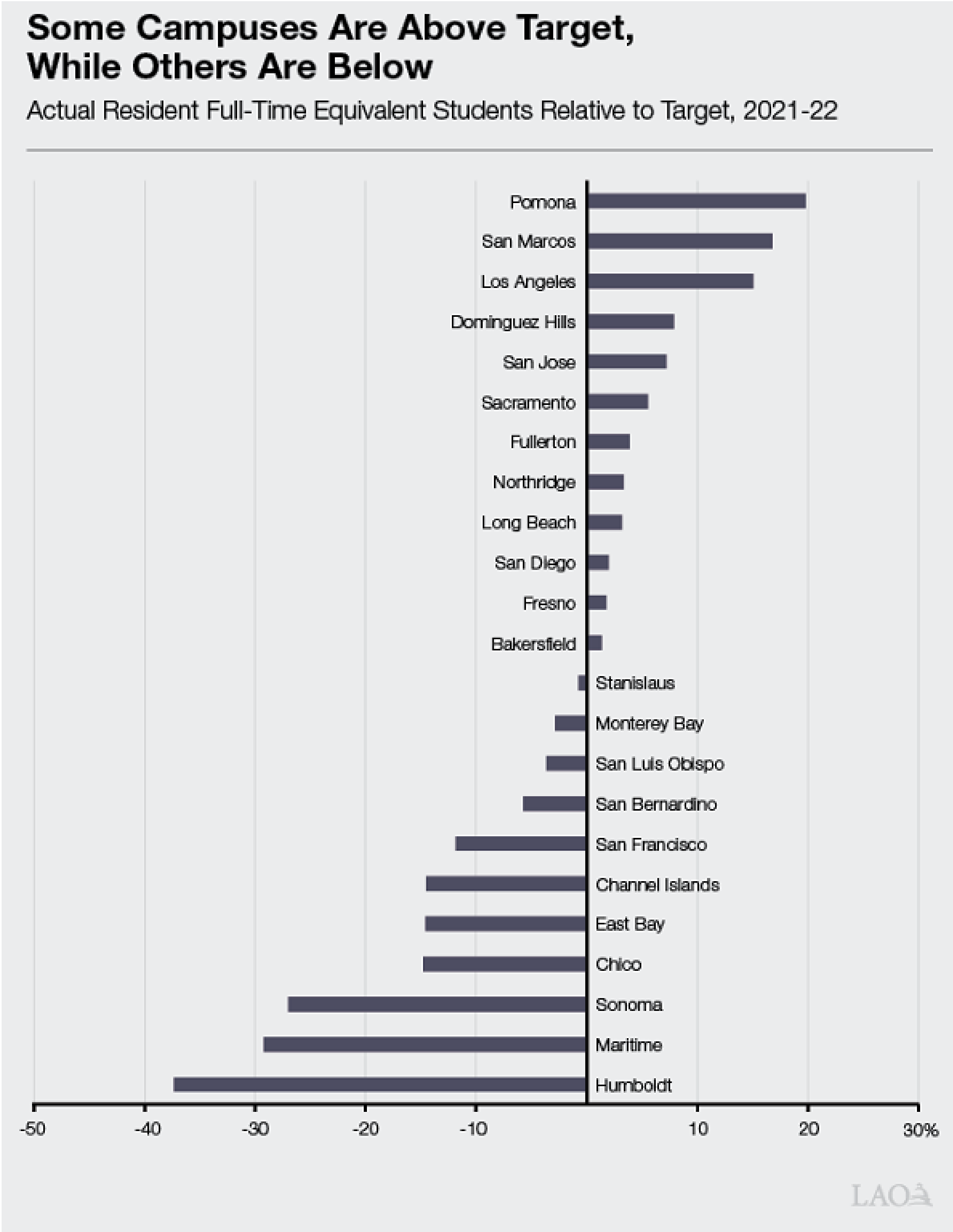
Despite the enrollment decreases and associated provisional language directing the Administration to reduce the enrollment growth funding in proportion to the shortfall, the Administration is not proposing to make any associated funding reduction.

Continuing Student Enrollment Is Also Down. Continuing resident undergraduates declined by 5.1 percent from fall 2021 to fall 2022. Several factors are contributing to the enrollment decline among continuing students. First, CSU enrolled a smaller-than-usual incoming cohort in fall 2021, translating to fewer continuing students in fall 2022. Second, retention rates have generally decreased over the past couple of years. The percent of freshmen who return in their second year, for example, decreased from 85 percent for the fall 2019 incoming cohort to 82 percent for the fall 2021 incoming cohort. Third, average unit load among continuing undergraduates has also decreased over the past couple of years, from 13.3 units in fall 2020 to 12.9 units in fall 2022. The reduction in unit load is leading FTE students to decrease even faster than the headcounts shown in the figure.

Recent Enrollment Trends Have Varied Among Campuses. As the figure from the LAO below shows, enrollment trends varied widely among campuses over the past five years. From 2017-18 through 2021-22, the cumulative change in resident FTE students ranged from an 8.3 percent increase (at Dominguez Hills) to a 34 percent decrease (at Humboldt). In general, the campuses experiencing the most growth were concentrated in Southern California and the campuses experiencing the steepest declines were concentrated in Northern California. While campus-level data are not yet available for 2022-23, nearly all campuses (except San Diego, Humboldt, and San Bernardino) saw a decline in resident student headcount in the fall 2022 term.



Some Campuses Are Below Their Enrollment Target. Over the years, CSU has tracked a running total of systemwide enrollment growth expectations, which it refers to as its enrollment target. It also tracks enrollment targets for each campus, reflecting that campus's share of the system's enrollment target and associated funding. In any given year, there is some variation between a campus's actual enrollment level and its enrollment target. This is because campuses cannot perfectly predict yield rates, retention rates, and other aspects of student behavior. In 2021-22, the figure from LAO shows, about half of campuses were above their target, while the other half were below. Seven campuses were more than 10 percent below their enrollment target.



CSU Intends to Recover Enrollment Over Multiyear Period. In its fall 2022 compact progress report, CSU calculated its baseline 2022-23 enrollment target by adding the *Budget Act of 2022* expectation (an additional 9,434 resident undergraduate FTE students) to the previous systemwide enrollment target it had been tracking over time. To set the enrollment target for 2023-24, it further added 3,434 resident undergraduate FTE students to this level. (Consistent with the compact, CSU assumes no growth in resident postbaccalaureate or graduate students.) As the below figure shows, this approach leads to an enrollment target of 387,114 resident FTE students in 2023-24, growing to 397,623 resident FTE students by 2026-27. Because of CSU's current-year enrollment declines, it would need to grow faster than one percent annually (as originally proposed in the compact) to reach these targets. CSU is planning to grow enrollment by two percent in 2023-24, followed by an additional three percent annually in the out-years. Under this plan, CSU effectively would catch up to its enrollment target by the last year of the compact.

Figure: Under CSU's Plan, Enrollment Would Recover Over Multiyear Period *(Resident Full-Time Equivalent Students)*

	2022-23	2023-24	2024-25	2025-26	2026-27
Compact Expectations for Enrollment Growth					
Enrollment target under compact	383,680 (Baseline)	387,114	390,582	394,085	397,623
Annual percentage growth under compact		1%	1%	1%	1%
CSU Plan to Meet Growth Target					
CSU's planned enrollment level	356,848[a]	364,140	375,064	386,316	397,906
Annual planned percentage growth		2%	3%	3%	3%
CSU's planned enrollment relative to compact target	-7%	-6%	-4%	-2%	—[b]

[a]Reflects CSU's estimated enrollment level as of Governor's budget.
[b]In 2026-27, CSU plans to slightly exceed the enrollment target under the compact (0.1 percent higher).

CSU Would Set Aside Funds From Its 2023-24 Base Increase for Enrollment Growth. Under CSU's spending plan for the Governor's proposed $227.3 million General Fund base increase (discussed in Issue 1), $35 million would be used for enrollment growth. CSU indicates it would allocate these funds to campuses that are at or above their target in 2022-23, with the specific allocations to be determined after 2022-23 enrollment data are finalized. (CSU also anticipates generating $16 million in tuition revenue from enrollment growth and allocating these funds in the same way.)

In 2024-25, CSU Plans to Begin Reallocating Enrollment Funding Among Campuses. For many years, CSU has allowed campuses that miss their enrollment target to keep the associated funding. As part of its efforts to attain systemwide enrollment growth, CSU recently developed a plan to begin reallocating enrollment funding from campuses below their target. In 2024-25, if a campus is 10 percent or more below its enrollment target in the previous year, CSU will reallocate five percent of the campus's target and the associated funding to campuses at or above their target. CSU will reallocate another five percent in 2025-26 for campuses seven percent or more below their target in the previous year, as well as another five percent in 2026-27 for campuses five percent or more below their target in the previous year. This plan is intended to incentivize all campuses to grow, while potentially also adding capacity at the highest-demand campuses.

LAO Comments and Recommendations

<u>LAO Assessment:</u> 2022-23 Enrollment Growth Funds Are Not Serving Intended Purpose. The $81 million ongoing General Fund provided in 2022-23 was intended to support costs associated with adding students, such as hiring more faculty and staff. Based on fall term data, most CSU campuses are likely to experience enrollment declines in 2022-23, such that they are not expected to incur these additional costs. By allowing CSU to retain the enrollment growth funding, the Governor is effectively allowing it to use the funding for purposes other than the original intent.

<u>LAO Assessment:</u> Some Early Signs Suggest Enrollment Challenges Are Likely to Persist Into 2023-24. While the 2023-24 admissions cycle remains in its early stages, several early indicators suggest that growth could be challenging.

- ***High School Graduates.*** The number of high school graduates in California is projected to be roughly flat in 2022-23 compared to the previous year. As a result, we do not expect to see demographically driven growth in the incoming freshmen class for fall 2023.
- ***New Applicants.*** As of January 2023, CSU reports a modest (3.1 percent) increase in freshmen applicants for fall 2023 compared to the previous year. However, this is offset by a larger (11 percent) decrease in transfer applicants, reflecting the continued impact of community enrollment declines on CSU's transfer pipeline.
- ***Continuing Cohorts.*** In the past couple of years, CSU has enrolled smaller cohorts of new students. New resident student headcount decreased by 6.8 percent compared to the previous year in fall 2021, and then decreased an additional 1.6 percent in fall 2022. These smaller cohorts will remain at CSU in 2023-24, leading to smaller cohorts of continuing students.

<u>LAO Assessment:</u> Legislature Has More Time to Influence 2024-25 Enrollment. As CSU is already in the midst of making 2023-24 enrollment decisions, the Legislature has less ability to influence its enrollment level in the budget year. The Legislature could, however, send an early signal to campuses about its enrollment expectations for 2024-25. In setting an enrollment target for 2024-25, it would likely want to consider the trends described above. The number of high school graduates next year is projected to increase by 0.6 percent, allowing for some demographically driven growth among new students in 2024-25. However, the smaller incoming cohorts from the past couple of years will still be enrolled, potentially leading continuing student enrollment to remain low. At this time, other factors such as application volume, retention rates, and average unit load are uncertain for 2024-25.

<u>LAO Assessment:</u> CSU Is Taking Certain Actions to Increase Enrollment. While various factors are likely to create enrollment challenges in the coming years, CSU is also taking certain actions that could offset those effects. For example, if CSU continues to remove stricter admissions criteria from previously impacted campuses or programs, yield rates might increase as more students get into their campus of choice. In addition, given the incentives created under CSU's new enrollment reallocation plan, campuses might pursue additional recruitment and retention strategies. The potential reallocation of unused enrollment slots to higher-demand campuses might also expand the number of students served systemwide in the out-years.

<u>LAO Assessment:</u> Under CSU's Plan, Enrollment Would Remain Below Previously Funded Levels in 2023-24 and 2024-25. The rates of enrollment growth under CSU's plan (two percent to three percent annually) are relatively high compared to historical averages. For comparison, CSU grew at an average annual rate of 1.6 percent during the decade of growth preceding the pandemic. Nonetheless, even if CSU were to achieve the planned growth, its enrollment level would remain below the previously funded level (that is, the 2022-23 enrollment target of 383,680 resident FTE students) in both 2023-24 and 2024-25. This suggests CSU could support its planned enrollment levels in these years within existing resources.

LAO Recommendations: ***Consider Reducing 2022-23 Enrollment Growth Funds as Budget Solution.*** The LAO recommends that the Legislature plan for the risk of a larger budget problem by developing a larger set of potential budget solutions than the Governor has proposed. Given the 2022-23 enrollment growth funds provided to CSU are not serving their intended purpose, the Legislature could consider adding these funds ($81 million) to the set of potential budget solutions. Removing these funds also would align with the provisional language enacted in the Budget Act of 2022.

LAO Recommendations: ***Recommend Setting 2023-24 Enrollment Target in Budget Act.*** The LAO recommends that the Legislature specify the total number of students it expects CSU to enroll in 2023-24 in the Budget Act of 2023. This would enhance accountability by providing a clear goal against which CSU's actual enrollment level can be measured. In deciding upon a target, the Legislature could use CSU's planned enrollment level of 364,140 resident FTE students as a starting point. It could choose to increase or decrease this target based on the factors described above. As long as the target remains below the previously funded level (383,680 resident FTE students), we do not recommend providing any new enrollment growth funding.

LAO Recommendations: ***Recommend Also Signaling Enrollment Growth Intentions for 2024-25.*** Given the timing of the admissions cycle, the LAO recommends that the Legislature also signal any intent for additional enrollment growth in 2024-25 in the Budget Act of 2023. The augmentation, if warranted, could be provided in the 2024-25 budget to align the timing of the funding with the arrival of the students.

Suggested Questions

- Why has enrollment sharply declined in 2022?
- The Governor's budget provides base funding for 2023-24 with the expectation of one percent enrollment growth to be funded out of that base increase. In light of the continued enrollment declines, is CSU confident that it will reach this target? Why or why not?
- Where is CSU enrollment in relation to the 2022 Budget Act: "Of the funds appropriated in this item, $81,000,000 shall be for resident undergraduate enrollment growth of 9,434 additional full-time equivalent students from 2021–22 to 2022–23." If CSU is going to fall short, then by how much will it fall short?
- Please describe CSU's enrollment plan for the next few years. Is CSU confident that it will hit their targets?

Staff Recommendation. Hold Open.

Issue 1C: State of CSU: Student Housing Updates

Panel

- Jolene Koester, Interim Chancellor, California State University
- Vi San Juan, California State University
- Chris Ferguson, Department of Finance
- Lisa Qing, Legislative Analyst's Office

Background

California's housing crisis threatens the state's higher education goals of increasing access and improving affordability. For most students, housing costs are higher than tuition. Despite a significant recent student housing building boom at both the University of California (UC) and California State University (CSU), many campuses report waiting lists for on-campus housing, and students struggle to find affordable and safe off-campus options. Campus housing programs, which suffered losses during the COVID-19 pandemic, are struggling to fund new construction or renovation projects that keep student costs down and address local government and neighborhood concerns.

The need for more student housing on or around campuses is clear:

- Homelessness is prevalent across California's three higher education segments, with 1 in 20 students at UC, 1 in 10 students at CSU, and 1 in 5 students at California Community Colleges (CCC) reporting experiencing homelessness at some point during the academic year. Even more students experience some form of housing insecurity. For example, 16 percent of UC students in 2020 reported sleeping in nontraditional housing arrangements (such as a hotel, transitional housing, or outdoor location) because they lacked permanent housing.
- Affordable, on-campus housing is a benefit to students. A report to the CSU Board of Trustees in July 2020 noted that research across college campuses nationally and within the CSU suggest that students living on campus have higher grade point averages and lower academic probation rates, higher retention and graduation rates, and shorter time to graduation than their off-campus peers.
- Insufficient student housing can hinder campuses' ability to increase enrollment and serve more Californians. Both UC Davis and UC Santa Cruz, for example, have agreements with local governments that limit increased enrollment unless housing is added to accommodate that growth. CSU Humboldt has launched a plan to become a polytechnic university and more than double its student body in the next decade, but campus officials note that on-campus housing must be built before dramatically increasing enrollment. The local housing market cannot accommodate thousands of new students.

Historically, student housing has rarely been a discussion point for the education subcommittee, as the state does not traditionally support housing costs and has left campuses and the systems to develop and support their own housing programs, supported by student rent. Given the state's housing crisis, however, that is changing. In urban areas, local market rental rates – among the highest in the country - are forcing students to pack into apartments or homes, and in rural areas, many campuses do not have enough local housing to accommodate current or future enrollment levels.

Higher Education Student Housing Grant Program, and Capacity Expansion Grant Program (2021). SB 169 (Committee on Budget and Fiscal Review), Chapter 262, Statutes of 2021, created two new programs to support affordable student housing at the UC, CSU and CCC, and campus expansion projects at UC and CSU. SB 169 appropriated $500 million one-time General Fund in 2021-22 for student housing projects and included legislative intent to provide $750 million in 2022-23 and $750 million in 2023-24 for this purpose. These appropriations have the following proportions by segment: 50 percent to CCC, 30 percent to CSU, and 20 percent to UC. The law created a process for campuses to propose housing projects by October 2021 for inclusion in the subsequent budget act. The law also created the campus expansion program with legislative intent language to provide funding for this program in the future. Of the total $2 billion one-time General Fund for the Higher Education Student Housing Grant program in 2021-22, $25 million was specifically available for CCC planning grants for student housing.

On March 1, 2022, DOF provided the Joint Legislative Budget Committee a list of projects proposed to be funded with the 2021-22 appropriation and documented their overall application process to the Legislature in budget subcommittee hearings. DOF's proposed list of projects totaled $488 million for the first round of funding. DOF received 115 applications for the first round of funding, consisting of 73 planning grant applications and 42 construction grant applications. The applications in total requested $3 billion in grant funding, surpassing both the $500 million designated for the first round and the $2 billion designated for all three funding rounds combined. Short- and long-term solutions through the Budget Act of 2022 remedied this oversubscription problem.

Higher Education Student Housing Actions (2022). To address oversubscription issues with the grant program, the Budget Act of 2022 included an additional $2 billion General Fund for student housing projects across the UC, CSU, and CCC. This augmentation raised the total amount of student housing funding over fiscal years 2021-22 to 2024-25 from $2 billion to $4 billion General Fund. Of the additional amount included in the new budget agreement, $200 million was scored to 2021-22, $900 million is scored to 2023-24, and $900 million is scored to 2024-25. Moreover, the budget agreement made the following changes to student housing in trailer bills AB 183 (Committee on Budget), Chapter 54, Statutes of 2022 and AB 190 (Committee on Budget), Chapter 572, Statutes of 2022:

- Approved all UC, CSU, and CCC student housing construction grant projects deemed eligible by the Department of Finance (DOF) from the first round of applications submitted as part of the October 2021 application process. This change is in AB 183 and documented in the next section.
- Appropriated roughly $1.4 billion General Fund to the Higher Education Student Housing Grant Program to cover the costs of these projects as well as CCC planning grants selected by the DOF in the first year of the Program. This change is also in AB 183 and documented in the next section.
- Changed subsequent rounds of the student housing grant program's application process, including the administrator of the program to allow the higher education segments to nominate projects, incorporating the Legislative Analyst Office's recommendations to address cost overruns, project requirements to have contingency plans, a notification process, and reporting requirements for all projects funded in the first application round and any submitted project proposals in subsequent rounds. This change is in AB 183.
- Established a new California Student Housing Revolving Loan Fund to provide zero-interest loans to qualifying campuses of the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC) for construction of affordable

student, faculty, and staff housing. States that the fund will receive $1.8 billion in 2023-24 and 2024-25 and creates a process for the California School Finance Authority and the California Educational Facilities Authority to create and receive applications from campuses, and distribute funds. This change is in AB 190.

The state made its first round of student housing grants on July 1, 2022. Roughly $1.4 billion General Fund to the Higher Education Student Housing Grant Program to cover the costs of these projects as well as CCC planning grants selected by the DOF in the first year of the Program. Projects that DOF determined as eligible were fully funded in their requested amounts while ineligible projects went unfunded. The table below details the CSU campuses that received construction grant awards in the Budget Act of 2022.

Table 1: CSU Affordable Student Housing Construction Grant Awards ($ in thousands)

	Funding			Beds	
Campus	**State**	**Nonstate**		**Affordable**	**Standard**
California State University					
San Francisco	$116,300	$62,691		750	—
San Marcos	91,000	49,023		390	210
Fullerton	88,900	47,997		390	210
Long Beach	53,300	28,700		403	—
Dominguez Hills	48,750	26,250		238	127
Northridge	37,500	20,248		200	—
Fresno	31,050	16,718		175	—
Humboldt	27,107	14,603		138	—
San Diego[a]	4,554	—		—	—
Subtotals	**($498,461)**	**($266,230)**		**(2,684)**	**(547)**

a Reflects one intersegmental project. The budget appropriates half of the project's grant funding to Imperial Valley College and half to CSU San Diego. For display purposes, this table reflects the project's nonstate funds and beds only in the Imperial Valley College row.

CSU Implementation Updates. Grant program guidelines direct the campuses to build funds into the submitted project bids for project contingency, to identify the non-grant fund sources and their respective balances that would be available to cover costs overruns, and to cover any costs above those identified in their application using the non-state funds. To date, CSU has experienced cost overruns for a variety of reasons. For example, CSU states that the unprecedented rise in inflation drove construction costs beyond initial projections. CSU also described rising costs due to contractors attempts to mitigate risk and uncertainty in the supply chain. Because of these two factors, CSU now projects a 14 percent increase (about $108 million) above initial projections for the projects funded in Table 1.

CSU reported various ways that campuses have considered to address this shortfall. First, campuses requested to fund the budget shortfalls using housing reserves or increasing the amount of CSU debt financing. Additionally, campuses have considered reducing the number of standard rate beds (higher rate than the affordable bed rate). Through this method, the delivery of affordable beds would be prioritized to the extent the financial models can support the reduction in standard bed spaces. A third way is to reduce the square footage of the proposed projects and project amenities. Despite these strategies to reduce the $108 million shortfall, CSU stated that $12 million in state grant funds would assist campuses with the budget shortfall.

CSU Grant Proposals for 2023-24. Table 2 shows the statutory allotments per segment remaining for the Higher Education Student Housing Grant Program. According to updated estimates, $157 million General Fund in grant funding remains available for CSU.

Table 2: Total and Remaining Affordable Student Housing Construction Grant Awards ($ in millions)

	Grant Awards				Statutory Allotments	
	Planning[a]	**Construction[a]**	**Total**		**Total[b]**	**Remainder**
CCC	$17	$547	$564		$1,109	**$545**
CSU	0.3	498	499		655	**157**
UC	0.3	389	389		437	**48**
Totals	**$18**	**$1,434**	**$1,452[c]**		**$2,202**	**$750**

[a] Awards for intersegmental projects are distributed to each affected segment.
[b] As calculated by Department of Finance—first subtracting the planning grant funds, then splitting the construction grant funds 50 percent to CCC, 30 percent to CSU, and 20 percent to UC.
[c] Funded from appropriations in 2021-22 ($700 million) and 2022-23 ($752 million).

CSU submitted grant application information on February 1, 2023 to the Department of Finance, the LAO, and the budget committees of the Legislature with information for three projects with an associated request of $149.3 million General Fund (see table below). Though the total project cost is estimated to be $429.9 million, CSU expects to cover 65 percent of the costs with non-state funding. In addition, a separate letter sent to the Assembly and Senate requested $7.7 million for construction cost escalation assuming the three projects submitted for 23-24 are approved. If the CSU requests are approved, then there would be no remaining funding from the funds targeted for CSU.

Table 3: CSU Proposed Projects with remaining statutory allotment in Higher Education Student Housing Grant program

Rank	Campus	Total Bed	State Funded Affordable Beds	Standard Beds	Estimated Total Project Amount ($ in millions)	CSU Funding ($ in millions)	State Grant Funding Requested ($ in millions)	Percent of Total Project Amounted Covered by Grant Funds (%)
1	Sacramento	285	285	0	$67.1	$25.7	**$41.3**	65%
2	San José	1007	517	490	333.8	244.7	**89.1**	27
3	Stanislaus	120	75	45	29	10.1	**18.8**	65
TOTALS		1412	877	535	429.9	280.5	**149.2**	35

<u>Governor's Budget</u>

Governor's Budget Delays Timing for Two Student Housing Funding Programs. The Governor's budget proposes to change timing of funding for both student housing grants and the housing revolving loan fund.

As part of a previously adopted multi-year agreement, the state planned to provide $750 million in 2023-24 for the third year of the Higher Education Student Housing Grant Program. The Governor now proposes to reduce this funding to $500 million in 2023-24 and shifts $250 million to 2024-25.

In addition, the Budget Act of 2022 included a total of $1.8 billion General Fund over two years ($900 million in 2023-24 and $900 million in 2024-25) for a new revolving loan program focused on housing. The Governor's budget now proposes delaying all funding in 2023-24, with $650 million shifted to 2024-25 and $1.15 billion shifted to 2025-26.

Suggested Questions

- Please provide a brief update on the status of each housing project that was funded in 2022 Budget Act. Have there been any overall issues with costs, deadlines, anything else?
- Please describe the CSU's process for selecting projects with 23-24 grants. How many projects were submitted by campuses?
- How would the Governor's proposed funding delay affect this process and number of projects selected? Are there any shovel-ready projects that could be at risk due to the potential delay?
- Does CSU have any feedback on the revolving loan fund program language? Is there anything for the Legislature to consider about program structure before the program begins?

Staff Recommendation. Hold Open.

Issue 2: Shift in Capital Support Funding

Panel

- Jennifer Louie, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Ryan Storm, California State University
- Vi San Juan, California State University

Governor's Budget.

The Governor's budget proposes shifting $404.8 million appropriated for the upfront support of various capital projects on CSU campuses to CSU-issued bonds. The Governor's budget includes $27 million General Fund ongoing to support the underlying debt service on those bonds.

Background

State Funds Academic Facilities and Infrastructure at CSU. Traditionally, the state has funded CSU's academic facilities, including classrooms, laboratories, and faculty offices. It has also funded certain campus infrastructure, such as central plants, utility distribution systems, and pedestrian pathways. In addition to these state-supported assets, CSU has self-supporting facilities, including student housing, parking structures, certain athletic facilities, and student unions. These types of facilities typically generate their own fee revenue, which covers associated capital and operating costs.

CSU Has Identified Many Capital Outlay Priorities. Under state law, CSU is to submit a capital outlay plan to the Legislature annually by November 30, identifying the projects proposed for each campus over the next five years. CSU's most recent five-year plan identifies $29.6 billion in projects proposed for 2023-24 through 2027-28, subject to available funding. The total amount consists of $22.7 billion in academic facilities and infrastructure projects as well as $6.9 billion in self-supporting projects. Of the total amount, more than 70 percent is for improvements to existing facilities. This includes projects to address fire and life safety concerns, seismic risks, capital renewal (including the deferred maintenance backlog), and other programmatic issues. Less than 30 percent is for projects to add new space to support campus growth.

Two Main Ways to Fund CSU Capital Projects Are Cash and Debt Financing. One way the state may fund capital projects is by providing one-time General Fund to CSU to pay for the project upfront in cash. The state commonly uses this approach to fund deferred maintenance projects, for example. A second way is by supporting the debt financing of capital projects. Under this approach, CSU borrows money for the projects by issuing university bonds, then repays the associated debt using its core funds. (State law authorizes CSU to use its main General Fund appropriation for this purpose.) CSU commonly uses this approach for larger projects, such as projects to renovate, replace, or construct an entire facility. Debt financing decreases the up-front cost of these projects by spreading the cost out over many years. However, it increases the total project cost because CSU must pay interest on the borrowed amount.

State Investment Significant General Fund Support for CSU Projects in 2022-23. The Budget Act of 2022 included numerous capital investments across CSU campuses. The following proposals, totaling $404.8 million in upfront support, were included in that agreement:

Governor Proposes Changing How Six CSU Capital Projects Are Funded

Campus	Project	2022-23 One-Time General Fund in 2022 Budget Act ($ in million)	Ongoing Estimated Annual Debt Service Proposed in Governor's Budget ($ in million)
Bakersfield	New Energy Innovation Center	$83.0	$5.5
San Diego (Brawley center)	New STEM building	80.0	5.3
San Bernardino (Palm Desert center)	New student services building	79.0	5.3
Chico, Fresno, Pomona, San Luis Obispo	University farms facilities and equipment	75.0	5.0
Fullerton	New Engineering and Computer Science Innovation Hub	67.5	4.5
San Luis Obispo	Swanton Pacific Ranch rebuilding	20.3	1.4
Totals		**$404.8**	**$27.0**

In their November 2022 economic outlook for California, the LAO assessed that the Legislature would face a budget problem of $24 billion in 2023-24. The budget problem is mainly attributable to lower revenue estimates compared to budget act projections between 2021-22 through 2023-24. Typically, revenue losses are offset by lower spending in certain areas, which could be aided by pauses or delays in recent appropriations that have not yet been distributed. These projections led to the proposed shifts in capital support funding in the Governor's January budget.

LAO Assessment and Recommendations

***LAO Assessment:* Shifting Projects to Debt Financing Can Be a Reasonable Budget Solution.** Changes in the state's budget condition have made it more difficult to pay for large capital projects up front in cash. Given that facilities are typically used over many years, debt financing can be a reasonable alternative that spreads a facility's costs across its useful life. In converting projects from cash to debt financing, the state can achieve near-term savings. The state also maintains the flexibility to accelerate debt payments in the future, if it has a large surplus in any given year.

***LAO Assessment:* Debt Financing Would Increase Overall Project Costs.** Although the Governor proposes to use a reasonable alternative financing option for these six CSU capital projects, his proposal also contributes to the state's out-year operating deficits. Moreover, it results in higher total project costs due to the associated interest payments. Under the Governor's proposal, we estimate the state would spend roughly $810 million on the six projects—twice as much as originally budgeted—assuming the debt is repaid over 30 years at the proposed funding level of $27 million annually. (Depending on interest rates, actual debt service might be higher or lower than the proposed level.) Given the significantly higher cost, we think it would be reasonable to hold these projects to a more stringent standard before approving them for debt financing.

***LAO Assessment:* Projects Likely Do Not Address Highest Capital Outlay Priorities at CSU.** Some of the capital projects identified in CSU's five-year plan are critical and urgent. Those projects often address deficiencies with existing facilities and infrastructure that could otherwise present life safety concerns or disrupt campus operations. In contrast, most of the projects that would be debt financed under the Governor's proposal do not address these types of deficiencies with existing space. Moreover, four of the six projects primarily would add new space. Adding new space increases ongoing operations and maintenance costs, and it creates future capital renewal costs as building components eventually age.

***LAO Assessment:* Projects Affected by Proposal Are in Early Stages.** Based on information provided by CSU, the six projects to be converted to debt financing are in planning and design stages. One project at the San Bernardino campus began preliminary plans in July 2022 and has spent $3.3 million to date. The remaining five projects are scheduled to begin preliminary plans in the coming months, with small amounts (less than $36,000 total) spent on these projects to date. To minimize project delays and the associated construction cost escalation, CSU is exploring options for these projects to move forward as budget deliberations over their funding continue. For example, campuses might use reserves to fund these projects over the next few months, or CSU might issue short-term debt if authorized by the Board of Trustees. (Under the latter approach, CSU would be responsible for the debt service if the state were to withdraw its support for the projects.)

***LAO Recommendation:* Revisit Whether to Move Forward With Each Project.** Given that the Governor's proposal to debt finance the six projects significantly increases their total costs, the LAO recommends that the Legislature revisit whether each project is justified under the new circumstances. In making this determination, it could consider the following criteria:

- Whether the project is among the most pressing of CSU's capital needs, including projects that address critical life safety issues and minimize the risk of disruptions to existing campus operations.
- Whether justification for any new facilities has been provided based on factors such as unmet enrollment demand and overutilization of existing facilities.
- Whether the campuses constructing new facilities have a plan for covering any associated operating cost increases, as well as a plan to keep the facility in good condition across its life.

If the Legislature finds that a given project meets these criteria, it could approve the Governor's proposal to debt finance that project. On the other hand, if the Legislature finds that a given project does not meet these criteria, it could consider withdrawing state support for that project at this time. CSU could consider including any affected projects in one of its future five-year capital plans, with the Legislature reconsidering funding those projects at that time.

Suggested Questions

- Please provide a brief update on the status of each project. How much state funding has been spent so far on these projects?
- Will the Governor's proposed change in funding structure impact any project timelines?
- What is the timeline for CSU in financing the capital outlay projects?
- Please provide the total cost associated with each project under this proposal, including financing costs
- Is the proposal that the state is committing to $27 million per year for 30 years, or is it ongoing forever? Will that amount ever change?

Staff Recommendation. Hold Open.

Issue 3: Status Update on Previous Budget Act Investments (Oversight)

Panel

- Dilcie Perez, California State University
- Vi San Juan, California State University

Background

The subcommittee has requested status updates for the following investments included in The Budget Act of 2022:

- **Foster Youth Supportive Services at CSU**. The Budget Act of 2022, through AB 183, required that support services for foster youth and former foster youth at CSU campuses have a full-time designated staff program director or coordinator with experience relevant to working with foster youth and former foster youth, campus office and meeting space, a range of student supports to address academic and nonacademic needs and opportunities for peer mentors. The budget also provides an increase of $12 million General Fund in 2022-23 and ongoing for foster students' support throughout CSU campuses.

- **Basic Needs at CSU.** The Budget Act of 2022 included $10 million General Fund in 2022-23 and ongoing for CSU basic needs.

- **Deferred Maintenance and Energy Efficiency at CSU**. The Budget Act of 2022 appropriated $125 million General Fund in 2022-23 to support deferred maintenance and energy efficiency projects at CSU.

Oversight Questions

- For all mentioned above:

    - To date, what steps has CSU taken to implement these initiatives?
    - What data, if any, has CSU collected about it? Does CSU have any participation data for these initiatives?
    - What challenges, if any, has CSU encountered as it implements these initiatives?

Staff Recommendation. This is an oversight item. No action is needed at this time.

Vice-Chair
Ochoa Bogh

Members
Cortese, Dave
Glazer, Steven M.
McGuire, Mike
Smallwood-Cuevas, Lola
Wilk, Scott

California State Senate

EDUCATION

JOSH NEWMAN
CHAIR

Staff Director
Lynn Lorber

Consultants
Ian Johnson
Olgalilia Ramirez
Kordell Hampton

Committee Assistant
Maria Velez
Irma Kam

AGENDA

Joint Effectiveness and Accountability Hearing
Senate Committee on Education and Senate Budget Subcommittee #1 on Education

The State of the Educator Workforce
March 15, 2023 – 9:00 a.m.
1021 O St., Room 2100

I. **Welcome and Hearing Purpose**

II. **Educator Workforce Overview**

- *Tony Thurmond, State Superintendent of Public Instruction*
- *Jackie Barocio, Legislative Analyst's Office*
- *Mary Vixie Sandy, Commission on Teacher Credentialing*
- *Tara Kini, Learning Policy Institute*

III. **Educator Pipeline and Preparation**

- *David DeGuire, Commission on Teacher Credentialing*
- *Dr. Shireen Pavri, California State University*
- *Dr. Robin Duncan, Metcalf School of Education, California Baptist University*
- *Edgar Cabral, Legislative Analyst's Office*

IV. **Educator Recruitment and Retention**

- *Jackie Barocio, Legislative Analyst's Office*
- *Joshua Salas, Teach Plus*
- *Dr. Lucy Van Scyoc, Ed.D., Tulare Joint Union High School District*
- *Kelley Blanc, Modesto City Schools*

VI. **Public Comment**

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Lola Smallwood-Cuevas
Senator Rosilicie Ochoa Bogh

Thursday, March 16, 2023
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 113

Consultants: Christopher Francis, Ph.D. & Yong Salas

Items for Discussion

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

DISCUSSION ITEMS

6980 CALIFORNIA STUDENT AID COMMISSION

Overview

CSAC was created in 1955, and is the state agency responsible for administering financial aid programs for students attending public and private universities, colleges, and vocational schools in California. The mission of CSAC is to promote educational equity by making postsecondary education affordable for all Californians by administering financial aid and outreach programs. The Commission consists of 15 members; 11 members are appointed by the Governor and confirmed by the Senate, two members are appointed by the Senate Rules Committee, and two members are appointed by the Speaker of the Assembly. In general, members serve four-year terms; the two student members, appointed by the Governor, serve two-year terms.

Programs. The following is a list of programs administered by the California Student Aid Commission that will be discussed in today's subcommittee hearing:

Cal Grant Program. The Cal Grant program, the state's largest financial aid program, is intended to help students with financial need cover college costs. The program offers multiple types of Cal Grant awards. The amount of aid students receive depends on their award type and the segment of higher education they attend. Cal Grant A covers full systemwide tuition and fees at public universities and a fixed amount of tuition at private universities. Cal Grant B provides the same amount of tuition coverage as Cal Grant A in most cases, while also providing an "access award" for nontuition expenses such as food and housing. Cal Grant C, which is only available to students enrolled in career technical education programs, provides lower award amounts for tuition and nontuition expenses. Across all award types, larger amounts of nontuition coverage are available to students with dependent children as well as current and former foster youth. This program is discussed in Issue 1A.

Middle Class Scholarships (MCS). MCS provides undergraduate students, including students pursuing a teaching credential, with a scholarship, recently revamped to account for cost of attendance, to attend a University of California (UC), California State University (CSU) or California Community College Bachelor's degree program. Students with family income and assets up to $201,000 may be eligible.[1] This program is discussed in Issue 1B.

Golden State Education and Training Grants. The Golden State Education and Training Grant Program supports Californians who lost their jobs due to the COVID-19 pandemic with a one-time grant of $2,500 to reskill, up-skill, and access educational or training programs to get back into the workforce.[2] This program is discussed in Issue 3.

Golden State Teacher Grant Program. The Golden State Teacher Grant Program awards up to $20,000 to students currently enrolled in a professional preparation program approved by the Commission on Teacher Credentialing (CTC) and working towards earning their preliminary teaching or pupil personnel services credential.[3] This program is discussed in Issue 4.

1 California Student Aid Commission. "Financial Aid Programs." https://www.csac.ca.gov/financial-aid-programs
2 Ibid.
3 Ibid.

Learning-Aligned Employment Program. The Learning-Aligned Employment Program (LAEP) offers eligible students at public colleges and universities the opportunity to earn money to help defray their educational costs while gaining education-aligned, career-related employment. LAEP allows a participating student placement in an educationally beneficial position that relates to the student's area of study, career objective, or the exploration of career objectives. The program includes and emphasizes positions for students with employers that are capable of providing them with full-time employment opportunities after graduation, or opportunities to connect with other employers that are capable of providing them with full-time employment opportunities after graduation, within their areas of study.[4] This subcommittee will hear a status update for the program during Issue 5.

Commission Total Budget. The below table from the LAO details the Commission's budget in 2021-22 and 2022-23 as well as the proposed budget in 2023-24. The Governor's budget assumes total financial aid expenditures of $3.2 billion, of which $2.3 billion supports the Cal Grant Program, and $859 million supports the Middle Class Scholarship Program. The two main fund sources for CSAC are state General Fund and federal Temporary Assistance for Needy Families (TANF). In 2023-24, state General Fund would comprise 87 percent of CSAC funding and federal TANF would comprise 12 percent. The remainder would come from various sources, including reimbursements from other departments.

California Student Aid Commission Budget
(Dollars in Millions)

	2021-22 Actual	2022-23 Revised	2023-24 Proposed	Change From 2022-23	
				Amount	Percent
Spending					
Local assistance					
Cal Grants	$2,233	$2,269	$2,259	-$10	—[a]
Middle Class Scholarships	105	630	856	226[b]	36%
Golden State Education and Training Grants[c]	95[e]	—	—	—	N/A
Golden State Teacher Grants[c]	56	147	49[d]	-98	-67
Learning-Aligned Employment Program[c]	200	300	—	-300	-100
Other programs	38	46	38	-7	-16
Subtotals	($2,727)	($3,392)	($3,203)	(-$190)	(-6%)
State operations	23	22	34	12[f]	54%
Totals	**$2,750**	**$3,414**	**$3,236**	**-$178**	**-5%**
Funding					
General Fund	$2,328	$2,993	$2,815	-$178	-6%
Ongoing	(1,974)	(2,538)	(2,529)	(-9)	(—[a])
One-time	(354)	(455)	(286)	(-169)	(-37%)
Federal TANF	400	400	400	—	—
Other funds and reimbursements	22	21	21	—[a]	—[a]
[a] Less than $500,000 or 0.5 percent.					
[b] Though last year's budget agreement specifies $227 million for this purpose, the Governor's budget includes $226 million, consistent with the California Student Aid Commission's caseload estimates. Per the agreement, the $226					

4 California Student Aid Commission. "Learning-Aligned Employment Program: Overview For Institutions." https://www.csac.ca.gov/financial-aid-programs

million is proposed to be provided on a one-time basis.
[c] One-time initiatives.
[d] The administration intends to correct this to $98 million at the May Revision.
[e] The Governor's budget includes $95.3 million for local assistance grants and $4.7 million for state operations.
[f] Includes $10.2 million in carryover funds for administration of certain multiyear initiatives.
TANF = Temporary Assistance for Needy Families.

Issue 1A: State Financial Aid Expansion: Cal Grants

Over the last two years, the subcommittee and Legislature had discussions on the future of financial aid for Californians and committed to significant reforms for Cal Grants and Middle Class Scholarships- the with two largest state financial aid programs. Issue 1 contains two parts, each dedicated to these programs.

Panel

- Marlene Garcia, Executive Director, California Student Aid Commission
- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst's Office

Available for additional details and questions: Jake Brymner, California Student Aid Commission

Background

Cal Grants Have Financial and Academic Eligibility Criteria. To qualify for Cal Grants, students must meet certain income and asset criteria. These criteria vary by family size and are adjusted annually for inflation. For example, in the 2022-23 award year, a dependent student from a family of four must have an annual household income of under $116,800 to qualify for Cal Grant A or C, and under $61,400 to qualify for Cal Grant B. In most cases, students must also meet a grade point average (GPA) requirement. The specific GPA requirement varies by award type. Most award types require a minimum high school GPA of 2.0 or 3.0 or a minimum community college GPA of 2.0 or 2.4.

Most Cal Grants Are Entitlements, but Some Are Awarded Competitively. For more than 20 years, the state has provided Cal Grants as entitlements to recent high school graduates as well as transfer students under age 28. In 2021-22, the state also began providing Cal Grants as entitlements to community college students regardless of their age and time out of high school. The state currently provides approximately 140,000 new entitlement awards annually. The state also provides a limited number of competitive awards (13,000 new awards annually) to students who do not qualify for an entitlement award—typically older students attending four-year universities. Students generally may renew their Cal Grant awards for four years of full-time study (or the equivalent).

California Community College Expanded Entitlement Awards in 2021 Budget Act. AB 132 (Committee on Budget) Chapter 144, Statutes of 2021 established the California Community College Expanded Entitlement Awards, which eliminates the age and time out of high school Cal Grant eligibility requirements for CCC students. The bill specified that CCC Expanded Entitlement Awards may retain their Cal Grant Award when they transfer to a UC or CSU. The budget provided $152.8 million for this purpose.

Cal Grant Reform Act in 2022 Budget Act. The 2022 Budget Act included the Cal Grant Reform Act (Act) subject to state General Fund availability over the multi-year forecasts beginning in fiscal year

2024-25. The Act would be triggered in 2024-25 if the state determines in Spring 2024 that sufficient General Fund is available to support these actions over a multiyear period. If “triggered on” the budget agreement will provide $364.8 million General Fund in 2024-25, $348.8 million in 2025-26 and ongoing for this reform. The Act will restructure the Cal Grant program. Specifically, it would replace the existing award structure with a Cal Grant 2 award that provides nontuition coverage to California Community College (CCC) students and a Cal Grant 4 award that provides tuition coverage at all other segments. The eligibility requirements of the new program would differ in several ways from those of the current program. First, whereas the current Cal Grant program has its own income and asset ceilings, the new program would have the same income ceilings as the federal Pell Grant program. Because of the change, the new income ceilings generally would be lower than the current ones. Second, whereas the current program provides only a limited number of awards to older students attending the universities, the new program would have no age or time-out-of-high-school restrictions at any segment. Third, whereas the current program requires students to have a minimum grade point average (GPA), the new program will not have a GPA requirement for CCC students. These program changes are projected to lead to a net increase of 150,000 award offers in 2024-25, at an estimated additional net cost of $365 million. The Act also expresses legislative intent that UC and CSU use institutional aid to cover non-tuition costs for its students.

Cal Grant Award changes for Independent, Non-Profit Colleges and Universities in 2022 Budget Act. The budget, through AB 183, includes the following changes for independent, non-profit colleges and universities in 2022-23 and in future years:

- Starting in academic year 2022-23, increased the award amount, from $9,220 to $9,358, for the approximately 28,000 Cal Grant students attending independent, non-profit colleges and universities. The budget agreement provided $5.5 million General Fund in 2022-23 and ongoing for this change.

- Starting in academic year 2022-23, extends supplemental Cal Grant support for foster youth and students with dependent children to students attending independent, non-profit colleges and universities. The budget provides $10 million General Fund in 2022-23 and ongoing for this change.

- Approved changes to statutory provisions linking revised Cal Grant tuition award amounts at independent, non-profit colleges and universities to the number of Associate Degree for Transfer (ADT) students admitted by that sector. Specifically removes provisions that would reduce the 2022-23 award amount from $9,358 to $8,056 if the sector admits fewer than 3,000 ADT students in 2021-22, and removes a provision that would reduce the 2023-24 award amount from $9,358 to $8,056 if the sector admits fewer than 3,500 ADT students in 2022-23. The sector would instead be required to admit as many students in 2022-23 as it did in the previous year, adjusted for changes in total transfer enrollment.

- Improve regional transfer for low-income students by extending transfer entitlement portability for community college transfer students to those transferring to an independent, non-profit California college or university. Like, the Act, this change would be triggered in 2024-25 if the state determines in Spring 2024 that sufficient General Fund is available to support these actions over a multiyear period. If “triggered on,” then the agreement would provide $10.4 million General Fund in 2024-25, $16.4 million in 2025-26 and ongoing to support this portability.

Cal Grant Recipients for 2023-24

	2021-22 Actual	2022-23 Revised	2023-24 Proposed	Change From 2022-23 Amount	Change From 2022-23 Percent
Total Recipients	**395,730**	**381,656**	**376,533**	**-5,122**	**-1.3%**
By Segment:					
California Community Colleges	141,095	138,340	139,612	1,272	0.9%
California State University	142,342	133,333	127,441	-5,892	-4.4
University of California	79,098	79,028	79,484	455	0.6
Private nonprofit institutions	27,094	25,348	24,675	-674	-2.7
Private for-profit institutions	6,058	5,581	5,303	-278	-5.0
Other public institutions	44	25	18	-8	-30.7
By Program:					
High School Entitlement	245,790	230,245	227,564	-2,682	-1.2%
CCC Expanded Entitlement	75,764	95,800	104,309	8,508	8.9
Competitive	45,271	32,883	26,351	-6,532	-19.9
Transfer Entitlement	24,511	19,960	15,929	-4,031	-20.2
Cal Grant C	4,394	2,767	2,380	-387	-14.0
By Award Type:					
Cal Grant B	269,687	256,450	247,855	-8,595	-3.4%
Cal Grant A	121,649	122,439	126,297	3,858	3.2
Cal Grant C	4,394	2,767	2,380	-387	-14.0
By Renewal or New:					
Renewal	221,321	227,927	217,018	-10,909	-4.8%
New	174,409	153,728	159,514	5,786	3.8
Notes: Data reflect California Student Aid Commission estimates.					

<u>Governor's Budget</u>

Governor's Budget Reflects Large Downward Adjustment to 2022-23 Cal Grant Spending. From the 2022 Budget Act level, the Governor's budget revises current-year Cal Grant spending down by $210 million (8.5 percent) to align with CSAC's most recent cost estimates. As the below figure from the LAO shows, spending is adjusted downward across all the higher education segments. The largest adjustment (in dollar terms) is at the California State University (CSU), consistent with the enrollment declines that segment is experiencing in 2022-23. The next largest adjustment is at the California Community Colleges (CCC). The CCC adjustment is primarily attributable to community college entitlement awards. Since the state began providing those awards in 2021-22, costs have been notably lower than expected, reflecting depressed CCC enrollment levels and low paid rates. (Across all segments—and especially at CCC—some students who are initially offered awards are not paid for various reasons, such as deciding not to enroll, no longer meeting eligibility requirements, or administrative barriers.)

2022-23 Cal Grant Spending Is Adjusted Downward at All Segments
(Dollars in Millions)

	2022-23 Budget Act	2022-23 Revised	Change Amount	Change Percent

UC	$1,011	$986	-$24	-2
CSU	829	764	-65	-8
CCC	307	255	-53	-17
Private nonprofit	251	235	-17	-7
Private for-profit	31	29	-3	-9
Other[a]	49	—	-49	-100
Totals	**$2,478**	**$2,268**	**-$210**	**-8%**

[a]The *2022-23 Budget Act* provided $49 million on top of baseline estimates to account for more students potentially returning to college following recent enrollment declines. It did not specify how these costs would be distributed by segment. The Governor's budget removes these funds to align with the most recent cost estimates.

Governor's Budget Reflects Small Spending Decrease in 2023-24 for Cal Grant Spending. From the revised 2022-23 spending level, the Governor's budget further decreases Cal Grant spending by $9.5 million (0.4 percent) in 2023-24 to align with CSAC's cost estimates. The lower spending reflects a projected decline in renewal recipients in 2023-24. This decline, however, is largely offset by an assumed increase in new recipients. The cost estimates also reflect higher tuition award amounts for the two most recent cohorts of University of California (UC) recipients, accounting for an estimated $46 million in additional Cal Grant costs in 2023-24. The Cal Grant cost estimates underlying the Governor's budget were prepared by CSAC in October and in the spring, CSAC will update its estimates based on more recent program data.

Governor Proposes No Changes to Cal Grant Reform Act Provisions. The Governor's budget does not include any changes to the Cal Grant reform provisions included in last year's budget agreement. Consistent with that agreement, the new program would be triggered on in 2024-25 only if sufficient General Fund is available to support the action over the next several years.

Legislative Analyst's Office Comments and Recommendations

LAO Assessment:* *State Budget Condition Has Changed Since Last Year's Agreement. When it enacted the *2022 Budget Act* the state had a notable surplus. Even at that time, however, the state did not know whether it would be able to support certain program expansions in the out-years. As a result, the state tied these program expansions to trigger language. As the LAO has discussed this year, the state now faces a budget problem. Moreover, under the Governor's budget, the state faces operating deficits in the out-years (2024-25 through 2026-27). Based on the LAO's budget projections, Cal Grant reform is very unlikely to be triggered.

LAO Assessment:* *Trigger Creates Significant Timing Problem Within Admissions Process. Campuses generally aim to send financial aid offer letters to students shortly after they are admitted. This allows students and their families to consider the amount of financial aid they will receive when deciding whether to go to college and which institution to attend. Students considering four-year universities often must make these decisions by May 1 of the preceding academic year, as this is traditionally the national deadline to accept admissions offers at selective institutions. Under the trailer legislation adopted last year, the state will determine in spring 2024 whether Cal Grant reform is triggered. The legislation does not specify an exact date for the determination, but the state often waits until after the May Revision is released in mid-May to make key budget decisions. This means that campuses likely would not know whether Cal Grant reform has been triggered when they begin sending financial aid offer letters to students and their families for 2024-25.

<u>LAO Assessment:</u> Some Students Are Likely Not to Receive Accurate Award Information on Time. Until the Cal Grant reform trigger is determined, campuses will not be able to determine which students are eligible for awards and what award amounts they will receive in 2024-25. This will make it difficult for campuses to provide clear and accurate information on financial aid offers to students and their families. Some students will likely need to make enrollment decisions based on financial aid offers that could change in the coming weeks, depending on the trigger determination. This is particularly problematic for students who would lose eligibility or receive smaller awards under Cal Grant reform. These students might end up receiving less financial aid than they had expected at the time of their enrollment decision, if their campus cannot cover the difference with institutional aid or other sources.

<u>LAO Assessment:</u> Trigger Creates Administrative Challenges for CSAC and Campuses. Until the trigger is determined, both CSAC and campus financial aid offices need to be prepared to administer either version of the Cal Grant program in 2024-25. For example, they will need to implement the new rules in the software they use to administer financial aid programs, while also keeping the current rules available. Campuses vary in their capacity to implement these changes. At the community colleges, for example, campuses have different information technology systems and different financial aid staffing levels. Any administrative challenges at CSAC or the campuses could lead to delays in making award decisions and disbursing awards to students.

<u>LAO Recommendation:</u> Determine Now Whether to Proceed With Cal Grant Reform. Under the budget provisions adopted last year, Cal Grant reform is very unlikely to be triggered in 2024-25. Moreover, even if Cal Grant reform were triggered, the timing of that determination could significantly undermine the program's effectiveness in the first year. In light of these factors, the LAO recommends that the Legislature revisit the trigger. Rather than subjecting Cal Grant reform to a Spring 2024 trigger determination, the LAO recommends that the Legislature instead determine during this year's budget process whether to proceed with Cal Grant reform in 2024-25. Making this determination one year in advance would allow the state to send a clearer message to students and their families about the financial aid available to them. It would also give CSAC and the segments more time to implement any changes effectively, reducing potential delays in making award decisions and disbursing awards to students. Given the state budget condition, proceeding with Cal Grant reform in 2024-25 would involve difficult trade-offs. If the Legislature decides to support Cal Grant reform beginning in 2024-25, it likely would need to redirect funds (an estimated $365 million) from other ongoing purposes to avoid exacerbating the state's projected out-year operating deficits.

<u>LAO Recommendation:</u> Consider Cal Grant Reform Together With Other Potential Financial Aid Expansions. The Legislature has multiple options for expanding financial aid. For example, it could increase Cal Grant access awards in addition to or in place of implementing Cal Grant reform. It also could expand the MCS program, (which is discussed in Issue 1B). These options would result in certain students receiving more assistance with their living costs, which has been a legislative priority over the past few years. Whether the Legislature decides to proceed with financial aid expansion in the near term or wait until the state budget condition improves, the LAO encourages the Legislature to weigh these various options before deciding which approach to pursue. Notably, the various options impact different groups of students and have different associated costs. For example, implementing the Cal Grant Reform Act is projected to benefit more low-income students, older students, and community college students relative to the current program. The various options also interact with one another. For example, implementing Cal Grant reform would change the number of access award recipients and thus the cost of increasing those awards. Any Cal Grant augmentations at UC and CSU also would reduce the cost of the MCS program at full implementation.

Suggested Questions:

- The Governor's budget proposes a five percent decrease from the revised 2022-23 level, attributed to downward Cal Grant spending adjustments. What are the causes for these downward adjustments? We now know that community colleges have regained some enrollment; will that impact caseload/cost?
- DOF and CSAC: Please provide an update on potential implementation of Cal Grant Reform Act in 2024-25. How are CSAC and the segments preparing for the program if it is triggered on in May 2024? What are the challenges associated with turning the program on in July 2024?

Staff Recommendation. Hold Open.

Issue 1B: State Financial Aid Expansion: Middle Class Scholarships

Panel

- Marlene Garcia, Executive Director, California Student Aid Commission
- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst's Office

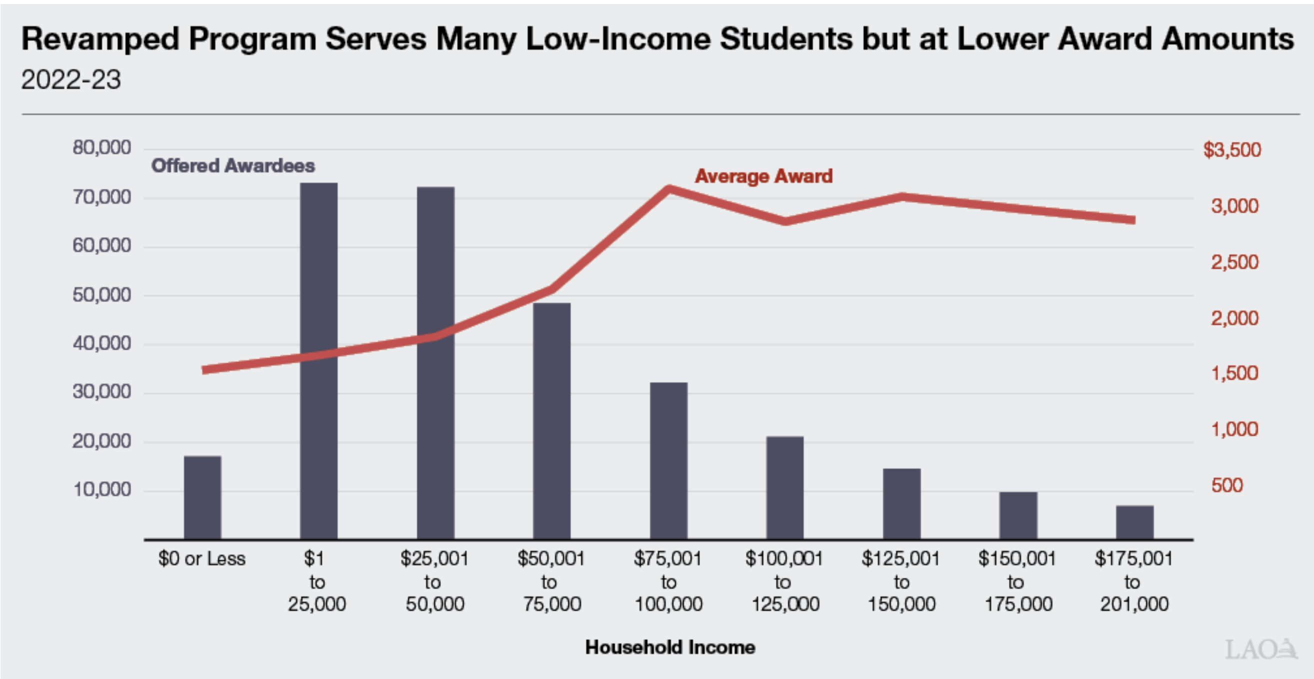
Available for additional details and questions: Jake Brymner, California Student Aid Commission

Background

Original Middle Class Scholarship Program (MCS 1.0) Program Enacted in Response to Steep Tuition Increases. UC and CSU increased tuition during the Great Recession in response to state funding reductions. Between 2007-08 and 2011-12, systemwide charges for undergraduate resident students increased from $6,636 to $12,192 (84 percent) at UC and from $2,772 to $5,472 (97 percent) at CSU. The original MCS program (administered by CSAC) was enacted in 2014 to help middle-income UC and CSU students, who are part of households with incomes and assets each under $171,000, not receiving tuition coverage through the Cal Grant program receive partial tuition coverage. CSAC provided these scholarships to eligible students who fill out the FAFSA. Awards covered between 10 percent and 40 percent of systemwide tuition and fees, with the percentage graduated downward as household income increases. State law caps spending on the original MCS program at $117 million annually and directs CSAC to prorate award amounts to remain under the cap, if needed. CSAC prorated award amounts for the first time in 2021-22.

MCS Significantly Reformed in 2021 Budget Act for Cost of Attendance. This program significantly changed as part of the 2021 Budget Act. Whereas the original program provided partial tuition coverage for CSU and UC students, the revamped program will assist CSU and UC students with their total cost of attendance. To determine each student's award amount, CSAC will first determine each student's remaining cost of attendance, after accounting for other available gift aid, a student contribution from part-time work earnings, and a parent contribution for dependent students with a household income of more than $100,000. Then, CSAC will determine what percentage of each student's remaining costs to cover based on the annual appropriation for the program. In 2022-23, the program is estimated to cover 24 percent of each student's remaining costs.

MCS Program Significantly Reformed to Serve a Broader Range of Students. Another key difference from the original MCS program is that UC and CSU students receiving tuition coverage through Cal Grants or other financial aid programs (who typically are lower-income students) will be newly eligible for MCS awards under the revamped program. Middle- and higher-income UC and CSU students generally will remain eligible for MCS awards. The revamped program generally maintains the income and asset ceilings in the original program, adjusted for inflation. For 2022-23, the maximum annual household income to qualify for an MCS award will be $201,000 for dependent students. (For context, about 90 percent of tax filers in California are beneath this cap.) Because the MCS program covers students' remaining costs after accounting for existing aid (among other factors), MCS award amounts generally will be smaller for lower-income students as they often also receive aid through Pell Grants, Cal Grants, and institutional aid.



2022 Budget Act Provided Funding for Revamped MCS Program (MCS 2.0). Consistent with the 2021 Budget Act agreement, the 2022-23 budget provided an increase of $522 million ongoing General Fund to revamp the Middle Class Scholarship program. This augmentation brings total program funding to $632 million in 2022-23. According to estimates, this amount is enough to cover an estimated 24 percent of total program costs. State law directs CSAC to prorate all awards equally, such that awards would cover 24 percent of each student's remaining costs.

Based on a 2022 estimate from CSAC, excluding inflation effects, it costs $2.6 billion to cover 100 percent of each student's remaining costs after accounting for the students' available resources (other gift aid, a student work contribution, and any applicable parent contribution). The figure below form the LAO shows CSAC's revised expenditure estimates for 2022-23 and proposed expenditures with the Governor's proposal. An LAO report estimated that once the new program rules took effect in 2022-23, the number of MCS recipients would increase from about 60,000 to about 360,000. The increase is due to students receiving tuition coverage through Cal Grants or other financial aid programs now being eligible for living cost coverage through the MCS program. The most recent estimates shows an increase in MCS recipients but at an amount lower than LAO's estimate.

Middle Class Scholarship Program
Key Information by Segment

	2021-22 Actual	2022-23 Revised	2023-24 Proposed	Change from 2022-23	
				Amount	Percent
Recipients					
CSU	44,481	184,240	197,137	12,897	7
UC	10,511	88,200	94,374	6,174	7
Total	**54,992**	**272,440**	**291,511**	**19,071**	**7**
Spending (in millions)					
CSU	$74	$447	$608	$160	36
UC	32	$183	248	66	36
Total	**$105**	**$630**	**$856**	**$226**	**36**
Average award					
CSU	$1,654	$2,429	$3,083	$654	27
UC	$3,015	$2,074	$2,633	558	27

Notes: Data reflect California Student Aid Commission estimates.
The Middle Class Scholarship program was revamped beginning in 2022-23, with the new rules significantly affecting the number of eligible recipients and award amounts.
CSU = California State University. UC = University of California.

Governor's Budget

Governor's Budget Provides One-Time Augmentation for MCS Program. The Governor's budget first adjusts MCS spending to $630 million ongoing General Fund in 2022-23 to align with CSAC's most recent cost estimates, which indicate program funding is sufficient to cover 26 percent of each student's remaining costs. This is the maximum coverage possible without going over the amount appropriated in the *2022 Budget Act.* Consistent with a 2022 Budget Act agreement, the Governor's budget provides $226 million one-time General Fund to increase program funding to $856 million in 2023-24. With this one-time augmentation, coverage would be increased to 33 percent of each student's remaining costs in that year.

Legislative Analyst's Office Comments and Recommendations

LAO Assessment:* *MCS Implementation Challenges Have Impacted Program Effectiveness in 2022-23. As CSAC and campus financial aid offices implemented the revamped MCS program for the first time this year, several challenges emerged. In Spring 2022, while students were considering their admissions offers, CSAC did not have the necessary data to estimate MCS award amounts under the new formula. As a result, students and families were not notified of their award amounts in time for it to influence their enrollment decisions or their financial planning around covering college costs. (CSAC did, however, send a general notification to students considering a UC or CSU campus to inform them of their potential eligibility for an MCS award.) After CSAC began processing award offers in September, further delays affected when students received payments. For example, the segments needed time to implement changes to the software their campuses use to administer financial aid programs. UC reports its campuses disbursed fall-term awards from October through December, while CSU reports its campuses disbursed fall-term awards the following January. As a result of this timing, the awards were not yet available as students and families began incurring costs for the fall term.

<u>LAO Assessment:</u>* *Implementation Could Go More Smoothly in 2023-24, but Some Challenges Remain. Some of the MCS implementation challenges that CSAC and campus financial aid offices experienced in 2022-23 are expected to ease with time. For example, the disbursement process will likely go faster next year, now that the segments have made the necessary changes in their financial aid management software. However, CSAC and the segments indicate that other challenges could persist under the current program structure. One notable challenge is that MCS award amounts often need to be adjusted throughout the year. These adjustments may happen for various reasons, including to reflect any new gift aid a student receives (such as merit scholarships or emergency grants), to comply with certain federal financial aid packaging requirements, or to keep MCS spending within the annual appropriation. These adjustments create significant workload for CSAC and campus financial aid offices. Moreover, they create frustration and potential hardship among students, particularly when award amounts are reduced partway through the year. CSAC and the segments are exploring legislative changes to simplify program administration.

<u>LAO Assessment:</u>* *One-Time MCS Augmentation Has Key Drawbacks for Students. Though the proposed one-time MCS augmentation would help those college students enrolled in 2023-24 cover a portion of their cost of attendance, using one-time funds for ongoing grant programs has key drawbacks. For students and their families, receiving a certain amount of aid in one year can create an expectation of receiving a similar amount in future years. With the one-time MCS augmentation, however, students would receive more aid in 2023-24 only to have their award amounts decrease when the funds are removed the following year. This arrangement could create an unexpected financial strain for continuing students in 2024-25. Using one-time funds for a temporary increase in aid also creates inequities among student cohorts, with incoming students in 2024-25 receiving less aid than the students before them.

<u>LAO Assessment:</u>* *One-Time MCS Augmentation Also Will Create Out-Year State Cost Pressures. To avoid reducing aid for students, the state likely would face significant pressure to retain the higher award levels in 2024-25. This could lead to difficult trade-offs, particularly as the state is facing a projected operating deficit that year. These trade-offs could be heightened because the Legislature is also interested in implementing a significant expansion to the Cal Grant program in that year.

<u>LAO Recommendation:</u>* *If Expanding MCS Program, Adopt Ongoing Funding. As the LAO mentioned in Issue 1A, the LAO recommends that the Legislature first weigh all its options for expanding student financial aid—across both the Cal Grant and MCS programs. If the Legislature chooses to proceed with expanding the MCS program, the LAO recommends it designate ongoing funding for this purpose. Compared to the one-time funding included in the Governor’s budget, ongoing funding would provide greater certainty to students and families about the financial aid available to them, while also better reflecting the cost pressures associated with expanding aid in any given year. Given the state budget condition, however, increasing ongoing MCS funding in 2023-24 would involve difficult trade-offs. To avoid exacerbating the state’s projected out-year operating deficits, the Legislature would likely need to redirect funds from other ongoing purposes to support any ongoing MCS expansion. In the meantime, the LAO recommends that the Legislature reject the $226 million in one-time MCS funding and count this toward its budget solutions in 2023-24.

Suggested Questions

- Please provide an on implementation of revamped program. When did UC and CSU students receive money for Fall 2022? Are there any administrative challenges and additional issues that require the legislature's attention?
- How will the $227 million in one-time General Fund for this program in 23-24 be utilized?
- A Spring 2022 LAO report estimated that MCS 2.0 changes would result in an increase of up to 360,000 recipients. The most recent estimates shows an increase in MCS recipients but at an amount lower than LAO's estimate. Is there any explanation for why this amount is short of the initial estimates?

Staff Recommendation. Hold Open.

Issue 2: Governor's Workload Proposals for Student Aid Commission

Panel

- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Jake Brymner, California Student Aid Commission

Governor's Budget

Financial Aid Programs- Human Resources position and High School Toolkits. The Governor's budget includes an increase of $121,000 ongoing for one position at CSAC to support human resources and to distribute toolkits to high schools to help students complete their financial aid applications. The position within the Human Resources Office will provide the timely and ongoing support to program managers to ensure department staff are provided expectations, performance, and training within relevant laws, rules, and policies. This includes reviewing, researching, analyzing, and preparing requests for personnel action and ensuring the appropriateness of classifications, reporting relationships and organizational placements as well as providing advice to management on performance and disciplinary issues.

The 2021-22 budget package created a new requirement for school districts to verify that all high school seniors complete a college financial aid application, unless the student submits an opt-out form or receives an exemption from the district. The Governor's budget provides $120,000 ongoing General Fund to CSAC to distribute toolkits to high schools to support them in fulfilling the requirement. CSAC indicates these toolkits would include various materials that provide information on and promote awareness of student financial aid—including resource guides, posters, postcards, notepads, and stickers. CSAC intends to send these toolkits to high schools that have lower financial aid application completion rates.

Cybersecurity. The Governor's budget includes an increase of $1.4 million General Fund in 2023-24, of which $469,000 is ongoing, to assess CSAC's current information technology system, address cybersecurity issues, and support two positions.

Background

CSAC Is Mid-Sized State Agency. Like other state agencies, CSAC spends a majority of its state operations budget on staffing. In 2022-23, CSAC has 145.5 authorized permanent positions. These positions span eight divisions, the largest of which are Program Administration and Services, Information Technology Services, and Fiscal and Administrative Services. Since 2017-18, the number of authorized permanent positions at CSAC has increased by 23 positions (19 percent). Most of the positions added over the past five years were to address increased workload linked to financial aid program expansions.

Legislature Passed Many Reforms That Increased CSAC Workload. The Governor and the Legislature have entrusted the Commission to effectively administer new and expanded state financial aid programs over the last two years. The 2021 Budget Act authorized the Commission's ability to incorporate changes within existing programs and execute the launch of new programs. The Cal Grant changes in the Budget Act removed key equity restrictions in the entitlement program thereby opening access to more than 100,000 new students attending a California community college. The Learning-Aligned Employment Program offers additional opportunities for first-generation, low-income students seeking to access career-related state work-study jobs that lead to successful careers upon graduation. The Golden State Education and Training Grant Program provides new pathways for applicants who were displaced by the pandemic to re-enter the workforce with newly developed skills. Additionally, the 2022 Budget Act increased funding to expand the Middle-Class Scholarship (MCS) program thereby reducing a student's total cost of attendance. This investment more than tripled the number of students served. (Some of these changes were covered in Issues 1a and 1b). The Commission recently implemented the Dreamer Service Incentive Grant, Child Savings Account and the Golden State Teachers Grant Program. The Financial Aid position will help CSAC respond to growing human resources needs that emerge from the recruitment, onboarding, and support involved with a number of additional permanent and a larger number of limited-term staff. This position, according to CSAC is critical to ensure that personnel issues are handled in a timely fashion and that the agency remains in compliance with state mandates. The information that CSAC is entrusted with protecting has also taken on increased importance over the last few years.

Over the last four years, the Commission has been adopting and aligning with the state's "cloud" strategies and modernizing its information systems and adopted nearly a 100 percent teleworking workforce. Between these two changes, the struggle with securing and identifying cybersecurity risk has become more vital given the wider and more expansive attack surface. The Commission maintains significant privacy data related to the millions of California residents, students and parents that have applied for or are seeking financial aid to attend higher education. A cybersecurity event that compromised the Cal Grant student aid system would have a catastrophic impact to all aspects of higher education in California including the livelihood of our students that depend on this aid. The cybersecurity related positions and resources will enable the agency to better safeguard the significant amount of student personal identifying information that it houses in an environment with an increasing number of threats.

State Recently Expanded CSAC's High School Outreach Efforts. The 2022 Budget Act provided several augmentations to CSAC to expand high school outreach around financial aid. First, it provided an increase of $2.4 million ongoing General Fund for the California Student Opportunity and Access Program (Cal-SOAP), which provides financial aid information to low-income middle school students and high school students. These funds are to support Cal-SOAP activities in the Inland Empire. Second, it provided $500,000 one-time General Fund to expand the Cash for College Program, which provides workshops to help students and their families complete financial aid applications. Third, it added three new positions at CSAC to support school districts in implementing the new financial aid application requirement.

State Is Also Funding Other High School Outreach Efforts. The 2022 Budget Act also included augmentations for other agencies that could support the implementation of the new financial aid application requirement. Most notably, it provided $9.3 million ongoing Proposition 98 General Fund and $4.4 million one-time Proposition 98 General Fund to the California Department of Education to support school districts' participation in the California College Guidance Initiative (CCGI). This initiative provides online tools to help middle school students and high school students with various aspects of college planning, including the financial aid process. CCGI's financial aid planning tool provides students with financial aid lessons and application assistance. (The Governor's budget proposes an additional $3.9 million Proposition 98 General Fund to increase CCGI personnel and further support CCGI operations and ramp-up activities.)

Previous Funding To Support Financial Aid Workload. The 2022 Budget Act included $889,000 ongoing General Fund for eight positions beginning in 2022-23 to support financial aid workload and $500,000 General Fund to support Cal Grant Reform Act implementation costs at CSAC. The Governor's budget does not remove these one-time funds. The administration indicates it will determine at the May Revision whether to retain these funds on an ongoing basis to address CSAC's workload needs.

About 18 Percent of Positions Are Currently Vacant. As of January 2023, CSAC reports that 25.5 (18 percent) of its permanent positions were vacant. This is somewhat higher than the statewide average vacancy rate, which has ranged between 10 percent and 15 percent over the past decade. CSAC indicates that it is actively working to fill most of its vacant positions, with 19 of these positions in various stages of the recruitment and hiring process.

Legislative Analyst's Office Comments and Recommendations

***LAO Recommendation on Financial Aid Program position:* Proposed Human Resources Position Is Reasonable, Recommend Approving.** In recent years, as CSAC's overall staffing has expanded, its human resources workload has also grown. CSAC currently has five permanent positions in its human resources office. In 2021-22, it worked with the Department of Finance to administratively establish an additional limited-term position in its human resources office to address recruitment, hiring, onboarding, and other related needs linked to recent program expansions. The Governor's proposal would effectively convert the limited-term position into an ongoing one. CSAC has provided a reasonable list of job duties and associated workload justifying the proposed position. The LAO recommends approving the position.

***LAO Recommendation on Toolkit Funding:* Proposed High School Toolkits Lack Strong Justification, Recommend Rejecting.** As mentioned above, the state took several actions last year intended to help high schools in fulfilling the new financial aid application requirement. For example, school districts can already leverage the existing financial aid resources within CCGI to increase awareness of student financial aid opportunities and assist students with the application process. It is too soon to determine whether gaps or challenges remain for high schools. Moreover, the administration has not demonstrated that the proposed toolkits are likely to be an effective way to help high schools on an ongoing basis. The proposal also lacks key details, including the number of toolkits that could be provided at the proposed funding level. Based on these concerns, the LAO recommends rejecting the Governor's proposal to provide $120,000 ongoing General Fund for high school toolkits. The Legislature could reconsider this proposal in a future year if the administration were to return with stronger justification.

***LAO Recommendation on Cybersecurity Proposal:* Proposed Cybersecurity Augmentations Are Reasonable, Recommend Approving.** CSAC maintains a large and growing volume of sensitive data on students and their families. In recent years, CSAC's cybersecurity needs have increased because of various factors, including updated state security standards, the migration of systems to the cloud, and the expansion of telework during the pandemic. Currently, CSAC has only one position dedicated to cybersecurity. The administration and CSAC have provided a reasonable list of job duties and associated workload justifying the two proposed positions. They also have provided a reasonable plan for the proposed one-time funds. The LAO recommends approving all components of the proposal.

Suggested Questions

- Please provide an update on staffing increases to date, including how many newly authorized positions have been filled. Has CSAC faced any challenges to filling these positions?
- Are these state operations requests a reflection of CSAC's overall staffing need? In what areas of operation does CSAC feel like it is short-staffed?

Staff Recommendation. Hold Open.

Issue 3: Golden State Education and Training Grant Program Expenditure Shift

Panel

- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst's Office
- Jake Brymner, California Student Aid Commission

Background

State Has Extensive Workforce Development System. California's public higher education segments are part of this system. The community colleges provide workforce education and training as part of their primary mission, while the universities also provide programs that prepare students for careers. Outside of higher education, many other state and local agencies also provide services to job seekers. Notably, under the federal Workforce Innovation and Opportunity Act (WIOA), California has a network of local workforce development boards. These boards operate one-stop centers providing various job services, including training benefits. The state maintains a list of where workers may use these WIOA-funded training benefits, called the Eligible Training Provider List (ETPL). In addition to public higher education institutions, the ETPL includes various other providers, such as private career colleges, adult schools, and trade associations.

State Created New CSAC Program to Help Workers Displaced by Pandemic. The 2021-22 budget package created the Golden State Education and Training Grant program at CSAC. The program provides one-time grants of up to $2,500 to individuals who lost employment due to the pandemic and were not already enrolled in an education or training program. To qualify for the program, individuals must meet the income and asset criteria associated with a Cal Grant A award. (For example, in 2022-23, the income ceilings are $42,800 for a single independent student and $116,800 for a student in a family of four.) The program is intended to help grant recipients cover the cost of enrolling at CCC, CSU, or UC or obtaining training from another provider on the ETPL that meets certain performance outcomes. Specifically, other providers on the ETPL must demonstrate that the majority of training participants have obtained living-wage employment within one year of program completion.

Program Is Supported by One-Time General Fund. The 2021 Budget Act provided $500 million one time for the program, initially consisting of $472.5 million federal American Rescue Plan Act funds and

$27.5 million General Fund. However, the 2022 Budget Act authorized the administration to swap the federal funds for General Fund, bringing the General Fund amount to $500 million. This fund swap was intended to maximize flexibility in program administration and reporting. Current law requires CSAC to report to the Legislature by December 31, 2023 on the number of grants provided under the program.

Governor's Budget

The Governor's budget proposes to delay $400 million of the $500 million in program funding from 2021-22 to later years. Specifically, the Governor proposes to provide $200 million in 2024-25, $100 million in 2025-26, and $100 million in 2026-27. The administration suggests this budget approach aligns more closely with the actual pace of program spending. The administration does not expect the proposal to have any programmatic impact. Given that program spending would continue through 2026-27, the Governor also proposes trailer bill language changing the deadline for CSAC to report on grants from December 31, 2023 to September 30, 2027.

Legislative Analyst's Office Comments and Recommendations

***LAO Assessment:* Proposed Approach Contributes to State's Out-Year Budget Deficits.** Although the Governor's proposed budget solution reduces near-term spending by $400 million General Fund, it does so by shifting those costs into the out-years. In doing so, it contributes to projected operating deficits in 2024-25 through 2026-27. As a result, the state would need to find additional solutions to balance the budget in those years.

***LAO Assessment:* Underlying Need for Program Has Diminished.** The state created the Golden State Education and Training Grant program to address a spike in job losses during the pandemic. Many of these job losses were in close-contact industries—such as personal care services, accommodations and food services, and entertainment and recreation—that tend to employ workers with lower education levels. The program was intended to help these displaced workers pursue additional education and training. Since the height of the pandemic, however, the labor market has improved significantly. Whereas the state unemployment rate peaked at 16 percent in May 2020, it is down to 4.1 percent as of December 2022. This is comparable to pre-pandemic lows. Moreover, because the labor market has been very favorable for people looking for jobs, displaced workers are more likely to have the option to find other jobs rather than returning to school. (The tight labor market has been a key factor contributing to steep declines in community college enrollment over the past couple of years.)

***LAO Assessment:* Program Is Reaching Far Fewer Recipients Than Intended.** Of the $500 million initially appropriated for the program, $485 million was reserved for grants (with the remainder for program administration and outreach). The $485 million is sufficient to provide grants to 194,000 recipients, assuming each recipient gets the maximum grant. As of January 2023, only about 5,000 recipients had received grants at a total cost of $12.5 million (2.6 percent of the available funding).

***LAO Assessment:* Other Programs Are Available to Support Training for Displaced Workers.** Separate from this program, displaced workers have various other options for affordable education or training. Community colleges provide noncredit adult education courses at no charge, while also providing full tuition waivers for students with financial need to take credit courses. Many students with financial need are also eligible for federal and state financial aid—including Pell Grants and Cal Grants—to help with their education and living costs. Notably, Cal Grant C awards are available in career technical education programs as short as four months. Individuals can also access federally funded job services, including training from providers on the ETPL, through one-stop job centers.

<u>LAO Assessment:</u> Program Has Been Costly to Administer. CSAC has incurred relatively high start-up costs for this program. As of January 2023, CSAC had encumbered or spent $7.2 million for program administration and marketing, with the majority going toward an external contract to promote the program to prospective applicants. While these administrative costs remain within the statutory allowance ($15 million), they account for over one-third of total program spending to date. The program's high administrative costs are partly because CSAC is working with a new set of potential beneficiaries—specifically, displaced workers not yet connected to higher education. As a result, CSAC is spending a relatively high amount for marketing. In addition, administrative costs are high because CSAC is required to work with a new set of training providers—specifically, ETPL providers that are ineligible for the traditional financial aid programs that CSAC administers. CSAC has dedicated staff time to establishing processes for working with these providers for the first time.

<u>LAO Recommendation:</u> As Budget Solution, Recommend Discontinuing Program and Removing Remaining Funds. Given the above considerations, the LAO recommends the Legislature discontinue the Golden State Education and Training Grant program at the end of the current year and remove any remaining funding at that time. Based on program spending to date, the LAO estimates roughly $470 million in one-time General Fund would remain unspent at the end of 2022-23. Removing these funds would provide an estimated $70 million in immediate solution beyond the Governor's budget. It would also reduce spending by an additional $400 million in the out-years, thereby improving the state's out-year budget condition. Under this approach, the Legislature could retain the reporting deadline relating to the number of grants awarded that is in current law (December 31, 2023), as the program would end prior to that date.

<u>Suggested Questions</u>

- Please provide an explanation for the proposed Golden State Education and Training Grant Program expenditure shift. Is this shift in alignment with actual expenditures to date?

<u>Staff Recommendation.</u> Hold Open.

Issue 4: Golden State Teacher Grants

<u>Panel</u>

- Devin Mitchell, Department of Finance
- Jackie Barocio, Legislative Analyst's Office
- Jake Brymner, California Student Aid Commission

<u>Background</u>

California Has Teacher Shortages in Certain Subject Areas and Schools. Over the years, some school districts have experienced challenges finding credentialed teachers. These challenges have been concentrated in certain subject areas and schools. The state has identified persistent teacher shortages in special education, science, and math. Additionally, urban schools and rural schools in low-income areas tend to experience greater difficulties with staffing and are more likely than other schools to hire underprepared teachers. Although these challenges are long-standing, teacher shortages have worsened since the start of the pandemic, which prompted teachers to leave the workforce at accelerated rates.

State Recently Created Grant Program for Prospective Teachers. In the 2019-20 budget package, the state created the Golden State Teacher Grant (GSTG) program administered by CSAC. This is one of several initiatives the state created in recent years to address teacher shortages. The program provides grants of up to $20,000 to students in professional preparation programs leading to preliminary teaching credentials who commit to a certain service requirement. Under current law, the service requirement involves working for four years at a "priority school"—defined as a school where at least 55 percent of students are low-income, English learners, or foster youth. Originally, recipients were also required to commit to teaching in certain subject areas—special education; science, technology, engineering, and math; bilingual education; elementary school; and transitional kindergarten (TK).

The 2021 Budget Act included $500 million one-time General Fund to support the program. Trailer bill legislation in the 2022 Budget Act also made several changes to the program. Most notably, whereas the program previously was open only to teacher candidates in certain high-need subject areas, it is now open to teacher candidates in any subject area, as well as candidates for pupil personnel services credentials (which authorize individuals to work in school counseling, social work, psychology, and child welfare).

Implementation Updates from CSAC. The following two tables provide information on disbursements from the Golden State Teacher Grant Program as of the 2021-22 and 2022-23 application cycles. As of February 2023, 23.6 percent of applications (2,235) for the 2022-23 academic year were for students pursuing pupil personnel services credentials, while 76.4 percent of applications (7,199) were for those pursuing teaching credentials.

AY 2021-22 General Fund Payments Made as of 1/30/2023

Segment	Total AY 21/22 Applications Rcvd	Students Awarded with General Funds	Total Awarded Per Segment	Average Award Per Student
UC	**272**	**199**	$3,807,449	$19,133
CSU	**1,154**	**612**	$8,991,448	$14,692
Private	**1,922**	**1,074**	$19,865,297	$18,497
LEA	**608**	**485**	$9,393,702	$19,368
GRAND TOTAL	**3,956**	**2,370**	**$42,057,896**	**$17,746**

AY 2022-23 General Fund Payments Made as of 01/30/23

Segment	Total AY 22/23 Applications Rcvd	Students Awarded with General Funds	Total Awarded Per Segment	Average Award Per Student*
UC	**464**	350	$4,699,845	$13,428
CSU	**2,846**	1,506	$24,241,380	$16,097
Private	**4,850**	2,855	$51,230,086	$17,944
LEA	**933**	554	$10,101,823	$18,234
GRAND TOTAL	**9,093**	**5,265**	**$90,273,134**	**$16,426**

***Average award per student is calculated based on payments processed thus far. Fall, Winter, and Spring term payments have been processed. Summer term payments will begin mid-April.**

Source: California Student Aid Commission

At the current rate of applications, eligibility for awards, and expenditure, CSAC analyses indicate that up to $157.7 million may be awarded in the 2022-23 year. This would be due to receiving more GSTG applications before April 1, 2023 and disbursement of renewal payments to those awarded less than

$20,000 in a prior academic year. At a minimum, CSAC would expend at least $112.2 million in 2022-23 based on applications received and other renewal payments due. Moreover, CSAC anticipates that they will award the entire $500 million appropriation sometime in the 2024-25 academic year, should current application/award rates continue with the current program requirements, a year earlier than the grant program funds are scheduled to expire.

Governor's Budget

Governor Proposes Changing Service Requirement for Grant Recipients. The proposed trailer bill language would make two changes to the current requirement for Golden State Teacher Grant recipients to commit to working for four years at a priority school. First, it would allow recipients to instead commit to working for four years at any school, beyond only priority schools. Second, for recipients who still choose to work at a priority school, the proposed language would reduce the length of their service requirement from four years to three years. The administration indicates these changes are intended to ensure sufficient demand for the program, while also maintaining some incentive for grant recipients to teach at a priority school.

Governor Proposes Expanding Eligibility to Certain Child Development Permits. The proposed trailer bill language would also expand program eligibility to students pursuing certain child development permits—specifically for master teachers, site supervisors, and program directors. These permits are required for non-entry-level, supervisory positions within State Preschool. To qualify for a grant, students pursuing these permits must be concurrently pursuing a bachelor's degree. (Students pursuing required coursework or child development permits for assistants, associate teachers, and teachers would remain ineligible for grants.) Grant recipients could complete their associated service requirement at any elementary school or at a state or federally funded preschool program. The administration indicates these changes are intended to address early educator workforce needs.

LAO Assessment and Recommendations

LAO Assessment:* *Program Demand Is Robust Under Current Eligibility Requirements. In 2021-22 (the first of the five years covered by the General Fund appropriation), CSAC spent only $42 million of the $98 million available for grants. Program demand, however, has increased notably following the significant eligibility expansions enacted in the 2022-23 budget package. In 2022-23, CSAC has spent $90 million on grants as of January. Given CSAC will continue to receive applications and process payments in the coming months, it is likely to spend not only the $98 million available for grants in 2022-23, but also some or all of the remaining funds from 2021-22. CSAC further projects that it will fully spend the $500 million allocation before the end of the five-year period. This suggests no further eligibility expansions are needed to ensure sufficient demand for the program. Moreover, further eligibility expansions could lead demand to exceed available funding. The proposed trailer bill language does not specify how CSAC is to prioritize among applicants in this event.

LAO Assessment:* *Proposed Changes Would Likely Reduce Benefits to Priority Schools. The current service requirement is designed to address the disproportionate staffing challenges at priority schools. The proposed trailer bill language would reduce the program's effectiveness in meeting this objective in two ways. First, it would reduce the number of years that recipients are expected to work at a priority school from four years to three years. Second, it would allow recipients to instead complete their service requirement at a school that is not on the priority list. To the extent that recipients choose this option, the program's benefits would be redistributed from priority schools to higher-income schools that have less acute staffing challenges. Although the program might still support the expansion of the teacher workforce overall, its impact would not be as targeted toward the areas of greatest need.

***LAO Assessment:* Proposed Changes Do Not Effectively Address Early Educator Workforce Needs.** Though school districts will need more early educators over the next few years, the Governor's proposed trailer bill language is not likely to be an effective way to address this objective. The proposed requirement that recipients concurrently pursue a bachelor's degree with their permit would exclude current elementary school teachers returning to school to complete additional child development coursework necessary to teach in a TK classroom. The proposed language also excludes individuals seeking coursework and entry-level child development permits to teach in State Preschool. More broadly, it is unclear what is the added value of this proposal relative to current early educator workforce programs that have less restrictive eligibility requirements. Those other programs could potentially be more effective ways to address the objective of expanding the early educator workforce.

***LAO Assessment:* Proposed Changes Could Make Program Costlier to Administer.** The proposed program changes would have some administrative costs. CSAC would need to notify a new set of preparation programs that their students now qualify for grants. CSAC would also need to track grant recipients across a broader set of schools to monitor whether the service requirement was being met. Moreover, having two different lengths of service requirements (three years at a priority school versus four years at all other schools) could also increase monitoring costs. In addition, CSAC would need to implement the new grant rules in the software system it uses to administer financial aid programs. Although incurring additional administrative costs is sometimes necessary, higher administrative costs are harder to justify when proposed program changes are not warranted.

***LAO Recommendation:* Reject Proposed Eligibility Expansion and Change to Service Requirement.** Given the above considerations, the LAO recommends the Legislature to reject the Governor's proposed trailer bill language changing the Golden State Teacher Grant program eligibility and service requirement. Based on CSAC's projections, demand likely is sufficient under the current program structure to fully spend grant funds by the expenditure deadline (and possibly sooner). Moreover, expanding the service requirement to include non-priority schools undermines the primary program objective of supporting schools facing the most acute teacher shortages. The Governor's proposal also is not well tailored to early educator workforce issues. A more direct approach would be to ask the California Department of Education for an update on the state's recent initiative to increase the number of highly qualified State Preschool and TK teachers. To the extent this initiative is proving to be effective, the Legislature could increase funding for the initiative depending on its other budget priorities.

Suggested Questions

- Please provide the subcommittee with an update on disbursements to date and anticipated disbursements.
- What is CSAC's position on the Administration's proposed changes to the program? How does it impacts CSAC's ability to manage the program and workload?

Staff Recommendation. Hold Open

Issue 5: Status Update on Previous Budget Act Investments (Oversight)

Panel

- Jake Brymner, California Student Aid Commission

Background

The subcommittee requests implementation updates on the following program:

- ***Learning Aligned Employment.*** The 2021 Budget Act included $200 million in 2021-22 and $300 million in 2022-23 to support state-funded work-study programs at UC, CSU and CCC campuses to be administered by CSAC. AB 132 specified that the program is available for students from an underrepresented background who is enrolled at least part time, a resident student and maintains satisfactory academic progress, and demonstrate financial need. The learning aligned employment position is to be related to the student's area of study or career interest. Students must be placed with employers that are able to provide them with or connect them to full-time employment opportunities upon graduation.

- ***Cash for College.*** The 2022 Budget Act provided $500,000 one-time General Fund for CSAC to expand the Cash for College program (which provides financial aid application workshops) to assist with the implementation of a new requirement for school districts to verify that high school seniors submit financial aid applications. This program was mentioned in Issue 2.

Suggested Questions

- How much funding has been disbursed for these program so far?
- Have there been any implementation challenges?
- For the Learning Aligned Employment program, is there an expectation that there will be $300 million needed for this program in budget year? Why or why not?

Staff Recommendation. This is an oversight item. No action is needed at this time.

6600 UC College of the Law, San Francisco (CLSF)

Issue 6: CLSF Updates and Proposals

Panel

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

Available for additional details and questions: David Seward, Chief Financial Officer, UC College of the Law, San Francisco

Governor's Budget

Base Adjustment. The Governor's budget proposes an increase of $2.2 million General Fund ongoing to support operating costs. This represents a three percent increase base augmentation.

Safety Program, Urban Alchemy. The Governor's budget proposes an increase of $3 million, available over three years, to continue supporting a campus safety program that employs formerly incarcerated individuals and/or those who have experienced homelessness. The funds would be available for expenditure over the next three years (through 2025-26).

UC College of the Law Spending Plan and Requests

UC Law SF Is Budgeting for Several Cost Increases. As is detailed below, UC Law SF is planning for several cost increases in 2023-24. Its largest planned cost increase is for lease payments on a new multiuse facility (198 McAllister). UC Law SF also plans to fund a total of six new positions—one new ladder-rank professor, two existing vacant ladder-rank professors, one long-term contract professor, and two lecturers. The next largest planned expense is for student financial aid. Beyond these expenses, UC Law SF intends to increase to its overall employee salary pool by 3 percent as well as cover employee benefit cost increases. UC Law SF also has identified funding for innovation. This funding will be directed to develop and enhance certain activities, such as the development of internet redundancy services.

School's Spending Plan Supports Several Increases
Core Spending Increases, 2023-24 (In Thousands)

Spending Component	Amount
198 McAllister lease payments[a]	$2,088
Faculty hiring	1,225
Student financial aid	1,189
Salary pool increase (3 percent)	1,006
Innovation[b]	327
Operating expenses and equipment	241

Benefit cost increases	98
Health Policy and Law master's program	44
Other adjustments[c]	-460
Total	**$5,758**

[a]In addition to the McAllister Tower renovation, the school recently constructed a new, adjacent, multiuse facility at 198 McAllister Street. The school is incurring new lease payments for that building, which it plans to cover using core funds.

[b]Reflects funding the school plan's to use for developing new activities and expanding existing activities in further of its strategic plan.

[c]Certain operating costs will be reduced during the renovation of the 100 McAllister building.

School Is Requesting Additional One-Time Funding Relating to Name Change. The state provided UC Law SF $885,000 one-time General Fund in 2022-23 for expenses relating to the school's name change- as is described below. The school indicates that it intends to seek additional one-time state funding of up to $2 million to complete name change and rebranding activities.

Background

California has five public law schools. The University of California (UC) operates four of these schools—at its Berkeley, Los Angeles, Davis, and Irvine campuses. The fifth school is affiliated with UC but operates independently in many respects, having its own governing board (known as the Board of Directors). The institute was founded by, and initially named after, Serranus Clinton Hastings, the first Chief Justice of the State of California.

Mission and Responsibilities. UC College of the Law, San Francisco, as recently re-named, is the oldest law school and one of the largest public law schools in the United States. CLSF's board has similar responsibilities as the UC Board of Regents, including establishing policy, ratifying collective bargaining agreements, adopting budgets, and setting student tuition and fee levels. CLSF's affiliation with UC offers it certain benefits. For example, CLSF uses UC's payroll processing and investment management services. Additionally, CLSF's employees participate in UC's employee health and pension programs.

The mission of the CLSF is to train students for the legal profession with a comprehensive understanding and appreciation of the law. CLSF is the oldest law school and one of the largest public law schools in the United States. The business of the college is managed by an 11-member Board of Directors. CLSF is approved by the American Bar Association and accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges. CLSF is a member of the Association of American Law Schools. The Juris Doctor degree is granted by the Regents of the University of California and is signed by the President of the University of California and the Chancellor and Dean of the College of the Law, San Francisco.

Of the school's more than 1,000 students, approximately 95 percent are enrolled in the Juris Doctor (JD) program (the most common degree students pursue to enter the legal field). The school also offers three master's programs, one of which is a joint Health Policy and Law program with UC San Francisco (UCSF).

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2021-22	2022-23	2023-24	2021-22*	2022-23*	2023-24*
5530	Support	255.6	272.7	277.7	$116,709	$186,811	$102,595
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**255.6**	**272.7**	**277.7**	**$116,709**	**$186,811**	**$102,595**

FUNDING		**2021-22***	**2022-23***	**2023-24***
0001	General Fund	$29,802	$113,759	$29,543
0814	California State Lottery Education Fund	199	172	172
0993	University Funds--Unclassified	86,708	72,880	72,880
TOTALS, EXPENDITURES, ALL FUNDS		**$116,709**	**$186,811**	**$102,595**

Tuition Revenue Is Law School's Largest Fund Source. Of the school's core funding, just over 70 percent comes from student tuition revenue and one-quarter comes from state General Fund. Remaining core funding comes from investment income, scholarly publication income, fee revenue, and the State Lottery Fund. Beyond core funding, UC Law SF receives noncore funding from certain self-supporting auxiliary programs (including its housing and parking programs). In addition, the school receives noncore funding from private donations as well as external grants and contracts.

UC Law SF Recently Increased Tuition Charges. From 2012-13 through 2021-22, UC Law SF held enrollment fees flat at $43,486 for resident students. For the 2022-23 academic year, the UC Law SF Board of Directors increased tuition charges for resident students by three percent to $44,791. The board also increased supplemental tuition charges for nonresident students. After holding the supplemental tuition charge flat at $6,000 from 2012-13 through 2021-22, the board increased the supplemental charge by seven percent to $6,420 in 2022-23.

Student Enrollment Has Grown the Past Two Years. After hovering at approximately 950 full-time equivalent (FTE) students from 2016-17 through 2020-21, the school grew its enrollment notably in 2021-22. That year, it enrolled 155 additional FTE students, with its total enrollment reaching 1,099 students. The bulk of the growth (144 FTE students) was in the school's JD program, with the remaining growth in its master's programs. In 2022-23, the school is continuing to experience higher-than-typical growth, with total enrollment estimated to reach 1,175 FTE students. The bulk of the growth (57 FTE students) continues to be in the school's JD program, with master's programs growing by 19 FTE students. Though still relatively small programs, the school's master's programs doubled in size from 2020-21 through 2022-23. This is partly attributable to the addition of the new Master of Science in Health Policy and Law program launched in 2022-23.

Employee Compensation Is School's Largest Expense. Core funds support UC Law SF's core operations, including faculty and staff compensation. The school also uses core funds to provide merit-based student financial aid. UC Law SF currently spends around 30 percent of the tuition revenue it generates from each JD cohort on financial aid.

State Often Provides the School With General Fund Base Increases. Each year, the law school faces pressure to cover cost increases associated with employee compensation, OE&E, student financial aid, and enrollment growth, among other factors. Over the past decade, the primary way the school has covered its core operating cost increases is through state General Fund base augmentations. (The school also receives state General Fund adjustments for its lease revenue bond debt service and, in certain years, specific program initiatives.) As the following figure from the LAO shows, the size of UC Law

SF's base adjustments has varied since 2015-16. Average annual growth in the school's General Fund support during this period (excluding 2020-21) was 11 percent.

State Has Provided Law School With Base Augmentations in Most Years
(Dollars in Millions)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Base General Fund adjustment	$1.0	$1.0	$1.1	$1.1	$1.4	-$0.5	$2.1	$2.0
Percent change in General Fund	11.0	10.0	9.0	9.0	10.0	-4.0	14.0	12.0
Percent change in ongoing core funds	1.9	1.9	1.9	1.9	2.5	-0.9	3.5	3.0

School Is Responsible for Campus Safety. UC Law SF is located in downtown San Francisco between the Civic Center and the Tenderloin District. Over the years, the school has faced public safety issues. It has contracted with the UCSF police department for campus patrols and responses to security issues. The school also has used UCSF Public Safety Ambassadors, who lack police powers, to staff its buildings and security posts and report issues as appropriate to police personnel. The school has paid for these contract costs using its ongoing core funds. In August 2020, the Urban Alchemy nonprofit organization received funding from UC Law SF for a program to further promote campus safety. This program relies less heavily on traditional methods of policing in favor of sidewalk safety services (including interrupting public drug usage, noise disturbances, and public urination and defecation). The program prioritizes employing individuals who were formerly incarcerated or homeless in their programming. The school has been using $1.4 million annually of its ongoing core funds redirected from the UCSF contract for Urban Alchemy to provide its programming. The school has supplemented this funding with $3 million one-time General Fund that the state provided in 2021-22, to be spent evenly over three years (through 2023-24).

Name Change. In November 2021, the school's Board of Directors voted to authorize its leadership to work with state legislators and other stakeholders to change the College's name after the discovery that the school's founder committed genocidal acts against Native Californians in the Round and Eden valleys during the 1850s. In January 2022, Board of Directors approved an initiative to change the school's name. An official name change required legislation, passing in 2022. The 2022 Budget Act included $885,000 General Fund in 2022-23 to support costs associated with changing the name of the institution, conditioned upon enactment of legislation authorizing a name change. As of March 2023, the school has incurred $1.8 million in costs associated with its name change. Specifically, it has spent a total of $890,364 on external contracts with several firms to implement needed changes relating to its internet domain and other re-branding efforts. It also has incurred legal costs totaling $867,034. (Some of these legal costs ultimately might be covered through the school's insurance policy.)

Student Housing Updates as of March 2023. The 2022 Budget Act provided $90 million General Fund in 2022-23 to support the facility improvement project at the institution's 100 McAllister Street building called McAllister Tower. This project includes seismic structural upgrades conforming to UC Law's Seismic Safety Policy, maintaining 252 campus housing units at below-market rents that would otherwise no longer be available until the completion of the 198 McAllister structure in 2023 (detailed below), renovating space within the facility for academic purposes, and adding an estimated five new campus housing units for a total of 257 units at below-market rents. UC Law SF indicates that the remaining project costs will be split between conventional debt-financing ($103 million) and the historic tax credit equity program ($37 million), which is a federal program focused on the rehabilitation of certified historic buildings.

As well, UC Law SF is in the process of providing new housing in Fall 2023. “The Academe at 198” is a 656-unit structure includes three levels of academic- and community-serving space with two courtrooms, meeting spaces, a café, and street-level retail space. The project broke ground in September 2020; the work is on schedule and slated for completion in July 2023. Apartments will be rented at below-market rates to UC Law and other partner institution students including more than 230 graduate students and trainees from UC San Francisco.

LAO Recommendations

Treat Proposed Base Increase as an Upper Bound. The LAO recommends the Legislature to treat the Governor’s proposed $2.2 million (12 percent) base General Fund increase for the school as an upper bound. Throughout the education budget—across K-12 education, the community colleges, and the public universities—the Governor has proposed relatively high base increases, with UC Law SF receiving the largest percentage increase. For all of these segments, the LAO recommends the Legislature to treat the base increases proposed in January as upper bounds. From within its budget plan for 2023-24, UC Law SF can accommodate several core cost increases, including new hiring and salary increases, as well as cost increases for OE&E and activities relating to innovation. Were state revenues to weaken over the coming months, the Legislature could consider downward adjustments at that time. If the base increase for the school were to be reduced, the school could adjust its spending in various ways, including, for example, by revisiting its allotments for OE&E and innovation.

Fund Campus Safety Program From Core Budget. Urban Alchemy’s program seeks to achieve an important goal of promoting and maintaining campus safety. Given campus safety is a key part on the school’s ongoing operations, it is unclear why the school is not funding all program costs from its core operating budget. Relying on one-time state support for key ongoing operations is poor budgetary practice. The LAO recommends the school to, as it has done in the past, use its ongoing core funds for campus safety costs. To accommodate the cost of the program, UC Law SF indicates it might need to raise tuition. The school has raised its tuition charges in 2022-23 and 2023-24. If that additional revenue is insufficient to cover the school’s operating costs, including campus safety, UC Law SF could consider additional tuition increases in the out-years. In the meantime, the school has $1 million remaining from the 2021 Budget Act that can be spent during 2023-24 for Urban Alchemy.

A Couple of Options Exist for Covering Remaining Name Change Costs. Given UC Law SF’s costs exceed the state’s one-time appropriation of $885,000, the school has had to cover excess costs to date using campus reserves. Beyond costs already incurred, the school has identified additional outstanding physical signage costs totaling $1.4 million. The state could provide the school with additional General Fund for these costs, but campus reserves are available to cover such costs. The LAO estimates the school’s reserve currently equates to nearly five months of expenditures. Even for a small agency (which benefits from higher reserve levels), this is a relatively sizeable reserve.

<u>Suggested Questions</u>

Name Change and Urban Alchemy

- Please provide a status update on the school's name change. What activities remain to finalize this change and how will the school cover costs related to these activities if the final budget does not cover these costs?
- What activities will be covered with the second round of funding for Urban Alchemy? How much of this proposed funding do you expect to spend in 2023-24? How much funding from the $3 million one-time General Fund that the state provided in 2021-22 remains and do you expect to spend the remaining funding by July 1?

Student Housing

- Please describe the College of the Law's student housing plans in relation to the Student Housing Grants. How many projects, if any, will be submitted in the future?
- Please provide a status update on the McAllister Tower project. Have all project funded been expended? Are there any cost overruns or challenges? What is the projected finish date for this project.
- Please provide status updates on, if any, other ongoing housing projects.

<u>Staff Recommendation.</u> Hold Open

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Rosilicie Ochoa Bogh
Senator Lola Smallwood-Cuevas

Thursday, March 23, 2023
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 2100

Consultant: Yong Salas

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

6100 DEPARTMENT OF EDUCATION

Issue 1: California Collaborative for Educational Excellence

Panel.

- Matt Navo, Executive Director, California Collaborative for Educational Excellence

Background.

The California Collaborative for Educational Excellence (CCEE) was established in the 2013-14 Budget Act – the same year that the Local Control Funding Formula (LCFF) was enacted – to advise and assist school districts, charter schools, and county offices of education to achieve goals in their local plans and petitions under the LCFF. The Marin County Office of Education serves as its fiscal agent, and the CCEE is governed by a board representing the perspectives of the Governor, California Legislature, teachers, district and county superintendents, and the State Superintendent of Public Instruction.

Under the purview of its Governing Board, the CCEE is responsible for advising and assisting local educational agencies with achieving the goals set forth in their Local Accountability Plans (LCAPs), identifying areas in need of improvement and strengthening instructional practices through technical assistance, and providing intensive intervention for school districts receiving emergency apportionments. The CCEE provides direct technical assistance and systemic instructional reviews for school districts that are referred to the CCEE – and the CCEE has agreed – by the county superintendent or the State Superintendent and for school districts that have emergency loan apportionments. This work is part of the CCEE's role in the state system of support, which is intended to better connect local educational agencies servings students to each other and to state entities and other stakeholders to improve educational outcomes over time.

Currently, the CCEE is providing direct technical assistance to four school districts that have been identified and referred for intensive intervention through the state system of support, and two school districts that have received emergency apportionments. The CCEE is currently engaged with 21 county offices of education to determine if 30 identified school districts would necessitate referral to the state system of support for direct technical assistance from the CCEE, and anticipate that there will be formal referrals for three to five school districts for support from the state system of support and/or direct technical assistance from the CCEE.

The CCEE also assists geographic lead agencies and other lead agencies within the State System of Support, which can include the facilitation of technical assistance between county offices of education and school districts and county office of education-focused professional learning networks, or staff and resource development to help deliver technical assistance.

Lastly, the CCEE assists in administering several recently-funded initiatives, evaluations and grant programs including: the Community Engagement Initiative (funded in 2018 and again in 2022), high-quality online instructional material evaluation, the reading instruction and intervention evaluation, and the educator workforce investment grant program.

CCEE received an annual appropriation in 2022-23 of $12.47 million Proposition 98 General Fund to support the agency's work in addition to ongoing federal funds the CCEE started receiving in 2019-20 to administer the 21st Century California School Leadership Academy with the California Department of Education. The CCEE also received the following one-time funds to support the efforts listed below:

Year Appropriated	Title	Appropriation	Year to Encumber
2018-19	Community Engagement 1.0 (AB 1808, Sec. 140, 2017 BA)	$13,274,000—in partnership with the San Bernardino Superintendent of Schools, the California Association for Bilingual Education, and Families in Schools—of which $660,000 is for the administrative agent.	2023-24
2020-21	COVID-19 relief to support positive pupil outcomes (AB 86, Sec. 8)	$5,000,000 to support LEAs in maximizing positive pupil outcomes and most effectively using funds. Of this amount, $250,000 is set aside for the administrative agent.	2023-24
2021-22	Learning Acceleration System Grant (AB 130, Sec. 152)	$50,000,000, of which CCEE can retain $5 million for grant administration and professional learning development, coordination, and execution. Of the $5 million, the administration agent receives $750,000.	2025-26
2021-22	High-Quality Online Instructional Materials Repository and Evaluation (AB 130, Sec. 144)	$15,000,000, of which $450,000 will be used by CCEE for the evaluation of increasing access and use of open educational resources by LEAs. The administrative agent set-aside is $67,500.	2023-24
2021-22	Reading Instruction and Intervention Professional Learning Opportunities Dissemination (AB 130, Sec. 145)	$10,000,000, of which CCEE can use up to $200,000 for the evaluation of the professional learning opportunities for effectiveness. The administrative agent set-aside is $30,000.	2025-26
2021-22	Individualized Education Program (IEP) Template expert panel (SB 154, 2022 BA; federal funds)	$200,000 is the CCEE apportionment and $30,000 is set aside for the administrative agent.	2023-24

2022-23	Community Engagement Initiative 2.0 (AB 181, Sec. 38)	$100,000,000, of which $5 million is for the administrative agent.	2028-29
2020-21	21st Century California Leadership Academy-CSLA (AB 74, Sec. 2019 BA; federal funds)	$200,000 annual appropriation of which $25,000 is for the administrative agent	2022-23

Governor's Budget.

For the proposed 2023-24 budget, the CCEE still maintains an annual allocation of $12.74 million; however, $4.3 million of this amount is comprised of carryover funds from previous years' appropriations. Additionally, the Administration proposes trailer bill changes to California's accountability affecting the CCEE, which will be discussed in depth in the next item.

Staff Recommendation. Hold open.

Issue 2: Equity Multiplier + Accountability Proposals

Panel.

- Lina Grant, Department of Finance
- Michael Alferes, Legislative Analyst's Office
- Sara Cortez, Legislative Analyst's Office
- Malia Vella, Department of Education
- Blake Johnson, Department of Education

Governor's Budget Proposal.

Equity Multiplier. The Governor's Budget proposes an ongoing $300 million Proposition 98 General Fund beginning in 2023-24, with an applied cost-of-living-adjustment that would begin in 2024-25, to local educational agencies for services and supports that "directly benefit" eligible schoolsites. Eligible schoolsites are determined by the percentage of enrolled students that are eligible for free meals in the prior year – for elementary and middle schools that threshold is 90 percent or more students, and for high schools the threshold is 85 percent or more – and are schools maintained by a county office of education, a charter school, or a school district, including basic aid school districts. The per-unit funding will be determined by total statewide eligible enrollment and the amount of funds available, with a minimum amount of $50,000 provided to each eligible school.

Changes to the Local Control and Accountability Plan (LCAP). The Local Control and Accountability Plan (LCAP) is a three-year plan, updated annually, that provides transparency and alignment between the local educational agency's education goals and priorities with its financial resources. The Governor's Budget proposes changes to the development of the LCAP, and how frequently the local educational agency provides updates on outcomes and implementation. The Governor's Budget also proposes to include long-term English learners as a separate pupil subgroup within the state's public school performance accountability program. Specifically, the Governor's Budget proposes the following changes to the LCAP:

- *Replaces "goals" for the lowest performing subgroups with "focused goals."* Requires local educational agencies that have (1) a school that receives the lowest performance level on at least one indicator, (2) a pupil subgroup with the local educational agency that receives the lowest performance level on at least one indicator, or (3) a pupil subgroup within a school that receives the lowest performance level on at least one indicator, to include "focused goals" in its LCAP that is specific to the area of need and only speaks to new or modified actions to support improvement. If the local educational agency includes a school that receives equity multiplier funding under the Governor's proposal, the LCAP must include focused goals for that school that addresses (1) any underlying issues in the credentialing and subject matter preparation of the school's teachers, and (2) any student group that receives the lowest performance level on at least one state indicator.

- *Mid-year LCAP update.* Requires the local educational agencies to provide an update on its LCAP, including information for all available mid-year outcome data and mid-year expenditure and implementation data, by February 28 of every year.

- *Requires a change to actions that are not effective.* Requires actions that are not effective over a three-year period to be changed to a new or strengthened approach, and include an explanation of the reasons for a lack of progress.

- *Includes technical or differentiated assistance information in the LCAP*. Requires local educational agencies to provide information related to any technical or differentiated assistance it may be receiving in its LCAP as a condition of LCAP approval by the county office of education or the State Superintendent.

Changes to the State System of Support. The Governor's Budget proposes changes to the State System of Support that modifies the referral process for technical and differentiated assistance, and intense intervention, and how that assistance should be applied. Specifically, the proposed trailer bill language includes:

- *Assistance eligibility*. Requires that a local educational agency that does not submit data to the California Longitudinal Pupil Achievement Data System (CALPADS) will be referred for differentiated assistance.

- *Length of Support.* Specifies that assistance shall be provided for at least the two years following identification for differentiated assistance. This will lead to a potential increase in costs for differentiated assistance, which may be provided at the May Revise.

- *Educator qualifications.* Codifies that data regarding educator qualifications should be reviewed when a school district is looking at their performance data to identify strengths and weaknesses when receiving assistance. This presents no change in practice, since it is already included as a local indicator.

- *Reviewing the LCAP as part of differentiated assistance.* Allows, as part of a local educational agency's differentiated assistance provided by a county office of education, a review of the LCAP be done in its identified goals, actions, and services.

- *Intermediary between differentiated assistance and intensive intervention.* Creates an additional step within the levels of the system of support between differentiated assistance (which requires one or more student groups to be lowest-performing in two priority areas) and receiving assistance from CCEE (which requires three or more student groups eligible for differentiated assistance in three of four years). The proposed change would require the assistance of the geographic lead when a local educational agency is eligible for differentiated assistance for 3 or more years, even if it is only for one student group. Additionally, it requires the geographic lead to evaluate if an expert lead is necessary to improve the effectiveness of the technical assistance being provided.

- *Referral to the California Collaborative for Educational Excellence.* Requires that local educational agencies that meet certain criteria for assistance are automatically referred to the California Collaborative for Educational Excellence. Also clarifies the fee-for-service authority for services provided outside of differentiated assistance or direct technical assistance.

- *School Dashboard Data Posting.* Finally, it establishes deadlines for when School Dashboard data is publicly available.

Equity Leads. The Governor's Budget proposes that the Department of Education and the California Collaborative for Educational Excellent select two to four county offices of education or consortia of county offices of education as equity leads to operate within the state systems of support. The selected equity leads would partner and support the work of local educational agencies in analyzing, identifying, and implementing actions and services that address disparities, including racial disparities, and prioritize working with schools that receive equity multiplier funding. The Governor's Budget includes placeholder funding for equity leads, which will be determined at a later date.

<u>Background.</u>

Local Control Funding Formula (LCFF) for School Districts and Charter Schools. The LCFF is designed to provide districts and charter schools with the bulk of their resources in unrestricted funding to support the basic educational program for all students. It also includes additional funding based on the enrollment of low-income students, English learners, and foster youth for increasing or improving services to these high-needs students. Low-income students, English learners, and foster youth students are referred to as "unduplicated" students in reference to the LCFF because, for the purpose of providing supplemental and concentration grant funding, these students are counted once, regardless of if they fit into more than one of the three identified high-need categories. Major components of the formula are briefly described below.

- **Base Grants** are calculated on a per-student basis (measured by student average daily attendance, or ADA) according to grade span (K-3, 4-6, 7-8, and 9-12) with adjustments that increase the base rates for grades K3 (10.4 percent of base rate) and grades 9-12 (2.6 percent of base rate). The adjustment for grades K-3 is associated with a requirement to reduce class sizes in those grades to no more than 24 students by 2020-21, unless other agreements are collectively bargained at the local level. The adjustment for grades 9-12 recognizes the additional cost of providing career technical education in high schools. For school districts, funded ADA is equal to the greater of current or prior year ADA.

- **Supplemental Grants** provide an additional 20 percent in base grant funding for the percentage of enrollment that is made up of unduplicated students.

- **Concentration Grants** provide an additional 65 percent above base grant funding, which was increased from 50 percent in the 2021-22 Budget Act, for the percentage of unduplicated students that exceed 55 percent of total enrollment.

Currently, local educational agencies are required to show in their LCAPs how funds apportioned through their supplemental and concentration grants are used to support unduplicated students. The supplemental and concentration grant funding must be used to increase or improve services for unduplicated students that is in proportion to the services provided to all students, otherwise known as minimum proportionality. The minimum proportionality percentage is determined by dividing the funds attributed to supplemental and concentration grant funds by the remaining funds (or the funds attributed to the base grants), excluding add-on funding in LCFF.

Local Control and Accountability Plan (LCAP). To ensure accountability for LCFF funds, the state requires that all local educational agencies adopt an LCAP every three years in a public hearing and annually update it on or before July 1. The LCAP must include locally-determined goals for each school year for all pupil subgroups in support of the eight state educational priorities for school districts (for county offices of education there are ten state priorities), as well as any additional local priorities. These goals are then required to be further defined in the LCAP with specific actions.

The LCAP must also include budgeted expenditures that support implementation of each specific action that is included in the LCAP, and the specific expenditures and actions that support increased or improved services for unduplicated pupils that meet the minimum proportionality requirement. If the local educational agency is identified for additional assistance for the same pupil subgroup for three or more consecutive years, or if the local educational agency includes a school that receives the two lowest performance levels on all but one of the state indicators even though the district-wide data may have a higher performance level, they must include a goal in the LCAP to improve the identified pupil subgroup's performance. In adopting the LCAP, local educational agencies must consult with parents, students, teachers, and other school employees.

School district LCAPs are subject to review and approval by county offices of education, while county office of education LCAPs are subject to review and approval by the State Superintendent of Public Instruction (SPI).

California's Accountability System. California's accountability system uses multiple measures, and performance on these measures are then displayed on the California School Dashboard, which includes state and local performance standards for all LCFF priorities, to report progress for local educational agencies. These performance standards are used to:

1. Support local educational agencies in identifying strengths, weaknesses, and areas for improvement;
2. Assist in determining whether local educational agencies are eligible for assistance; and
3. Assist the State Superintendent of Public Instruction in determining whether local educational agencies are eligible for more intensive state support/intervention.

The table below displays the ten LCFF priority areas that California's accountability system is founded on.

Priority Area	State Indicator	Local Indicator
Priority 1: Basic Services or Basic Condition at Schools	N/A	Annual measurement of appropriately assigned teachers, access to curriculum-aligned instructional materials, and safe, clean and functional school facilities.
Priority 2: Implementation of State Academic Standards	N/A	Annual measure of progress in implementing state academic standards.
Priority 3: Parent and Family Engagement	N/A	Annual measure of progress in seeking input from parents in decision making and promoting parental participation in programs.
Priority 4: Student Achievement	• Academic (grades 3–8 and grade 11) • English Learner Progress	N/A

Priority 5: Student Engagement	• Graduation Rate • Chronic Absenteeism	N/A
Priority 6: School Climate	• Suspension Rate	Administration of a local climate survey at least every other year that provides a valid measure of perceptions of school safety and connectedness to students in at least one grade within the grade span(s) that the LEA serves (e.g., K–5, 6–8, 9–12).
Priority 7: Access to a Broad Course of Study	N/A	Annual measure of progress on the extent students have access to, and are enrolled in, a broad course of study.
Priority 8: Outcomes in a Broad Course of Study	• College/Career	N/A
Priority 9: (COEs Only) Coordination of Services for Expelled Students	N/A	Annual measure of progress in coordinating instruction for expelled students.
Priority 10: (COEs Only) Coordination of Services for Foster Youth	N/A	Annual measure of progress in coordinating services for foster youth.

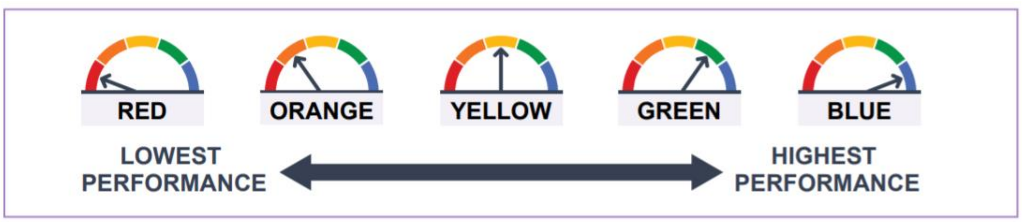
Source: Department of Education

The state uses the California School Dashboard to display how districts and schools are performing on multiple state and local measures. The results are used to identify strengths and weaknesses, which are then used by local educational agencies to inform the LCAP and determine academic goals, metrics, and actions to improve student outcomes. Progress for these indicators are disaggregated by 13 pupil subgroups, which include:

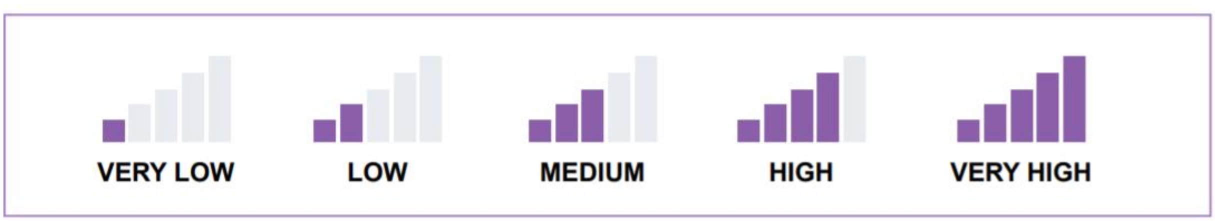
- Asian
- Black
- Filipino
- Latino
- Native American
- Pacific Islander
- Two or More Races
- White
- English Learners
- Foster Youth
- Homeless youth
- Socioeconomically disadvantaged
- Students with disabilities

For homeless and foster youth, performance data is shown if it includes 15 or more students. For all other subgroups, performance data is shown if it is at least 30 or more students.

In prior years, the Dashboard reported performance levels through the use of colors: blue, green, yellow, orange, and red. Blue represents the highest performance level while red represents the lowest performance level. These performance levels were determined using two years of data utilizing current year performance and the difference from prior year to show growth or decline. Below is a representation of how progress for these indicators were displayed on the School Dashboard website:



However, due to requirements under Assembly Bill 130 (2021), the 2022 Dashboard only displays the most current year of data. As a result, unlike prior Dashboards, performance levels are not reported using colors. Instead, the 2022 Dashboard reports performance levels using one of five Status levels (ranging from Very High, High, Medium, Low, and Very Low) for all state measures based on the 2021–22 school year data. Below is how progress for 2022 is currently displayed. In September 2022, the State Board of Education revised the criteria for making differentiated assistance determinations and limited it to the progress of only the state indicators.



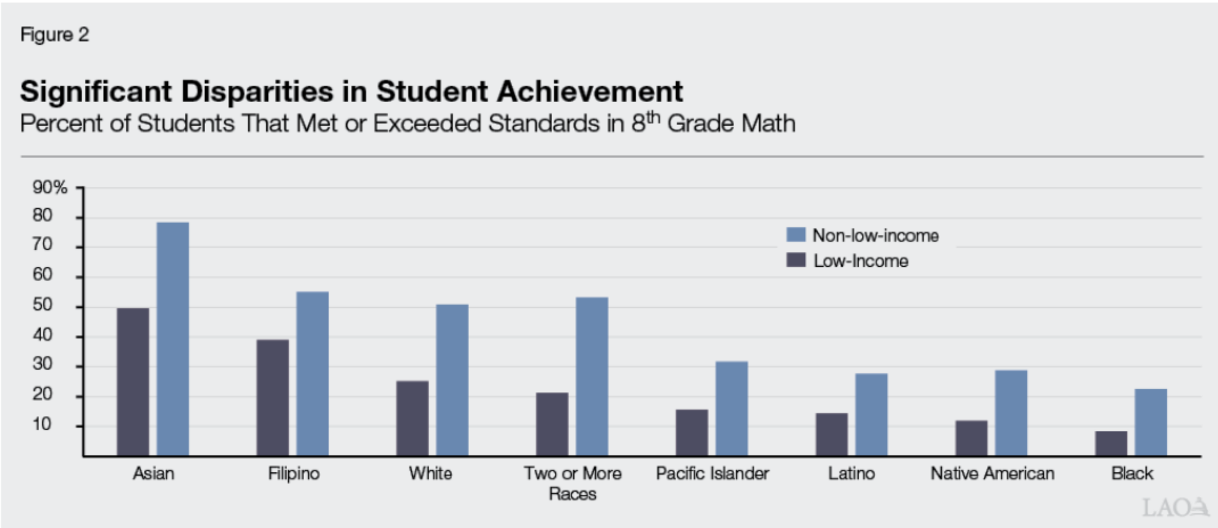
Note: The Status levels are reversed for both the Chronic Absenteeism and Suspension Rate Indicators in comparison to other state measures, and the goal is to have a low rate of student absence and suspension.

Source: Department of Education

Below are the pupil subgroups that have been identified on the 2022 Dashboard as the lowest performing for each of the state indicators on a statewide level. The table also includes data from the 2019 Dashboard, the last year of available data before the COVID-19 pandemic suspended Dashboard activities, and data from the 2018 Dashboard, the first year data was available:

State Indicator	**Lowest Performing Pupil Subgroup on the 2022 Dashboard**	**Lowest Performing Pupil Subgroup on the 2019 Dashboard**	**Lowest Performing Pupil Subgroup on the 2018 Dashboard**
Academic Progress (as measured by English Language Arts assessments)	• Foster Youth • Students with Disabilities	• None	• Foster Youth • Students with Disabilities
Academic Progress (as measured by Mathematics assessments)	• African American • Foster Youth • Homeless • Students with Disabilities	• None	• Foster Youth • Students with Disabilities
Chronic Absenteeism	• African American • American Indian • English Learners • Foster Youth • Hispanic • Homeless • Two or More Races • Pacific Islander • Socioeconomically Disadvantaged • Students with Disabilities • White	• African American • Foster Youth • Homeless	• African American • Foster Youth • Homeless
Graduation Rate	• Foster Youth	• Foster Youth	• Foster Youth

The Legislative Analyst's Office also notes that the state has significant disparities in the education outcomes of various student groups, including significant disparities in the outcomes of different racial groups. The Legislative Analyst's Office also notes that disparities between racial groups exist even when accounting for income. In fact, the share of low-income white students that met or exceeded state standards in math (25 percent) is slightly higher than the share for non-low-income Black students (23 percent). Similar disparities exist in English language arts and at other grade levels. The below chart provided by the Legislative Analyst's Office displays how these disparities compare:



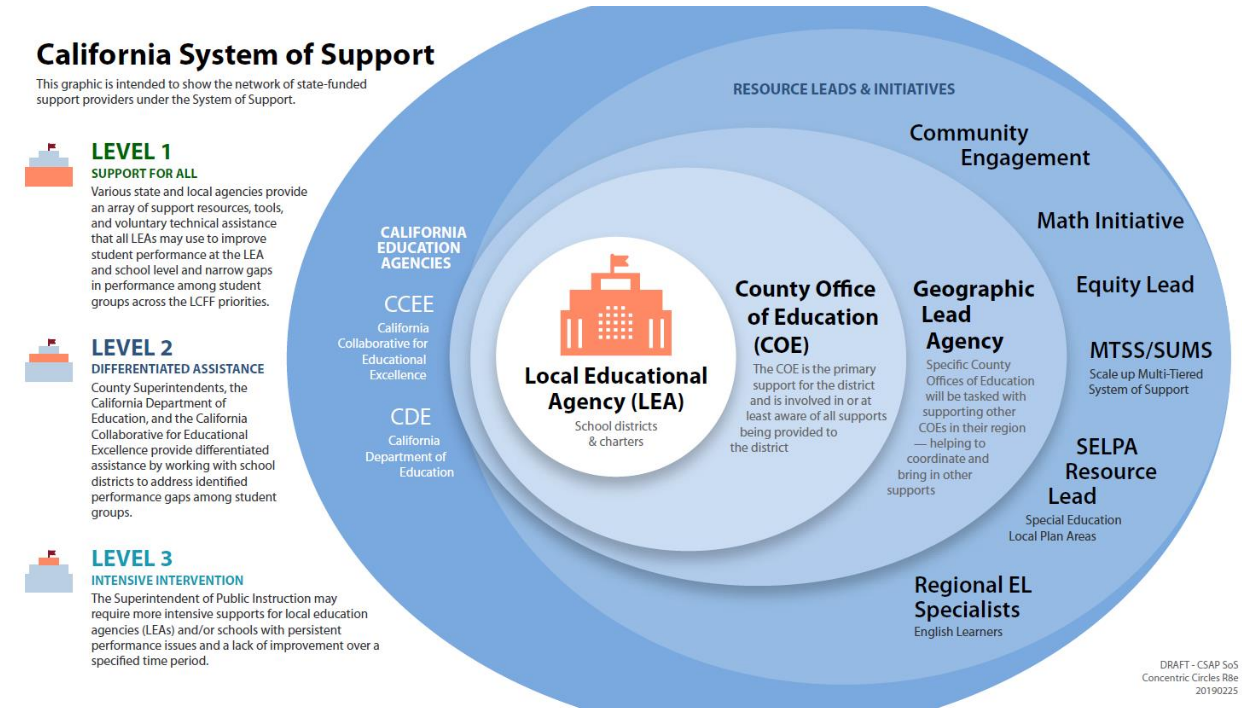
Source: Legislative Analyst's Office

The Legislative Analyst's Office also notes that disparities based on income and race exist for essentially all indicators the state collects. For the cohort of students that entered high school in fall 2017, 35 percent of low-income students graduated having completed the minimum coursework required for eligibility into the University of California or California State University. This compares with 62 percent of those who are not low income. The state also has large disparities in suspension rates, where rates for Black and Native American students are more than twice the state average.[1]

State System of Support. The State System of Support, which is a network of local educational agencies and state entities, provides three levels of support to local educational agencies (LEAs) and schools. The first level, general assistance, is made up of resources and assistance that are available to all LEAs and schools. The second level of assistance, known as differentiated assistance (DA), is targeted support that is available to LEAs that meet the eligibility requirements set by the State Board of Education. The third level of support, Intensive Intervention, may be provided to LEAs that are identified as having persistent performance issues and a lack of improvement over four consecutive years.

Below is a visual graphic of the State System of Support (which includes equity leads, as proposed in the 2023-24 Governor's Budget):

[1] Alferes, M., Cortez, S. (2023) *The 2023-24 Budget: Equity Multiplier and Accountability Proposals.* Legislative Analyst's Office. https://lao.ca.gov/Publications/Report/4700



County offices of education receive funding to provide assistance to school districts that are identified for differentiated assistance. All county offices of education with one or more districts eligible for differentiated assistance receive a base of $200,000 in additional LCFF state aid. In addition to the base amount, county offices of education generate additional funds based on the total number and size of the districts identified for differentiated assistance in their jurisdiction. This funding is allocated based on a three-year average of eligible districts.

Entitlement	Multiplier	School District Prior Year Annual Average Daily Attendance	*EC* 2575.2 Allowance
Base	Per County	N/A	$200,000
Small District	Per District	1 to 2,499	$100,000
Medium District	Per District	2,500 to 9,999	$200,000
Large District	Per District	10,000 or more	$300,000

Source: Department of Education

Currently, a school district or county office of education is identified for differentiated assistance if they have at least one lowest performing pupil subgroup in two or more priority areas. In 2022, 628 school districts and county offices of education were identified for differentiated assistance, and the most common student group for which these local educational agencies were identified is students with disabilities.[2] In 2022-23, county offices of education received $70 million to provide differentiated assistance to its school districts.

[2] Alferes, M., Cortez, S. (2023) *The 2023-24 Budget: Equity Multiplier and Accountability Proposals.* Legislative Analyst's Office. https://lao.ca.gov/Publications/Report/4700

<u>Legislative Analyst's Office Comments.</u>

Equity Multiplier and LCAP changes.

More Attention to School Sites and Subgroups Is Warranted. Initial studies evaluating the effectiveness of LCFF have shown evidence that additional funding has led to improvements in student outcomes for districts that received greater shares of supplemental and concentration funding. These districtwide improvements, however, did not necessarily result in the same levels of improvement for the lowest-performing schools or subgroups within districts with relatively high shares of EL/LI students. Furthermore, a 2021 Public Policy Institute of California report found that statewide only about 55 percent of supplemental and concentration grant funding was used at specific school sites that generated the funding. (Some of the remaining funding could have been used for districtwide activities that benefits those schools.) This is consistent with broader education research that documents disparities in spending across school sites. High-poverty schools are more likely to have less experienced, lower-paid staff, which often offsets the additional targeted spending that districts provide to these schools.

Additional Funding Is Not the Key Issue, Recommend Rejecting Funding Increase. We estimate that the $300 million for the equity multiplier would be allocated to about 800 school sites, with an average of about $860 per student. This compares with an estimated $13 billion and roughly $3,400 per student the state provides per EL/LI student through supplemental and concentration grant funding districts and charter schools will receive in 2022-23. Of the roughly 800 school sites that we estimate will qualify for the equity multiplier, 98 percent are in LEAs that receive concentration grant funding through LCFF. LEAs already are expected to use their supplemental and concentration grant funding to target high-poverty schools. It is not clear how the additional funding from the equity multiplier would address any specific issues that cannot be addressed with supplemental and concentration funding. For these reasons, we recommend rejecting the additional funding increase. As we discuss below, the Legislature can take action that increases transparency and ensures existing LCFF funding is targeted to the highest need schools and student subgroups.

Recommend Greater Transparency to Ensure Existing Funding Actually Targets the Highest-Need Schools. Rather than provide more funding, we recommend the Legislature consider options to provide greater transparency regarding how funding is spent across schools. This would help the state determine if districts are targeting schools with the greatest need. Tracking spending at the school level, however, can be quite burdensome and difficult to standardize across school districts. Given most school funding is spent on staff salaries and benefits, we recommend the state instead require LEAs to publicly report for each of their schools the (1) share of teachers that are fully credentialed and properly assigned, (2) share of teachers with less than three years of experience, and (3) student-to-teacher ratio. The state could also require similar reporting for other school staff, such as counselors, psychologists, and aides. This information would give the public and the state a good sense of how funding is spread across schools. We also would recommend that any LEAs with low-performing schools be required to review the disparities in staffing levels and experience across the LEA and take actions to address them.

Clarity Needed on Whether Spending on Low-Performing Racial Groups Can Count Towards Increasing or Improving Services. In our conversations with several school districts and COEs, we found differing opinions regarding whether LEAs could use LCFF supplemental or concentration funding to increase or improve services specifically for a low-performing racial group. We think activities targeting low-performing racial groups is consistent with the intent of LCFF to close achievement gaps, particularly given that lower-performing racial groups are also more likely to be low income than the state average. The Legislature may want to ask the administration to report on whether they think targeting specific low-performing racial groups is allowable under current law and regulations. At that point, the Legislature could determine whether statutory changes are necessary or whether the state could address the issue by providing additional guidance to LEAs.

Recommend Minor Modifications to Proposed LCAP Changes. We find the Governor's proposed LCAP changes would help encourage LEAs to bring greater attention to lower-performing schools and subgroups. In particular, the proposed focused goals required for low-performing schools and subgroups would bring greater attention to actions that would help students with the greatest needs. Additionally, requiring LEAs to review the effectiveness of their actions over a three-year period is aligned with the three-year LCAP process and can help ensure LEAs are making changes when actions do not have their intended effects. We recommend the Legislature adopt the proposed changes, with a few modifications.

- ***Focused Goals.*** The Governor's proposal requires that focused goals for equity multiplier schools address teacher credentialing and preparation, to the extent this is an issue in the school. We recommend this requirement apply to all focused goals related to low-performing schools and subgroups. Consistent with our previous recommendation, we also recommend requiring that all focused goals for low-performing schools address disparities in the experience of teachers across the LEA. This will provide greater transparency with how LEAs address disparities in their workforce across schools. Finally, we also recommend requiring LEAs to keep focused goals for a school or subgroup for at least three years, or until the LCAP cycle is completed. This would ensure LEAs' actions to address the needs of the school or student group are sustained over multiple years.

- ***Midyear LCAP Update.*** The Governor's proposed changes would require a midyear update on LCAPs at a public hearing on or before February 28 each year. We recommend the Legislature clarify that the midyear update must only include updated metrics to the extent they are available. This would minimize the administrative burden for LEAs.

Moving Forward, Explore Ways to Shorten LCAPs. Although the proposed LCAP changes have merit, they are likely to result in LCAPs being longer. LCAPs are already very long documents, typically more than 100 pages and often more than 200 pages for larger districts. We have heard concerns from stakeholders and LEAs that the length and complexity of these documents makes it difficult to engage families and community members. Moving forward, the Legislature could consider changes that would streamline LCAPs so they are more accessible to families and communities, while moving key details to other more appropriate mediums. For example, the Legislature could explore moving detailed LCAP expenditure data to an interactive online portal that would allow users to determine the level of detail they want to review. The Legislature could also require added features to the California School Dashboard that allow users to see outcome data by school or subgroup—data that is commonly listed in LCAPs in a text-based format—using graphics that are more user-friendly and allow disaggregation and manipulation of the data.

System of Support Changes

Requiring Greater Involvement of Geographic Leads and CCEE Is an Improvement Over the Current Practice. The Governor's budget proposes notable improvements to the system of support by specifying when a district is to receive support from its geographic lead or CCEE. Current law does not specify when other system of support entities are to provide additional assistance or support for districts who have been in differentiated assistance for many years and continue to have low-performing subgroups. The administration's proposed changes help ensure LEAs receive support from other entities involved in the system, which is particularly important in cases where little to no improvement has occurred.

Clarify Type of Support Geographic Leads Will Provide. To ensure the assistance provided is well targeted and builds on the LEA's previous work, we recommend further defining the type of support geographic leads will provide to LEAs when in differentiated assistance for three or more years. Specifically, we recommend requiring their assistance be more intensive compared to differentiated assistance provided by the COE. For example, assistance could focus on supporting LEAs to develop a strategy for closing achievement gaps and implementing strategies addressing the specific needs of low-performing subgroups. This support should take into consideration the strategies the LEAs already have implemented.

Role of Equity Lead Is Duplicative of Other Agencies. The administration indicates the equity leads would support LEAs by analyzing programs, identifying barriers, and implementing actions that address the needs of all students. These activities are very similar to the support COEs, geographic leads, and CCEE already provide through differentiated assistance. While equity leads have the added task of providing support that addresses racial disparities, we question how this support will be different or more effective than other assistance provided through system of support entities. Focusing on racial disparities should be a central part of differentiated assistance since many districts are identified for having performance issues among specific racial groups. If the Legislature adopts the Governor's proposal to create equity leads, we recommend the state have a clearer and narrower objective for these entities. This will ensure that the support equity leads provide is not duplicative of other entities within the system of support. For example, the Legislature could specify the equity lead is tasked with providing training to COEs to ensure equity is at the center of differentiated assistance and incorporated into all improvement initiatives. We also recommend the Legislature clarify that all the entities within the system of support (not just the equity leads) should be supporting districts in addressing its racial disparities.

<u>Staff Comment.</u>

Under the Governor's proposal, the schools that qualify for equity multiplier funding are identified by the percentage of students who are enrolled and eligible for free meals. Local educational agencies that include these equity multiplier schools are then required to include additional programmatic details in their LCAP on the description of stakeholder engagement at equity multiplier schools, and focused goals for equity multiplier schools that address (1) credentialing or subject matter preparation issues, and (2) lowest-performing student groups on any of the state indicators. Staff notes that because the equity multiplier funds are appropriated outside of the local control funding formula, additional detail on the expenditures of the equity multiplier funds in the LCAP are not required, like it would be for supplemental and concentration grant funds, and would not count towards the minimum proportionality percentage. However, the proposed trailer bill requires the funds be used to "directly benefit" the schoolsites that generate this funding, and the Administration has indicated that the Department of Education will likely need to develop guidance around how "directly benefits" is defined.

Staff also notes that the overlap between the multiplier equity schools and the identification of a low performing pupil subgroup may be significant but not perfectly aligned under the Governor's proposal. According to information provided by the Department of Finance using federal Every Student Succeeds Act (ESSA) data as a proxy, approximately two-thirds of equity multiplier schools were identified with certainty as having a low-performing pupil subgroup, with the remaining schools either being non-traditional or not having met the ESSA criteria (the Department of Finance notes that they likely have a low-performing student subgroup on at least one indicator, but was not captured by the ESSA data).

Lastly, staff raises the question of whether local educational agencies who have struggling pupil subgroups are appropriately identified for differentiated assistance, which may in turn impact how the local educational agency contemplates additional supports and services for these students. The criteria to identify local educational agencies that are in need of additional assistance are based on whether a pupil subgroup is at the lowest performance level in indicators across at least two state priorities. Most of the state priorities are demonstrated through more than one indicator, and the Math and English performance indicators are generally coupled together (historically, a pupil subgroup had to be identified as "red" and "red" or "red" and "orange" on both, and for the 2022 Dashboard, a pupil subgroup must be at the lowest performance level for both). So if, for example, a pupil subgroup is at the lowest performance level for only English and Mathematics, the local educational agency may not be identified for differentiated assistance because both of these indicators fall under Priority 4, Student Achievement. However, if a pupil subgroup is at the lowest performance level for Mathematics (and either low or lowest performance for English) and Chronic Absenteeism, which fall under Priority 4 and Priority 5 (Student Engagement) then the local educational agency would be identified for differentiated assistance. Conversely, a local educational agency may also have multiple pupil subgroups at the lowest performance level for one indicator for several years and not be eligible for differentiated assistance.

The Administration's proposal for local educational agencies to include "focused goals" for pupil subgroups who are at the lowest performance level on at least one indicator in the LCAP help address this potential gap; however, whether these pupil subgroups are addressed in any differentiated assistance the local educational agency may receive or addressed in the LCAP when discussing the assistance it may receive may be another potential gap that should be examined. Staff notes that any changes to identification for differentiated assistance that could lead to significantly more local educational agencies being identified may result in pressures in both the capacity of the assistance provider and related statewide costs. The subcommittee may wish to explore whether the state should re-examine how local educational agencies are identified for additional assistance.

Suggested Questions.

- How can local educational agencies address low-performing pupil subgroups, including racial subgroups, in their LCAPs currently?
- How will the equity leads provide additional support that is different to what school districts, county offices of education, and other leads in the state system of support are providing?
- What outcomes is the Administration expecting from local educational agencies that end up working with the equity leads?
- How does the proposal to add "focused goals" and differentiated assistance to the LCAP interact with the current requirements to discuss how increased or improved services are provided for unduplicated students? Is there an opportunity here to shorten the LCAP?

Staff Recommendation. Hold open.

Issue 3: Transitional Kindergarten

Panel.

- Jodi Lieberman, Department of Finance
- Sara Cortez, Legislative Analyst's Office
- Sarah Neville-Morgan, Department of Education
- Stephen Propheter, Department of Education

Governor's Budget Proposal.

Appropriation. The 2022 Budget Act provided $614 million to support the first year of expanded eligibility for transitional kindergarten, in addition to $383 million to add one additional certificated or classified staff person to transitional kindergarten classrooms to meet ratio requirements. The Governor's Budget revises these estimates from $614 million to $604 million for expanded access, and $383 million to $337 million for the additional certificated or classified staff. The Governor's Budget also proposes to include $690 million to implement the second year of transitional kindergarten, and $165 million to support the addition of certificated or classified staff in transitional kindergarten classrooms. These funds will increase the Proposition 98 Guarantee through the process of rebenching.

Transitional Kindergarten Adult-to-Student Ratio. The Governor's Budget maintains a 1-to-12 adult-to-student ratio and proposes trailer bill language to allow local educational agencies to enroll additional students who will have their fifth birthday between June 2 and September 2 upon certain actions by its governing board. The Governor's Budget also proposes trailer bill that prohibits the State Board of Education's waiver authority with regard to the transitional kindergarten adult-to-student ratio requirements.

Qualifications for Second Adult in Transitional Kindergarten Classroom. The Governor's Budget proposes additional qualifications for adults who serve in the transitional kindergarten classroom, which would go into effect in the 2028-29 school year. These qualifications can be met for individuals by either being credentialed, participating in an educator apprenticeship or residency program, holding a child development permit, or other pathways as identified.

The Governor's proposal for the Full Day Kindergarten Facilities Grant Program will be considered by this subcommittee on April 13, 2023.

Background.

SB 1381 (Simitian), Chapter 705, Statutes of 2010, enacted the "Kindergarten Readiness Act" and established the transitional kindergarten (TK) program, beginning in 2012-13, for children who turn five between September 2 and December 2. TK is the first year of a two-year kindergarten program that uses a modified, age and developmentally appropriate curriculum. It is intended to be aligned with California Preschool Learning Foundations developed by the California Department of Education.

Each elementary or unified school district must offer TK and kindergarten for all eligible children, regardless of family income. TK is funded through the Local Control Funding Formula (LCFF) allocation. In 2019-20, 89,000 students in California were enrolled in TK, reflecting a 71 percent uptake of all eligible four year olds. It is estimated that by 2025-26, between 291,000 and 358,200 students may be enrolled in TK, reflecting an estimated uptake range of 60 percent to 80 percent.[3] In addition to an elementary teaching credential, starting August 1, 2023, TK teachers are required to have either 24 units in early childhood education and/or child development, a child development permit, or comparable experience in a classroom setting. Whether TK and Kindergarten is offered for half-day or full-day classes is determined by the local educational agency.

The 2021 Budget gradually expands TK eligibility from 2022-23 to 2025-26 so that by 2025-26, a child who has their fourth birthday by September 1 will be eligible for TK, and capped the class sizes for TK classes to be no more than 24 students. Pursuant to this agreement, the 2022 Budget appropriated funding to expand eligibility for TK for students whose fifth birthday occurs between September 2 and February 2, and also provided funding to add one additional certificated or classified staff to every TK classroom. Below is the transitional kindergarten expansion schedule:

[3] Melnick, H., García, E., & Leung-Gagné, M. (2022). *Building a well-qualified transitional kindergarten workforce in California: Needs and opportunities.* Learning Policy Institute. https://doi.org/10.54300/826.674

Year	Eligibility
2021-22	Must have fifth birthday between September 2 and December 2.
2022-23	Must have fifth birthday between September 2 and February 2.
2023-24	Must have fifth birthday between September 2 and April 2.
2024-25	Must have fifth birthday between September 2 and June 2.
2025-26	Must have fourth birthday by September 1.

Note: Some school districts may allow younger students who do not meet the criteria above to enroll in transitional kindergarten. These students do not generate state funding until their fifth birthday and must turn five before the end of the school year.

Source: Legislative Analyst's Office

California Prekindergarten Planning and Implementation Grants. To support the implementation of universal transitional kindergarten, the 2021 Budget appropriated $300 million one-time Proposition 98 General Fund, of which $200 million was provided to local educational agencies for costs associated with creating or expanding California state preschool programs or transitional kindergarten programs, or to establish or strengthen partnerships with other providers of prekindergarten education for costs including but not limited to planning, hiring and recruitment, training and professional development, classroom materials, and supplies. The remaining $100 million was used for competitive grants to local educational agencies to increase the number of highly qualified teachers and administrators available to serve California state preschool programs and transitional kindergarten pupils. The 2022 Budget provided an additional $300 million one-time Proposition 98 General Fund for the California Prekindergarten Planning and Implementation Grant Program, for associated program costs including operational costs.

<u>Legislative Analyst's Office.</u>

Governor's Budget Likely Overestimates TK Expansion Costs. Based on data from the first principal apportionment, the state could reduce its TK ADA estimate in both the current year and the budget year. The first principal apportionment shows a preliminary TK ADA of roughly 91,000 for 2022-23—28,000 lower than the Governor's estimates. Based on these preliminary numbers, we think a reasonable TK ADA estimate for 2023-24 is 128,000— 37,000 below the Governor's estimate. Under these estimates, the state would lower the amount it rebenches to cover the cost of expansion. Compared to the Governor's budget, we estimate the state would lower the amount it rebenches by $150 million in 2022-23 and $200 million in 2023-24, which effectively "frees up" non-Proposition 98 General Fund. These lower ADA estimates also result in Proposition 98 General Fund savings associated with the costs of maintaining 1 adult for every 12 students. We estimate the lower ADA estimates results in roughly $80 million in savings in 2022-23 and $110 million in 2023-24.

Current Year Take Up Lower Than Expected. In 2022-23, we estimate the state is serving 52 percent of age-eligible children in TK, which is much lower than anticipated. We think some of the lower take up can be attributed to the pandemic. In 2019-20, we estimate the state served 72 percent of age eligible students in TK. TK enrollment declined during 2020-21, and although it increased in 2021-22, enrollment was still below pre-pandemic levels. In 2022-23, we estimate 32 percent growth in TK enrollment from the prior year—an increase of 11,000 students compared with 2019-20. However, we estimate roughly 65,000 additional children are eligible due to TK expansion, which contributes to the low share of age-eligible children served.

Maintaining Current Staffing Ratios Seems Reasonable Given State Budget Problem. The Governor's proposed actions help to address the state's budget issues. In addition, as we discuss in a recent brief, the Governor's Proposition 98 proposals would create a deficit in 2024-25, as the state is using about $1.4 billion in one-time Proposition 98 funding to cover 2023-24 LCFF costs. Maintaining the staffing ratio at current levels avoids additional ongoing Proposition 98 General Fund costs that would make the problem worse.

Keeping the TK Staffing Ratio at Current Levels Helps Avoid Further Workforce Issues. In addition to helping address existing budget issues, the Governor's proposal to keep TK staffing ratios at existing levels also helps ensure that schools do not experience even greater staffing shortages. Requiring that TK classrooms have, on average, 1 adult for every 10 students, instead of 1 adult for every 12 students, means districts need to hire more instructional aides. In some cases, the lower staffing ratio would also mean a school district would need to hire additional credentialed teachers to move from classrooms of 24 to classrooms of 20. Given that only 23 percent of school districts reported having enough TK teachers, dropping to the lower ratio likely will make implementation more challenging.

Recommend Rejecting Additional Staffing Requirements. In light of staffing challenges, we recommend rejecting the additional staffing requirements for adults assigned to TK classrooms. These requirements would make hiring instructional aides for TK classrooms more difficult.

Suggested Questions.

- DOF: Could you please provide the rationale for keeping the student-to-teacher ratio at 1:12? Why allow summer babies to enroll in TK and increase class sizes if the ratio is to remain high?

- DOF: Several of the eligible criteria for the second adult in the TK classroom involves a pathway to becoming a credentialed or certificated staff. Why does the Administration view this as necessary for paraeducators in the TK classroom?

Staff Recommendation. Hold open.

Issue 4: California State Preschool Program

Panel.

- Jodi Lieberman, Department of Finance
- Sara Cortez, Legislative Analyst's Office
- Sarah Neville-Morgan, Department of Education
- Stephen Propheter, Department of Education

Governor's Budget Proposal.

State Preschool Program Appropriation. Consistent with the 2022 Budget Act, the budget proposes $64.5 million Proposition 98 General Fund and $51.8 million General Fund to continue a multi-year plan to ramp up the inclusivity adjustments for the State Preschool Program. The 2023-24 year will be the second year of the three-year ramp up process, and students with disabilities will be required to make up at least 7.5 percent of State Preschool Program providers' enrollment. The Governor's Budget also proposes $152.7 million General Fund to support reimbursement rate increases previously supported by federal fund, in addition to $63.3 million General Fund and $112 million Proposition 98 General Fund to support an 8.13 percent COLA.

Unused funds in the amount of $130.4 million Proposition 98 General Fund from the 2021 Budget Act for State Preschool is proposed for re-appropriation to help backfill ongoing costs for the Local Control Funding Formula.

Preschool Classroom Assessment Scoring System. The budget proposes $763,000 Proposition 98 General Fund to support the preschool Classroom Assessment Scoring System.

Clarification of Free and Reduced Meal Program Eligibility for the California State Preschool Program. The Governor's Budget proposes trailer bill language that would expand eligibility, after priority eligible students are enrolled, for families who not only live within the boundaries of a qualified free and reduced price meals school, but also for families who may work within one.

Background.

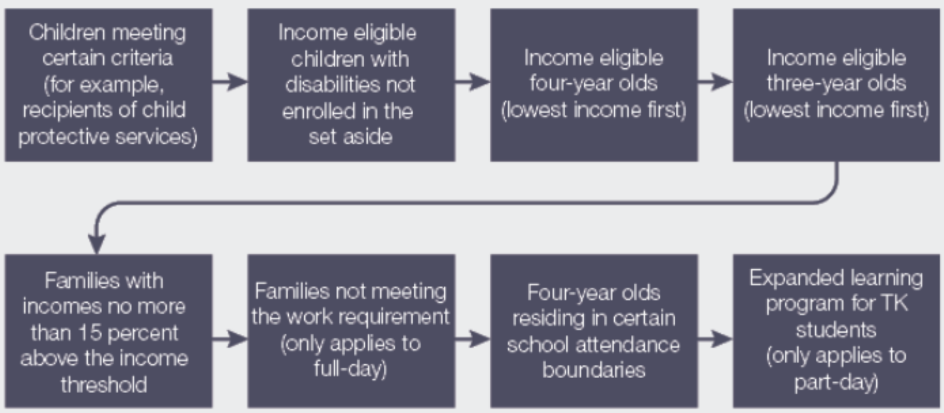
Generally, programs in the early care and education system have two objectives: to support parental work participation and to support child development. Children, from birth to age five, are cared for and instructed in child care programs, State Preschool, transitional kindergarten, and the federal Head Start program.

Commencing July 1, 2021, the administration of child care programs transitioned to the Department of Social Services (DSS), with the exception of the California State Preschool Program, which continues to be administered by the Department of Education (CDE).

State Preschool provides both part-day and full-day services with developmentally-appropriate curriculum, and the programs are administered by local educational agencies (LEAs), colleges, community-action agencies, and private nonprofits. State preschool can be offered at a child care center, a family child care network home, a school district, or a county office of education (COE). The State Preschool program serves eligible three- and four-year old children, with priority given to four-year olds whose family is either on aid, is income eligible (family income may not exceed 85 percent of the SMI), is homeless, or the child is a recipient of protective services or has been identified as being abused, neglected, or exploited, or at risk of being abused, neglected or exploited. Below is a chart from the Legislative Analyst's Office that displays the priority list for enrollment in a state preschool program:

Figure 5

State Preschool Prioritization



Note: Does not include children enrolled using the set aside that requires providers serve a certain number of children with disabilities.

TK = transitional kindergarten.

Providers of State Preschool must comply with Title 5 of the California Code of Regulations including requirements, such as development assessments for children, rating scales, and staff development.

Preschool-aged children may also be served in other settings, such as other child care settings, federal Head Start programs, or Transitional Kindergarten if the child is age-eligible.

Funding. As CSPP programs are run by both LEAs and Non-LEAs, the fund sources for the programs have changed over time. However, since the 2019-20 Budget Act all non-LEA state preschool and wrap care are funded with non-Proposition 98 General Fund and LEA state preschool and wrap care are funded with Proposition 98 General Fund. State Preschool providers contract with and receive payments directly from CDE. Prior to 2022, CSPP programs received the same standard reimbursement rate (SRR) no matter where in the state the program is located. The rate is increased by a stautory adjustment factor for children with exceptional needs, severe disabilities, cases of neglect, and English learners.

The Budget Act of 2021, included a provision that required, commencing January 1, 2022, all early education providers would receive the higher of the SRR, adjusted by COLA, or the 75th percentile of the 2018 regional market rate survey. This change was an attempt to better align rates for early care and education across all providers and care types to allow for movement towards a single reimbursement rate system. In January 2022, the CDE released management bulletin 22-01, detailing these calculations and informing CSPP providers of the change. The 2021-22 budget package also provided $130 million Proposition 98 General Fund to increase State Preschool slots for school districts and county offices of education.

The 2022-23 Budget provided the following:

- **Rates.** $172.34 million ongoing General Fund, and $314 million ongoing Proposition 98, for increases in rates for the California State Preschool program to provide a 1.8 adjustment factor for three year olds, a 2.4 factor for students with exceptional needs, and 1.1 factor for mental health services.

- **Family Fee Waivers.** The budget extends the 2021-22 Budget Act actions taken during the COVID-19 pandemic to waive family fees for CSPP and create hold harmless policies for the 2022-23 fiscal year. The budget provides $21.6 million one-time ($10.8 million General Fund and $10.8 million Proposition 98 General Fund) for the cost of family fee waivers. In addition, the budget provides an additional $1.1 million in General Fund to cover costs of family fee waivers for the California State Preschool Program in the 2021-22 fiscal year.

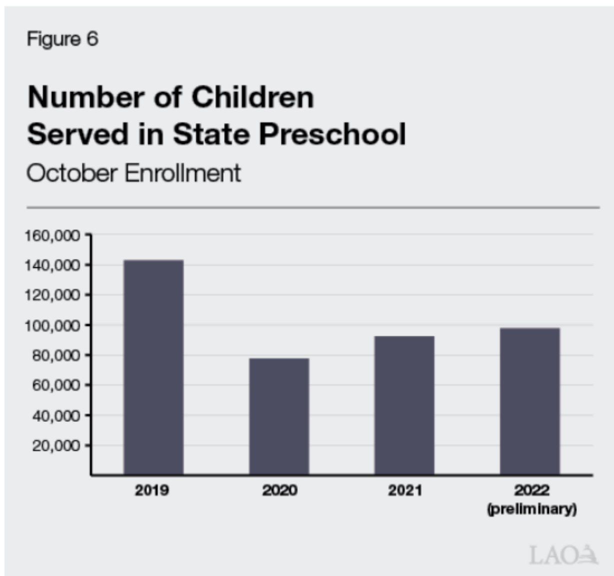
- **Reimbursement Flexibility.** Since 2020-21, State Preschool providers received the lesser of reimbursable program costs or the contract amount, but did not take attendance into consideration. This allows providers to receive their full contract amount regardless of how many children are enrolled in the program. Prior to the pandemic, reimbursement for direct contract programs was based on the lesser of reimbursable program costs, the contract amount, and the reimbursement rate multiplied by attendance. With this approach, providers had to serve a specified number of children to fully earn the contract. If a provider did not earn a contract, funds would be returned to the state. The 2022-23 budget temporarily extended the pandemic-related reimbursement flexibility until June 30, 2023.

- **Inclusive Early Education Expansion Program.** The budget provides an additional $250 million one-time, to the Inclusive Early Education Expansion Program at the Department of Education.

- **Inclusive Education.** The budget includes a 10 percent California State Preschool setaside for inclusive education, beginning in 2024. The inclusive preschool set-aside will begin at five percent in 2022-23 and phase in through 2024-25.

- **Universal Preschool Planning Grants.** The budget provides $18.3 million General Fund for the first year of a three-year planning process to support Universal Preschool. Requires the CDE to convene and provide recommendations from a statewide workgroup of preschool stakeholders, as specified, regarding preschool quality standards across the mixed child care delivery system; appropriates $4 million to CDE for administration of this workgroup and the Universal Preschool Planning Grants.

State Preschool Enrollment. According to the National Institute for Early Education Research, during the 2020-2021 school year as the COVID-19 pandemic continued, California's two preschool programs together enrolled 157,106 children, a decrease of 85,665 children from 242,771 in the prior year. The below graphic, provided by the Legislative Analyst's Office, shows the challenge that California is experiencing to recover enrollment in state preschool programs to pre-pandemic levels:



Source: Legislative Analyst's Office

Legislative Analyst's Office.

Recommend Allowing Reimbursement Flexibility to Sunset. Current law sunsets the policy allowing providers to receive funding for the number of children they served prior to the pandemic—regardless of how many children they currently serve. Ending this policy would align State Preschool with LCFF, for which pre-pandemic attendance funding is already phasing out. We think this would help incentivize providers to return to pre-pandemic enrollment levels. If a provider can no longer serve its pre-pandemic enrollment levels (due to local demand from families or workforce issues), ending the reimbursement flexibility allows the state to either (1) redistribute funds to other State Preschool providers that have the demand to expand, (2) redirect the funding to other priorities, or (3) achieve budget savings.

Eliminating Family Fees for Full-day State Preschool Has Merit. If funding priorities allow, the Legislature may want to consider eliminating family fees for full-day State Preschool. (The state does not charge family fees for part-day State Preschool or TK.) This action would eliminate the fiscal incentive for families to enroll in TK rather than State Preschool, even when State Preschool would better meet a family's needs. Families instead could focus on other aspects of preschool programs when choosing to enroll, such as the time the program starts and ends, the distance the school is from home or work, or any other aspect of the program. Since ongoing funding for State Preschool comes entirely from the state, the program does not have to comply with the federal child care and development fund requirements to assess family fees. We estimate eliminating family fees would cost roughly $11 million non-Proposition 98 and $11 million Proposition 98 General Fund. The exact costs would depend on the number of children enrolled and the incomes of the families enrolled in the program. If the Legislature frees up other funds within the State Preschool program, it may want to consider using some of those funds to eliminate fees for families enrolled in a full-day program.

Staff Recommendation. Hold open.

Issue 5: Special Education

Panel.

- Liz Mai, Department of Finance
- Sara Cortez, Legislative Analyst's Office
- Sarah Neville-Morgan, Department of Education
- Heather Calomese, Department of Education

Governor's Budget Proposal.

The Governor's Budget proposes statutory changes to special education, including:

- Limiting the amount of additional funding that Special Education Local Plan Areas (SELPAs) are allowed to retain for non-direct student services before allocating special education base funding to their member local educational agencies. This amount would be calculated by applying the 2022-23 funding level that SELPAs provided their member local educational agencies annually, with a cost-of-living-adjustment.

- Extending the moratorium on the creation of new single-district SELPAs by two years from June 30, 2024 to June 30, 2026.

- Requiring the California Department of Education to post each SELPA's annual local plan, including their governance, budget and service plans, on its website.

Background.

Children with developmental delays or physical impairments may need intervention or supports of some form and are eligible to receive supportive services through a variety of programs. Once a child enters the public school system, typically at age five, the school district of residence provides both education services and eligible special education supports and services for identified disabilities that would otherwise hinder a child from receiving a "free and appropriate public education." For infants, toddlers, and preschool aged children (generally ages zero to five), families may need to navigate a variety of programs to meet the educational and developmental needs of their children. Once a child enters the public school system, the child is eligible to receive services through age 21.

"Special education" describes the specialized supports and services that schools provide for students with disabilities under the provisions of the federal Individuals with Disabilities Education Act (IDEA). Federal special education laws originally enacted in 1975 and reauthorized as IDEA in 2004, require states to provide early intervention services for infants and toddlers and schools to provide "specially designed instruction, and related services, at no cost to parents, to meet the unique needs of a child with a disability." The law requires the provision of these special supports and services to students with exceptional needs from age 0 to age 22, or until they graduate from high school with a diploma.

Children with disabilities who are younger than age five and are not yet in school settings receive supports and services in different ways. For infants and toddlers (ages zero to three years old), an individualized family service plan is created and services are generally provided by regional centers. These centers are non-profit agencies overseen by the Department of Developmental Services. However, a small percentage of infants and toddlers with special needs are served by school districts. A small number of school districts that had historically served these children were grandfathered into the current system and currently serve approximately 5,000 children. In addition, schools serve a small number of infants and toddlers (approximately 1,000) who have only a hearing, visual, or orthopedic (HVO) impairment. The state's federal IDEA plan required HVO-related services to be provided by the schools if an HVO impairment is the child's only disability. Once a child reaches age three, the responsibility for serving children with disabilities is transferred to the school district of residence and regional centers are required to work with school districts during this transition.[4] Through regional centers and school districts, the state also operates a child-find system to identify children for evaluation for early intervention and special education eligibility.

To determine a child's eligibility for special education, schools must conduct a formal evaluation process within a prescribed timeline. If it is determined that a child is an eligible student with disabilities, a team including special education staff, school staff, parents, and other appropriate personnel meet to develop an individualized education program (IEP) to define the additional special education supports and services the school will provide. Each student's IEP differs based on his or her unique needs. Specialized academic instruction is the most common service that schools provide. This category includes any kind of specific practice that adapts the content, methodology, or delivery of instruction to help students with disabilities access the general curriculum. Other commonly provided services include speech and language, physical and occupational therapy, behavioral support, and psychological services. Educationally-Related Mental Health Services are specific mental health services provided to students who qualify for special education services, present with social-emotional needs that have not responded to lower

[4] Legislative Analyst's Office, *Evaluating California's System for Serving Infants and Toddlers with Special Needs,* January 4, 2018.

levels of intervention, and impact their ability to learn or benefit from their special education program.

Federal law also dictates that students must receive a Free Appropriate Public Education in the Least Restrictive Environment. This means that to the greatest extent possible students with disabilities are to receive their education in the general education environment with peers without disabilities. WestEd, and funded by the California Department of Education, released a report in November 2021 titled *California Special Education Governance and Accountability Study.* The report found that California has among the country's lowest rates for including students with an IEP in general education for at least 80 percent of the school day and had among the highest rates for including these students less than 40 percent of the school day. The lowest levels of inclusion are for Black and Latino students, regardless of disability category.

In 2018-19, 795,047 children, ages 0-22 received special education under the provisions of IDEA in California. This represents approximately 12.5 percent of the total state student population. Specific learning disabilities is the most common disability category for which students are identified, followed by the disability category of speech and language impairments. In recent years, the disability category of autism moved in to the position of third highest category. This is after a decade of increased incidence – now comprising nearly 14 percent of the students with disabilities student population. Different types of disabilities are more prevalent at different ages. For example, speech impairments are most common in earlier grades, while learning disorders are generally identified later in a child's educational career. Schools integrate services and supports into the regular school day for transitional kindergarten through grade 12 students. For children ages 3-5 years old not yet attending school or who are served in an early care setting, preschool, or at home, the school district of residence provides services that may occur at the child's education or care setting, or at a facility designated by the school district. These services are in addition to the early education and child care services children may be receiving if they are enrolled in one of the state or federally-funded programs or in some other early education or care setting.

Special Education Local Plan Areas (SELPAs) and Fund Distribution. State and Federal special education funding is distributed regionally through 134 Special Education Local Plan Areas (SELPAs) to school districts and charter schools in the state. Most SELPAs are collaborative consortia of nearby districts and charter schools, although some large districts have formed their own single district SELPAs, while five SELPAs consist of only charter schools.

California relies primarily on a "census–based" funding methodology that allocates special education funds to SELPAs based on the total number of students attending, regardless of students' disability status. This funding model, often referred to as the AB 602 formula, after the implementing legislation (AB 602 [Davis and Poochigian], Chapter 854, Statutes of 1997), implicitly assumes that students with disabilities and associated special education costs are relatively equally distributed among the general student population and across the state. The amount of per–pupil funding each SELPA receives varies based on historical factors. In the 2022 Budget, the calculation was amended so that it was determined at the local educational agency level rather than the SELPA level. After receiving its allocation, each SELPA develops a local plan for how to allocate funds to the school districts and charter schools in its region based on how it has chosen to organize special education services for students with disabilities. The ADA used to calculate the AB 602 formula is based on enrollment in grades kindergarten through grade 12 (including transitional kindergarten). Federal funds are available for regional center services and a small amount (about $100 million) is available for preschool services.

State and federal special education categorical funding totals nearly $7 billion annually. California's model for serving special education services reflects that school districts first use their general purpose, LCFF funds to meet the needs of all students, including those with disabilities, and then use a combination of state and federal special education funding and other local general purpose funds to cover the costs of additional services students with disabilities may need. While it is difficult to measure the amount of additional resources school districts provide from other areas of their budget for special education, according to a report by the Legislative Analyst's Office, state and federal funding cover approximately one-third of the additional cost of special education, with school districts covering the remaining costs from other fund sources.[5] In recent years, the costs of special education have risen due to schools identifying higher numbers of students with disabilities, and similar to general education, due to rising salary and benefit costs for teachers of special education students.

Recent Budget Actions

2020 Budget. The 2020-21 budget created a new special education funding formula, commencing with the 2020-21 fiscal year, that provides Special Education Local Plan Areas (SELPAs) with the greater of $625 per average daily attendance or the per ADA rate the SELPA received in 2019-20, and applies a cost-of-living-adjustment (COLA) in future years to the statewide base rate. A COLA was not provided in the 2020-21 fiscal year. The budget provided an additional $645 million in ongoing Proposition 98 funds for special education. Of this, $545 million increased the statewide base rate for special education funding and $100 million was provided to increase per pupil rates to support students with low incidence disabilities.

2021 Budget. The 2021-22 budget included several investments for special education, including: $397 million to increase base special education funding rates for all Special Education Local Plan Areas (SELPAs), $450 million in one-time Proposition 98 funds to SELPAs for purposes of providing learning recovery support pupils, and $100 million one-time Proposition 98 funds for alternative dispute resolution. The budget also includes language to specify that the ongoing appropriation of funds for Special Education programs, in the 2022-23 fiscal year, is contingent upon notice from the Director of Finance to the Joint Legislative Budget Committee that trailer bill legislation for the Budget Act of 2022 makes statutory changes designed to improve the academic outcomes of individuals with exceptional needs, that may include changes to special education funding formulas, expansions of early intervention and inclusive practices, and other changes as a result of ongoing studies.

2022 Budget. The 2022-23 budget increased the base rates for special education from $715 to $820 per student, totaling approximately $500 million ongoing Proposition 98 General Fund, and modified the calculations to be based on the local educational agency level rather than the SELPA level. The 2022-23 budget also consolidated and increased the amount available for special

[5] Legislative Analyst's Office, *Overview of Special Education Funding Models*, December 2021

education extraordinary cost pools, and allocated Educationally Related Mental Health Services funding directly to local educational agencies rather than to SELPAs.

Legislative Analyst's Office.

Recommend Rejecting Proposal. We recommend rejecting the Governor's proposal as it could be unworkable for some SELPAs. For SELPAs with declining attendance, the proposal would require them to reduce the amount they set aside for SELPA-level services. SELPAs with declining attendance that already set aside relatively small shares of funding for SELPA-level services would not be able to comply with the requirements of the language, even if they allocated all of their funding directly to SELPA members. We also question the rationale for this proposal and whether it would provide more stability for SELPA members, as the administration intends. We think a more direct way of providing stability is to avoid adding new requirements, especially since this proposal comes after a year of significant special education financing reform and planning efforts are underway to comply with these reforms.

Options for Modifying Formula. If the Legislature is interested in creating a requirement regarding how much SELPA members receive from their SELPA, we suggest the Legislature modify the proposal to include an adjustment to account for declining attendance. This aligns the amount of funding available with the level of funding SELPAs would be required to provide to members. We also suggest funding be based on the amount of each SELPA member's 2022-23 allocation, rather than the total amount provided to all the SELPAs members as currently proposed. As currently proposed, SELPAs could comply with the requirement but still give members less funding than they received in 2022-23, as long as the same overall amount of funding went to its members. We think this nuance misaligns the proposal with the administration's intent.

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Rosilicie Ochoa Bogh
Senator Lola Smallwood-Cuevas

Thursday, April 13, 2023
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 2100

Consultant: Yong Salas

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

6100 DEPARTMENT OF EDUCATION

Issue 1: County Offices of Education

Panel.

- Sara Cortez, Legislative Analyst's Office
- Dr. Mary Barlow, Kern County Office of Education
- Susan Connolly, Placer County Office of Education

Background.

Role of county offices of education. County offices of education support and oversee the school districts within its county boundaries, and support students who are being served by programs administered by the county office of education. These programs may include special education for severely disabled students, court and community schools for incarcerated and expelled youth, and programs for students with children. Child care and child development programs may also be administered by county offices of education.

In addition to these programs, county offices of education also review and approve school districts' budgets and local control and accountability plans. For school districts with low-performing students that are eligible for differentiated assistance, county offices of education are tasked with working with the school district to identify root causes of achievement gaps and developing strategies and tools to help students become successful.

Funding for County Offices of Education through the Local Control Funding Formula. County offices of education receive the bulk of their funding through the Local Control Funding Formula, in a calculation that is similar to the one that is applied to school districts and charter schools. County offices of education receive a base grants, supplemental grants equal to 35 percent of the base grant, and concentration grants equal to 35 percent of the base grant for targeting disadvantaged students exceeding 50 percent of enrollment. This funding is generated for the students that they serve directly, which is typically in an alternative school setting. However, county offices of education also receive an operational grant that is calculated based on the number of districts within the county and the number of students county-wide. This operational grant reflects the additional responsibilities county offices of education have for support and oversight of the districts and students in their county.

Similar to the local control funding formula for school districts and charter schools, county offices of education were also guaranteed that they would not get less funding than was received in 2012-13. In addition, county offices of education were held harmless for the amount of state aid (essentially the value of the categorical funding) received in 2012-13. Unlike school districts, for county offices of education this minimum state aid amount floats above their target, meaning that as local property tax revenue grows in a county over time and funds their LCFF allocation, the minimum state aid allotment for that COE becomes a new bonus in base funding on top of the their LCFF level.

For 2022-23, preliminary data shows that of the 58 county offices of education, 41 are funded based on the local control funding formula target, and 17 are funded based on the "hold harmless" provisions. In total, county offices of education receives $1.06 billion through the local control funding formula alone. The proposed budget for 2023-24 also includes $51.7 million ongoing Proposition 98 General Fund to reflect an 8.13 percent cost-of-living-adjustment.

Funding for County Offices of Education for Differentiated Assistance. County offices of education receive funding to provide assistance to school districts that are identified for differentiated assistance. All county offices of education with one or more districts eligible for differentiated assistance receive a base of $200,000 in additional local control funding formula state aid. In addition to the base amount, county offices of education generate additional funds based on the total number and size of the districts identified for differentiated assistance in their jurisdiction. This funding is allocated based on a three-year average of eligible districts.

Entitlement	Multiplier	School District Prior Year Annual Average Daily Attendance	*EC* 2575.2 Allowance
Base	Per County	N/A	$200,000
Small District	Per District	1 to 2,499	$100,000
Medium District	Per District	2,500 to 9,999	$200,000
Large District	Per District	10,000 or more	$300,000

Source: Department of Education

Currently, a school district or county office of education is identified for differentiated assistance if they have at least one lowest performing pupil subgroup in two or more priority areas. In 2022, 628 school districts and county offices of education were identified for differentiated assistance, and the most common student group for which these local educational agencies were identified is students with disabilities.[1] For 2022-23, county offices of education is receiving $86 million to provide differentiated assistance to its school districts.

Juvenile court schools. Juvenile court schools serve students who are incarcerated in facilities operated by county probation departments. These may include juvenile halls, juvenile homes, day centers, juvenile ranches, or juvenile camps. Typically, incarcerated students are served through a partnership between a county probation department, the county office of education, and/or the county social services department. Juvenile court schools are operated by the county office of education, and require an average of 240 minutes of instruction per day calculated not more than ten consecutive days (or 180 minutes for students in approved vocational education and work experience programs). Because the population served by juvenile court schools are highly mobile, the enrollment figures greatly undercount the number of students who are enrolled in a juvenile court school for any amount of time throughout the course of the entire year.

In 2020, the state initiated realignment from the Division of Juvenile Justice (DJJ) under the California Department of Corrections and Rehabilitation to county jurisdictions. Under Senate

[1] Alferes, M., Cortez, S. (2023) *The 2023-24 Budget: Equity Multiplier and Accountability Proposals.* Legislative Analyst's Office. https://lao.ca.gov/Publications/Report/4700

Bill 823 (2020), new commitments of juvenile offenders to DJJ ceased after June 30, 2021. Senate Bill 92 (2021), defined a closure date for all DJJ facilities by June 30, 2023. As a result, county probation departments are now responsible for youth, including older youth who may have already received a high school degree or an equivalent, and who may be required to serve longer sentences.

Under existing law, county offices of education are required to operate juvenile court schools. Senate Bill 716 (Mitchell, 2019) requires county probation departments to ensure youth with a high school diploma or equivalency have access to, and can choose to participate in, public postsecondary opportunities or career technical courses offered online.

Staff Recommendation. This item is informational.

Issue 2: School Nutrition

Panel.

- Alex Shoap, Department of Finance
- Sara Cortez, Legislative Analyst's Office
- Kim Frinzell, Department of Education
- Sarah Neville-Morgan, Department of Education

Background.

School Nutrition Programs (SNP)

Starting this year in 2022-23, Local Educational Agencies, including charter schools, will be required to provide two school meals to students free of charge for grades Transitional Kindergarten to grades twelve during each school day, regardless of a student's eligibility for federally funded free and reduced price meals under California's education code. The budget provides for the state reimbursement of school meals up to the combined free breakfast and lunch reimbursement rate amounts not covered by the federal meal reimbursements for schools participating in the federally funded school meals program.

Education Code Section 49550(c) defines "schoolday" as any day that pupils in kindergarten or grades 1 to 12, inclusive, are attending school for purposes of classroom instruction, including, but not limited to, pupil attendance at minimum days, state-funded preschool, transitional kindergarten, summer school including incoming kindergarten pupils, extended school year days, and Saturday school sessions.

A nutritionally adequate meal (breakfast and lunch) must meet the federal meal pattern requirements and qualify for federal reimbursements.

Types of Meal Programs

The California Department of Education (CDE) administers school meal programs overseen by the United States Department of Agriculture (USDA). The main programs are as follows:

National School Lunch Program (NSLP) – The National School Lunch Program is a federally funded program that assists schools and other agencies in providing nutritious lunches to children at reasonable prices. In addition to financial assistance, the program provides donated commodity foods to help reduce lunch program costs. The National School Lunch Program is operated on a reimbursement basis, with agencies paid on the number of meals served. Agencies that participate in the program are reimbursed from two sources: the USDA and the State of California. State reimbursement is paid for all free and reduced price meals. Federal reimbursement is paid for all free, reduced price, and paid meals. The National School Lunch Program (NSLP) also offers reimbursement to schools serving nutritious snacks to children participating in after-school care programs.

School Breakfast Program – Local Educational Agencies may also choose to participate in the School Breakfast Program. The School Breakfast Program is a federally funded USDA program which assists schools and other agencies in providing nutritious breakfasts to children at reasonable prices. Similar to the National School Lunch program, the School Breakfast Program must be open to all enrolled children. If a child already qualifies for free or reduced-price lunches, then the child would also qualify for free or reduced-price breakfasts. The School Breakfast Program is operated on a reimbursement basis, with agencies paid on the number of meals served multiplied by the appropriate reimbursement rate. State reimbursement is paid for all free and reduced price meals. School sites may qualify for higher reimbursement rates if they are designated to be in severe need (if, two years prior, 40 percent or more of the lunches served at the site were free or reduced-price). Sites must annually re-establish their eligibility for the Severe Need Breakfast Reimbursement.

Summer Food Service Program - The Summer Food Service Program (SFSP) is a U.S. Department of Agriculture (USDA) federally funded program that reimburses sponsors for administrative and operational costs to provide meals for children 18 years of age and younger during periods when they are out of school for fifteen (15) or more consecutive school days. Sponsors may operate the SFSP at one or more sites, which are the actual locations where meals are served and children eat in a supervised setting. Eligible sites are those that serve children in low-income areas or those that serve specific groups of low-income children. Sponsors must provide documentation that proposed sites meet the income eligibility criteria required by law. There are three common types of sites: open sites, camps (residential and nonresidential), and closed enrolled sites.

Open sites are meal sites where meals are available to any child from the community. Open sites are located in needy areas where 50 percent or more of the children residing in the area are eligible for free or reduced-price (F/RP) school meals, enrollment in a program is not required. Meals are made available to all children in the area on a first-come, first-serve basis. Camp sites are those that offer regularly scheduled food service along with organized activities for enrolled residential or day campers. The camp receives reimbursement only for meals served to enrolled children who qualify for F/RP meals. Closed sited are open only to enrolled children or to an identified group of children, as opposed to the community at large. Closed enrolled sites must also establish their eligibility through the individual income eligibility of the children attending the site.

LEAs may also choose to operate a Seamless Summer Option through the National School Lunch (NSLP) or School Breakfast Programs (SBP). School Food Authorities (SFA) follow the same meal service rules and claiming procedures used during the regular school year. Meals served are reimbursed at the NSLP and/or SBP “free” rates.

Eligibility

Under federal USDA school meal programs, all school-aged children in income-eligible households are eligible for school meal benefits regardless of a child’s immigration status. The family-size income levels are prescribed annually by the Secretary of Agriculture for determining eligibility for free and reduced price meals and free milk. The free guidelines are 130 percent of the Federal poverty guidelines. The reduced price guidelines are 185 percent of the Federal poverty guidelines.

LEAs may identify eligible children in a few different ways. They must notify all families of free and reduced price meals and provide applications for families to complete. In addition, LEAs may directly certify student eligibility by using information from other means-tested programs, including Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF) or by determining that a child is eligible due to identification as homeless, runaway, migrant, or foster child, or enrollment in federal Head Start or comparable state program. LEAs must provide households with notification of direct certification or provide an application.

Community Eligibility Provision (CEP) - The CEP was implemented by the federal Healthy, Hunger-Free Kids Act of 2010. The CEP allows high-poverty schools to eliminate the administrative burden of school meal applications and still serve breakfast and lunch at no charge to all students. In March 2023, the USDA published a proposed rule to expand access to the Community Eligibility Provision by lowering the minimum identified student percentage participation threshold from 40 percent to 25 percent – the public comment period for this rule will close in May of this year. In the past, schools that have implemented the CEP have experienced striking increases in school meal participation, and many reported improved attendance.

Beginning in 2022-23 school year, all schools eligible for the Community Eligibility Provision, the federal universal meals provision, will be required to apply for the program to reduce volatility in costs to the state and ensure the state is not responsible for costs that could be reimbursed at the federal level. The state will then cover any remaining unreimbursed costs up to the federal free per-meal rate, which was estimated to cost $650 million Proposition 98 General Fund annually.

Recent Budget Actions

Typically, an LEA must operate under specific rules related to the meal programs they are participating in to receive reimbursement. This means that during the school year, LEAs participating in school meals program provide meals at specified times, sites, and settings. During the summer, when school is out of session, LEAs may continue to participate in meal programs that allow for more flexibility in the methods of food distribution as described above. During the pandemic, the USDA issued nationwide waivers that expired on June 30, 2022, to allow non-congregate feeding and meal service time flexibility during the school year, consistent with flexibilities typically allowable under summer meal programs.

2020-21 Budget Act. In response to the concerns that LEAs' nutrition programs were struggling to cover costs, the 2020-21 budget provided $192 million in one-time Federal Elementary and Secondary Schools Emergency Relief for LEA school meal reimbursements during summer break and COVID-19 school closures through August 30, 2020, at a rate of up to an additional 75 cents per meal. It also allowed state reimbursement funds from 2019-20 to be used for disaster relief for LEAs who did, or attempted to, serve student meals during the school closure period.

2021-22 Budget Act. The 2021-22 Budget provided $54 million ongoing Proposition 98 General Fund for the Child Nutrition Program to provide the state reimbursement rate for universal breakfast and lunch in the 2021-22 budget year. Additionally, the 2021-22 Budget included $150 million one-time Proposition 98 General Fund for school districts to upgrade kitchen infrastructure and equipment, as well as provide training to food service employees. Of this amount, $120 million will provide a minimum of $25,000 per district for kitchen upgrades and equipment, and $30 million to provide a minimum of $2,000 per district for training to promote nutritious foods, food preparation, and healthy food marketing. Eighty percent of eligible local educational agencies (940 out of 1176 local educational agencies) registered for the funds. For kitchen infrastructure funding, most LEAs requested funding to purchase cooking equipment and make associated facility upgrades (91 percent), followed by service equipment (88 percent)—such as mobile carts—and refrigeration and storage (88 percent). By June 30, 2023, CDE is required to collect expenditure reports and narrative responses explaining how these funds were used to improve the quality of school meals or increase school meals participation from each participating local educational agency.

On December 17, 2021, the USDA announced $1.5 billion nationwide to states and school districts to help school mean program operators deal with the challenges of supply chain disruptions brought on by the pandemic. Of this amount, California received $171.5 million.

2022-23 Budget Act. The 2022-23 Budget included $596 million Proposition 98 General Fund to cover the costs of universal meal requirements that were enacted in the 2021-22 budget, to bring total funding to $650 million.

Additionally, the budget included $600 million in one-time Proposition 98 General Fund to upgrade school kitchen infrastructure and equipment. The funding would be allocated in three ways:

- **Base Grant.** A $100,000 base grant for every LEA. Funds could be used for kitchen infrastructure upgrades and staff training.

- **Meal-Service-Based Award**. After the base funding is awarded, fifty percent of the remaining funds are allocated proportionately to LEAs based on the total number of reimbursable meals served in October 2021 by the LEA. National School Lunch Program, School Breakfast Program and Seamless Summer Option Meals will be included in this calculation. These funds follow the same allowable categories of expenditures as the base funding.

- **Attestation for Onsite, Freshly-prepared Meals Award.** The remaining funds are allocated to LEAs that attest that no less than 40 percent of reimbursable NSLP and SBP meals, including the entree and grains, prepared each week, beginning in the 2023–24 school year, shall be freshly prepared onsite meals. Allocation of these funds is proportionate based on the number of reimbursable meals served in October 2021 by the LEA.

Lastly, the 2022-23 Budget included $100 million one-time Proposition 98 General Fund for School Food Best Practices Grant for local educational agencies. This funding is intended to assist local educational agencies to purchase California-grown or produced, sustainably grown, whole or minimally processed foods, and plant-based or restricted diet meals. This funding is scheduled to go out in June 2023.

Governor's Budget.

The Governor's Budget proposes to carve out $15 million from the $600 million appropriated in the 2022-23 Budget for kitchen infrastructure and equipment for the purposes of commercial dishwasher grants. The budget also proposes to continue funding universal school meals.

Legislative Analyst's Office.

Recommend Rejecting Proposal. Given LEAs can already use 2022-23 kitchen infrastructure funds to purchase and install commercial dishwashers, we find the proposed modifications are unnecessary. We recommend the Legislature reject the proposal and allow LEAs to determine what upgrades their kitchens need rather than setting aside funds for one specific purpose. We further question whether providing funding for commercial dishwashers is an effective way to achieve the administration's goal of reducing single-use plastic. Many alternatives exist for LEAs to reduce single-use plastic in school nutrition programs. For examples, rather than using single-use plastic trays to serve food, an LEA could instead use compostable trays. If the Legislature is interested in reducing single-use plastic, it could direct CDE to provide guidance to LEAs on effective strategies for reducing single-use plastic in school nutrition programs.

Staff Comment.

The Department of Education projects that there will be a shortfall of approximately $99 million in the 2022-23 fiscal year, out of an approximately $1.4 billion appropriation, for the purposes of state reimbursement for universal school meals. The 2022-23 Budget included new provisions that authorized the Department of Finance to administratively augment the appropriation to address any shortfalls.

Additionally, the Department of Education has provided information indicating that while the number of reimbursed meals have reached pre-pandemic levels (which reflect meals provided to students that are eligible for the federal meals programs), the distribution of the meals have changed, where the number of paid meals are about five times more than free and reduced meals that receive reimbursements from the federal government. This may be due to the challenges of local educational agencies collecting federal income verification forms for families that may qualify for federally reimbursed meals.

Suggested Questions.

- DOF: How does the Administration plan to address the $99 million shortfall from the 2022-23 Budget Act appropriation, as estimated by the Department of Education?

- How would the proposed federal rule that would expand the community eligibility provisions by lowering the participation threshold from 40 percent to 25 percent, if adopted, impact California's universal school meal program? Would this help offset the challenges due to local educational agencies struggling to collect the federal income verification forms?

Staff Recommendation. Hold open.

Issue 3: Proposition 28 Implementation

Panel.

- Lina Grant, Department of Finance
- Michael Alferes, Legislative Analyst's Office
- Aaron Heredia, Department of Education
- Pete Callas, Department of Education

Background.

In November 2022, California voters passed Proposition 28, the Arts and Music in Schools – Funding Guarantee and Accountability Act. This measure sets aside an amount equivalent to one percent of the prior year's Proposition 98 funding received by local educational agencies – which is comprised of state and local funding and intended for PreK-12 schools and community colleges – and directs them to school districts, charter schools, county offices of education, and the state special schools. This funding is appropriated in addition to the funds appropriated through Proposition 98 for the 2023-24 fiscal year; beginning in 2024-25, Proposition 28 funds will be counted as a proportionate increase under the "Test 1" scenario for Proposition 98 calculations. (Test 1 calculates a percentage of General Fund revenues based on the pre-Proposition 98 level of General Fund that was provided to education, plus local property taxes. More information can be found in the March 2, 2023 agenda of this subcommittee.)

Funding through Proposition 28 is determined at the school site level, where 70 percent of a school's allocation is based on the prior year enrollment, and the remaining 30 percent is based on the prior year's enrollment of students eligible for federal free and reduced price meals. All funds must be used to support arts education, and for local educational agencies with an enrollment of 500 or more, at least 80 percent must be used on staffing costs, and the remaining funds may be used for training, supplies and materials, and arts educational partnership programs. Funds are available for three fiscal years after allocation, and any unused funds would be reallocated by the Department of Education using the 70/30 formula. A principal or program director must develop an expenditure plan, where no more than one percent is used for administrative costs.

The state has adopted the most recent California Arts Education Framework in 2020, which provides guidance to educators, parents, and publishers in implementing the content standards for Arts Education. State law requires local educational agencies provide arts education in first through sixth grade, and offer it to seventh and eighth graders as electives. High school students may graduate with either one year of visual or performing arts, foreign language, or career technical education courses.

Governor's Budget.

The Proposition 98 Guarantee for 2022-23 is $106.9 billion, of which the PreK-12 share is $85.9 billion. The Department of Finance estimates that funding available through Proposition 28 in 2023-24 will be $941 million.

Staff Comment.

Staff notes that implementation questions and concerns for Proposition 28 have been raised, including:

- **Art Teacher Workforce.** The measure requires a local educational agency with more than 500 enrolled students use at least 80 percent of its allocation on certificated or classified staff, and that the funding must be used to increase funding for arts education and not supplant existing funding. he state has recently approved several grant programs to incentivize new teachers to enter and stay in the workforce, with a focus on the implementation of universal transitional kindergarten and other areas of chronic shortage – the subcommittee may wish to discuss how schools plan to meet workforce needs.

- **Clarifying what "existing funds" includes, for Proposition 28 supplementing, not supplanting, requirements.** Proposition 28 requires that its funds can only be used to supplement existing funds. However, recent budgets have made several one-time investments, including one-time funds that are available for use in arts education, and some local educational agencies have indicated that they have received and used philanthropic dollars for arts programs. Staff also notes that Proposition 28 funds are available for local educational agencies to use over three years, and direction regarding the treatment of any potential carryover funds or a reduction in a school's Proposition 28 allocation due to declining enrollment is absent in the language. The subcommittee may wish to consider how voters intended to ensure that schools are supplementing and not supplanting existing funds for the purposes of Proposition 28.

- **Capacity of principals.** School principals or program directors are required to develop an expenditure plan for Proposition 28 funds the school receives, and this plan must be compliant with the provisions of the Proposition. The subcommittee may wish to consider whether there are existing schoolsite-level plans that can be leveraged to include this type of information.

- **Waiver-related workload.** The measure allows school sites to apply for a waiver from the Department of Education for the minimum 80 percent requirement for expenditures on staff. The subcommittee may want to consider the capacity of the Department to consider these waivers, or if a county office of education or other local entity may be better position to assess these requests.

- **Charter school closures.** Proposition 28 funding is available for use for up to three years after allocation; however, charter schools may close within that period, and recouping any unspent funds at the end of the three-year period may be very challenging.

- **Preschool schoolsite level data is not available.** Proposition 28 includes preschools as eligible schoolsites for arts education funding; however, schoolsite level data for "economically disadvantaged students" enrolled in preschools is not collected by the Department of Education.

Suggested Questions.

- Are there other TK-12 programs that include supplement, not supplant, requirements? How are those parameters defined in these programs?

Staff Recommendation. Hold open.

Issue 4: Cultural Field Trips Program

Panel.

- Paula Fonacier Tang, Department of Finance
- Michael Alferes, Legislative Analyst's Office
- Malia Vella, Department of Education

Governor's Budget.

The Governor's Budget includes $100 million for all 12th grade students (at an average of about $200/student) to travel to and attend nonprofit arts and cultural institutions and museums.

Legislative Analyst's Office.

Take Actions to Minimize Reductions to Arts, Music, and Instructional Materials Discretionary Block Grant. To minimize disruption to LEA budget plans, we recommend the Legislature take actions that would free up funding to decrease or eliminate the proposed reduction to the Arts, Music, and Instructional Materials Discretionary Block Grant. Specifically, we recommend the Legislature:

- ***Reject Additional Literacy Grant Funding and New Arts and Cultural Enrichment Proposal.*** Given that the state has yet to evaluate the effectiveness of the LCRS program model, it would be premature to provide additional program funding. The Legislature could consider providing additional funding in the future once it has a better sense of program outcomes and the magnitude of any implementation challenges. Moreover, LEAs that are interested in providing additional opportunities for arts and cultural enrichment could use other funding sources, such as LCFF. Rejecting these two proposals would free up $350 million in 2021-22 that could be used to restore funding for the discretionary block grant.

Staff Comment.

The Administration states that this proposal would "enable local educational agencies to provide high school seniors with access to cultural enrichment experiences across the state by facilitating museum visits, access to theatrical performances, or other participation in extracurricular art enrichment activities."

The California Arts Education Framework was adopted in 2019, which provides guidance to educators for curriculum and instruction to inform teaching in and through the arts. The California Arts Education Framework includes arts institutions such as museums, symphonies, performance venues as a key part of the Visual Arts discipline. As a result, visits to arts institution such as museums or art galleries as part of a student's arts education may be a part of that student's instructional day.

Additionally, the budget provides $4 billion ongoing Proposition 98 General Fund for the expanded learning opportunities program, which includes before or after school, or summer or intersession programs for enrichment activities, which are broadly defined, and may include art or cultural activities.

The subcommittee may wish to consider whether other fund sources – including Proposition 28, discretionary funds from the local control funding formula, and expanded learning opportunities program – may be used for this purpose, and whether the proposed $100 million may be better suited to restore proposed reductions.

Suggested Questions.

- Could local educational agencies fund cultural and arts activities from existing fund sources, i.e. LCFF dollars, Proposition 28, and/or expanded learning opportunities program funding?

Staff Recommendation. Hold open.

Issue 5: Reduction in the Arts, Music, and Instructional Discretionary Block Grant

Panel.

- Lina Grant, Department of Finance
- Michael Alferes, Legislative Analyst's Office
- Malia Vella, Department of Education

Background.

The 2022-23 Budget included $3.6 billion one-time Proposition 98 General Fund for the Arts, Music, and Instructional Materials Discretionary Block Grant. The uses for these dollars included the following:

- Standards-aligned professional development and instructional materials in subject areas such as science (including environmental literacy), ethnic studies, financial literacy, media literacy, and others.

- Professional development and instructional materials aligned to best practices for school climate improvements, restorative justice strategies, physical education and others.

- Book collections and culturally relevant texts.

- Operational costs, including but not limited to, retirement and health care cost increases

- COVID-19 pandemic related costs, such as personal protective equipment, ventilation upgrades, tests, and cleaning supplies.

Governor's Budget.

The Governor's Budget proposes to reduce the Arts, Music, and Instructional Materials Discretionary Block Grant by $1.2 billion. Savings from this reduction is redirected to cover $613 million in ongoing LCFF costs in 2022-23, and $1.4 billion in ongoing LCFF costs in 2023-24. Additionally, the Governor's Budget proposes two new programs, another round of one-time funding of $250 million for Literacy Coaches and Reading Specialists Grants, and $100 million for cultural field trips for high school seniors.

Legislative Analyst's Office.

Take Actions to Minimize Reductions to Arts, Music, and Instructional Materials Discretionary Block Grant. To minimize disruption to LEA budget plans, we recommend the Legislature take actions that would free up funding to decrease or eliminate the proposed reduction to the Arts, Music, and Instructional Materials Discretionary Block Grant. Specifically, we recommend the Legislature:

- ***Reduce Ongoing Spending in 2023-24.*** As we discussed in our recent brief, we recommend the Legislature reduce ongoing spending in 2023-24 to avoid passing a budget that creates a deficit in 2024-25. The Legislature has a variety of options for making ongoing reductions, including (1) funding a lower COLA; (2) rejecting or delaying implementation of new ongoing funding for high-poverty schools, or (3) making certain reductions to existing programs, such as the Expanded Learning Opportunities Program or State Preschool. Taking one or a combination of these actions would free up room to fund 2023-24 LCFF costs with ongoing funds, which would then free up 2021-22 funds that can be used to minimize or eliminate the need for reducing the discretionary block grant.

- ***Reject Additional Literacy Grant Funding and New Arts and Cultural Enrichment Proposal.*** Given that the state has yet to evaluate the effectiveness of the LCRS program model, it would be premature to provide additional program funding. The Legislature could consider providing additional funding in the future once it has a better sense of program outcomes and the magnitude of any implementation challenges. Moreover, LEAs that are interested in providing additional opportunities for arts and cultural enrichment could use other funding sources, such as LCFF. Rejecting these two proposals would free up $350 million in 2021-22 that could be used to restore funding for the discretionary block grant.

Staff Recommendation. Hold open.

Issue 6: Literacy

Panel.

- Lina Grant, Department of Finance
- Jackie Barocio, Legislative Analyst's Office
- Mary Nicely, Department of Education

Governor's Budget Proposal.

The Governor's Budget proposes $250 million Proposition 98 General Fund to augment the Literacy Coaches and Reading Specialists Grant Program, which was established by the 2022 Budget Act with $250 million Proposition 98 General Fund. Of this amount, $248 million would be provided to local educational agencies to develop school literacy programs, employ and train literacy coaches and reading and literacy specialists, and develop and implement interventions for pupils in need to targeted literacy support. Allocations would be determined by student enrollment in kindergarten through third grade, with a base amount of $450,000 provided to each schoolsite that has an unduplicated pupil percentage of 95 percent or higher. In comparison, the Literacy Coaches and Reading Specialists Grant Program funded in the 2022 Budget funded schoolsites with an unduplicated pupil percentage of 97 percent or higher.

The remaining $2 million would be used to provide additional training for educators to become literacy coaches and reading and literacy specialists, of which $500,000 can be used for evaluations of the program.

The Governor's Budget also proposes $1 million General Fund for the Department of Education to create a Literacy Roadmap to help educators apply the state's curriculum framework to classroom instruction, and to help educators navigate the resources and professional development opportunities available.

Background.

Since 2020, the state has made several investments in grants and programs that were focused on improving student literacy or that literacy efforts were part of a broader eligibility of costs. These include:

- $7.9 billion one-time for the Learning Recovery Emergency Block Grant to support local educational agencies support learning recovery efforts including: expanded learning time, tutoring, early intervention and literacy programs, among others. (2022 Budget Act)

- The Expanded Learning Opportunities Program (ELOP) has an annual appropriation of $4 billion, and funds are used to support access to expanded learning opportunities, which may include literacy coaches. (ongoing)

- $1.5 billion one-time for the Educator Effectiveness Block Grant to train classified, certificated, and administrative school staff in high-need topics, including literacy. (2021 Budget)

- $250 million one-time for the Literacy Coaches and Reading Specialists Grant Program, of which $225 million is used for local educational agencies to develop school literacy programs, employ and train literacy coaches and reading and literacy specialists, and develop and implement interventions for pupils in need of targeted literacy support. The remaining $25 million is used to develop and provide training for educators to become literacy coaches and reading and literacy specialists. (2022 Budget Act)

- $50 million one-time for evidence-based professional education to support learning acceleration, particularly in mathematics, literacy, and language development. (2021 Budget)

- $50 million one-time for the Early Literacy Support Block Grant, which goes to the local educational agencies with the 75 schools that have the highest percentage of students in grade three scoring at the lowest achievement standard level on the English Language Arts assessment. (2020 Budget)

- $15 million one-time to support 6,000 teachers to receive their supplementary state certification in reading and literacy. (2022 Budget)

- $10 million one-time for the Department of Education to generate and disseminate professional development opportunities for educators in evidence-based literacy instruction, literacy interventions, and executive functioning skills. (2021 Budget)

- $3 million one-time for an Expert Lead in Literacy within the State System of Support. (2020 Budget)

Reading and Literacy Leadership Specialist Credential versus Reading and Literacy Added Authorization versus Literacy Coaches and Reading and Literacy Specialists. In California, there are multiple pathways for an individual to provide literacy instruction and support in the classroom. The Commission on Teacher Credentialing may issue a reading and literacy leadership specialist credential or a reading and literacy added authorization, or as part of the recently enacted Literacy Coaches and Reading Specialists Grant program in the 2022-23 Budget, an individual can be a literacy coach or reading specialist. Below is a chart that provides key differences and similarities between the reading and literacy leadership specialist credential, the reading and literacy added authorization, and the literacy coaches and reading specialists.

	Reading and Literacy Leadership Specialist Credential (RLLS)	**Reading and Literacy Added Authorization (RLAA)**	**Literacy Coaches and Reading and Literacy Specialists**
Who do they serve?	RLLS holders are authorized to perform duties at the school site, district, and county levels in grades PK-12 and in classes organized primarily for adults.	RLAA holders are authorized to assess student reading and provide reading instruction according to those assessments. These holders may develop, implement, and adapt reading content curriculum and assist classroom teachers in those areas. They may perform duties at the school site level and may serve at one or more school sites at the grade level authorized by their prerequisite teaching credential.	Literacy coaches and Reading and Literacy Specialists support educators and pupils in improving literacy instruction and pupil outcomes.
What duties can they perform?	* Provide direct reading intervention to students and adapt instructional routines and strategies to provide direct specialized reading instruction to students with severe reading difficulties, including monitoring and adjusting intervention instruction; * Coordinate adoption and facilitate implementation of adopted literacy curricula, including providing training to teachers; * Select and administer reading	* Provide direct reading intervention to students and adapt instructional practices and strategies to provide direct specialized reading instruction to students with severe reading difficulties including monitoring and adjusting intervention instruction; * Participate in the adoption of literacy curricula, facilitate and monitor implementation of adopted curricula, and support and assist teachers in the use of literacy curricula;	Literacy Coach and Reading Specialist duties vary depending on an LEA's needs, program design, and the level of Commission credentialing or authorization met by individual staff. Services may include reading and literacy assessments, targeted interventions, and various types of student and educator supports.

	and literacy assessments, interpret results to determine student growth and identification of struggling students, select interventions, communicate results, and provide guidance and coaching to teachers; * Design, implement, and evaluate a comprehensive literacy plan; * Support students' literacy development and inform and train teachers in literacy skills using information and communication technologies; and Evaluate literacy practices and report findings, guide teachers and administrators in collaborative efforts to design, implement, and evaluate local, state and/or federal programs, and plan and conduct staff development.	* Select and administer ongoing formal and informal diagnostic assessments of students' progress, report results, assist teachers in modifying instructional practices, and use the results for student placement in and exit from reading intervention programs; * Interpret results of school-wide reading assessment data to monitor student progress and identify modification of instructional practices and strategies to assist teachers; * Develop, implement and adapt reading and literacy instructional materials, technologies, and strategies in alignment with students' assessed reading and literacy needs including the prevention and intervention of reading difficulties; and assist teachers to ensure that the full range of students develop proficiency; and * Assist students' and teachers' use of information and communication technologies and the development of digital literacy skills.	
What require-ments must be met?	1. Possess a valid basic California teaching credential, which may be one of the following: a) A teaching credential requiring a bachelor's degree and a professional preparation program, including student teaching. b) A clear, full-time designated subjects teaching credential, provided that the holder also possesses a bachelor's degree and has met the basic skills requirement. See Commission leaflet CL-667, entitled Basic Skills Requirement, for additional information.	1. Possess a valid basic California teaching credential, which may be one of the following: a) A teaching credential requiring a bachelor's degree and a professional preparation program, including student teaching. b) A clear, full-time designated subjects teaching credential, provided that the holder also possesses a bachelor's degree and has met the basic skills requirement. See Commission leaflet CL-667, entitled Basic Skills Requirement, for additional information.	A person holding one or more of the following authorizations or credentials issued by the Commission may be authorized to provide general literacy coaching and/or interventions: RLLS, RLAA, Administrative Services credential, Multiple Subject credential*, or Single Subject Credential in English*. The credential authorization required is dependent on the instruction or services of the position. LEAs have some discretion to determine eligibility requirements for a literacy coach as aligned to legislative requirements of

	2. Possess an English Learner Authorization. 3. Verification of three years of successful full-time teaching experience in any grades preschool through adult, exclusive of student teaching, intern teaching, or teaching while holding an emergency or teaching permit. 4. Complete a Commission-approved RLLS program, a post baccalaureate professional preparation program based on the Reading and Literacy Added Authorization and Reading and Literacy Leadership Specialist Credential Program Standards (rev. 2/2016), and obtain the formal recommendation of the California college or university where the program was completed.	2. Possess an English Learner Authorization. 3. Provide verification of three years successful, full-time teaching experience in any grade or subject, preschool through adult exclusive of student teaching, intern teaching, or teaching while holding an emergency or teaching permit. 4. Completion of an RLAA professional preparation program, including successful completion of a supervised field experience. 5. Recommendation for the added authorization from a Commission-approved Reading and Literacy Added Authorization program sponsor.	supporting educators and pupils in improving literacy instruction and pupil outcomes. This discretion provides LEAs with flexibility to hire and build staff capacity in lieu of ongoing teacher shortages across the state. *These documents authorize the holder to provide pull-out reading intervention or instruction in a departmentalized reading class, but they do not authorize the holder to coordinate a reading program. Additional information can be found on CTC's Program Coordinator webpage.

Source: Department of Finance

Legislative Analyst's Office.

Literacy Program Activities Remain in Early Implementation Stages. CDE allocated the $225 million in Literacy Coaches and Reading Specialists (LCRS) program funds to schools in January 2023. Moreover, CDE and CTC are still in the process of finalizing the request for application (RFA) for the statewide literacy training contract and supplementary authorization incentive grant program. (As of February 13, 2023, the RFAs have not been posted. We understand that these RFAs will be posted in the spring of 2023.) Given that LCRS program dollars were just recently allocated to schools, it is too early to determine whether LEAs have faced any barriers to implementation. However, we understand that during initial conversations with CDE, LEAs mentioned the overall teacher shortage as possibly being the greatest implementation challenge in finding qualified staff for literacy programs.

Reject Additional Literacy Grant Funding Proposal. Given that the state has yet to evaluate the effectiveness of the LCRS program model, it would be premature to provide additional program funding. The Legislature could consider providing additional funding in the future once it has a better sense of program outcomes and the magnitude of any implementation challenges.

Adopt Evaluation of Literacy Program. To improve the Legislature's ability to monitor the progress of implementation and evaluate overall program effectiveness of the LCRS funding provided in 2022-23, we recommend the Legislature provide $500,000 Proposition 98 General Fund for an independent evaluation of the program on or before June 30, 2028 (a year after the encumbrance deadline of the existing funding for the LCRS program). Additionally, the

Legislature could consider codifying specific questions and data points it would like to be included in interim progress reports and the independent evaluation (such as specific demographic information of children served, challenges in hiring staff, description of other implementation challenges, and identification of possible solutions).

Staff Comment.

A recent report by the California Reading Coalition examined economically disadvantaged Latino 3rd graders and found that in 2022, "as in the 2019 Report Card, funding and share of high-need students had very little correlation with results." However, it also found that 97 percent of districts saw student achievement in English Language Arts fall across all regions, sized districts, and demographics of students.[2]

Staff notes that the Administration's proposal targets schools with a high unduplicated pupil percentage, which includes low-income, foster youth, and/or English learner students – which may or may not include local educational agencies that serve students who are struggling with literacy. The 2022 Budget appropriation for literacy coaches and reading specialists were recently allocated in early 2023, and the subcommittee may wish to inquire about what, if any, outcomes have been demonstrated as a result of the 2022 investment that may justify this augmentation.

Suggested Questions.

- DOF: If literacy coaches must also hold either an administrative, multiple subject or single subject credential, what are the Administration's expectations for local educational agencies to address the existing teacher workforce shortages and finding qualified literacy coaches?

- DOF: What outcomes, if any, have been demonstrated from the $250 million that was appropriated in the 2022 Budget that would ensure that this proposal would have successful and positive outcomes?

Staff Recommendation. Hold open.

[2] California Reading Coalition. *2022 Report Card.* https://www.careads.org/2022-reportcard 29 March 2023.

Issue 7: Opioid Reversal Funding

Panel.

- Martina Dickerson, Department of Finance
- Michael Alferes, Legislative Analyst's Office
- Malia Vella, Department of Education

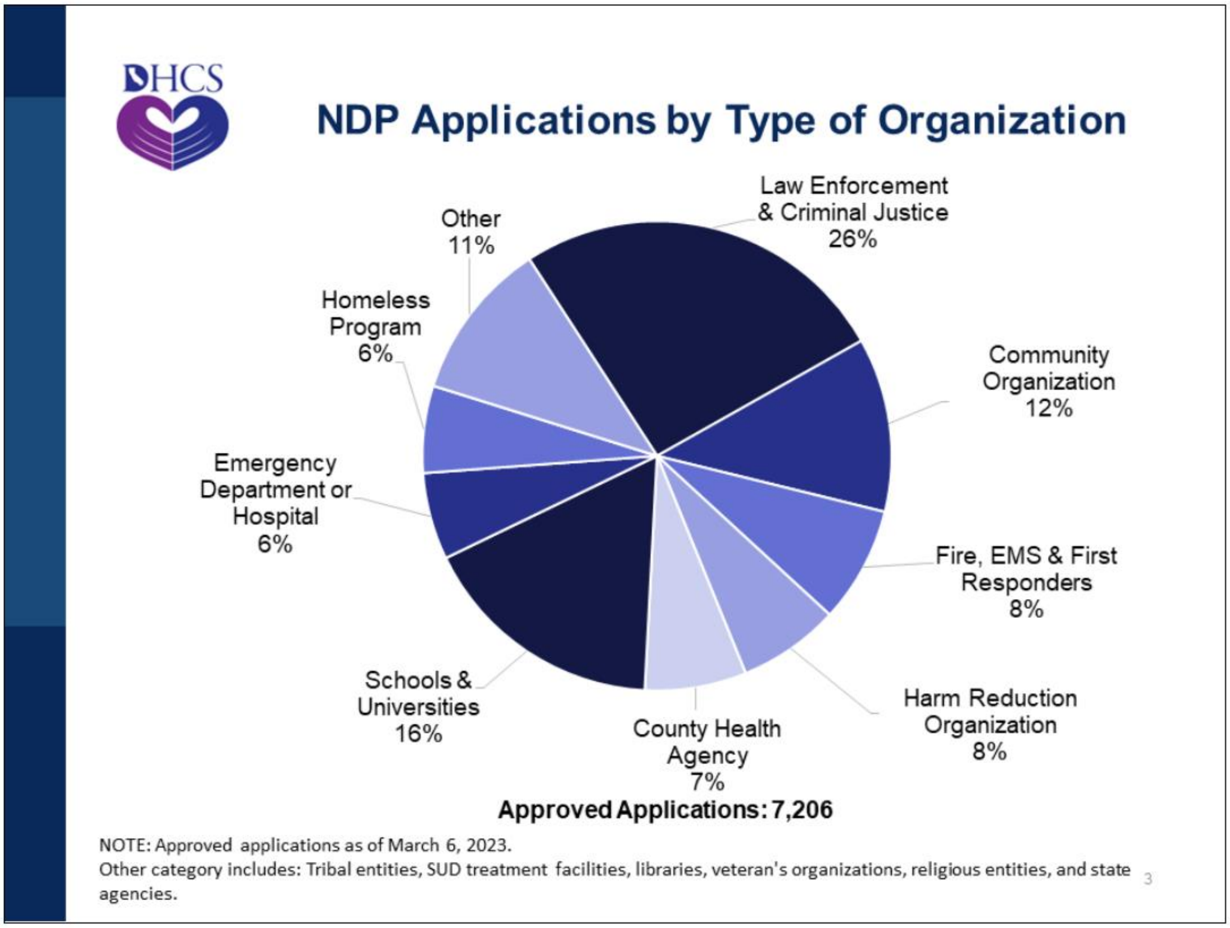
Governor's Budget Proposal.

The Governor's Budget proposes $3.5 million ongoing Proposition 98 General Fund for local educational agencies to purchase and maintain a minimum of two doses of an emergency opioid antagonist at each middle school, junior high, and high school site.

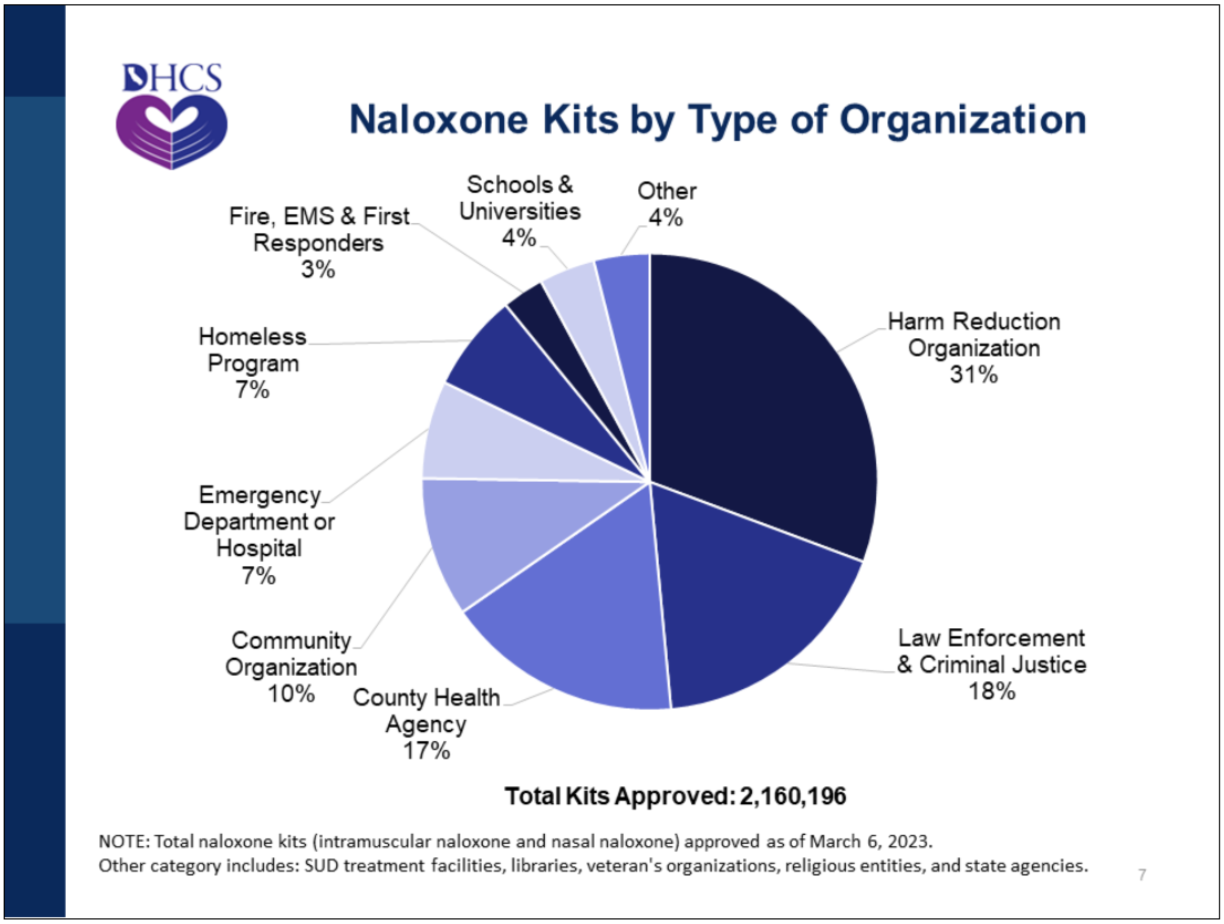
Background.

The California Department of Health Care Services established the Naloxone Distribution Project to combat opioid overdose-related deaths throughout California. The Naloxone Distribution Project provides free naloxone through an application process to eligible entities with funds that include $14.8 million one-time monies from the opioid settlement fund appropriated in the 2022-23 Budget, which will be available until June 30, 2025. Eligible entities include: law enforcement such as police departments and probation, first responders such as firefighters and emergency medical services, schools and universities, county public health and behavioral health departments, and community organizations such as harm reduction organizations or community opioid coalitions.

The below graphic demonstrates the applications to the Naloxone Distribution Project by entity:



The following chart represents the distribution (approved applications) of naloxone kits by entity:



According to the Department of Health Care Services, 99 percent of applications submitted by schools and universities are approved.

Legislative Analyst's Office.

Budget Includes $3.5 Million Ongoing Proposition 98 for Opioid Reversal Medication. The funding would be allocated to local education agencies (LEAs) for the purpose of purchasing and maintaining at least 2 doses of naloxone hydrochloride, or any other FDA approved emergency opioid antagonist, at every middle school and high school. The California Department of Education (CDE) would determine the allocation methodology, taking into consideration factors such as the number of students and number of middle and high schools in the LEA.

Funding Is Not Aligned With Specific Requirements. Although the proposed trailer bill language requires middle and high schools to carry two doses of an emergency opioid antagonist, our understanding is that the administration's cost estimate of $3.5 million assumes that every middle and high school will annually purchase 12 doses of naloxone. The administration indicates this is because naloxone is sold in packages of 12. Most schools, however, are part of multi-school districts that would be making purchases on behalf of all their schools. Charter schools and school districts with a small number of schools could make bulk purchases by pooling together with other smaller entities. Assuming schools only purchase two doses of naloxone annually, we estimate the costs would be about $550,000.

Funding Would Be Distributed Annually, While Medication Has a Longer Shelf Life. Opioid reversal medication typically has a shelf life of around two to three years. For example, the FDA recently approved a naloxone nasal spray called Narcan for a three-year shelf life. As a result, schools would not be required to replace medication on an annual basis. Schools would need to replace medication that was administered to reverse an overdose, but doses that are not used in one school year can likely be kept for at least another year.

Recommend Providing Lower Amount of Funding. Given these issues, we recommend the Legislature provide a lower funding amount. We think $1 million would be sufficient to fulfill the requirements of this proposal. This would provide sufficient funding for the costs of the minimum required medication, while also setting aside additional funding to reflect costs of maintaining a larger number of doses in large schools and replacing medication that was administered to reverse an overdose. The Legislature could revisit the funding level in future years if changes in medication or other factors result in higher-than-anticipated costs.

Suggested Questions.

- What type of technical assistance will the state provide, and to what scope, to local educational agencies who would be contracting for opioid antagonists for the first time?

- The FDA recently approved an over-the-counter version of an opioid antagonist. What kind of impacts, if any, would this have schools procuring an opioid antagonist?

Staff Recommendation. Hold open.

6350 School Facilities Aid Program

Issue 8: School Facility Program

Panel.

- Michelle Nguyen, Department of Finance
- Jackie Barocio, Legislative Analyst’s Office
- Barbara Kampmeinert, Office of Public School Construction

Background

In November 2016, the voters passed the Kindergarten through Community College Facilities Bond Act of 2016 (Proposition 51), which authorizes the state to sell $9 billion in general obligation bonds for K-14 facilities ($7 billion for K-12 and $2 billion for community colleges).

The California State Auditor released a report in January 2022, which found that California will need $7.4 billion in state funding to meet anticipated modernization requests over the next five years. It additionally found that the state could increase equity in the facilities program by adjusting its first-come, first-served approach to reviewing and approving modernization projects by prioritizing funding for districts from financially challenged districts. Districts that can complete projects on their own with local funding can receive reimbursement from the State after their projects are finished. Conversely, financially challenged districts apply for "financial hardship" so that the state fund the local share of facilities projects, but can be left waiting for state funds in order to begin their projects, delaying improvements to their facilities.

School districts can apply for "facility hardship," in cases of extraordinary circumstances that have caused an imminent health and safety threat. Unlike districts that apply for "financial hardship," school districts that apply for facility hardship are exempted from the first-come, first-served approach and may move up in priority for funding.

The 2022-23 budget included the remaining bond authority, which costs approximately $1.4 billion in K-12 bond authority in 2022-23, for new construction, modernization, career technical education, and charter facility projects, and a total of $4.2 billion one-time General Fund ($1.3 billion in 2021-22, $2.1 billion in 2023-24, and $875 million in 2024-25).

Governor's Budget.

The Governor's Budget proposes to reduce the appropriation for school facilities by $100 million in 2023-24, from $2.1 billion to $2 billion, for a total appropriation of $4.1 billion (reduced from $4.2 billion).

Staff Recommendation. Hold open.

Issue 9: Preschool, Transitional Kindergarten, and Full-Day Kindergarten Facility Program

Panel.

- Michelle Nguyen, Department of Finance
- Sara Cortez, Legislative Analyst's Office
- Barbara Kampmeinert, Office of Public School Construction

Background.

Transitional Kindergarten and Kindergarten facilities have additional requirements compared to other school facilities, such as restrooms that must be self-contained in the classroom or separate from those of older students and an easily supervised play area. A lack of space meeting these requirements may prevent schools from expanding their kindergarten offerings. The 2018-19 budget provided $100 million in one-time non-Proposition 98 General Fund for the Full-Day Kindergarten Facilities Grant Program (FDK). The Office of Public School Construction, with approval by the State Allocation Board, allocated grants to LEAs for schools that did not have enough classroom space to provide FDK or had an existing FDK space that did not meet regulations. Priority for the grants was provided to districts with financial hardship or districts that have a high population of low-income students. Participation in the Full-Day Kindergarten Facilities Grant Program did not impact a school district's participation in the School Facilities Grant Program.

In 2021-22, the budget provided $490 million one-time General Fund for the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program. Grant funds may be used to construct new school facilities or retrofit existing school facilities for the purpose of providing transitional kindergarten classrooms, full-day kindergarten classrooms, or preschool classrooms. The 2022-23 budget provided $650 million General Fund over multiple years for the Preschool, Transitional Kindergarten, and Full-Day Kindergarten Facility Program, of which $550 million was to be appropriated in 2023-24.

For the current available funding allocated for this program ($350 million, of which $250 million is from the 2021 Budget and $100 million is from the 2022 Budget), the next application round opens in February and closed on March 2, 2023. Funds are expected to be awarded in Fall 2023. For the $550 million that was to be appropriated in 2023-24, the application round is expected to open in February/March 2024 with the award of funds going out in Fall 2024.

Governor's Budget.

The Governor's Budget proposes to delay $550 million for the Preschool, Transitional Kindergarten, and Full-Day Kindergarten Facilities Grant Program from 2023-24 to 2024-25. By doing so, the earliest that the Office of Public School Construction will be able to open the application round is Fall 2024, with the award of funds likely being in June 2025.

Legislative Analyst's Office.

Delaying Facilities Funding and Maintaining Current Transitional Kindergarten (TK) Staffing Ratios Reasonable Given State Budget Problem. The Governor's budget delays $550 million one-time General Fund for early education facilities to 2024-25. The Governor's budget also maintains staffing ratios at 1 adult for every 12 students rather than moving to a 1 to 10 ratio. These proposals seem reasonable since most school districts report having adequate classroom space to meet projected TK enrollment and keeping the existing ratios helps prevent even greater staffing shortages.

Suggested Questions.

- OPSC: For the application round that was recently closed in March 2023, what was the total requested need from the submitted applications? Does OPSC anticipate that all $350 million available in this current year will be awarded by the fall?

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Lola Smallwood-Cuevas
Senator Rosilicie Ochoa Bogh

Thursday, April 20, 2023
9:30 a.m. or Upon Adjournment of Session
1021 O Street, Room 2100

Consultant: Christopher Francis, Ph.D.

Items for Discussion

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

DISCUSSION ITEMS

6870 BOARD OF GOVERNORS OF THE CALIFORNIA COMMUNITY COLLEGES (CCC)

Issue 1A: State of CCC: General System Updates

Staff notes that Issue 1 contains four parts. The subcommittee will hear a status update from the Chancellor's Office, discuss general system updates and issues, implementation and existing challenges, and the Governor's proposals related to student housing, apportionments, enrollment, and recruitment and retention. These major themes are grouped together given their impacts across the CCC system.

Panel

- Daisy Gonzales, Interim Chancellor, California Community Colleges
- Madison Sheffield, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office

Available for additional details and questions: Lizette Navarette, California Community Colleges Chancellor's Office

Overview and Leadership

The Board of Governors of the California Community Colleges was established in 1967 to provide statewide leadership to California's 73 community college districts, which operate 116 community colleges. The Board has 17 voting members and one nonvoting member as specified in statute. Twelve members are appointed by the Governor, require Senate approval for six- year terms, and must include two current or former local board members. Five members are appointed by the Governor to two- year terms and include two students, two faculty members, and one classified member. The Lieutenant Governor also serves as a member of the Board. The objectives of the Board are to:

- Provide direction and coordination to California's community colleges.
- Apportion state funds to districts and ensure prudent use of public resources.
- Improve district and campus programs through informational and technical services on a statewide basis.

California's community colleges enroll about two million students, more than twice as many as the California State University and University of California systems combined. California's 73 community college districts (districts) serve almost every part of the State. Community colleges offer a variety of educational services, including access to apprenticeships and learning English as a second language, and about 60 percent of students have a goal of earning a two-year or four-year college degree.

Permanent Chancellor Recently Named. On February 23, 2023, following an extensive and nationwide search over the past seven months, the California Community Colleges Board of Governors announced the unanimous selection of Kern Community College District Chancellor Sonya Christian as the next permanent chancellor to lead the largest and most diverse system of public higher education in the nation. Dr. Christian is an historic choice is the first woman and the first person of South Asian heritage to be appointed as permanent chancellor. She will begin her duties on June 1, 2023 and replaces Chancellor

Eloy Ortiz Oakley, who stepped down in August after leading the community college system for nearly six years. Daisy Gonzales, Ph.D. will continue to serve as interim chancellor until Christian takes office.

Governor's Budget for CCC

Total CCC Funding Is $17.5 Billion Under Governor's Budget. As the figure below shows, $12.6 billion (72 percent) of CCC support in 2023-24 would come from Proposition 98 funds. Proposition 98 funds consist of state General Fund and certain local property tax revenue that cover community colleges' main operations. An additional $963 million non-Proposition 98 General Fund would cover certain other costs, including debt service on state general obligation bonds for CCC facilities, a portion of CCC faculty retirement costs, and operations at the Chancellor's Office. In recent years, the state also has provided non-Proposition 98 General Fund for certain student housing projects- which is detailed in Issue 1B.

California Community Colleges Rely Heavily on Proposition 98 Funding
(Dollars in Millions, Except Funding Per Student)

	2021-22 Revised	2022-23 Revised	2023-24 Proposed	Change From 2022-23	
				Amount	Percent
Proposition 98					
General Fund	$8,790	$8,713	$8,758	$45	0.5%
Local property tax	3,512	3,648	3,811	164	4.5
Subtotals	**($12,301)**	**($12,360)**	**($12,569)**	**($209)**	**(1.7%)**
Other State					
Other General Fund	$653	$1,166[a]	$963[a]	-$203	-17.4%
Lottery	302	264	264	—[b]	-0.1
Special funds	81	95	95	—	—
Subtotals	**($1,036)**	**($1,525)**	**($1,322)**	**(-$203)**	**(-13.3%)**
Other Local					
Enrollment fees	$409	$409	$411	$1	0.3%
Other local revenue[c]	2,821	2,845	2,867	22	0.8
Subtotals	**($3,230)**	**($3,255)**	**($3,278)**	**($23)**	**(0.7%)**
Federal					
Federal stimulus funds[d]	$2,648	—	—	—	—
Other federal funds	365	$365	$365	—	—
Subtotals	**($3,014)**	**($365)**	**($365)**	**(—)**	**(—)**
Totals	**$19,581**	**$17,506**	**$17,535**	**$29**	**0.2%**
FTE students[e]	1,107,128	1,106,951	1,106,451	-500	—[f]

Proposition 98 funding per FTE student[e]	$11,111	$11,166	$11,360	$194	1.7%
[a]Includes $564 million in 2022-23 and $363 million in 2023-24 for student housing grants.					
[b]Difference of less than $500,000.					
[c]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.					
[d]Consists of federal relief funds provided directly to colleges as well as allocated through state budget decisions.					
[e]Reflects budgeted rather than actual FTE students. Actual FTE students are notably lower each year of the period, but certain budget provisions are insulating districts from associated funding declines.					
[f]Reflects the net change (-0.05 percent) after accounting for the proposed 0.5 percent systemwide enrollment growth together with all other enrollment adjustments.					
FTE = full-time equivalent.					

Governor Has Fewer CCC Proposition 98 Proposals Than Past Years. *U*nlike the past several years when the Governor had many Proposition 98 ongoing and one-time spending proposals for the colleges, the Governor's budget this year contains relatively few proposals. As the figure from the LAO shows, the largest ongoing Proposition 98 proposal is $653 million for an 8.13 percent COLA for apportionments. In addition, the Governor's budget provides an 8.13 percent COLA for select categorical programs, at a total cost of $92 million, and $29 million for 0.5 percent systemwide enrollment growth. The Governor's largest one-time CCC spending proposal is for student enrollment and retention strategies. The Governor's budget includes a reduction for previously authorized spending on facilities maintenance. The administration indicates that this reduction is intended to cover the cost of its enrollment and retention proposal, which it sees as a higher priority for the colleges in the budget year. The Governor's budget also provides CCC with $14 million in one-time reappropriated Proposition 98 funds for forestry workforce development grants, as discussed in the box below. These proposals will be discussed in today's subcommittee hearing.

Governor Has a Few Proposition 98 Community College Spending Proposals
(In Millions)

Ongoing Spending	
COLA for apportionments (8.13 percent) ***Covered in Issue 1C***	$653
COLA for select categorical programs (8.13 percent)[a] ***Covered in Issue 1C***	92
Enrollment growth (0.5 percent) ***Covered in Issue 1D***	29
FCMAT new professional development program	—[b]
Subtotal	**($774)**
One-Time Initiatives	
Student enrollment and retention strategies ***Covered in Issue 1D***	$200
Facilities maintenance and instructional equipment ***Covered in Issue 2***	-$213[d]

Forestry/fire protection workforce training ***Covered in Issue 3***	14[c]
FCMAT new professional development program	—[b]
Subtotal	**($1)**
Total Changes	**$775**
[a]Applies to the Adult Education Program, apprenticeship programs, CalWORKs student services, campus child care support, Disabled Students Programs and Services, Extended Opportunity Programs and Services, and the mandates block grant.	
[b]Consists of $200,000 in ongoing funds and $75,000 in one-time funds.	
[c]Uses reappropriated Proposition 98 funds (previously appropriated funds for other purposes that were not spent).	
[d]Reduces funding provided in the 2022-23 budget agreement for this purpose from a total of $841 million to $628 million.	
COLA = cost-of-living adjustment and FCMAT = Fiscal Crisis and Management Assistance Team.	

Additional Background

Governor and CCC Chancellor's Office Agreed to Roadmap Last Year. The roadmap for CCC is somewhat different than the compacts for CSU and UC in that it does not set forth in advance out year base increases. Instead, it leaves these base increases to be determined depending upon available Proposition 98 funds in future years. The roadmap is similar to the university compacts, however, in setting forth certain expectations to be achieved by the colleges by 2026.

Building on the existing *Vision for Success* initiative, the 15 expectations for the colleges are the following:

1. Increase student completions rates by specified amounts
2. Decrease average units to completion and time to completion
3. Increase number of students transferring to CSU and UC
4. Annually publish specified student completion rates
5. Close specified achievement gaps for underrepresented and Pell Grant students
6. Close equity gaps in dual enrollment programs
7. Fully participate in implementation of the Cradle to Career data system
8. Support campuses in adopting a common learning management system
9. Develop common tool to identify trends to address equity gaps
10. Support efforts to establish common integrated admissions platform
11. Increase percentage of high school students completing a semester of college credit through dual admission
12. Establish baseline for prior learning credit and launch new direct assessment competency based education programs
13. Increase percentage of completing students earning a living wage
14. Establish/expand programs in early education, education, health care, and climate action fields
15. Establish coordinated educational pathways for high school students in education, health care, technology, and climate action fields

As well, the roadmap emphasizes equitable outcomes for historically under-represented students and regions through equitable improvement of transfer pipelines and "student-centric measures" that require intersegmental collaboration with TK-12 local educational agencies, the California State University (CSU), the University of California (UC), and other state agencies. The CCC is expected to provide updates on strategic collaborations with intersegmental partners, including how the partnerships contributed to advancing the performance outcomes, structural or process changes achieved and needed, and projected annual priority focus areas for collaboration.

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, part-time faculty members are classified as temporary employees and generally receive fewer employee benefits. 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).

Pros and Cons of Using Faculty Mix. As a State Auditor report details,[1] hiring part-time faculty allows colleges more flexibility to quickly meet changing educational demands in certain fields, but part-time faculty also face challenges that make it more difficult to provide the support their students need. Because colleges can hire part-time faculty faster and at less cost than they can hire full-time faculty, they frequently rely on part-time hiring to fill faculty positions in the short term. Part-time faculty members have less support from the college than full-time faculty members and are given fewer responsibilities. For example, part-time faculty members typically are not required to hold office hours or to make themselves available to students outside of class time. Many part-time faculty members teach at multiple colleges during the same academic period and thus are less likely to be involved in the activities of a single campus.

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.

Auditor February 2023 Report on Full-Time Faculty and Diversity Efforts.[2] At the urging or legislators and stakeholders, a State Audit was recently conducted to assess the CCC districts' hiring practices. Specifically, the audit assessed their use of state funds towards promoting diversity and increasing the

1 Caliornia State Audior, "California Community Colleges Increasing Full-Time Faculty and Diversity Remains a Challenge," February 2023, https://www.auditor.ca.gov/reports/2022-113/index.html.
2 Ibid.

percentage of instruction taught by full-time faculty. The Chancellor's Office has allocated $450 million in state funds intended to facilitate full-time faculty hiring through previous budget act agreements. As well, the 2022 Budget Act included $10 million Proposition 98 General Fund to support the sustainable implementation of EEO best practices to diversify community college faculty, staff, and administrators. Among the key findings were the following:

- Districts have not met the state goal, long-standing since 1988, of having 75 percent of instruction taught by full-time faculty.
- The Chancellor's Office's current method of determining full-time faculty instruction is unsuitable to measure or drive progress toward the 75-percent goal. The current metric measures faculty members, not actual instructional hours, which demonstrates the need for a new metric.
- The Chancellor's Office has not created a valid way to measure districts' progress towards the State's 75 percent goal.
- Some districts did not properly use the funds for hiring full-time faculty. For example, one district spent some of this special funding on part-time faculty costs and another left more than $4 million unspent over a four-year period.
- The Chancellor's Office has not ensured that the districts use the funding appropriately.
- Districts have made some progress in hiring more diverse faculties, but many students still lack sufficient representation of their own backgrounds among the faculty. 47 percent of community college students in California identify as Hispanic, but only 18 percent of faculty identify as Hispanic.
- The Chancellor's Office does not verify whether the districts adequately implement requirements in order to receive EEO funds.

To address these shortcomings, the Auditor recommended the following steps for the Chancellor's Office:

- Implement and report on a metric to calculate full-time faculty instruction and use it to set benchmarks for the amount of instruction at districts.
- Post on its website each district's report on its use of the funds to hire full-time faculty and verify that the districts are using the funds for their designated purpose.
- Regularly determine the most effective and feasible practices for hiring diverse faculty and verify that districts conduct those and other best practices.

<u>Suggested Questions</u>

- What are the biggest perceived challenges that the system faces?
- What is CCC doing to close equity gaps as part of the roadmap? How will decline in enrollment impact this goal?
- The State Auditor makes several recommendations to the Chancellor's Office as a result of findings related to funding for full-time faculty. Are any of these recommendations difficult to implement? If so, for what reasons?
- The 2022 Budget Act included $10 million Proposition 98 General Fund to support the sustainable implementation of EEO best practices to diversify community college faculty, staff, and administrators. To date, how much funding has been disbursed and for what activities?

The Governor's multiyear framework for higher education calls for increasing intersegmental collaboration to achieve compact and CCC roadmap goals.

- Given that collaboration promotes the efficient and effective use of state resources, what can the legislature expect from intersegmental partnerships?
- What intersegmental efforts have evolved to streamline processes and increase efficiency?
- What policy changes have you made to avoid duplication and leverage existing strengthens of other segments?

The Legislature authorized CCC to offer limited number of BA degrees, and it further established a process for resolving disputes around program duplication with CSU and UC.

- What efforts are you making internally to avoid duplication with CSU and UC?
- What efforts are you making internally to maintain collaborative intersegmental partnerships?

Staff Recommendation. Hold Open

Issue 1B: Student Housing at Community Colleges

Panel

- Michelle Nguyen, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Daisy Gonzales, Interim Chancellor, California Community Colleges

Available for additional details and questions: Lizette Navarette, California Community Colleges Chancellor's Office

Governor's Budget

Governor Proposes to Delay Some Student Housing Grant Funding. In response to a projected state budget deficit, the Governor proposes various budget solutions to achieve near-term General Fund savings. One set of budget solutions involves delaying certain funding to later years. Within higher education, one of the Governor's largest proposed funding delays is to move $250 million in student housing grant funds from 2023-24 to 2024-25. Delaying this amount would leave $500 million (of the originally intended $750 million) available for new housing projects in 2023-24. The specific impact of the delay on each of the segments would depend upon how much, if any, grant funding they receive in 2023-24. (Under statute, of total grant funding, 50 percent is for CCC, 30 percent is for CSU, and 20 percent is for UC.)

Governor Also Proposes to Delay Revolving Loan Funds. The Governor also proposes to delay the launch of the California Student Housing Revolving Loan Program by one year—pushing back the start from 2023-24 to 2024-25. Additionally, rather than providing program funds of $900 million the first year and another $900 million the following year, the Governor proposes providing $650 million the first year (2024-25) and $1.15 billion the next year (2025-26).

Background

California's housing crisis threatens the state's higher education goals of increasing access and improving affordability. For most students, housing costs are higher than tuition. Despite a significant recent student housing building boom at both the University of California (UC) and California State University (CSU), many campuses report waiting lists for on-campus housing, and students struggle to find affordable and safe off-campus options. Campus housing programs, which suffered losses during the COVID-19 pandemic, are struggling to fund new construction or renovation projects that keep student costs down and address local government and neighborhood concerns.

The need for more student housing on or around campuses is clear:

- Homelessness is prevalent across California's three higher education segments, with 1 in 20 students at UC, 1 in 10 students at CSU, and 1 in 5 students at California Community Colleges (CCC) reporting experiencing homelessness at some point during the academic year. Even more students experience some form of housing insecurity. For example, 16 percent of UC students in 2020 reported sleeping in nontraditional housing arrangements (such as a hotel, transitional housing, or outdoor location) because they lacked permanent housing.
- Affordable, on-campus housing is a benefit to students. A report to the CSU Board of Trustees in July 2020 noted that research across college campuses nationally and within the CSU suggest that students living on campus have higher grade point averages and lower academic probation rates, higher retention and graduation rates, and shorter time to graduation than their off-campus peers.
- Insufficient student housing can hinder campuses' ability to increase enrollment and serve more Californians. Both UC Davis and UC Santa Cruz, for example, have agreements with local governments that limit increased enrollment unless housing is added to accommodate that growth. CSU Humboldt has launched a plan to become a polytechnic university and more than double its student body in the next decade, but campus officials note that on-campus housing must be built before dramatically increasing enrollment. The local housing market cannot accommodate thousands of new students.

Historically, student housing has rarely been a discussion point for the education subcommittee, as the state does not traditionally support housing costs and has left campuses and the systems to develop and support their own housing programs, supported by student rent. Given the state's housing crisis, however, that is changing. In urban areas, local market rental rates – among the highest in the country - are forcing students to pack into apartments or homes, and in rural areas, many campuses do not have enough local housing to accommodate current or future enrollment levels.

CCC Housing Is Mostly at Rural Colleges and Decades Old. Prior to 2019, 11 community colleges had student housing programs. Almost all of these colleges were located in rural areas and had longstanding housing programs. In 2019, Orange Coast College opened a student housing facility with 800 beds. This student housing facility is the largest among the community colleges (more than four times larger than at any other, accounting for about one-third of all community college beds in the system). Santa Rosa Junior College recently secured financing for a 352-bed project through the California School Finance Authority. The authority completed a $68.3 million revenue bond sale in summer 2021 for the project, which is intended to address severe housing shortages and high rental costs in the area due in part to recent wildfires. Community college districts also have the ability to utilize general obligation bonds, which could be used to support housing projects if local voters approve.

CCC Campus	Beds
Cerro Coso College	50
College of the Redwoods	150
College of the Siskiyous	121
Columbia College	196
Feather River College	238
Lassen Community College	108
Orange Coast College	800
Reedley College	140
Shasta College	126
Sierra College	120
Taft College	150
West Hills College Coalinga	169
Total	**2368**

Data compiled by the Chancellor's Office indicates that students pay on average about $5,800 per year in a two-person room. These costs do not include food.

Higher Education Student Housing Grant Program, and Capacity Expansion Grant Program (2021). SB 169 (Committee on Budget and Fiscal Review), Chapter 262, Statutes of 2021, created two new programs to support affordable student housing at the UC, CSU and CCC, and campus expansion projects at UC and CSU. SB 169 appropriated $500 million one-time General Fund in 2021-22 for student housing projects and included legislative intent to provide $750 million in 2022-23 and $750 million in 2023-24 for this purpose. These appropriations have the following proportions by segment: 50 percent to CCC, 30 percent to CSU, and 20 percent to UC. The law created a process for campuses to propose housing projects by October 2021 for inclusion in the subsequent budget act. The law also created the campus expansion program with legislative intent language to provide funding for this program in the future. Of the total $2 billion one-time General Fund for the Higher Education Student Housing Grant program in 2021-22, $25 million was specifically available for CCC planning grants for student housing.

On March 1, 2022, DOF provided the Joint Legislative Budget Committee a list of projects proposed to be funded with the 2021-22 appropriation and documented their overall application process to the Legislature in budget subcommittee hearings. DOF's proposed list of projects totaled $488 million for the first round of funding. DOF received 115 applications for the first round of funding, consisting of 73 planning grant applications and 42 construction grant applications. The applications in total requested $3 billion in grant funding, surpassing both the $500 million designated for the first round and the $2 billion designated for all three funding rounds combined. Short- and long-term solutions through the Budget Act of 2022 remedied this oversubscription problem.

Higher Education Student Housing Actions (2022). To address oversubscription issues with the grant program, the Budget Act of 2022 included an additional $2 billion General Fund for student housing projects across the UC, CSU, and CCC. This augmentation raised the total amount of student housing funding over fiscal years 2021-22 to 2024-25 from $2 billion to $4 billion General Fund. Of the additional amount included in the new budget agreement, $200 million was scored to 2021-22, $900 million is scored to 2023-24, and $900 million is scored to 2024-25. Moreover, the budget agreement made the following changes to student housing in trailer bills AB 183 (Committee on Budget), Chapter 54, Statutes of 2022 and AB 190 (Committee on Budget), Chapter 572, Statutes of 2022:

- Approved all UC, CSU, and CCC student housing construction grant projects deemed eligible by the Department of Finance (DOF) from the first round of applications submitted as part of the October 2021 application process. This change is in AB 183 and documented in the next section.
- Appropriated roughly $1.4 billion General Fund to the Higher Education Student Housing Grant Program to cover the costs of these projects as well as CCC planning grants selected by the DOF in the first year of the Program. This change is also in AB 183 and documented in the next section.
- Changed subsequent rounds of the student housing grant program's application process, including the administrator of the program to allow the higher education segments to nominate projects, incorporating the Legislative Analyst Office's recommendations to address cost overruns, project requirements to have contingency plans, a notification process, and reporting requirements for all projects funded in the first application round and any submitted project proposals in subsequent rounds. This change is in AB 183.
- Established a new California Student Housing Revolving Loan Fund to provide zero-interest loans to qualifying campuses of the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC) for construction of affordable student, faculty, and staff housing. States that the fund will receive $1.8 billion in 2023-24 and 2024-25 and creates a process for the California School Finance Authority and the California Educational Facilities Authority to create and receive applications from campuses, and distribute funds. This change is in AB 190.

The state made its first round of student housing grants on July 1, 2022. Roughly $1.4 billion General Fund to the Higher Education Student Housing Grant Program to cover the costs of these projects as well as CCC planning grants selected by the DOF in the first year of the Program. Projects that DOF determined as eligible were fully funded in their requested amounts while ineligible projects went unfunded. The table below detail the 12 CCC campuses that received construction grant awards in the Budget Act of 2022.

Table 1: CCC Affordable Student Housing Construction Grant Awards in 2022 ($ in thousands)

	Funding		Beds	
California Community Colleges				
Campus	**State**	**Nonstate**	**Affordable**	**Standard**
Sierra	$80,497	—	354	—
Compton	80,389	—	250	—
Ventura	62,923	—	320	—
Canyons	61,858	—	100	—
Bakersfield	60,245	—	154	—
Cosumnes River	44,144	—	145	—
Lake Tahoe	39,369	—	100	—
Fresno City	34,080	—	360	—
Siskiyous	32,613	—	252	—
Napa Valley	31,000	$97,000	124	404
Santa Rosa	15,000	63,288	70	282
Imperial Valley[a]	4,554	4,708	78	—
Subtotals	**($546,672)**	**($160,288)**	**(2,229)**	**(686)**

CCC Implementation Updates. Grant program guidelines direct the campuses submitting projects to build funds into the submitted project bids for project contingency, to identify the non-grant fund sources and their respective balances that would be available to cover costs overruns, and to cover any costs above those identified in their application using the non-state funds. Similar to what the CSU reported to the subcommittee on March 9, 2023, several CCC districts experienced cost overruns for a variety of reasons. For example, the unprecedented rise in inflation drove construction costs beyond initial projections. Another reason is rising costs due to contractors' attempts to mitigate risk and uncertainty in the supply chain. Due to these issues plus other issues such as labor shortages, pandemic-related backlogs, and soaring construction demand, the construction cost index forecasts a 14.1 percent year-over-year increase in construction costs. These cost shortfalls are causes for delays in some projects. Soil mitigation and weather impacts also caused delays for some projects. Nevertheless, the Chancellor's Office indicates that most colleges are either on target or scheduled to break ground in 2023.

CCC Grant Proposals for 2023-24. Table 2 shows the statutory allotments per segment remaining for the Higher Education Student Housing Grant Program. According to updated estimates, $545 million General Fund in grant funding remains available for CCC.

Table 2: Total and Remaining Affordable Student Housing Construction Grant Awards ($ in millions)

	Grant Awards				Statutory Allotments	
	Planning[a]	Construction[a]	Total		Total[b]	Remainder
CCC	$17	$547	$564		$1,109	**$545**
CSU	0.3	498	499		655	**157**
UC	0.3	389	389		437	**48**
Totals	**$18**	**$1,434**	**$1,452[c]**		**$2,202**	**$750**

[a] Awards for intersegmental projects are distributed to each affected segment.
[b] As calculated by Department of Finance—first subtracting the planning grant funds, then splitting the construction grant funds 50 percent to CCC, 30 percent to CSU, and 20 percent to UC.
[c] Funded from appropriations in 2021-22 ($700 million) and 2022-23 ($752 million).

In January 2023, the California Community Colleges Chancellors Office received the second round of Higher Education Student Housing Grant Program construction application proposals. There are 21 proposals, of which four are intersegmental applications and 17 are non-intersegmental. The total need for this round of submissions totals approximately $1.5 billion in requested state funding and $600 million in local funding for a little over $2 billion in total project costs- an amount that exceeds the CCC's statutory allotment. The table below displays the projects according by ranking according to the Chancellor's Office, total beds by type, and estimated project costs.

Rank	District & Campus	Total Bed	State Funded Affordable Beds	Standard Beds	Total Project Cost ($ in millions)	State Grant Funding Requested ($ in millions)	Non-State Contribution ($ in millions)
1.	Cerritos CCD (Cerritos College)	396	396	--	80	**68**	12

2.	Merced CCD (Merced College) and UC Merced Intersegmental	488	478	10	100 (split by CCC and UC)	**100 ($ 50 million to UC and $50 million to CCC)**	0
3.	Redwoods CCD (College of the Redwoods)	215	181	34	53.3	**28.4**	24.9
4.	Riverside CCD (Riverside City College) and UC Riverside Intersegmental	1,553	652	901	312 (split by CCC and UC)	**125 ($75 million to CCC and $50 million to UC)**	187
5.	San Mateo County CCD (College of San Mateo)	312	310	2	65.8	**55.8**	10
6.	San Diego CCD (San Diego City College)	808	788	20	222.8	**75**	147.8
7.	Cabrillo CCD (Cabrillo College) and UC Santa Cruz Intersegmental	624	624	--	181.7	**111.8**	69.9
8.	North Orange County CCD (Cypress College)	306	302	4	79.6	**73.6**	6.0
9.	Antelope Valley CCD (Antelope Valley College)	600	300	300	60.7	**60.7**	0
10.	State Center CCD (Fresno City College) and CSU Fresno	200	194	6	65	**58.5**	6.5
11.	Victor Valley CCD (Victor Valley College)	239	190	49	54.9	**43.9**	11.0
12.	San Jose-Evergreen CCD (Evergreen Valley College)	353	352	1	124.7	**109.7**	15
13.	Ventura CCD (Oxnard College)	211	202	9	65	**64.3**	0.7
14.	Feather River CCD (Feather River College)	130	128	2	71.8	**71.8**	0
15.	Yosemite CCD (Columbia College)	124	124	--	64.2	**64.2**	0
16.	Los Rios CCD (Sacramento City College)	318	318	--	57.2	**57.2**	0
17.	Long Beach CCD (Long Beach City College)	422	411	11	103.9	**98.7**	5.2
18.	El Camino CCD (El Camino College)	306	306	--	67.5	**67.5**	0
19.	South Orange County CCD (Saddleback College)	400	400	--	103.9	**98.7**	5.2
20.	Southwestern CCD (Southwestern College, Chula Vista)	420	420	--	80	**80**	0

21.	Lassen CCD (Lassen Community College)	117	117	--	61.6	**61.6**	0
TOTALS		8,542	7,193	1,259	1,970	**1,474**	

LAO Assessment and Recommendations

***LAO Assessment:* Proposed Housing Projects Are in Early Phases.** Most of the CSU and UC housing projects submitted for possible 2023-24 funding are in early planning phases. Though the CCC housing projects had not yet been submitted at the time of the LAO's student housing publication, the LAO believes that the CCC are also in early planning phases. Even the projects the state funded as part of the first round generally remain in early planning phases. Moreover, if all future project phases go smoothly, most projects still take one or two years of planning and design work before entering the construction phase. Some projects take longer to reach the construction phase, as environmental issues, litigation, and the need to redesign, among other issues that are not fully within campuses' control, can arise during project development. Construction, in turn, can last a couple of years. Given these timing issues, delaying or removing funding for the segments' housing project proposals would have no near-term impact on students. (Delaying project funding, however, likely would contribute to construction cost escalation, as construction costs tend to increase over time.)

***LAO Assessment:* Results of First-Round Grants Are Not Yet Available.** No housing units receiving Higher Education Student Housing Grant funds have yet been completed. The program, however, is intended to reduce housing charges from what they otherwise would have been for those students eventually offered one of the newly constructed housing units. Data is not yet available on the impact of reduced housing charges on college affordability and student housing insecurity. Data also is not yet available on how state housing grant funds are affecting the overall housing supply on and off campus. Delaying additional housing funds would provide time for the state to assess the impact of the first round of grant funding.

***LAO Assessment:* Need for State Subsidy Remains Unclear.** Prior to the state creating the Higher Education Student Housing Grant program, nearly all campus housing projects were self-supporting. Moreover, even without state support, construction of student housing generally outpaced enrollment growth over the past several years. Furthermore, campuses interested in expanding their housing capacity have ways to reduce project costs without state support. The most common way campuses contain their student housing costs are by redesigning facilities. For example, a project originally designed to contain more expensive apartments with individual kitchens and bathrooms might be redesigned to be a more traditional residential hall with common bathrooms and no kitchens.

***LAO Assessment:* Other Programs Might Be More Effective Way of Promoting College Affordability and Housing Security.** Whereas the first-round Higher Education Student Housing Grant program is expected to provide affordable housing to fewer than 7,400 students, the state has hundreds of thousands of low-income students enrolled across the segments. Using the state's ongoing financial aid programs to assist with nontuition costs potentially could benefit many more students much more quickly than the housing grant program. Moreover, using the segments' rapid rehousing programs might be a more targeted approach to helping those students who need immediate housing assistance. Compared to the one-time funding for the student housing grants, these kinds of programs rely on ongoing funds. The state, however, already has notably augmented ongoing funding for these programs in recent years. For example, the MCS program—just one of several ongoing financial aid programs expanded in recent years—is benefitting an estimated 217,000 more students in 2022-23 compared to 2021-22.

<u>LAO Recommendation:</u> Could Expand Budget Solutions List by Removing Student Housing Funds. Given all these considerations, together with the state's budget condition, the Legislature could expand its budget solutions list by removing all $750 million in scheduled Higher Education Student Housing Grants funds. Relative to the Governor's budget, this option provides an additional $500 million in General Fund savings in 2023-24, while also providing an additional $250 million in savings in 2024-25. As projects are in early phases and campuses have options for building student housing without state support, removing these grant funds could be one of the relatively less disruptive ways to achieve state budget solutions. These same basic points also can made with the California Student Housing Revolving Loan Program. Rather than delaying funding, the Legislature could remove the $1.8 billion proposed for this program over 2024-25 and 2025-26. Together, the two housing programs could generate as much as $2.6 billion in additional General Fund savings over the 2023-24 through 2025-26 period.

<u>LAO Recommendation:</u> Could Prioritize Academic Facilities When One-Time Funds Are Available. If the state were to have one-time funds available, it could prioritize renovating existing academic facilities. Many of the segments' academic facilities are decades old. Some of these facilities have building components that have reached the end of their useful life. Because funding has not kept pace with emerging capital renewal needs, the segments have large and growing backlogs of academic facility projects. The latest estimates show systemwide capital renewal backlogs (also known as deferred maintenance) of roughly $700 million at CCC, $6.5 billion at CSU, and $7.3 billion at UC. Unlike self-supporting facilities, academic facilities traditionally have relied primarily on state funding and do not have ready access to alternate means of funding. After the Legislature has ensured the segments' existing academic facilities are kept in good condition, it could consider facility expansions—either of academic or nonacademic space, as it deems warranted.

<u>LAO Recommendation:</u> Could Prioritize Revolving Loans Over Grants. Were the Legislature to desire to provide one-time funds for student housing, the revolving loan program likely yields greater benefits. Under the loan program, campuses generally cover a much higher share of total project costs compared to the grant program. That is, under the grant program, the state is funding a relatively high share of costs (100 percent of costs for some projects), whereas campuses would be covering 100 percent of costs for all housing projects under the loan program (except for the financing costs, which would be free of charge). Moreover, the benefit of zero-cost financing might be sufficient to make many on-campus housing projects financially viable. CSU and UC already have expressed interest in participating in the program, and the LAO understands at least some community colleges are interested. Particularly as interest rates rise within the bond market, more campuses likely would turn to the revolving loan program as an attractive financing option. Furthermore, as campuses repay their loans, the state would be able to use the replenished account to issue new loans, likely allowing the state to support more affordable beds over time. The revolving loan program has the added benefit of being somewhat more flexible than the grant program, without a set split among the three segments. With this flexibility, the administering entities might be able to direct the financing benefit to those housing projects that are most likely to yield the greatest benefits regardless of segment.

<u>LAO Recommendation:</u> Could Prioritize University Projects Over Community College Projects. Were the Legislature to desire to provide one-time grant funds for housing projects in 2023-24, it could consider prioritizing university projects. The university project proposals were submitted on time. CSU and UC have much more experience developing, financing, and operating student housing programs than CCC. For these reasons, university projects have a greater probability of being successfully implemented. In addition, more CSU and especially UC students live away from home compared to CCC students, likely making on-campus housing a more attractive option for university students. Were the Legislature to provide grant funds in 2023-24, it could proceed with a subset of the highest-payoff university projects submitted. The Legislature could prioritize among university project proposals consistent with the statutory prioritization criteria, which include unmet housing demand and the state cost per bed, among other factors. Based upon these criteria, the university projects with the greatest payoffs are those at CSU Sacramento ($41 million), CSU San Jose ($89 million), and UC San Diego ($150 million). Together, these projects are requesting a total of $280 million in state grant funding (less than the $500 million available under the Governor's budget). (Approving the UC San Diego project, however, would put UC above its statutory program funding cap.)

Suggested Questions

- Please provide a brief update on the status of each construction and planning project that was funded in 2022 Budget Act. Have there been any overall issues with costs, deadlines, anything else?
- Please describe the Chancellor's Office's process for selecting and ranking projects for the 23-24 grant cycle.
- The requested amount of state funding for the 21 projects exceeds the community colleges' remaining statutory grant funding allotment. What are the Chancellor's Office recommendations for project selection to the legislature if the state is unable to fund all 21 projects?
- If the state cannot fund all 21 projects, then what would happen to the unfunded projects?
- How would the Governor's proposed funding delay affect this process and number of projects selected in 2023-24? Are there any shovel-ready projects that could be at risk due to the potential delay?
- Does the Chancellor's Office have any comment on the LAO's assessment and recommendations?
- Does the Chancellor's Office have any feedback on the revolving loan fund program language? Is there anything for the Legislature to consider about program structure before the program begins?

Staff Recommendation. Hold Open

Issue 1C: Cost of Living Adjustments for Apportionments and Categorical Programs

Panel

- Madison Sheffield, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Daisy Gonzales, Interim Chancellor, California Community Colleges

Available for additional details and questions: Lizette Navarette, California Community Colleges Chancellor's Office

Governor's Budget

CCC Apportionments. The Governor's budget proposes an increase of $652.6 million Proposition 98 General Fund ongoing to provide an 8.13-percent cost-of-living adjustment (COLA) for Student Centered Funding Formula apportionments.

CCC Categorical Program COLA. The Governor's budget proposes an increase of $92.5 million Proposition 98 General Fund ongoing to provide an 8.13-percent COLA for the Adult Education Program, apprenticeship programs, CalWORKs student services, campus child care support, Disabled Students Programs and Services, Extended Opportunity Programs and Services, and mandates block grant.

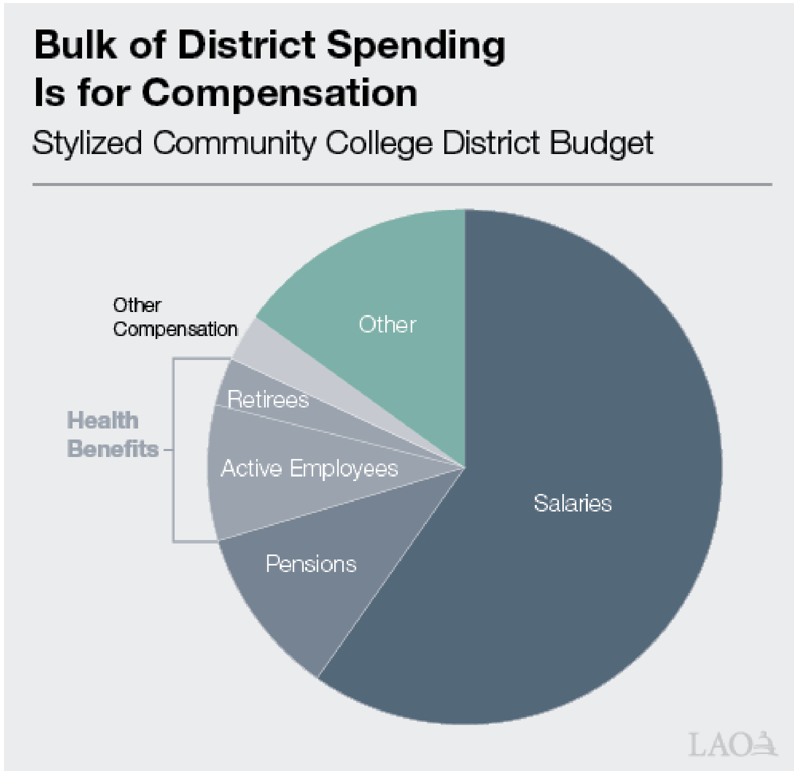
Governor Intends to Present a Categorical Program Flexibility Proposal in Spring. To support the roadmap and provide districts with an opportunity to maximize use of their funds, the Administration intends to introduce a mechanism as part of the May Revision to provide additional flexibility in the spending of certain categorical dollars to community college districts that are making progress toward the roadmap goals. Under the proposal, districts would have the option to submit a streamlined report for the specified programs and to spend funds flexibly across them.

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.

How COLA Rate Is Determined. 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 80 to 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 non-compensation-related expenses.



COLA for Apportionments and Base Increase above COLA (2022). The Budget Act of 2022 included $493 million ongoing Proposition 98 General Fund to colleges for a 6.56 percent COLA for apportionments. The budget also includes a $600 million ongoing Proposition 98 General Fund base increase above the COLA.

Legislative Analyst's Office Assessment and Recommendations

LAO Assessment: Districts Likely to Feel Salary Pressure in 2023-24. Over the past year, both inflation and wage growth (across the nation and in California) have been at their highest levels in several decades. Elevated inflation and broad-based wage growth are expected to continue in 2023-24. Community college districts, in turn, are likely to feel pressure to provide their employees with salary increases. The LAO estimates that every one percent increase in CCC's salary pool would cost approximately $70 million.

LAO Assessment: Districts' Other Core Operating Costs Also Are Likely to Increase. Districts' pension costs are expected to increase, albeit modestly compared with recent years. Based on current assumptions, the district contribution rate to the California State Teachers' Retirement System (CalSTRS) stays constant at 19.1 percent in 2023-24, while the district contribution rate to the California Public Employees' Retirement System (CalPERS) increases from 25.4 percent to 27 percent. (About half of CCC employees participate in CalSTRS, with the other half participating in CalPERS.) Community college pension costs are expected to increase by about $73 million in 2023-24. (Unlike in some recent years, the Governor does not have proposals addressing unfunded retirement liabilities or providing district pension relief.) Similar to the other education segments, community college districts generally also expect to see higher costs in 2023-24 for health care premiums, insurance, equipment, supplies, and utilities.

LAO Assessment: ***State Likely Has Limited Capacity to Fund a Higher COLA.*** Since the Governor's budget was released, the state has received updated data used to calculate the COLA rate. Based upon the new data, the estimated COLA rate is somewhat higher (8.40 percent). The COLA rate will be finalized in late April when the federal government releases the last round of data used in the calculation. Though the final rate likely will be even higher than the 8.13 percent COLA rate proposed in January, we are concerned with the state's ability to sustain a higher rate. As the LAO previously discussed in subcommittee hearings, the LAO estimates that the Proposition 98 minimum guarantee for 2023-24 could be lower than the January budget level due to expected downward adjustments in General Fund revenues. If this were to be the case, the revised minimum guarantee might be unable support even the COLA rate proposed in January, making a higher May COLA rate further out of reach. Growth in the minimum guarantee also might be unable to support the full statutory COLA rates over the subsequent few years.

LAO Assessment: ***Per-Student Funding Is Much Higher Today Than Before the Pandemic.*** The LAO believes most community college districts likely could manage a smaller apportionment COLA without notable fiscal difficulty. Not only are staffing levels down, along with accompanying staffing costs, but budgeted per-student Proposition 98 funding is at an all-time high. In 2018-19 (the year before the pandemic), community college per-student funding also was at an all-time high. Under the Governor's budget, per-student funding would be approximately $700, or nearly seven percent higher than that pre-pandemic level after adjusting for inflation. Moreover, *actual* funding per student is significantly above budgeted funding per student. Though enrollment has dropped since 2018-19, funding has not been adjusted accordingly. Rather, a series of hold-harmless provisions has insulated community colleges from the fiscal impact of enrollment declines. The LAO estimates that current actual funding per student is approximately $3,000 (30 percent) higher than pre-pandemic levels after adjusting for inflation.

LAO Recommendation: ***Consider 8.13 Percent Apportionment COLA Rate an Upper Bound.*** By the May Revision, the Legislature will have updated information on a number of key factors, including General Fund revenues, the Proposition 98 minimum guarantee, and the statutory COLA rate. Based on these updated data, the Legislature will be able to finalize its apportionment COLA decision. Given the downside risks over the coming months, the Legislature could treat the 8.13 percent COLA rate as an upper bound in 2023-24. Were the estimate of the 2023-24 minimum guarantee to be significantly lower at the May Revision, however, the Legislature may wish to consider a lower rate than 8.13 percent. For planning purposes, each 0.5 percentage point reduction in the COLA rate would reduce apportionment costs by approximately $40 million. (In addition to the risk of General Fund revenue and the minimum guarantee being revised downward, the amount available for an apportionment COLA could depend on the issue discussed below—a potential shortfall in the Governor's budget relating to the apportionment formula.)

Suggested Questions

- Does a 8.13 percent COLA keep up with growing costs of retirement and compensation as well as other cost pressures to the CCC system?
- Why is an 8.13 percent COLA proposed for select categorical programs and not others such as the Puente Project, Mathematics, Engineering, Science Achievement (MESA), part-time faculty office hours and part-time faculty compensation?

Staff Recommendation. Hold Open

Issue 1D: Enrollment & Recruitment and Retention

Panel

- Madison Sheffield, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Daisy Gonzales, Interim Chancellor, California Community Colleges

Available for additional details and questions: Lizette Navarette, California Community Colleges Chancellor's Office

Governor's Budget

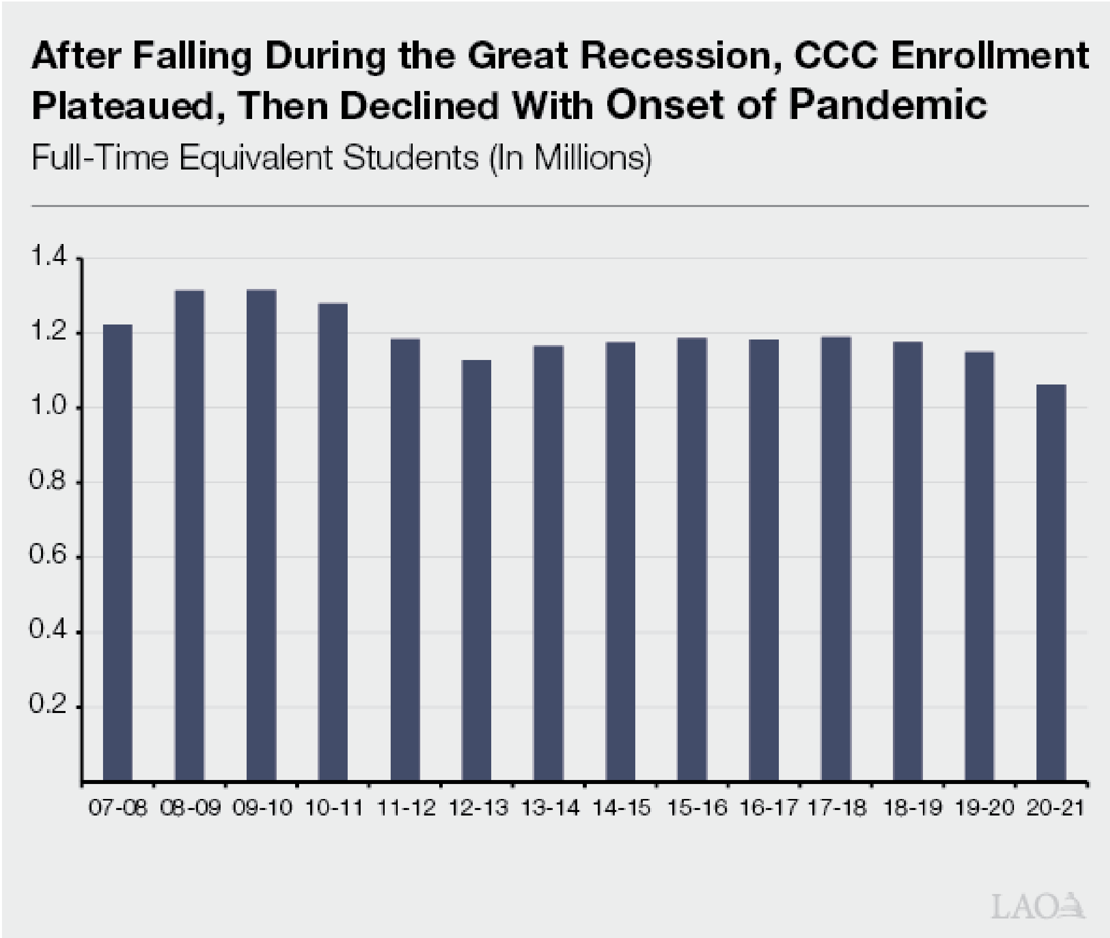
Enrollment Growth. The Governor's budget proposes $28.8 million Proposition 98 General Fund ongoing to support 0.5-percent enrollment equating to about 5,500 additional FTE students) in 2023-24. The state also provided funding for 0.5 percent systemwide enrollment growth in 2022-23 and 2021-22. Consistent with regular enrollment growth allocations, each district in 2023-24 would be eligible to grow up to 0.5 percent. To be eligible for these growth funds, however, a district must first recover to its pre-pandemic enrollment level. Provisional budget language would allow the Chancellor's Office to allocate ultimately unused growth funding to backfill any shortfalls in CCC 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 apportionment 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. After addressing any apportionment shortfalls, remaining unused funding may be redirected to any other Proposition 98 purpose.

Student Enrollment and Retention. The Governor's budget includes an increase of $200 million Proposition 98 General Fund one-time to continue to support community college efforts and focused strategies to increase student retention rates and enrollment, building on an investment of $150 million one-time Proposition 98 General Fund and $120 million Proposition 98 General Fund one-time for student enrollment and retention in the Budget Acts of 2022 and 2021, respectively. 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.

Background

Under the state's *Master Plan for Higher Education* and state law, community colleges operate as open access institutions. That is, all persons 18 years or older may attend a community college. (While CCC does not deny admission to students, there is no guarantee of access to a particular class.) Many factors affect the number of students who attend community colleges, including changes in the state's population, particularly among young adults; local economic conditions, particularly the local job market; the availability of certain classes; and the perceived value of the education to potential students.

Prior to the Pandemic, CCC Enrollment Had Plateaued. During the Great Recession, community college student demand increased as individuals losing jobs sought additional education and training. Yet, enrollment ended up dropping as the state reduced funding for the colleges. A state funding recovered during the early years of the economic expansion (2012-13 through 2015-16), systemwide enrollment increased. The figure below shows that enrollment flattened thereafter, as the period of economic expansion continued and unemployment remained at or near record lows.

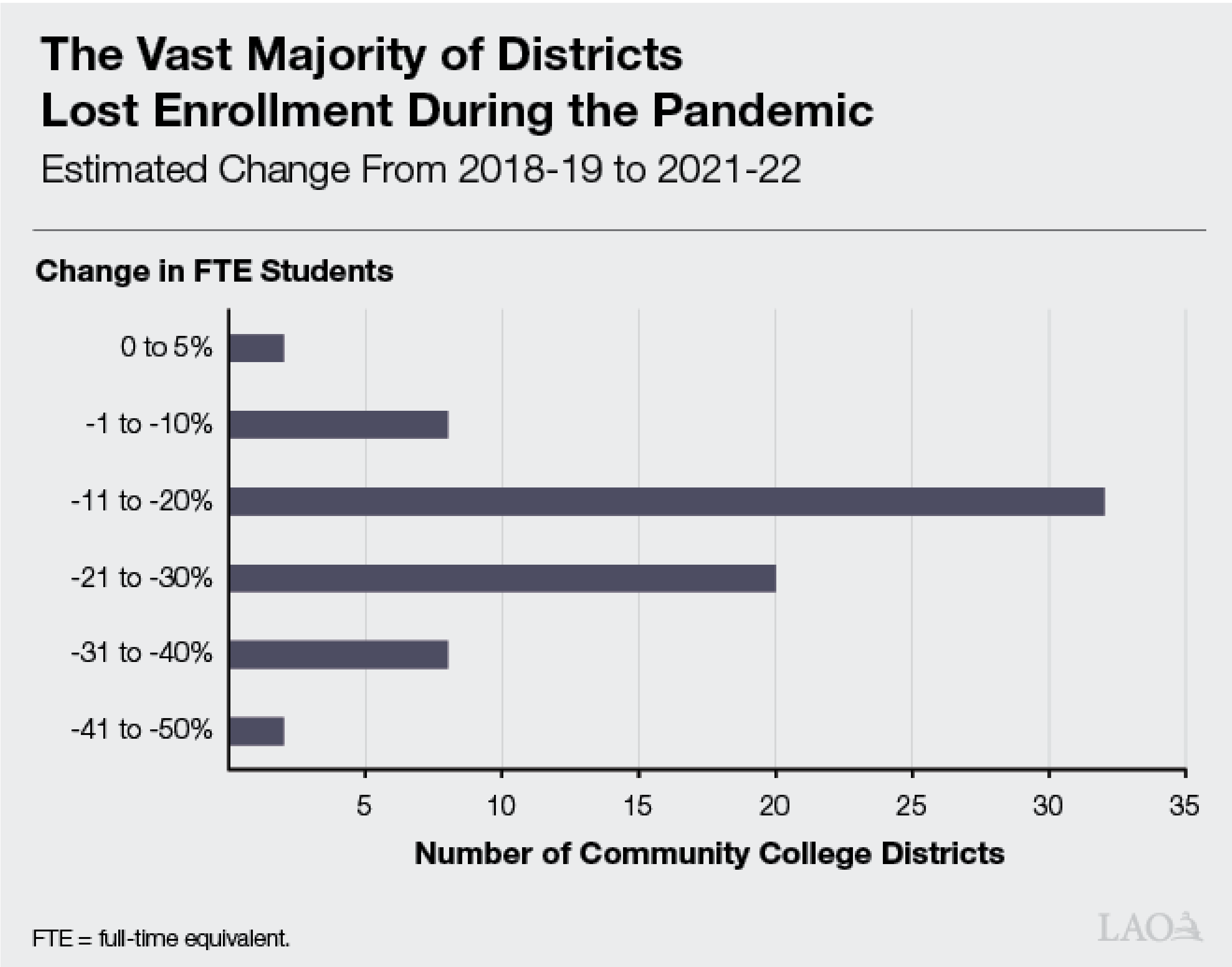


CCC Enrollment Has Dropped Notably Since Start of Pandemic. Although four-year institutions both in California and elsewhere are seeing much more modest declines, the impacts the CCCs are experiencing in California are highly consistent with what is being observed across the country among community colleges when examined under conditions that hold the method consistent across institutions, something not typically done in most lay reporting. For example, when comparing the results of the California Community Colleges to other public two-year colleges using the National Center for Educational Statistics, the decline in headcount across the California Community Colleges is highly similar to that exhibited by public community colleges across the country. This clear divergence in pandemic impacts for different segments of higher education mirrors the way the pandemic has interacted with and exacerbated existing inequality such that, while the health and economic impacts of the pandemic have affected us all, better resourced institutions, communities, and individuals have experienced far less severe impacts and much quicker recovery than others.

Resident Undergraduate Full-Time Equivalent (FTE) Students Across CCC System

	2021-22 Actual	2022-23 Revised	2023-24 Proposed	Change from 2022-23	
				Amount	Percent
California Community Colleges[a]	1,107,128	1,106,951	1,106,451	-500	-0.0[b]

Enrollment Declines Have Affected Nearly Every District. The figure from the LAO below shows that most community college districts experienced enrollment declines between 2018-19 and 2021-22. Thirty-two districts (nearly half of all districts) experienced declines between 11 percent and 20 percent, with another 30 districts experiencing declines of more than 20 percent. Several of the districts with especially heavy enrollment loss had been experiencing enrollment declines prior to the pandemic due to factors such as declining population in the region or well-publicized accreditation problems. The districts that grew or had relatively small enrollment declines during this period were a mix of urban, suburban, and rural districts. Several of these districts increased enrollment among nontraditional students, including dually enrolled high school students and incarcerated students.



Several Factors Likely Contributing to Enrollment Drops. 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. These populations, across a range of indicators, are experiencing far greater health and economic impacts of the pandemic. Over the past couple of years, rising wages, including in low-skill jobs, and an improved job market appear to be major causes of reduced community college 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.

Colleges Have Been Trying a Number of Strategies to Attract Students. Using federal relief funds, as well as state funds provided in 2021-22 and 2022-23, colleges have been trying various strategies to attract students. All colleges have been offering students special forms of financial assistance. For example, all colleges provided emergency grants to financially eligible students that could be used for any living expense. 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, including in languages other than English. Additionally, many colleges have increased outreach to local high schools, and many colleges have created phone banks to contact individuals who recently dropped out of college or had completed a CCC application recently but did not register for classes. In addition, a number of colleges have begun to offer more flexible courses, with shorter terms and more opportunities to enroll throughout the year (rather than only during typical semester start dates). The state has used surpluses in 2021 and 2022 as opportunities to invest in multiple initiatives to help colleges recruit and retain students.

COVID-19 Block Grant (2022). The 2022 Budget Act, through AB 182 (Committee on Budget), Chapter 53, Statutes of 2022, established the Learning Recovery Emergency Fund for emergency COVID-related learning recovery initiatives at the TK-12 schools and community colleges. As it relates to the CCC system, AB 182:

- Provided $650 million one-time Proposition 98 funding for the California Community College COVID-19 Recovery Block Grant to assist with basic needs, mental health needs, professional development opportunities for faculty and student services professionals needed to continue educational instruction due to COVID-19, investments to close the digital divide, and other COVID-19 related support. As a condition of receiving funds, requires districts to report, by March 1, 2023, to the Chancellor's Office metrics on the provision of employer-sponsored health insurance for part-time faculty in the 2021–22 academic year and report, by March 1, 2026, metrics on the provision of employer-sponsored health insurance to part-time faculty in the 2024–25 academic year.

- Included legislative intent language stating that funds shall be used by CCC districts on activities that directly support students and mitigate learning loss related to COVID-19 impacts and that community college districts prioritize the use of these one-time funds for purposes, including, but not limited to, professional development, technology infrastructure, developing open education resources and zero-textbook-cost degrees, and supporting the mental health and wellness needs of students and staff.

CCC Recruitment and Retention Funding (2021 & 2022). The 2022 Budget Act provided $150 million one-time Proposition 98 General Fund to support community college efforts to increase student retention rates and enrollment by primarily engaging with former students who may have withdrawn from college due to the impacts of COVID-19, and with current and prospective students who are hesitant to remain or enroll in college due to the impacts of COVID-19. This effort built on a 2021 Budget Act appropriation of $100 million one-time Proposition 98 General Fund for similar purposes.

Legislative Analyst's Office Assessment and Recommendations

***LAO Assessment:* Likely That Most 2021-22 Growth Funding Will Not Be Earned by Districts.** As of June 2022 reporting by the Chancellor's Office, only about $1 million of $24 million in 2021-22 enrollment growth funding had been earned by districts. That same report also identified no apportionment funding shortfalls. The Chancellor's Office plans to release final 2021-22 enrollment and funding data by the end of February 2023. Any 2021-22 growth funds not earned by districts or needed for a funding shortfall would become available for other Proposition 98 purposes, including other community college purposes or Proposition 98 budget solutions.

***LAO Assessment:* Better Information Is Coming on 2022-23 Enrollment Situation.** As of this writing, forecasting 2022-23 community college enrollment is difficult given that the Chancellor's Office is still processing fall 2022 district enrollment submissions and the spring 2023 term is just beginning. (Based on preliminary data, systemwide fall 2022 enrollment could be flat or up somewhat compared to fall 2021, though a number of districts continue to report enrollment declines.) By the time of the May Revision, the Chancellor's Office will have provided the Legislature with initial 2022-23 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 2022-23 enrollment growth funds. Apportionment data for 2022-23, however, will not be finalized until February 2024, such that the Legislature might not want to take any associated budget action until next year. At that time, if the entire 2022-23 enrollment growth amount ends up not being earned by districts or needed for any apportionment shortfalls, the Legislature could redirect available funds for other Proposition 98 purposes, including potential Proposition 98 budget solutions.

***LAO Assessment:* Best Indicator for 2023-24 Enrollment Likely Will Be Updated Data on Current Year.** If some districts are on track to grow in the current year, it could mean they might continue to grow in the budget year. By providing funding for enrollment growth in 2023-24, the state could encourage and reward districts for expanding access to students.

***LAO Assessment:* Substantial Amount of Round-Two Student Outreach Funding Remains Available.** The state is not collecting CCC systemwide data on student outreach expenditures. However, based on our discussions with numerous administrators, districts will have funds still available from 2022-23 allocations for outreach and retention. Districts generally are wrapping up spending of 2021-22 funds for this purpose and just beginning to spend 2022-23 funds. Existing provisional language allows districts to spend these second-round funds through the budget year. In addition, districts have four more years (though 2026-27) to spend a total of $650 million in state COVID-19 block grant funds, which statute also allows colleges to use for enrollment and retention-related purposes. (The Chancellor's Office must report to the Legislature by March 2024 on initial district spending and outcomes using COVID-19 block grant funds.)

***LAO Assessment:* Mixed Results on Student Outreach Funding to Date.** Some districts might see enrollment increases in 2022-23, though the link to 2021-22 student outreach funds still is not well documented. Moreover, many districts expect to continue experiencing enrollment declines in 2022-23 despite the first-round of student outreach funds. Districts may not be able to counter the underlying economic factors they face to a notable degree. Over time, CCC enrollment has shown a close correlation with the job market, with a strong job market depressing CCC enrollment demand. Spending on advertising, phone calls, and other forms of outreach might not be sufficient to overcome these more fundamental drivers of CCC enrollment. However, to the extent districts consider these outreach and related activities effective in increasing enrollment, they can supplement their remaining student outreach funds with apportionment funding.

***<u>LAO Recommendation:</u>* Sweep 2021-22 Growth Funds.** Once 2021-22 enrollment and funding data are finalized, the LAO recommends the Legislature redirect any unearned enrollment growth funds for other Proposition 98 priorities. Based upon preliminary data, $23 million would be available for other priorities.

***<u>LAO Recommendation:</u>* Use Forthcoming Data to Decide Enrollment Growth Funding for 2023-24.** The LAO recommends the Legislature also use updated enrollment data, as well as updated data on available Proposition 98 funds, to make its decision on CCC enrollment growth for 2023-24. If the updated enrollment data indicate some districts are growing in 2022-23, the Legislature could view growth funding in 2023-24 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 overbudgeting in this area is low, as any unearned funds ultimately become available for other Proposition 98 purposes.

***<u>LAO Recommendation:</u>* Reject Proposal for More Enrollment and Retention Funding.** The LAO recommends that the Legislature reject the Governor's student outreach proposal. Given substantial round-two student outreach funding remains available, along with a substantial amount of other funding that can be used for student outreach, a strong case has not been made that additional funding is needed at this time. The Legislature could repurpose the associated $200 million in one-time funding for other high one-time Proposition 98 priorities or Proposition 98 budget solutions. The LAO for example cites funding for Facilities Maintenance in Issue 2 as a candidate for repurposed funds.

<u>Suggested Questions</u>

- The 2022 Budget Act included 1) $150 million one-time Proposition 98 General Fund to support community college efforts to increase student retention rates and enrollment and 2) $650 million one-time Proposition 98 funding for the California Community College COVID-19 Recovery Block Grant. For both of these investments:
  - To date, what steps have the districts taken to implement these initiatives? How much funding has been disbursed so far? Does the Chancellor's Office anticipate disbursing all funding by June 30?
  - Please share any data and reporting that the districts and Chancellor's Office has about these initiatives? Do we have any participation data or impacts for these initiatives on enrollment?
  - What challenges, if any, have districts encountered as it implements these initiatives?
  - Have there been any best recruitment and retention practices that is a commonality amongst districts?

- Were the recruitment and retention efforts funded with the $150 million in the 2022 Budget Act different than the efforts funded in the 2021 Budget Act? Were there any lessons learned from the 2021 Budget Act that affected how districts used the 2022 Budget Act funding?
- How was the $200 million in the Governor's budget determined to be an appropriate amount for recruitment and retention efforts? How does the Chancellor's Office envision the districts using this round of funding if included in the final budget agreement?
- How is the Administration define success as the CCC addresses enrollment declines?

<u>Staff Recommendation</u>. Hold Open.

Issue 2: Facilities Maintenance and Instructional Equipment

Panel

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

Governor's Budget

Reduces 2022-23 Budget Allocation for Physical Plant and Instructional Support Program by $213 Million. Funding for the program would decrease from $841 million to $628 million. The administration indicates that the resulting savings would be used to fund the Governor's enrollment and retention strategies proposal (discussed in Issue 1D).

Adds Child Care Facilities as Allowable Use of Maintenance Categorical Program Funds. Proposed trailer bill language gives campuses the option to use Physical Plant and Instructional Support funds for "child care facility repair and maintenance." Current law is silent on this issue. Both DOF and the CCC Chancellor's Office assert that nothing in statute or community college regulations currently precludes districts from using categorical programs funds for this purpose. No prohibition exists either for child care centers that also are used for academic purposes (as part of a laboratory whereby CCC child development students observe and interact with children, for example) or for child care purposes only. (As of this writing, the Chancellor's Office has not confirmed the number of child care centers of either type but indicates most currently serve a dual purpose.) By specifying child care centers in statute, DOF has indicated it intends to signal the administration's support for community college districts using state funds for this type of facility.

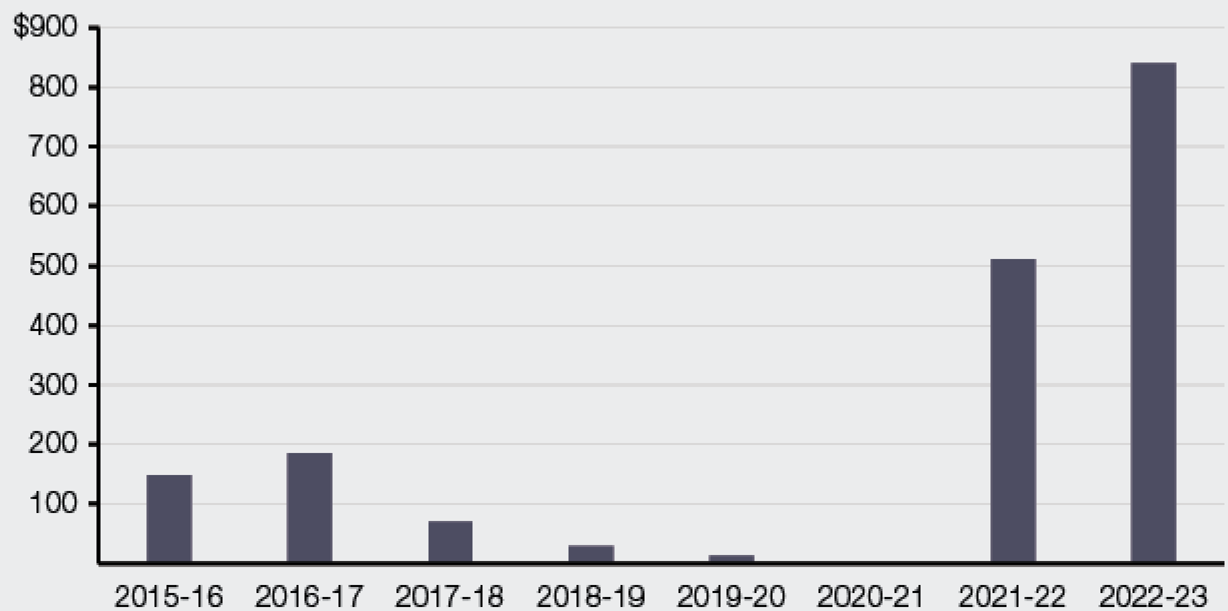
Background

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 $1.8 billion for the program. Most recently, the 2022 Budget Act provided $841 million Proposition 98 General Fund, which is the largest appropriation for these purposes. Districts have until June 2027 to spend these funds. Based on reporting by districts in late fall 2022, districts plan to spend about 75 percent ($630 million) of their 2022-23 funds on various deferred maintenance and related facilities projects, with the remaining funds spent on instructional equipment and library materials. The graph below from the LAO displays the state funding for the CCC Facilities Maintenance Program.

State Funding for CCC Facilities Maintenance Program Has Been Substantial the Past Couple of Years

One-Time Proposition 98 General Fund (In Millions)[a]



[a] Reflects the year the budget appropriated the funds, not necessarily the year the funds were scored for Proposition 98 purposes.

CCC = California Community Colleges.

LAO

With Recent Funding, Maintenance Backlog Expected to Shrink Significantly. Entering 2021-22, the Chancellor's Office reported a systemwide deferred maintenance backlog of about $1.6 billion. The Chancellor's Office has not provided an update on the size of the backlog based on the last two years of funding (plus local spending on projects). The LAO estimates that the backlog has been reduced to roughly $700 million.

<u>Legislative Analyst's Office (LAO) Assessment and Recommendations</u>

<u>LAO Assessment:</u> Reducing Deferred Maintenance Funding Would Disrupt District Plans and Increase Backlog. As of January 2023, the Chancellor's Office indicates it has disbursed $504 million of the $841 million in 2022-23 funds. The Chancellor's Office is scheduled to disburse the remaining

$337 million to districts by June 2023. As discussed above, districts have already identified and planned how they intend to spend their 2022-23 funds. In some cases, districts indicate they have collected bids on projects. Though all categorical program funds likely would not be spent in 2022-23, they would be spent over the coming years. By reducing funding for this purpose, the deferred maintenance backlog will be larger than otherwise. Addressing deferred maintenance is important because it can help avoid more expensive facility projects, including emergency repairs, in the long run.

LAO Assessment: ***Unclear Rationale for Allowing Districts to Fund Nonacademic Facilities.*** Under the Governor's trailer bill proposal, community colleges could use state funds for maintenance projects at all campus child care centers, even those that do not operate academic programs on behalf of the college. Such a policy conflicts with standard higher education facility policy. Typically, the state does not subsidize nonacademic, self-supporting programs. The fees these programs charge are intended to cover their operations and facilities maintenance costs.

LAO Assessment: ***Dual-Purpose Centers Raise a Few Key Issues.*** Those child care centers that do operate academic programs on behalf of the college still collect fees from the clients using those centers. For other child care centers located throughout the state, these fees would be expected to cover the operations and maintenance of their facilities. Classifying campus child care centers as academic facilities and using state CCC funds for their maintenance thus would provide them with special treatment over other child care centers in the state. The state, however, might want to provide this advantage to campus centers given the academic benefits they provide to the college. The state, alternatively, might want to share facility costs with the campus centers, thereby still providing them with an advantage, but a smaller advantage, over other child care centers in the state.

LAO Recommendation: ***Reject Proposal to Reduce Funding for Facilities Maintenance.*** For the reasons stated above, the LAO recommends that the Legislature reject the Governor's proposal to reduce funding for the Physical Plant and Instructional Support program by $213 million Proposition 98 General Fund. (Proposition 98 funds must be spent on a Proposition 98 purpose, such that they are not available to help the state address a non-Proposition 98 budget shortfall.) The LAO also recommended in Issue 1D that the Legislature reject the Governor's proposal effectively to redirect these facilities funds to a student outreach initiative.

LAO Recommendation: ***Modify Proposed Language to Fund Only Certain Child Care Facilities.*** The LAO recommends that the Legislature modify the Governor's proposal by clarifying in statute that districts may use categorical program funds for child care centers that also serve an academic purpose. Moving forward, though, the Legislature may want to establish a cost-sharing expectation for these dual-purpose centers, in which fees cover at least a portion of facilities costs. Lastly, the LAO recommends prohibiting districts from using such funds for nonacademic, self-supporting child care centers. The state makes this key distinction for other higher education facility programs.

Suggested Questions

- How many projects that would be impacted by the Administration's proposed cut? In what ways would the cut interfere with these projects proceeding?
- What is the Administration's rationale for allowing districts to fund all campus child care centers with state funds for maintenance projects?
- Is the Chancellor's Office planning to release the final funds from the 2022 Budget Act before the end of the fiscal year?

Staff Recommendation. Hold Open.

Issue 3: Forestry/Fire Protection Workforce Training

Panel
- Madison Sheffield, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office
- Lizette Navarette, California Community Colleges Chancellor's Office

Governor's Budget

Workforce Training Grants. The Governor's budget proposes an increase of $14 million Proposition 98 General Fund one-time to support the administration of workforce training grants in collaboration with the California Department of Forestry and Fire Protection.

Background

Across the budget, the Governor targets the climate, resources, and environmental policy areas for the largest share of budget solutions. This is due in part to the fact that these policy areas also received the largest proportional share of one-time General Fund spending from recent budget surpluses. Specifically, these programs represented about $20 billion, or nearly one-quarter, of the state's $87 billion in one-time expenditures from the General Fund surplus from 2018-19 through 2022-23. (This total excludes constitutionally required spending for schools and community colleges pursuant to Proposition 98.) In addition, many of the programs supported by these funds represent new activities that are just getting up and running. Between 2020-21 and 2023-24, as part of a series of wildfire and forest resilience programs, approximately $54 million has been invested in workforce training grant programs administered by CalFire.

Governor Proposes to Shift Fund Source for Workforce Development Grants. In response to a projected state budget deficit, the Governor proposes many budget solutions. One of these solutions is to shift some costs from the non-Proposition 98 side of the budget to the Proposition 98 side. Specifically, the Governor proposes to reduce non-Proposition 98 General Fund support for existing workforce training grants administrated by the California Department of Forestry and Fire Protection (CalFire) by $15 million, replacing it with nearly the same amount of reappropriated Proposition 98 General Fund support ($14 million). Under the Proposition 98-funded program, the California Community Colleges Chancellor's Office would enter an interagency agreement with CalFire to administer the grant program. Grants would be limited to community colleges. By comparison, a broader group of training providers (including local workforce agencies, nonprofits organizations, and community colleges) may participate in the existing CalFire program.

Legislative Analyst's Office Assessment

LAO Assessment: Fund Shift Is Worth Considering Given General Fund Condition. The proposed fund shift would help address the state's non-Proposition 98 budget deficit. Community colleges have received a portion of the past grant funding from this CalFire program ($2.3 million of $18 million appropriated in 2021-22 from the General Fund outside of Proposition 98). Moreover, community colleges already have an important role in helping develop the forestry workforce. Currently, eight community colleges offer associate degree or certificate programs in forestry, and 55 colleges offer them in fire technology or wildland fire technology. Together, these community colleges have granted about 100 forestry associate degrees and certificates, as well as about 2,500 fire and wildland fire technology associate degrees and certificates annually in recent years. Community colleges also have received a portion of the past grant funding from this CalFire workforce development program ($2.3 million of $18 million appropriated in 2021-22). Providing community colleges with additional workforce training grants would take advantage of colleges' existing expertise and experience in the forestry area. Though limiting grants to community colleges would exclude other workforce providers, we think the fund shift remains reasonable given the other factors described above. The LAO notes that limiting grants to community colleges could exclude some potentially worthwhile recipients from the program as a result

Suggested Questions

- Has the Chancellor's Office contemplated administration strategies with this funding or initiated communication with CalFire?
- What is CalFire's expected role with this particular shift?
- Given that the administration will change from CalFire to the community colleges, are there other ways, beyond eligible recipients, that the grant will fundamentally change?

Staff Recommendation. Hold Open.

Issue 4: Status Update on Previous Budget Act Investments (Oversight)

Panel

- Lizette Navarette, California Community Colleges Chancellor's Office

Background

The Budget Acts of 2021 and 2022 included several agreements and investments such as the following:

Foster Youth Supportive Services at CCC	The 2022 Budget Act through AB 183, formally renames the Cooperating Agencies Foster Youth Educational Support Program as NextUp, which provides student support services for foster youth and former foster youth. The budget eliminated the 20 community college district cap to enable all CCC to participate in the NextUp program, authorizes students enrolled in fewer than nine units to be accepted into the program if enrollment is part of an education plan designed to move the students toward subsequent enrollment in at least nine units, and streamlines the process for allocating new funding to colleges and makes changes to reduce program administration costs. Finally, the budget increased support for the program by $30 million Proposition 98 General Fund in 2022-23 and ongoing over 2021-22 levels.
CCC Part-Time Faculty Health Program	The 2022 Budget Act included $200 million Proposition 98 General Fund in 2022-23 and ongoing to augment the Part-Time Faculty Health Insurance Program to expand healthcare coverage provided to part-time faculty by community college districts. The budget also included programmatic changes, through AB 190 (Committee on Budget), Chapter 572, Statutes of 2022 to ensure districts are providing quality, affordable and accessible healthcare coverage to all eligible part-time faculty. As a condition of receiving COVID-19 Block Grant Funds discussed in Issue 1D, districts were required to report, by March 1, 2023, to the Chancellor's Office metrics on the provision of employer-sponsored health insurance for part-time faculty in the 2021–22 academic year.
Chancellor's Office Staffing	The 2022 Budget Act provided $3.9 million non-Proposition 98 General Fund and 26 positions in 2022-23 and ongoing to bolster capacity at the Chancellor's Office to support the community college system.
Zero Degree Textbooks	The 2021 Budget Act provided $115 million one-time Proposition 98 General Fund to support the Zero Textbook Cost (ZTC) Program

Suggested Questions

- For all mentioned above:
  - To date, what steps have the Chancellor's Office and districts taken to implement these initiatives?
  - How much funding has been disbursed or expended?
  - What data, if any, has the Chancellor's Office collected about it? Does the Chancellor's Office have any participation data for these initiatives?
  - What challenges, if any, have been encountered?

Staff Recommendation. This is an oversight item. No action is needed at this time.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Lola Smallwood-Cuevas
Senator Rosilicie Ochoa Bogh

Thursday, April 27, 2023
9:30 a.m. or Upon Adjournment of Session
1021 O Street, Room 2100

Consultant: Christopher Francis, Ph.D.

Items for Discussion

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

6440 UNIVERSITY OF CALIFORNIA (UC)

Overview

The University of California (UC) provides instruction in undergraduate, graduate professional, and graduate academic programs through the doctoral degree level; research; continuing education for adult learners; and public service.

The UC was founded in 1868 as a public, state-supported land-grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by the Regents of the UC. The Board of Regents includes the following 26 members: seven ex officio members, 18 members appointed by the Governor with the approval of the Senate for 12-year terms, and one student appointed by the Board. The Governor is President of the Regents.

The 1960 Master Plan for Higher Education designates UC as the primary state-supported academic agency for research. The UC also serves students at all levels of higher education in California and serves as the public segment primarily responsible for awarding doctoral degrees and several professional degrees, including in medicine and law.

There are ten UC campuses: Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz. Nine of these are general campuses that offer undergraduate, graduate, and professional education. The San Francisco campus is devoted exclusively to the health sciences. The university operates five teaching hospitals and administers more than 800 research centers, institutes, laboratories, and programs. It also oversees one United States Department of Energy laboratory and partners with private industry to manage two other Department of Energy laboratories.

Its ten campuses enroll nearly 290,000 students and the UC extension centers register an additional 500,000 participants in continuing education programs. In 2020-21, the UC awarded more than 84,000 degrees, including roughly 63,000 undergraduate degrees.

The Regents appoint a university president, who is typically responsible for overall policy development, planning, and resource allocation. The ten UC chancellors are responsible for management of the individual campuses. The Regents have delegated authority to the Academic Senate, including responsibility for policies on admissions and academic programs.

Issue 1A: State of UC: General Updates and Core Operations

Staff notes that Issue 1 contains four parts as part of a general update of UC. The subcommittee will hear a status update from President Drake, discuss implementation updates and existing challenges for a variety of programs, and the Governor's proposals related to core operations, resident enrollment, and student housing. These major themes are grouped together given their impacts across the UC system.

Panel

- Dr. Michael V. Drake, President, University of California
- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office

Available for additional questions or details: Seija Virtanen, University of California
Jack Zwald, Department of Finance
Jennifer Pacella, Legislative Analyst's Office

Governor's Budget

Base Budget Increase. The Governor's budget proposes an increase of $216 million General Fund ongoing for operating costs, representing a five-percent base increase in ongoing General Fund resources that is consistent with the Governor's multi-year compact with UC. Consistent with the compact, UC is to cover the cost of one percent resident enrollment growth from this base increase.

UC Board of Regents' Approved Budget and Proposal

Overall, the UC Board of Regents' approved budget identifies $406 million in 2023-24 operating cost increases that UC identified in its fall 2022 budget plan. UC is planning for faculty and other non-represented staff salary increases. In addition, it already has 2023-24 contracts in place for its represented employee groups, with most groups receiving salary increases in the range of three percent to five percent. UC's employer contribution rate for UC Retirement Plan also is set to increase by one percentage point, with the total employer rate rising from 15.4 percent to 16.4 percent in 2023-24. UC projects a four percent increase in its health care costs for active employees and retirees. UC also projects cost increases for OE&E and debt service. In total, the operating cost increases are expected to exceed UC's available core fund increases by approximately $40 million. UC indicates it would respond to any operating shortfall through operational savings and redirections of existing resources.

UC Proposed Changes for Core Operations, 2023-24 (dollars in millions) Core Operations, Cost Increases	
Faculty compensation	$97.4
Retirement contributions	72.7
Nonrepresented staff compensation	69.0
Operating expenses and equipment	55.4
Faculty merit program	37.1
Represented staff compensation	37.0
Health benefits for active employees	24.3
Health benefits for retirees	6.8
Debt service[a]	6.0
Total Cost Increases	**$405.7**

Funding Sources to Cover Cost Increases (dollars in millions)	
General Fund	$252.0[b]
Tuition and fee revenue	60.4[c]
Alternative fund sources	54.6[d]
Total Funding Increases	**$367**
Operating Shortfall	***-$40.8***[e]
[a]Reflects debt service on certain academic buildings. [b]Reflects Governor's proposed 5 percent base increase, $30 million for nonresident enrollment reductions, and $6.5 million in higher debt-service costs. [c]Reflects revenue from tuition and fee rate increases net of institutional student financial aid and after accounting for the loss of nonresident supplemental tuition resulting from the nonresident enrollment reduction plan. [d]Consists of $30 million in investment earnings, $13.8 million in procurement savings, and $10.8 million in additional tuition revenue from nonresident enrollment growth. [e]Reflects estimated shortfall. Assumes enrollment growth below the existing state-funded level generates no new state costs.	

The UC Board of Regents' approved budget includes a request for $252 million state General Fund in 2023-24 and ongoing to support core operations:

UC Request for State General Fund	
Purpose	**Ongoing General Fund Amount (dollars in millions)**
Five percent base increase	$218.3
Backfill associated with conversion of 900 Non-resident slots to resident slots (***Covered in Issue 1B- Residential Enrollment***)	27.9
Aid for 900 eligible undergrads	4
Doctor of Dental Surgery Advocacy, Science, Public Interest and Research (DDS-ASPIRE) program	1.8
Total	252

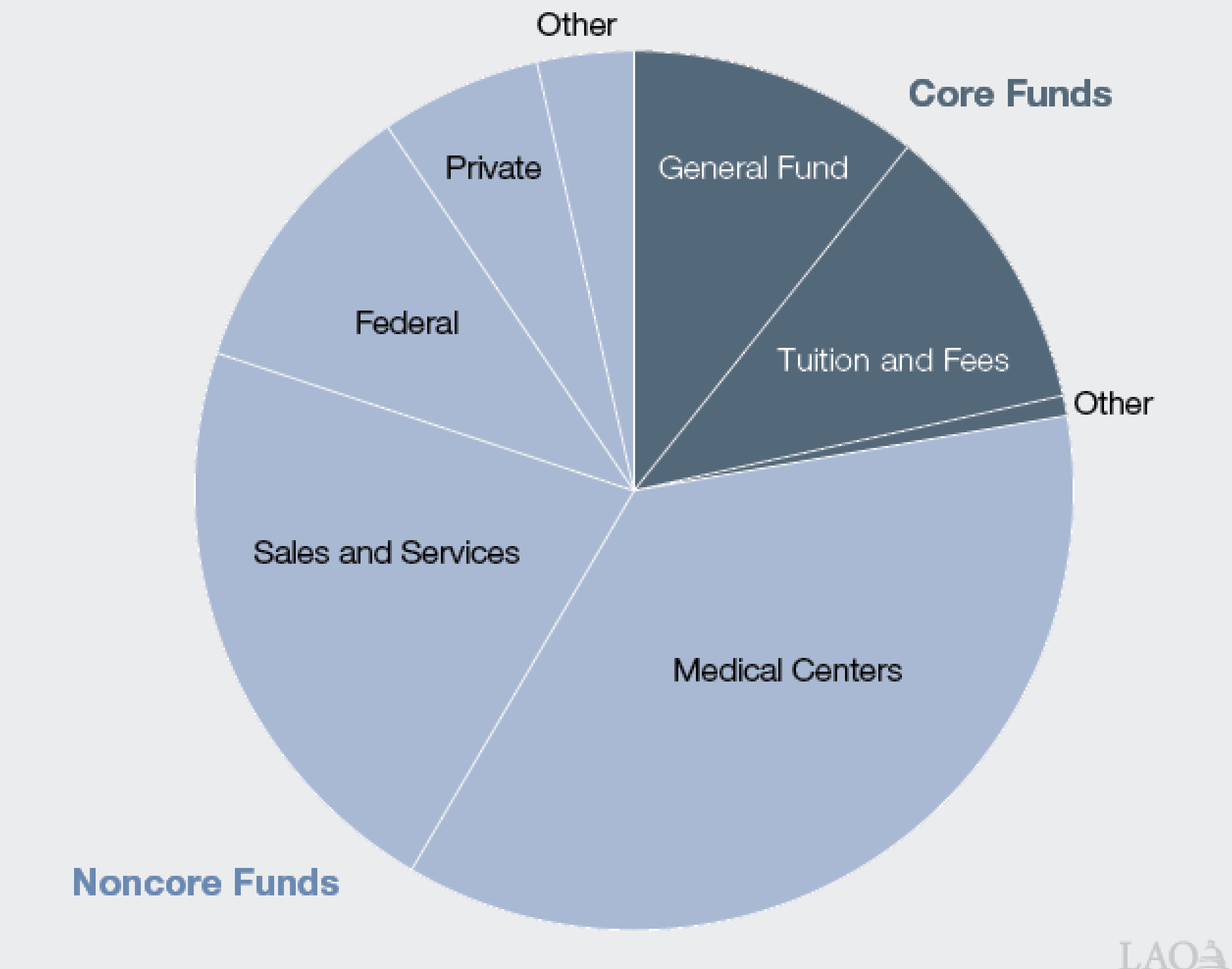
Background

UC Budget Is $46.9 Billion in 2022-23. Though having the lowest level of state support, the fewest campuses, and the least student enrollment, UC has the largest budget of the three public highest education segments—with total funding greater than the CSU and CCC budgets combined. As Figure 1 shows, UC receives funding from a diverse array of sources. The state generally focuses its budget decisions around UC's "core funds," or the portion of UC's budget supporting undergraduate and graduate education and certain state-supported research and outreach programs. Core funds at UC primarily consist of state General Fund and student tuition revenue. A small portion comes from other sources, such as overhead funds associated with federal and state research grants. Between 2021-22 and 2022-23, ongoing core funds per student increased 6 percent at UC.

Figure 1

UC Receives Funding From Many Sources

$46.9 Billion in 2022-23



Ongoing Core Funding Increases by $450 Million (4.6 Percent) Under Governor's Budget. As Figure 2 shows, more than half of the increase comes from the General Fund, with a smaller increase from student tuition and fee revenue. Specifically, ongoing General Fund increases by $256 million (5.9 percent), whereas tuition and fee revenue increases by $194 million (3.8 percent). In 2023-24, tuition revenue is expected to grow both due to increases in tuition charges for certain students and enrollment growth.

UC Generates Additional Revenue From Tuition Increases. In July 2021, the Board of Regents adopted a new tuition policy. Under the policy, tuition is increased annually for new undergraduates and all graduate students, while remaining flat for continuing undergraduates. Tuition increases generally are based on a three-year rolling average annual change in the California Consumer Price Index, with a cap of five percent. The first year of tuition increases under the new policy was 2022-23. In 2023-24, tuition and systemwide fee rates are set at $13,752 for new undergraduate students and $13,104 for continuing undergraduate students, reflecting a $648 (4.9 percent) increase for new students. In 2023-24, UC estimates generating an additional $147 million in revenue from tuition increases. It plans to use $58 million of this additional revenue for institutional student financial aid. (In addition, the California Student Aid Commission budget includes $46 million in higher associated Cal Grant costs for UC students in 2023-24. This Cal Grant cost increase is entirely offset by Cal Grant reductions associated with overall caseload.)

UC Has Considerable Flexibility in Managing Its Operating Costs. UC has more control than most state agencies over its operating costs. Of UC's core-funded compensation, about 78 percent is associated with employees who are not represented by a labor union. The Board of Regents directly sets salaries and benefits for these employees. UC negotiates salaries and benefits with its represented employee groups. As with CSU, the Legislature does not ratify UC's collective bargaining agreements. UC also has more control than other state agencies in that it operates its own retirement system—the UC Retirement Plan (UCRP).

UC's Largest Operating Cost Is Compensation. As with most state agencies, UC spends the majority of its ongoing core funds (about 68 percent in 2021-22) on employee compensation, including salaries, employee health benefits, retiree health benefits, and pensions. Beyond employee compensation, UC faces other annual costs, such as paying debt service on its systemwide bonds, supporting student financial aid programs, and covering other operating expenses and equipment (OE&E). Each year, campuses typically face pressure to increase employee salaries at least at the pace of inflation. Certain other operating costs, including health care and utility costs, also tend to rise over time in step with sector-specific cost trends. In addition, UC is responsible for setting its pension contribution rates, and it expects to increase these rates over the next several years, primarily as a result of weaker-than-expected stock market performance. Though operational spending grows in most years, UC has pursued certain actions to contain this growth. For example, over the past several years, UC has achieved operational savings through changing certain procurement practices.

UC Covers Its Operating Cost Increases From Three Main Sources. In most years, the state provides additional ongoing General Fund support to cover some of UC's operating cost increases. Since 2013-14, the state has provided UC with General Fund base increases in all years but one. (In 2020-21, the state reduced General Fund base support due to a projected shortfall, but it restored funding the following year.) UC sometimes supplements General Fund increases with additional systemwide tuition and fee revenue. Though it raised systemwide tuition rates only once between 2013-14 and 2020-21 (in 2017-18), UC is in the midst of implementing its new tuition policy that raises systemwide tuition rates for certain students annually. Thirdly, UC relies on various alternative fund sources to help cover some of its operating cost increases. In particular, UC relies on nonresident supplemental tuition revenue and investment earnings to increase its budget capacity. In recent years, UC also has been estimating the amount of operational savings it achieves through changing certain procurement practices and other efficiencies. It has identified these freed-up funds as an additional alternative source of support for core operations.

Share of Costs Covered by General Fund Has Been Increasing. As the state has provided UC with regular General Fund base increases and tuition charges have remained flat most years over the past decade, the General Fund has been comprising a growing share of UC's core funds. Whereas we estimate the General Fund comprised 43 percent of UC's ongoing core funds ten years ago, it comprises 46 percent today. Despite this increase, ongoing General Fund support per student has not kept pace with inflation since 2017-18. Though ongoing General Fund support per student in 2022-23 was 22 percent higher than in 2017-18 (rising from $12,471 to $15,151) in unadjusted terms, it was 3.8 percent lower when adjusted for inflation.

Campuses Have Largely Spent Federal Relief Funds. Between March 2020 and March 2021, the federal government enacted three pieces of legislation providing COVID-19 relief funds to higher education institutions. All associated funding was deposited into the Higher Education Emergency Relief Fund (HEERF) and made directly available to campuses. UC campuses received a total of $1.4 billion in HEERF funds. Of this amount, UC campuses were required to spend at least $605 million on student financial aid. Any remaining funds were available for a broad range of institutional expenses associated with COVID-19. As of November 2022, UC campuses had spent $1.3 billion (94 percent) of the total relief funds they received. Aside from student financial aid, the largest categories of expenses were replacement of lost revenue, salaries and benefits, and information technology. Under current federal guidance, campuses have until June 30, 2023 to spend the remaining $88 million in relief funds. It is expected that campuses will be able to expend the remaining funds by this date.

Ratification of Agreements for Academic Student Employee Compensation Adds Costs to UC. A recent December 2022 agreement will add onto UC's employee compensation costs. UC announced a tentative agreement with United Auto Workers, which represents Academic Students Employees such as Teaching Assistants and Graduate Students Researchers, to provide minimum salary scales, multi-year pay increases, paid dependent access to University health care, and enhanced paid family leave. If approved, the contracts will be effective through May 31, 2025. New costs to fund academic researchers and postdocs are expected to be in the tens of millions of dollars. Though the Governor's 2023 January budget proposes a five percent base increase for UC, this amount does not account for updated cost pressures stemming from the new UC-UAW agreement.

Legislative Analyst's Office (LAO) Comments and Recommendations

LAO Assessment:* *Unrestricted Base Increase Lacks Transparency and Accountability. The Governor's proposed unrestricted base increase for UC lacks transparency, as the funds are not designated for particular purposes. Compounding this uncertainty, the Board of Regents does not adopt a corresponding spending plan until after final state budget enactment. Though UC's fall 2022 budget request provides some indication of how UC could use the proposed funds, no statutory language requires UC to spend the base increase consistent with that preliminary plan. For all these reasons, the Legislature does not have assurance that the proposed augmentation will be spent in ways that are aligned with its priorities. Furthermore, the state has not put in place a funding formula or accountability system for UC that is akin to the one in place for CCC, which provides fiscal incentives to achieve certain outcomes. (Under the CCC Student Centered Funding Formula, community colleges effectively earn funds by achieving certain enrollment and performance outcomes.) Though the Governor's compact describes some performance expectations, no clear mechanism exists to increase or decrease UC's funding in response to its outcomes.

LAO Assessment:* *Amount of Governor's Proposed Base Increase Is Arbitrary. The five percent annual base increases proposed in the Governor's compact are not tied to projections of UC's operating costs. Since the initial agreement was made last year, new information has become available on UC's cost increases as well as the state's budget condition. Each year of the compact moving forward, new information will continue to emerge. Typically, the Legislature desires to use the most recent and accurate information available to guide its budget decisions instead of relying on arbitrary increases previously proposed by the administration.

LAO Assessment:* *Proposed General Fund Augmentation Does Not Fully Cover UC's Projected Cost Increases.

LAO Recommendation:* *Build Base Increase Around Identified Operating Cost Increases. The LAO recommends the Legislature to decide the level of base increase to provide UC by considering the operating cost increases it wants to support in 2023-24. Given the state's projected budget deficit, the LAO recommends considering the proposed five percent base increase an upper bound. With the General Fund augmentation that the Governor proposes, together with additional revenue from tuition increases and alternative fund sources, UC could cover most of its projected cost increases. However, it would need to find some savings. For example, it might consider revisiting its projected OE&E spending. UC included $55 million for projected OE&E cost increases in its spending plan, which is about $15 million more than our estimate of UC's budget shortfall. Further downward spending adjustments would become more difficult for UC, as those reductions could begin to affect salary increases for non-represented employees. Though smaller salary increases likely are unpalatable, UC does not appear to be having special difficulty attracting and retaining most of its faculty and staff. For example, UC faculty salaries on average are higher than most public universities engaging in a similar level of research. In addition, faculty separations have remained about the same over the last ten years. Finally, given UC's sizable and growing capital renewal needs, the Legislature could consider reallocating some proposed funding for this purpose.

Suggested Questions

- What challenges within the UC system do you perceive to be the biggest?
- Please discuss UC's planned uses with the proposed base increase. Overall, what will UC fund with the $216 million if this base amount is not increased in the final budget agreement?
- In your view, is the amount included in the Governor's budget enough to cover the ongoing cost pressures at your campuses such as inflation and the cost of graduate student agreements?
- How much in new revenue will the 2023-24 tuition increase net, and how does UC plan to use this funding?
- The UC Regents' budget indicates that the system is operating at a $40 million deficit. Please explain the implications of this deficit at each campus and what guidance the UC President gave campuses to accommodate this potential shortfall.

On the UC-UAW agreement,

- Please provide an estimated cost to implement the December 2022 agreement.
- How does UC plan to cover the costs of this agreement? Is this a systemwide plan or are you leaving the decisions to the campuses?
- What funding sources, other than state General Fund support, are UC considering to cover this agreement?
- What guidance has the UC President given campuses so far? What is UCOP's plan, in the coming weeks and months, to communicate guidelines on how to accommodate this agreement?
- Have campuses already done any of the following activities -increasing class sizes, cutting course offerings, reducing appointment lengths or eliminating appointments, reducing graduate slots, shrinking research groups-to accommodate the agreement? Are any campuses planning to do any of those activities?
- How does this agreement affect the UC's ability to reach the goal of adding 2,500 graduate students as expected in the compact?

Staff Recommendation. Hold Open.

Issue 1B: Resident Enrollment at UC

Panel

- Dr. Michael V. Drake, President, University of California
- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office

Available for additional questions or details: Seija Virtanen, University of California
Jack Zwald, Department of Finance
Jennifer Pacella, Legislative Analyst's Office

Governor's Budget

Enrollment Funding in 2023-24. As part of the multiyear compact established between the Governor and UC, UC is to cover the cost of one percent resident enrollment growth (2,000 FTE students) in 2023-24 from the $216 million base increase proposed in the Governor's budget.

Enrollment Growth Expectation beyond 2023-24. The Governor also expects UC to continue increasing resident undergraduate enrollment by one percent annually through 2026-27 (the last year of the compact).

UC Nonresident Enrollment Reduction Plan. Whereas the Governor's budget does not earmark funding to meet the resident undergraduate or graduate enrollment targets mentioned above, it includes $30 million ongoing General Fund to continue reducing nonresident enrollment at the Berkeley, Los Angeles, and San Diego campuses by a total of 902 FTE students in 2023-24. The $30 million is intended to replace lost nonresident supplemental tuition revenue as well as lost base tuition revenue that supports financial aid for resident students. The Governor's budget proposes to retain provisional language that would reduce this appropriation proportionally were UC to fall short of the reduction target.

Governor Also Set Forth Graduate Enrollment Targets Under Compact. In addition to resident undergraduate enrollment targets, the compact specifies that UC is to grow graduate student enrollment (resident and nonresident enrollment combined) by a total of about 2,500 students over the same time period. To meet this goal, UC plans to increase total graduate enrollment by 625 FTE students in 2023-24. Over the remaining years of the compact, UC plans to continue growing total graduate enrollment by 625 FTE students annually—reaching the cumulative goal of 2,500 additional graduate students by 2026-27. UC is to cover the cost of this enrollment growth also from within its five percent annual base augmentations.

Background

State Typically Sets Enrollment Targets and Provides Associated Funding. Over the past two decades, the state's typical enrollment approach for UC has been to set systemwide resident enrollment targets. These targets typically have applied to overall resident enrollment, giving UC flexibility to determine the mix of additional undergraduate and graduate students. If the overall systemwide target has reflected growth (sometimes the state leaves the target flat), the state typically has provided associated General Fund augmentations. Augmentations have been determined using an agreed-upon per-student funding rate derived from the "marginal cost" formula. This formula estimates the cost to enroll each additional student and shares the cost between state General Fund and anticipated tuition revenue.

Two Important Recent Modifications to State's Enrollment Growth Approach. In recent years, the state has set enrollment growth targets only for undergraduates and has set those targets one year in advance (for example, setting a target in the 2021-22 budget for the 2022-23 academic year). Setting an out-year target allows the state to better influence UC's admission decisions, as campuses typically have already made their admission decisions for the coming academic year before the enactment of the state budget in June.

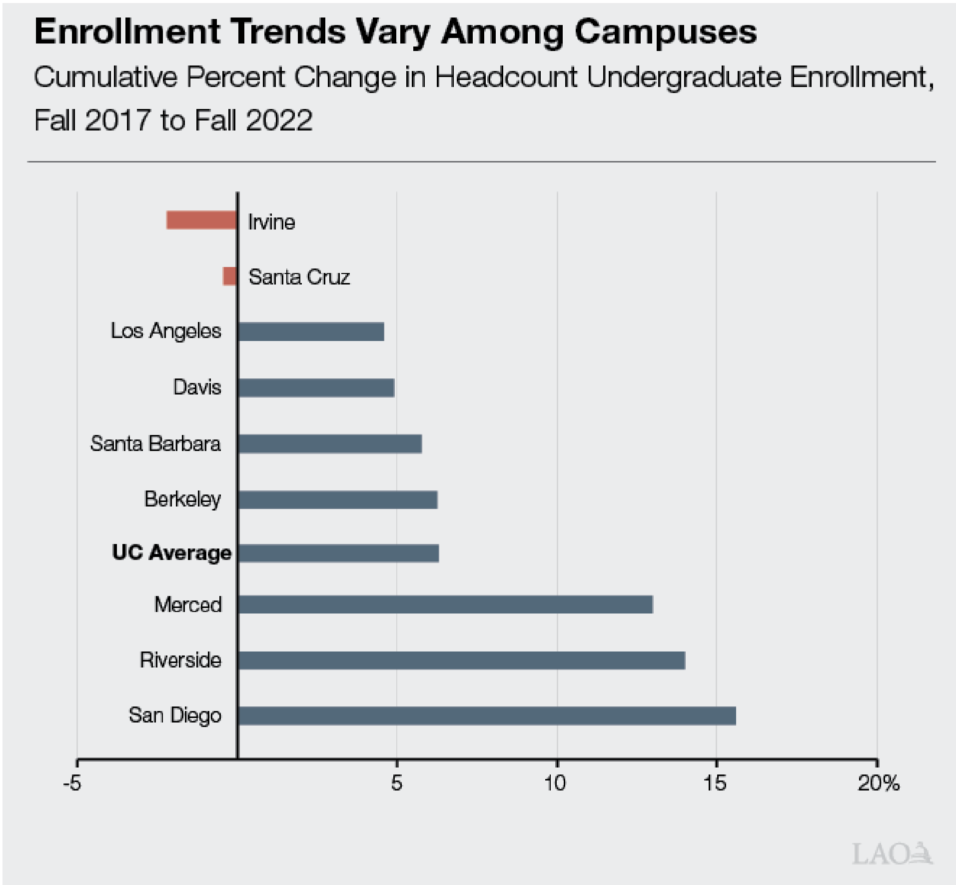
State Recently Adopted a Nonresident Enrollment Reduction Plan for UC. The 2021 Budget Act, through AB 132, created a nonresident reduction plan at UC Berkeley, UCLA and UC San Diego. AB 132 specified legislative intent that UC limit the share of nonresident students at every campus to no more than 18 percent of the campus undergraduate enrollment. The law also specified legislative intent UC to gradually make progress towards achieving this policy at UC Berkeley, UCLA, and UCSD. The budget agreement noted that the state will provide $31 million ongoing General Fund in 2022-23, $61 million ongoing General Fund in 2023-24, and $92 million in 2024-25 to reduce nonresident enrollment to 18 percent of the undergraduate student body, replacing about 900 nonresident students with California students annually. The 18 percent cap applies to all UC campuses, but only those three campuses currently are notably above the cap. The planned reductions are spread evenly over each year of the phase-down period. The 2022 Budget Act agreement subsequently provided UC with $30 million General Fund to backfill for the loss of associated nonresident tuition revenue. If UC does not meet the reduction target, provisional language directs the administration to reduce UC's appropriation proportional to any shortfall.

UC Is Likely to Meet 2022-23 Nonresident Undergraduate Enrollment Target. Compared to the fall 2021 term, nonresident undergraduate headcount in the fall 2022 term declined at the Berkeley, Los Angeles, and San Diego campuses by a total of 992 students. This reduction equates to 913 FTE students, which exceeds the state reduction target of 902 FTE students. Though UC exceeded the overall reduction target for the fall term, one campus reduced nonresident undergraduate enrollment only slightly. Specifically, the smallest decline occurred at the Berkeley campus (88 students), with the Los Angeles campus declining by 406 students and the San Diego campus declining by 498 students. Of the three campuses, Berkeley has the highest percentage of nonresident undergraduate enrollment (23.7 percent of total undergraduate enrollment in fall 2022). Given the Berkeley campus experienced the smallest decline in fall 2022, it will need even greater reductions over the next several years to meet the 18 percent campus cap by 2026-27. As intended, the three campuses increased their resident undergraduate enrollment in fall 2022—growing by a combined 1,711 students, more than backfilling for the reduction in nonresident undergraduates.

State Set Resident Enrollment Target for 2023-24. Specifically, the state set an expectation in the 2022 Budget Act that UC grow by a total of 7,632 resident undergraduate FTE students in 2023-24 above the 2021-22 level. This amount consists of three components. First, it includes 4,730 additional students to be funded at a state marginal cost rate of $10,886. The budget act provided $51.5 million to fund this group of students. Second, it includes another 2,000 students (reflecting roughly one percent additional growth). UC is to cover the cost of these students from the base increase it receives in 2023-24. Third, it includes 902 additional resident students due to the planned replacement of nonresident students. The cost to cover these students is to be provided through the nonresident reduction plan.

State Funded UC for Prior "Over-Target" Enrollment. In addition to the new enrollment targets set for UC, the 2022 Budget Act funded UC for students it had enrolled over previous state targets. Specifically, the budget act provided $16 million for 1,500 undergraduate FTE students UC enrolled over target from 2018-19 through 2021-22.

Recent Enrollment Trends Have Varied Among Campuses. As the below figure from the LAO shows, enrollment trends varied widely among campuses over the past five years. From fall 2017 to fall 2022, the cumulative change in undergraduate students ranged from a 16 percent increase at the San Diego campus to a 2.2 percent decrease at the Irvine campus. While final 2022-23 campus-level data is not yet available, roughly half of campuses (Davis, Irvine, Santa Cruz, and San Diego) saw a decline in student headcount in the fall 2022 term.



UC Expects Resident Undergraduate Enrollment in 2022-23 to Decline Slightly. Though 2022-23 enrollment data has not yet been finalized, UC has made initial systemwide estimates based on enrollment levels in the summer and fall of 2022. UC estimates 2022-23 resident undergraduate enrollment will be 195,597 students—263 students (0.1 percent) below the level in 2021-22. As the below figure from LAO shows, UC is expecting enrollment in fall through spring terms to be up slightly, but more than offset by the enrollment drop it experienced in the summer 2022 term. The drop in summer 2022 enrollment could reflect a strong labor market, together with fewer online courses offerings compared to summer 2021. (Enrollment spiked in summer 2020 in the midst of the pandemic, likely because students had more opportunities to study online and fewer summer employment opportunities. Summer enrollment since then has declined.)

UC Enrollment Drop in 2022-23 Attributable to Decline in Summer Enrollment
Resident Undergraduate Full-Time Equivalent Students

	2020-21 Actual	2021-22 Actual	2022-23 Estimated	Change From 2021-22	
				Amount	Percent
Fall through spring	177,643	176,636	177,947	1,311	0.7%
Summer[a]	22,432	19,224	17,650	-1,574	-8.2
Totals	**200,075**	**195,860**	**195,597**	**-263**	**-0.1%**

[a]Summer term is treated as the first term of a fiscal year. For example, summer 2022 is counted toward 2022-23.

2023-24 Resident Undergraduate Enrollment Target Will Most Likely Not Be Met. UC has revised its resident undergraduate enrollment plans to account for the slight drop in 2022-23 systemwide enrollment as well as the expectation that it will not meet its budget act enrollment target for 2023-24. UC expects to grow by 4,197 FTE resident undergraduate students (2.1 percent) in 2023-24, short of the 7,632 FTE student target. (The 4,197 FTE students is a point-in-time estimate from UC, which will be refined in the coming months.) UC effectively plans to speed up growth in subsequent years—growing at 1.6 percent rather than 1 percent each year. Under this modified plan, UC would reach the ultimate compact enrollment target by 2026-27.

Some Key Factors Underlie Systemwide Undergraduate Trends. Freshman enrollment the past three years at UC has been more volatile than normal—growing 1.6 percent in fall 2020, growing 11 percent in fall 2021, and falling 6.1 percent in fall 2022. UC attributes the large increase in fall 2021 to the elimination of standardized testing requirements, coupled with the suspension of the statewide eligibility index due to COVID-19-related grading policies. (The statewide eligibility index is a formula used by UC to determine which students are in the top 9 percent of California high school graduates.) Both of these factors, in turn, contributed to a large increase in applications. Compared to these trends, transfer enrollment is on a clearer trajectory of decline, with a decline of 1.1 percent in fall 2021, followed by a decline of 9.1 percent in fall 2022. These declines reflect the lagged effect of declines in community college enrollment the past couple of years. Regarding continuing students, retention rates are down slightly (about 1 percentage point), as is average credit load (by less than 0.5 units per term).

Graduate Enrollment Has Followed a Similar Trend as Undergraduate Enrollment. Similar to undergraduate enrollment, graduate enrollment significantly increased in fall 2021, then leveled off in fall 2022. Specifically, total graduate enrollment grew by nearly 5,000 students (7.5 percent) in fall 2021, then dropped by approximately 230 students (0.3 percent) in fall 2022. Since fall 2020, enrollment in UC's master-degree programs has grown the most (29 percent), followed by professional programs (11 percent). Enrollment in doctoral programs has remained about flat (down 0.2 percent). (In fall 2022, doctoral programs comprised 45 percent of UC's total graduate enrollment, professional programs comprised 41 percent, and master-degree programs comprised 14 percent.)

UC Enrollment Plan Intends to Recover Enrollment Over Multiyear Period. The top portion of the modified enrollment plan below shows the original compact enrollment targets for UC, as modified by the 2022 Budget Act (which funded higher growth in 2023-24). Under the compact, UC would not receive additional funds for enrollment growth over the period, but instead it would need to accommodate the higher costs from within its five percent annual base augmentations.

UC Has a Modified Enrollment Plan
Resident Undergraduate Full-Time Equivalent Students

	2021-22 Actual	2022-23 Estimated	2023-24 Projected	2024-25 Projected	2025-26 Projected	2026-27 Projected	Cumulative Growth[a]
Compact Expectations for Enrollment Growth[b]							
Enrollment target under compact	195,861 (baseline)	—	203,493	205,493	207,493	209,493	13,632

Change over prior year	—	—	7,632	2,000	2,000	2,000	—
Annual percent change	—	—	3.9%	1.0%	1.0%	1.0%	—
UC Plan to Meet Growth Target[c]							
Enrollment target under UC Plan	195,861 (baseline)	195,597	199,794	203,027	206,260	209,493	13,632
Change over prior year	—	-264	4,197	3,233	3,233	3,233	—
Annual percent change	—	-0.1%	2.1%	1.6%	1.6%	1.6%	—

[a]Reflects total growth from 2021-22 through 2026-27.

[b]Reflects compact as modified by the *2022-23 Budget Act*. Change in 2023-24 is compared to 2021-22 level.

[c]Reflects projected enrollment growth in 2023-24 as identified by UC. From 2024-25 through 2026-27, remaining planned growth is evenly distributed.

LAO Comments and Recommendations

***LAO Assessment:* Legislature Has More Time to Influence 2024-25 Enrollment Levels.** As UC already is making its 2023-24 enrollment decisions, the Legislature has less ability to influence its enrollment level that year. The Legislature could, however, send an early signal to campuses about its enrollment expectations for 2024-25. In setting an enrollment target for 2024-25, the Legislature likely would want to consider certain demographic, academic, and economic factors. The number of high school graduates next year, for instance, is projected to increase by 0.6 percent, potentially spurring some demographically driven growth among new students in 2024-25. At this time, other factors such as application volume, retention rates, average unit load, and the job market are uncertain for 2024-25.

***LAO Assessment:* Setting Funded Enrollment Level Is Helpful Budget Practice.** Over the past few years, the state has set an enrollment growth target for UC (for example, 2,000 additional resident undergraduates), without specifying the associated total funded enrollment level (for example, a total of 202,000 resident undergraduates). Such an approach can lead to confusion and unintended consequences. This is particularly the case when the baseline level of enrollment comes in notably lower or higher than expected. Take, for example, a stylized case in which the Legislature at the time of budget enactment believes 2022-23 enrollment will be 200,000 and provides UC enrollment growth funding to serve an additional 2,000 students in 2023-24. If the Legislature has not specified its expectation that UC enroll a total of 202,000 students in 2023-24, disagreements might arise. As enrollment data is finalized, if total 2022-23 enrollment is 198,000 students, then UC might still expect to receive funding if it grows back to 200,000 in 2023-24. The Legislature, however, might have expected UC to grow beyond its previously funded level of 200,000 students. These types of situations can be avoided if the state sets expectations regarding both enrollment growth targets and resulting funded enrollment levels.

***LAO Recommendations:* Consider Adding a Budget Solution Related to Lower-Than-Expected Enrollment.** The LAO recommends the Legislature to plan for the risk of a larger budget problem by developing a larger set of potential budget solutions than the Governor has proposed. Given UC expects enrollment growth in 2023-24 to be below the level funded in the 2022 Budget Act, the Legislature may wish to consider adding an associated budget solution. Specifically, the Legislature could reduce 2023-24 funding by $15.6 million to align with UC's planned 2023-24 enrollment level. (The $15.6 million in savings is based on a $10,886 state marginal cost rate for the estimated 1,429 student shortfall.) If the Legislature wanted to go further in aligning UC's funding with enrollment, it also could adjust UC's funding in 2022-23. Specifically, it could reduce UC enrollment growth funding by $51.5 million in 2022-23, as UC does not plan to enroll any of the additional associated students this year.

***LAO Recommendations:* Set Resident Undergraduate Enrollment Target in 2024-25.** To help influence UC's future enrollment decisions, the LAO recommends the Legislature to set a resident undergraduate enrollment target for 2024-25. Based the factors discussed earlier, the Legislature could consider any number of options, ranging from holding enrollment flat to funding moderate growth. Regardless of the exact growth target, the LAO recommends the Legislature to also specify an expected enrollment *level* for 2024-25. Such an approach clarifies legislative intent, thereby improving transparency, and enhances accountability. Lastly, though the LAO recommends setting enrollment targets for UC one year in advance, the LAO recommends providing associated enrollment growth funding the same year the additional students enroll. This is because the bulk of the costs incurred to educate new students begins the year those students enroll, rather than a full year earlier.

***LAO Recommendations:* Approve Continued Implementation of Nonresident Reduction Plan.** The LAO recommend the Legislature to approve the Governor's proposed $30 million to continue implementing the state's nonresident undergraduate enrollment reduction plan for UC. The proposal is consistent with state law and recent state budget actions. The nonresident enrollment reduction plan continues to serve the state's objective of freeing up slots for resident undergraduates at high-demand campuses.

***LAO Recommendations:* Seek Better Information on How UC Will Cover Cost of Graduate Enrollment Growth.** If the Legislature has specific workforce priorities that entail graduate enrollment growth, it could set a target for 2024-25. That said, the Legislature could continue its current approach of not setting a graduate enrollment target if it has no specific graduate student-related priorities. Regardless of which of these options it takes, the LAO recommends that the Legislature ask UC to provide further documentation on how it intends to cover the associated cost of enrolling additional graduate students. As graduate academic students do not tend to cover their full associated education costs, enrolling more graduate students could worsen UC's projected operating shortfall.

Suggested Questions

- Is UC confident it can hit goals associated with adding 2,500 graduate students systemwide during the term of the compact agreement?
- The compact report includes information about UC's progress in hitting its nonresident enrollment plan per the Budget Act of 2021. Please explain where UC is in hitting these goals.
- What is the Administration's and UC's response to the LAO's recommended budget solutions associated with UC's lower than expected enrollment?
- UC has noted that some of its recent FTES decline is due to students taking fewer units, and does not necessarily indicate a decline in the number of students on campus. Can UC please elaborate on this?

Staff Recommendation. Hold Open.

Issue 1C: Student Housing at UC

Panel

- Dr. Michael V. Drake, President, University of California
- Michelle Nguyen, Department of Finance
- Jennifer Pacella, Legislative Analyst's Office

Available for additional questions or details: Seija Virtanen, University of California
Ian Klein, Legislative Analyst's Office

Governor's Budget

Governor Proposes to Delay Some Student Housing Grant Funding. In response to a projected state budget deficit, the Governor proposes various budget solutions to achieve near-term General Fund savings. One set of budget solutions involves delaying certain funding to later years. Within higher education, one of the Governor's largest proposed funding delays is to move $250 million in student housing grant funds from 2023-24 to 2024-25. Delaying this amount would leave $500 million (of the originally intended $750 million) available for new housing projects in 2023-24. The specific impact of the delay on each of the segments would depend upon how much, if any, grant funding they receive in 2023-24. (Under statute, of total grant funding, 50 percent is for CCC, 30 percent is for CSU, and 20 percent is for UC.)

Governor Also Proposes to Delay Revolving Loan Funds. The Governor also proposes to delay the launch of the California Student Housing Revolving Loan Program by one year—pushing back the start from 2023-24 to 2024-25. Additionally, rather than providing program funds of $900 million the first year and another $900 million the following year, the Governor proposes providing $650 million the first year (2024-25) and $1.15 billion the next year (2025-26).

Background

California's housing crisis threatens the state's higher education goals of increasing access and improving affordability. For most students, housing costs are higher than tuition. Despite a significant recent student housing building boom at both the University of California (UC) and California State University (CSU), many campuses report waiting lists for on-campus housing, and students struggle to find affordable and safe off-campus options. Campus housing programs, which suffered losses during the COVID-19 pandemic, are struggling to fund new construction or renovation projects that keep student costs down and address local government and neighborhood concerns.

The need for more student housing on or around campuses is clear:

- Homelessness is prevalent across California's three higher education segments, with 1 in 20 students at UC, 1 in 10 students at CSU, and 1 in 5 students at California Community Colleges (CCC) reporting experiencing homelessness at some point during the academic year. Even more students experience some form of housing insecurity. For example, 16 percent of UC students in 2020 reported sleeping in nontraditional housing arrangements (such as a hotel, transitional housing, or outdoor location) because they lacked permanent housing.
- Affordable, on-campus housing is a benefit to students. A report to the CSU Board of Trustees in July 2020 noted that research across college campuses nationally and within the CSU suggest that

students living on campus have higher grade point averages and lower academic probation rates, higher retention and graduation rates, and shorter time to graduation than their off-campus peers.
- Insufficient student housing can hinder campuses' ability to increase enrollment and serve more Californians. Both UC Davis and UC Santa Cruz, for example, have agreements with local governments that limit increased enrollment unless housing is added to accommodate that growth. CSU Humboldt has launched a plan to become a polytechnic university and more than double its student body in the next decade, but campus officials note that on-campus housing must be built before dramatically increasing enrollment. The local housing market cannot accommodate thousands of new students.

Historically, student housing has rarely been a discussion point for the education subcommittee, as the state does not traditionally support housing costs and has left campuses and the systems to develop and support their own housing programs, supported by student rent. Given the state's housing crisis, however, that is changing. In urban areas, local market rental rates – among the highest in the country - are forcing students to pack into apartments or homes, and in rural areas, many campuses do not have enough local housing to accommodate current or future enrollment levels.

Higher Education Student Housing Grant Program, and Capacity Expansion Grant Program (2021). SB 169 (Committee on Budget and Fiscal Review), Chapter 262, Statutes of 2021, created two new programs to support affordable student housing at the UC, CSU and CCC, and campus expansion projects at UC and CSU. SB 169 appropriated $500 million one-time General Fund in 2021-22 for student housing projects and included legislative intent to provide $750 million in 2022-23 and $750 million in 2023-24 for this purpose. These appropriations have the following proportions by segment: 50 percent to CCC, 30 percent to CSU, and 20 percent to UC. The law created a process for campuses to propose housing projects by October 2021 for inclusion in the subsequent budget act. The law also created the campus expansion program with legislative intent language to provide funding for this program in the future. Of the total $2 billion one-time General Fund for the Higher Education Student Housing Grant program in 2021-22, $25 million was specifically available for CCC planning grants for student housing.

On March 1, 2022, DOF provided the Joint Legislative Budget Committee a list of projects proposed to be funded with the 2021-22 appropriation and documented their overall application process to the Legislature in budget subcommittee hearings. DOF's proposed list of projects totaled $488 million for the first round of funding. DOF received 115 applications for the first round of funding, consisting of 73 planning grant applications and 42 construction grant applications. The applications in total requested $3 billion in grant funding, surpassing both the $500 million designated for the first round and the $2 billion designated for all three funding rounds combined. Short- and long-term solutions through the Budget Act of 2022 remedied this oversubscription problem.

Higher Education Student Housing Actions (2022). To address oversubscription issues with the grant program, the Budget Act of 2022 included an additional $2 billion General Fund for student housing projects across the UC, CSU, and CCC. This augmentation raised the total amount of student housing funding over fiscal years 2021-22 to 2024-25 from $2 billion to $4 billion General Fund. Of the additional amount included in the new budget agreement, $200 million was scored to 2021-22, $900 million is scored to 2023-24, and $900 million is scored to 2024-25. Moreover, the budget agreement made the following changes to student housing in trailer bills AB 183 (Committee on Budget), Chapter 54, Statutes of 2022 and AB 190 (Committee on Budget), Chapter 572, Statutes of 2022:

- Approved all UC, CSU, and CCC student housing construction grant projects deemed eligible by the Department of Finance (DOF) from the first round of applications submitted as part of the October 2021 application process. This change is in AB 183 and documented in the next section.
- Appropriated roughly $1.4 billion General Fund to the Higher Education Student Housing Grant Program to cover the costs of these projects as well as CCC planning grants selected by the DOF in the first year of the Program. This change is also in AB 183 and documented in the next section.
- Changed subsequent rounds of the student housing grant program's application process, including the administrator of the program to allow the higher education segments to nominate projects, incorporating the Legislative Analyst Office's recommendations to address cost overruns, project requirements to have contingency plans, a notification process, and reporting requirements for all projects funded in the first application round and any submitted project proposals in subsequent rounds. This change is in AB 183.
- Established a new California Student Housing Revolving Loan Fund to provide zero-interest loans to qualifying campuses of the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC) for construction of affordable student, faculty, and staff housing. States that the fund will receive $1.8 billion in 2023-24 and 2024-25 and creates a process for the California School Finance Authority and the California Educational Facilities Authority to create and receive applications from campuses, and distribute funds. This change is in AB 190.

The state made its first round of student housing grants on July 1, 2022. Roughly $1.4 billion General Fund to the Higher Education Student Housing Grant Program to cover the costs of these projects as well as CCC planning grants selected by the DOF in the first year of the Program. Projects that DOF determined as eligible were fully funded in their requested amounts while ineligible projects went unfunded. The table below details the UC campuses that received construction grant awards in the Budget Act of 2022.

Table 1: UC Affordable Student Housing Construction Grant Awards ($ in thousands)
2022-23 Awards Specified in Budget Act of 2022 (In Thousands)

	Funding			Beds	
Campus	**State**	**Non-state**		**Affordable**	**Standard**
University of California					
San Diego	$100,000	$235,500		1,100	208
Berkeley	100,000	212,014		310	803
Santa Cruz	89,000	—		320	—
Irvine	65,000	700		300	—
Los Angeles	35,000	28,557		358	—
Subtotals	**($389,000)**	**($476,771)**		**(2,388)**	**(1,011)**

UC Implementation Updates. Generally, grant program guidelines direct the campuses to build funds into the submitted project bids for project contingency, to identify the non-grant fund sources and their respective balances that would be available to cover costs overruns, and to cover any costs above those identified in their application using the non-state funds. While these problems were encountered by the CSU in their projects, UC experienced other delays for select projects. Below is a table containing status updates for the projects funded in the 2022 Budget Act agreement.

Campus	**Status Update from UC**

San Diego	The San Diego's Pepper Canyon West Student Housing project requires redesign resulting from conflicting direction issued by the Division of the State Architect. The redesign will increase the project cost and delay the project. Once the budget augmentation is determined, the campus will seek Regental approval to update the project's scope and budget as well as the funding plan to include the State funding from the Higher Education Student Housing Grant Program.
Berkeley	Housing Project #2, which includes the State grant funded People's Park Student Housing project, is under CEQA litigation and the project is on hold.
Santa Cruz	In November 2022, the Regents approved an amendment to the Kresge College Non-Academic project to: (1) expand the scope; and (2) increase the budget to include the State funding from the Higher Education Student Housing Grant Program, as well as, additional external financing, campus funds, and reserves.
Irvine	In January 2023, the Board's Finance and Capital Strategies Committee discussed the Irvine campus's Mesa Court Residence Hall Expansion project. Regents' approval of the project's budget, scope, external financing, and design following action pursuant to CEQA will be sought in the Board's March 2023 meeting.
Los Angeles	Regents' approval of the Gayley Tower's Redevelopment project's preliminary plans funding will be sought in the Board's March 2023 meeting.

Nevertheless, they report that their funded projects are on track for construction within the next 18 months.

UC Proposals for 2023-24. Table 2 shows the statutory allotments per segment remaining for the Higher Education Student Housing Grant Program and Table 3 displays UC's request for 2023-24. According to updated estimates, $48 million General Fund in grant funding remains available for UC. UC's requested $573 million General Fund to support six eligible projects-an amount that exceeds UC's remaining allotment. Of these six projects, two are intersegmental and include collaboration with community college campuses.

Table 2: Total and Remaining Affordable Student Housing Construction Grant Awards ($ in millions)

	Grant Awards				Statutory Allotments	
	Planning[a]	**Construction[a]**	**Total**		**Total[b]**	**Remainder**
CCC	$17	$547	$564		$1,109	**$545**
CSU	0.3	498	499		655	**157**
UC	0.3	389	389		437	**48**
Totals	**$18**	**$1,434**	**$1,452[c]**		**$2,202**	**$750**

[a] Awards for intersegmental projects are distributed to each affected segment.
[b] As calculated by Department of Finance—first subtracting the planning grant funds, then splitting the construction grant funds 50 percent to CCC, 30 percent to CSU, and 20 percent to UC.
[c] Funded from appropriations in 2021-22 ($700 million) and 2022-23 ($752 million).

Table 3: UC Proposed Projects for Higher Education Student Housing Grant program

Rank	Campuses and Project Name	Total Beds	State Funded Affordable Beds	Stand ard Beds	Estimated Total Project Costs ($ in thousands	Funds from other sources ($ in millions)	State Grant Funding Requested ($ in millions)	Percent of Total Project Amounte d Covered by Grant Funds (%)
1	UC Riverside & Riverside Community College District [1,2]	1,553	654	899	$312	$261	**$51**	16%
2	UC Merced & Merced Community College District Promise Housing Project [1]	478	478		100	50	**50**	50
3	San Diego- [4]	2,444	1,474	970	683	533	**150**	22
4	Merced	496	496		97.5		**97.5**	100
5	Davis	400	400		93	0.8	**92.2**	99
6	Merced- Graduate Student Housing [3]	236	236		58.7		**58.7**	100

Notes: *According to UC, priority was based on State Cost per Bed & location diversity
[1] The application is for UC State funds. Non-State include CCC State funds.
[2] This project has an optimized portofolio for the state beds where the average cost is $192,400 per state bed, allowing the project to maximize the number of state beds for $51M of UC State Housing Grant funding.
[3] If there are not enough low-income graduate students to fill the beds, a bed would be offered to a low income undergraduate student.
[4] Based on a $150M grant. Any different amount would result in a prorated number of beneficiaries.

LAO Assessment and Recommendations

LAO Assessment:* *Proposed Housing Projects Are in Early Phases. Most of the CSU and UC housing projects submitted for possible 2023-24 funding are in early planning phases. Though the CCC housing projects had not yet been submitted at the time of the LAO's student housing publication, the LAO believes that the CCC are also in early planning phases. Even the projects the state funded as part of the first round generally remain in early planning phases. Moreover, if all future project phases go smoothly, most projects still take one or two years of planning and design work before entering the construction phase. Some projects take longer to reach the construction phase, as environmental issues, litigation, and the need to redesign, among other issues that are not fully within campuses' control, can arise during project development. Construction, in turn, can last a couple of years. Given these timing issues, delaying or removing funding for the segments' housing project proposals would have no near-term impact on students. (Delaying project funding, however, likely would contribute to construction cost escalation, as construction costs tend to increase over time.)

LAO Assessment:* *Results of First-Round Grants Are Not Yet Available. No housing units receiving Higher Education Student Housing Grant funds have yet been completed. The program, however, is intended to reduce housing charges from what they otherwise would have been for those students eventually offered one of the newly constructed housing units. Data is not yet available on the impact of reduced housing charges on college affordability and student housing insecurity. Data also is not yet available on how state housing grant funds are affecting the overall housing supply on and off campus. Delaying additional housing funds would provide time for the state to assess the impact of the first round of grant funding.

LAO Assessment:* *Need for State Subsidy Remains Unclear. Prior to the state creating the Higher Education Student Housing Grant program, nearly all campus housing projects were self-supporting. Moreover, even without state support, construction of student housing generally outpaced enrollment growth over the past several years. Furthermore, campuses interested in expanding their housing capacity have ways to reduce project costs without state support. The most common way campuses contain their student housing costs are by redesigning facilities. For example, a project originally designed to contain more expensive apartments with individual kitchens and bathrooms might be redesigned to be a more traditional residential hall with common bathrooms and no kitchens.

LAO Assessment:* *Other Programs Might Be More Effective Way of Promoting College Affordability and Housing Security. Whereas the first-round Higher Education Student Housing Grant program is expected to provide affordable housing to fewer than 7,400 students, the state has hundreds of thousands of low-income students enrolled across the segments. Using the state's ongoing financial aid programs to assist with nontuition costs potentially could benefit many more students much more quickly than the housing grant program. Moreover, using the segments' rapid rehousing programs might be a more targeted approach to helping those students who need immediate housing assistance. Compared to the one-time funding for the student housing grants, these kinds of programs rely on ongoing funds. The state, however, already has notably augmented ongoing funding for these programs in recent years. For example, the MCS program—just one of several ongoing financial aid programs expanded in recent years—is benefitting an estimated 217,000 more students in 2022-23 compared to 2021-22.

LAO Recommendation:* *Could Expand Budget Solutions List by Removing Student Housing Funds. Given all these considerations, together with the state's budget condition, the Legislature could expand its budget solutions list by removing all $750 million in scheduled Higher Education Student Housing Grants funds. Relative to the Governor's budget, this option provides an additional $500 million in General Fund savings in 2023-24, while also providing an additional $250 million in savings in

2024-25. As projects are in early phases and campuses have options for building student housing without state support, removing these grant funds could be one of the relatively less disruptive ways to achieve state budget solutions. These same basic points also can made with the California Student Housing Revolving Loan Program. Rather than delaying funding, the Legislature could remove the $1.8 billion proposed for this program over 2024-25 and 2025-26. Together, the two housing programs could generate as much as $2.6 billion in additional General Fund savings over the 2023-24 through 2025-26 period.

LAO Recommendation: ***Could Prioritize Academic Facilities When One-Time Funds Are Available.*** If the state were to have one-time funds available, it could prioritize renovating existing academic facilities. Many of the segments' academic facilities are decades old. Some of these facilities have building components that have reached the end of their useful life. Because funding has not kept pace with emerging capital renewal needs, the segments have large and growing backlogs of academic facility projects. The latest estimates show systemwide capital renewal backlogs (also known as deferred maintenance) of roughly $700 million at CCC, $6.5 billion at CSU, and $7.3 billion at UC. Unlike self-supporting facilities, academic facilities traditionally have relied primarily on state funding and do not have ready access to alternate means of funding. After the Legislature has ensured the segments' existing academic facilities are kept in good condition, it could consider facility expansions—either of academic or nonacademic space, as it deems warranted.

LAO Recommendation: ***Could Prioritize Revolving Loans Over Grants.*** Were the Legislature to desire to provide one-time funds for student housing, the revolving loan program likely yields greater benefits. Under the loan program, campuses generally cover a much higher share of total project costs compared to the grant program. That is, under the grant program, the state is funding a relatively high share of costs (100 percent of costs for some projects), whereas campuses would be covering 100 percent of costs for all housing projects under the loan program (except for the financing costs, which would be free of charge). Moreover, the benefit of zero-cost financing might be sufficient to make many on-campus housing projects financially viable. CSU and UC already have expressed interest in participating in the program, and the LAO understands at least some community colleges are interested. Particularly as interest rates rise within the bond market, more campuses likely would turn to the revolving loan program as an attractive financing option. Furthermore, as campuses repay their loans, the state would be able to use the replenished account to issue new loans, likely allowing the state to support more affordable beds over time. The revolving loan program has the added benefit of being somewhat more flexible than the grant program, without a set split among the three segments. With this flexibility, the administering entities might be able to direct the financing benefit to those housing projects that are most likely to yield the greatest benefits regardless of segment.

LAO Recommendation: ***Could Prioritize University Projects Over Community College Projects.*** Were the Legislature to desire to provide one-time grant funds for housing projects in 2023-24, it could consider prioritizing university projects. The university project proposals were submitted on time. CSU and UC have much more experience developing, financing, and operating student housing programs than CCC. For these reasons, university projects have a greater probability of being successfully implemented. In addition, more CSU and especially UC students live away from home compared to CCC students, likely making on-campus housing a more attractive option for university students. Were the Legislature to provide grant funds in 2023-24, it could proceed with a subset of the highest-payoff university projects submitted. The Legislature could prioritize among university project proposals consistent with the statutory prioritization criteria, which include unmet housing demand and the state cost per bed, among other factors. Based upon these criteria, the university projects with the greatest payoffs are those at CSU Sacramento ($41 million), CSU San Jose ($89 million), and UC San Diego ($150 million). Together, these projects are requesting a total of $280 million in state grant funding (less than the $500 million available under the Governor's budget). (Approving the UC San Diego project, however, would put UC above its statutory program funding cap.)

Suggested Questions

- Please discuss any overall issues with costs and timelines with projects funded in last year's budget agreement.
- Please describe the UC's process for selecting projects with 23-24 grants.
- Given the small amount of funding available, for UC in 23-24, how would UC treat projects that are not selected (i.e. will UC use non-state funds to fund projects unfunded by the state)?
- How would UCOP propose to use this funding if only $48 million, or less, were available in 2023-24?
- How would the Governor's proposed funding delay affect this process and number of projects selected? Are there any shovel-ready projects that could be at risk due to the potential delay?
- Does UC have any feedback on the revolving loan fund program language? Is there anything for the Legislature to consider about program structure before the program begins?

Staff Recommendation. Hold Open.

Issue 1D: Pathways to UCLA Proposals

Panel

- Dr. Michael V. Drake, President, University of California
- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office

Available for additional questions or details: Seija Virtanen, University of California
Jack Zwald, Department of Finance
Jennifer Pacella, Legislative Analyst's Office

Governor's Budget

Governor Proposes to Require UCLA to Participate in Certain Transfer Programs. The administration proposes to place certain new requirements on the UCLA campus with the goal of facilitating community college students' ability to transfer to the campus. Specifically, by 2025-26, the campus would need to (1) enact and maintain policies to participate in the Transfer Admission Guarantee (TAG) program as well as (2) create and maintain pathways for students transferring with an Associate Degree for Transfer (ADT). By March 31, 2024, the campus would need to submit a report to the Director of Finance indicating its commitment to meeting these requirements.

Governor Links Requirement With Campus's Base Funding. The Governor does not provide a General Fund augmentation to UC for meeting the new transfer requirements at the Los Angeles campus, but he proposes trailer bill language making $20 million of that campus's core funding for the 2023-24 fiscal year contingent on it meeting the new requirements. Based upon the UC Office of the President's determination, if the campus does not meet the new requirements, UC is to redirect the $20 million to the other nine UC campuses using its regular campus allocation model.

Background

Simplifying the Transfer Process Has Been a Longstanding Legislative Priority. The Legislature has enacted many policies over the years intended to simplify the transfer process, reduce excess course units (which often arise as a result of transferring from community colleges to universities), and reduce students' time-to-degree. Toward these ends, the Legislature has directed the segments to take steps toward streamlining their lower-division course requirements. Most recently, the Student Transfer Achievement Reform Act of 2021 requires UC, CSU, and CCC to develop a single lower-division general education set of courses that would meet all three segments' academic standards. (The new set of courses would apply only to *general education,* not *major preparation*. As a result, important differences still would remain among UC and CSU in terms of their transfer admission requirements.) The *2022-23 Budget Act* provided $65 million one-time Proposition 98 General Fund to help the community colleges in implementing the most recent round of transfer reforms.

UC Has Goal to Enroll One Transfer Student for Every Two Freshmen. For many decades, UC has aimed to achieve a certain mix of upper-division and lower-division students. Specifically, UC aims to have 60 percent of undergraduate instruction at the upper-division level and 40 percent at the lower-division level. To this end, UC aims to enroll one transfer student to every two freshmen. Over the past 15 years, UC generally has been making progress toward this goal, with its freshman-to-transfer ratio declining from 2.5 in 2008-09 to 2.1 in 2021-22.

Transfer Students Must Meet Certain Academic Criteria to Be Eligible for UC Admission. Community college students generally must complete certain UC-transferable, lower-division courses with a minimum grade point average (GPA) of 2.4. If a campus has more transfer applicants than slots, it uses UC's comprehensive review policy to select students for admissions. (This process is very similar to the process used when a campus has more freshman applicants than slots.) Under comprehensive review, when reviewing an applicant, campuses may consider courses, grades, honors classes, completion of special projects, and academic accomplishments in light of the student's life experiences, among other factors. Eligible transfer students who are not accepted to their campus(es) of choice are redirected to the UC Merced or UC Riverside campus.

Transfer Students Have Additional Options for Being Admitted to UC. One longstanding option is the TAG program. Students choosing the TAG option submit a supplemental TAG application to their UC campus of choice. As long as they meet the course and GPA requirements, they are guaranteed admission into their campus of choice. Six UC campuses participate in the TAG program, with three campuses (Berkeley, Los Angeles, and San Diego) not participating. A more recent admission option is UC Transfer Pathways. Under this option, students complete a specific set of courses in their major of choice. Pathways are offered in 20 of UC's most popular majors. All nine general UC campuses participate in this program, though campus GPA requirements vary.

UC and CSU Transfer Pathways Are Different. UC Transfer Pathways do not have complete overlap with CSU's transfer pathways. Many students transferring to CSU take a different pathway, which involves obtaining an Associate Degree for Transfer (ADT). The ADT was developed collaboratively between the CCC and CSU. Under the ADT process, students complete 60 units of lower-division, major-specific coursework at community colleges, then transfer and complete 60 units of upper-division coursework at a CSU campus. The ADT is specifically designed to enable students to graduate with a bachelor's degree from a CSU campus in a coordinated 120-unit, four-year academic program. The ADT is offered in many academic subject areas.

Compact Contains Certain UC Transfer Expectations. The Governor's expects UC to meet a 2:1 freshman-to-transfer ratio. UC's first compact progress report (released in November 2022) identified several strategies it plans to use to achieve this goal. These strategies include expanding the number of UC Transfer Pathways and expanding support programs for transfer students from underrepresented groups.

Legislative Analyst's Office Assessment and Recommendations

***LAO Assessment:* UCLA Does Relatively Well on Enrolling and Graduating Transfer Students.** In 2022-23, UCLA expects to enroll approximately 3,300 new transfer students—more than any other UC campus. (UC San Diego expects to enroll the next largest group of new transfer students, approximately 2,700.) Even more importantly, UCLA has the lowest ratio of freshmen to transfer students. The UCLA ratio is 1.53—much better than the systemwide target rate of two freshmen to one transfer student, as well as notably lower than any other campus. (UC Davis has the next best ratio, 1.90.) Furthermore, transfer students at UCLA graduate at higher rates than the system overall. At UCLA, 74 percent of transfer students graduate within two years, increasing to 91 percent graduating within three years—compared to 63 percent and 85 percent, respectively, systemwide.

***LAO Assessment:* No Compelling Justification for Singling Out UCLA.** UCLA is one of four campuses (together with Davis, Irvine, and San Diego) that already meets the compact goal of having a freshman-to-transfer ratio of 2.0 or below. Together with its relatively good transfer and graduation rates, the campus does not show evidence of requiring special rules to promote better transfer access or outcomes. Moreover, UCLA is not anomalous in its participation in transfer programs. Two other UC campuses do not participate in the TAG program, and no UC campus currently participates in the ADT program. UC Transfer Pathways, for which all nine UC general campuses participate, effectively are UC's alternatives to CSU's ADT pathways.

***LAO Assessment:* Governor's Approach Sets Very Poor Policy Precedence.** The Governor proposes linking base funding to a very narrow set of outcomes at a single campus. Such an approach is particularly myopic. It also is of questionable design in terms of promoting appropriate incentives. The Governor's approach focuses solely on inputs (participating in certain transfer programs) rather than outcomes, which is counter to the basic notion of performance-based budgeting. Moreover, the Governor's approach violates the basic tenet of fairness in that it potentially punishes a single campus for not doing certain things, while other campuses acting in the same ways would experience no state repercussions.

***LAO Recommendation:* Reject Proposal and Consider More Holistic Approach.** For all the reasons discussed above, the LAO recommends that the Legislature reject this proposal. The LAO recommends the Legislature consider whether it would like to require all UC campuses to participate in the TAG and ADT programs. If the Legislature is interested in pursuing these new requirements, the LAO encourages it to coordinate with UC on how best to navigate the associated transitions. In the case of both the TAG and ADT programs, affected UC campuses would need to make important changes to their admission requirements. The LAO also recommends the Legislature to have a broader conversation regarding whether it would like to develop a performance-based budgeting model for UC. If the Legislature is interested in linking funding to performance, the LAO recommends that it focus on a set of key expectations and apply the model to all UC campuses. As with the funding model the state uses for CCC, the Legislature could consider having both access and outcome components embedded in the model, along with further incentives to serve underrepresented students.

Suggested Questions:

- What is UC's position on these proposals? Are there any implementation challenges that UC envisions and if so what would they be?

- Why was UCLA selected for these initiatives? Is the intent to expand to other campuses? How many students are expected to be enrolled at UCLA due to these changes?
- What is the problem at UC/ UCLA that the Administration is trying to solve?
- If this proposal is intended to be a pilot, by when does the Administration propose that UC Berkeley and UC San Diego be required to enact TAG policies as well?
- What impact, if any, might enactment of TAG policies at UCLA have on the pipeline of STEM graduates?

Staff Recommendation. Hold Open.

Issue 2: Delayed Capital Outlay Support

Panel
- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office
- Seija Virtanen, University of California

Available for additional questions or details: Jack Zwald, Department of Finance
Jennifer Pacella, Legislative Analyst's Office

Governor's Budget

The Governor's budget delays support for three projects in the 2022 Budget Act as follows:

1. A delay for $200 million ($100 million in 2022-23 and $100 million in 2023-24) of the support for the construction of an Institute for Immunology and Immunotherapy at UCLA to fiscal year 2024-25;

2. A delay for $83 million to support the UC Berkeley Clean Energy Campus project currently planned for fiscal year 2023-24 to 2024-25; and,

3. A delay for $83 million to support campus expansion projects at UC Riverside and UC Merced currently planned for fiscal year 2023-24 to 2024-25.

Background

State Funds Academic Facilities and Infrastructure at UC. Traditionally, the state has funded UC's academic facilities, including classrooms, laboratories, and faculty offices. It has also funded certain campus infrastructure, such as central plants, utility distribution systems, and pedestrian pathways. In addition to these state-supported assets, UC has self-supporting facilities, including student housing, parking structures, certain athletic facilities, and student unions. These types of facilities generate their own fee revenue, which covers associated capital and operating costs. The UC system also operates several medical centers, which provide clinical care for patients, train medical school students and residents in clinical environments, and support the university's health science research. Most medical center funding comes from clinical revenues, primarily generated from Medi-Cal, Medicare, and private insurance.

UC Has Identified Many Capital Projects. Under state law, UC is to submit a capital outlay plan to the Legislature annually by November 30 that identifies the projects proposed for each campus over the next five years. UC's most recent plan (*Capital Financing Plan 2022-2028*) covers the current year (2022-23) and the next five years (through 2027-28). This plan identifies $23.2 billion in projects proposed for this period, subject to available funding. The total amount consists of $10.2 billion in academic facilities and infrastructure projects, $6.6 billion in self-supporting projects, and $6.4 billion in medical center projects.

State Funds UC Capital Projects in Two Ways. The main way the state funds UC's academic facilities and infrastructure is through supporting debt-service payments. As of 2013-14, state law allows UC to sell university bonds to finance its academic facilities. UC uses the proceeds to cover the cost of projects, then repays the bonds over time (typically 30 years). UC may use its main General Fund appropriation in the annual state budget act, along with other available funds, to make these payments. In state law, UC may use up to 15 percent of its main General Fund appropriation for debt service on state-approved capital projects. This debt-financing approach is particularly common for larger projects, such as projects to renovate, replace, or construct an entire facility. A second way the state funds UC's capital projects is by providing cash up front. Particularly when the state has a budget surplus, it can use this approach to fund deferred maintenance, seismic safety, and energy efficiency projects—projects that tend to be narrower in scope and lower in cost relative to entire renovations or new facilities.

Last Year, the State Funded Many UC Capital Projects With Up-Front Cash. In 2022-23, the state had a significant budget surplus. In addition, the state appropriations limit (SAL) constrained how the state could use the budget surplus. One way the state addressed its SAL requirements was by spending the surplus on purposes, such as capital outlay, that could be excluded from the limit. Specifically, the *2022-23 Budget Act* provided $366 million one-time General Fund to UC for four specific capital projects, along with $125 million one-time General Fund for deferred maintenance, seismic safety, and energy efficiency projects across the system.

In their November 2022 economic outlook for California, the LAO assessed that the Legislature would face a budget problem of $24 billion in 2023-24. The budget problem is mainly attributable to lower revenue estimates compared to budget act projections between 2021-22 through 2023-24. Typically, revenue losses are offset by lower spending in certain areas, which could be aided by pauses or delays in recent appropriations that have not yet been distributed. These projections led to the proposed delays in capital support funding in the Governor's January budget.

Governor Proposes to Change Funding Schedule for Four UC Capital Projects *(In Millions)*	**2022-23**	**2023-24**	**2024-25**	**Totals**
Original Funding Schedule				
UC Los Angeles, Institute for Immunology and Immunotherapy	$200.0	$200.0	$100.0	$500.0
UC Berkeley, Clean Energy Campus Project	83.0	83.0	83.0	249.0
UC Riverside, campus expansion	51.5	51.5	51.5	154.5
UC Merced, campus expansion	31.5	31.5	31.5	94.5
Totals	**$366.0**	**$366.0**	**$266.0**	**$998.0**
Modified Funding Schedule				

UC Los Angeles, Institute for Immunology and Immunotherapy	$100.0	$100.0	$300.0	$500.0
UC Berkeley, Clean Energy Campus Project	83.0	—	166.0	249.0
UC Riverside, campus expansion	51.5	—	103.0	154.5
UC Merced, campus expansion	31.5	—	63.0	94.5
Totals	**$266.0**	**$100.0**	**$632.0**	**$998.0**
Difference	**-$100.0**	**-$266.0**	**$366.0**	**—**

<u>LAO Assessment and Recommendations</u>

<u>LAO Assessment:</u> Projects Generally Do Not Address UC's Highest Capital Outlay Priorities. Some of the capital projects identified in UC's *Capital Financing Plan 2022-28* are critical and urgent. Those projects address deficiencies with existing facilities and infrastructure that could otherwise present life safety concerns or disrupt campus operations. In contrast, most the projects identified for delays under the Governor's proposal do not address these types of deficiencies with existing space. Three of the four projects add new space. Moreover, adding new space increases ongoing operations and maintenance costs, and it creates future capital renewal costs as building components age. To date, UC has not provided documentation identifying how those additional costs would be covered for these new projects.

<u>LAO Assessment:</u> Little Information Is Available on the Institute for Immunology and Immunotherapy (Institute). Based on information provided by UC, the four projects identified for delays are in early project phases. Of the four projects, the proposed Institute is in the earliest phase. According to UC, the Institute would be an independent research institute funded through a public-private partnership and classified for federal tax purposes as a California nonprofit public benefit corporation. UCLA and the Institute founders are currently negotiating the terms of the public-private partnership. To date, UC has spent no state (or nonstate) funds on the project. Additionally, standard project information on the scope, schedule, cost, ownership, and operations of the proposed facility have not yet been provided to the state. Without this information, the Legislature is unable to assess the project and compare it with other budget priorities. Moreover, unlike the other new projects the state funded in 2022-23, UC did not add this facility to its *Capital Financing Plan 2022-28*. While UC did identify capacity constraints for the UCLA health facilities, the Institute was not mentioned as a project to alleviate those capacity constraints.

<u>LAO Assessment:</u> Merced Campus Expansion Project Does Not Serve Immediate Need. UC Merced plans to add an academic facility that would provide new classrooms, faculty offices, and research space. The project remains in an early planning phase, with no state or nonstate funds spent on the project to date. The project also lacks justification at this time, as UC Merced very likely does not have the enrollment demand over the next several years to support an expansion project. UC Merced has indicated that it likely will need additional academic facility space once its enrollment reaches 12,500 students. If UC Merced continued growing at the same pace over the next five years as it has over the past five years, its enrollment would reach 10,377 students by 2027-28, still far below the level needed to justify the expansion project.

<u>LAO Assessment:</u> Riverside Campus Expansion Project Has Stronger Justification. UC Riverside plans to add an Undergraduate Teaching and Learning Facility that would provide up to 78,000 assignable square feet for general assignment classrooms, specialized teaching spaces, and teaching assistant preparation spaces. UC estimates the project would add approximately 900 classroom seats.

In UC's *Capital Financial Plan 2021-27*, UC Riverside listed this project as its top funding priority. UC Riverside has justification for the additional space. In UC's most recent utilization report (using data from fall 2018), UC Riverside was using its existing classroom space at 104 percent of legislative standards and its laboratory space at 121 percent of legislative standards. Moreover, since fall 2018, total campus enrollment (headcount) has increased approximately 2,900 students (12 percent). The project is expected to address some of the campus's existing space shortages. Though no state (or nonstate) funds have been spent on the project to date, the campus expects to encumber $6.8 million over the next several months for preliminary plans.

<u>LAO Assessment:</u> Many Key Details Missing for Berkeley Clean Energy Campus Project. UC's *Capital Financial Plan 2021-27* included a $360 million state-eligible energy project for the Berkeley campus that was not yet funded. UC's *Capital Financial Plan 2022-28* includes the $249 million the state authorized for the project last year, but it also identifies $700 million in state-eligible project costs not yet funded. In response to our questions, UC clarified that the project likely will entail many phases, with the total cost currently estimated at $700 million. Given the plan, it appears UC would be requesting substantial additional state funding for the project in the out-years. It is not clear how much energy savings the campus will generate from the various phases that could offset project costs. If the campus is choosing to go beyond state clean-energy requirements, it also raises the issue of which entity should pay for those associated costs. Furthermore, supporting such a costly project at one campus likely will create significant cost pressure for similar projects at other UC campuses, and do so at a time the state is facing projected budget deficits.

<u>LAO Assessment:</u> Delays Could Result in Higher Overall Project Costs. If the Legislature wanted to delay funding for any of the four projects, the overall cost of those projects likely will increase due to construction cost escalation. Construction costs in California were an estimated 9.3 percent higher in December 2022 than December 2021. This rate of increase was historically high, but some amount of construction cost escalation is expected most years, including over the next couple of years. The four affected UC capital projects are in different parts of the state, such that the exact effect of funding delays on each project's costs very likely will vary. For example, construction cost escalation last year was 10.4 percent in Los Angeles compared to 8.4 percent in San Francisco. (This most recent variance differs from the trends over the past several decades, in which construction cost escalation tends to be somewhat higher in San Francisco than Los Angeles.)

<u>LAO Assessment:</u> Proposed Funding Is Not Linked to Project Milestones. Typically, the state tries to keep General Fund authorizations linked to the progress of capital projects. This approach substantially reduces programmatic and fiscal risks to the state, as important discoveries can be made in early project phases that notably affect both design and constructions costs. Linking funding to sequential project phases also facilitates legislative oversight throughout the life of a project. Under the Governor's funding delay proposals, funding for the four UC projects is not connected to key phases. Importantly, most of the four projects likely retain substantially more funding than needed to cover the cost of reaching key milestones (such as completing working drawings or the design phase) in 2023-24.

<u>LAO Recommendation:</u> Add Institute to Budget Solutions List. Given the deterioration in the state's budget condition, together with projected out-year deficits, the LAO recommends the Legislature to expand its budget solutions list by removing funding for the Institute. Specifically, the LAO recommends the Legislature remove the entire $500 million General Fund scheduled to be provided for the Institute from 2022-23 through 2024-25. Given the lack of information about the project, the benefit of any smaller amount of funding for the project remains unclear. Were more information to become available about the project in future years and the project were to show stronger justification relative to UC's other pressing capital needs, the Legislature could reconsider the project at that time, funds permitting.

LAO Recommendation: ***Add UC Merced Campus Expansion to Budget Solutions List.*** The LAO recommend the Legislature to further expand its budget solutions list by removing funding for the UC Merced expansion project given its lack of justification at this time. Specifically, the LAO recommends removing the entire $94.5 million General Fund scheduled for the project from 2022-23 through 2024-25, as any smaller amount likely would be insufficient to cover proposed project costs. Were enrollment at UC Merced to grow substantially over the next several years and the campus's existing space to reach and exceed legislative utilization standards, the campus could resubmit the project to the Legislature for funding consideration at that time.

LAO Recommendation: ***Sweep 2022-23 Funds for These Two Projects If Proceeding With Them.*** Neither the Institute nor the UC Merced project have demonstrated they will use their first round of funding in 2022-23. Were the Legislature to decide to maintain authorization for these projects, the LAO recommends the Legislature to sweep the associated 2022-23 funding (and 2023-24 funding, as the Governor proposes). Leaving large amounts of funding with projects that are not ready to use the funding raises risks and opportunity costs for the state. The state could minimize these risks and mitigate opportunity costs by better aligning funding with project phases. That is, the Legislature could provide the first allotment of funding in 2024-25 (or thereafter) when the projects have demonstrated they could spend it.

LAO Recommendation: ***Consider Financing UC Riverside Project With University Bonds.*** If the Legislature were to conclude that the UC Riverside campus expansion project is one of UC's most pressing capital needs, it could consider debt-financing the project, with UC selling university bonds. Most capital projects of this scale are debt-financed, with costs effectively spread over many years consistent with a facility's useful life. Using such an approach, the state would save a total of $154.5 million General Fund from 2022-23 through 2024-25. Moving forward, it could provide UC with additional General Fund to cover the associated debt service, or, as it does with most similar UC capital projects, it could have UC cover the cost from within its base budget. The LAO estimates annual debt service on the project would be approximately $10 million. Debt-financing a project raises overall costs substantially due to interest payments, with total project costs likely to at least double. A small portion of this increased cost, however, might be offset by proceeding with the budget in the budget year and avoiding some potential cost escalation that would otherwise occur were the project delayed.

LAO Recommendation: ***Gather More Information About the Berkeley Clean Energy Campus Project.*** Before deciding what approach to take with the Berkeley project, the LAO recommends the Legislature to request UC to provide more information about the project. Specifically, the LAO recommends the Legislature to request a full financial plan for the project that, at a minimum, identifies the total state cost, total nonstate cost, annual cost by fund source by year, projected energy savings, and projected climate-related benefits. If the Legislature concludes that UC has a sound, comprehensive financial plan for the project, it then could decide how best to finance the state share. Given the scale of the project, the Legislature could consider having UC sell university bonds. As mentioned above, this is the typical approach used for projects of this scale.

Suggested Questions

- Please provide a brief update on the status of each project. How much state funding has been spent so far on these projects? How will the Governor's proposed change in funding structure impact any project timelines?
- Why did the Administration choose the UCLA Institute as the only one of these projects to receive funding in the budget year?

Staff Recommendation. Hold Open.

Issue 3: Status Update on Previous Budget Act Investments (Oversight)

Panel

- Seija Virtanen, University of California

Background

The subcommittee requested status updates for the following investments included in the Budget Act of 2022:

- **UC Climate Initiatives.** The 2022 Budget Act appropriated $185 million General Fund in 2022-23 for climate initiatives. Of this amount, $100 million supported grants for applied climate research and projects proposed by the UC Innovation and Entrepreneurship centers and $85 million specified campus-based climate initiatives as follows: $47 million for Riverside, $20 million for Santa Cruz, and $18 million for Merced.

- **Foster Youth Supportive Services at UC.** The 2022 Budget Act agreement included trailer bill legislation in AB 183 (Committee on Budget), Chapter 54, Statutes of 2022 for foster youth supportive services. AB 183 required that support services for foster youth and former foster youth at UC campuses have a full-time designated staff program director or coordinator with experience relevant to working with foster youth and former foster youth, campus office and meeting space, a range of student supports to address academic and nonacademic needs and opportunities for peer mentors. The budget agreement also provided an increase of $6 million General Fund in 2022-23 and ongoing for foster students' support throughout UC campuses.

- **Underground Scholars Initiative Statewide Expansion.** The 2022 Budget Act agreement included $4 million General Fund in 2022-23 and ongoing to support and expand the Underground Scholars program, which support justice-involved students.

Oversight Questions

For all mentioned above:

- To date, what steps has UC taken to implement these initiatives?
- What data, if any, has UC collected about it? Does UC have any participation data for these initiatives?
- What challenges, if any, has UC encountered as it implements these initiatives?

Staff Recommendation. This is an oversight item. No action is needed at this time.

6120 California State Library

The California State Library, established in 1850, collects, preserves, generates, and disseminates information. The Library administers programs funded by state and federal funds to support local public libraries and statewide library programs. The State Librarian is appointed by the Governor.

The California Library Services Board (the state board) consists of 13 members; 9 members are appointed by the Governor, 2 members are appointed by the Senate Rules Committee, and 2 members are appointed by the Speaker of the Assembly. Members serve four-year terms. The state board determines policy for and authorizes allocation of funds for the California Library Services Act. The state board also functions as the State Advisory Council on Libraries for the federal Library Services and Technology Act. The State Librarian serves as chief executive officer of the state board.

The current State Librarian is Greg Lucas. Greg Lucas was appointed California's 25th State Librarian by Governor Jerry Brown on March 25, 2014. Prior to his appointment, Greg was the Capitol Bureau Chief for the San Francisco Chronicle where he covered politics and policy at the State Capitol for nearly 20 years.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2021-22	2022-23	2023-24	2021-22*	2022-23*	2023-24*
5310	State Library Services	110.1	140.1	146.1	$28,631	$44,526	$33,049
5312	Library Development Services	20.8	30.0	30.0	129,201	176,368	545,293
5314	Information Technology Services	9.6	12.8	12.8	3,274	3,756	3,599
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**140.5**	**182.9**	**188.9**	**$161,106**	**$224,650**	**$581,941**

Issue 4: Governor's Proposals for State Library

Panel

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

Available for additional questions or details: Jack Zwald, Department of Finance

Overview

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2021-22	2022-23	2023-24	2021-22*	2022-23*	2023-24*
5310	State Library Services	110.1	140.1	146.1	$28,631	$44,526	$33,049
5312	Library Development Services	20.8	30.0	30.0	129,201	176,368	545,293
5314	Information Technology Services	9.6	12.8	12.8	3,274	3,756	3,599
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**140.5**	**182.9**	**188.9**	**$161,106**	**$224,650**	**$581,941**

State Library Oversees Both State-Level and Local Initiatives. The State Library's main state-level functions are (1) serving as the central library for state government; (2) collecting, preserving, and publicizing state literature and historical items; and (3) providing specialized research services to the Legislature and the Governor. In addition, the State Library passes through state and federal funds to local libraries for specified purposes and provides related oversight and technical assistance. These local assistance programs fund literacy initiatives, internet services, and resource sharing, among other activities.

Public Libraries Are Run and Funded Primarily by Local Governments. In California, local public libraries can be operated by counties, cities, special districts, or joint powers authorities. Usually the local government operator designates a central library to coordinate activities among all the library branches within a jurisdiction. Currently, 185 library jurisdictions with 1,130 sites (including central libraries and their branches) are operating in California. Local libraries provide a diverse set of services that are influenced by the characteristics of their communities. Most libraries, however, consider providing patrons with access to books, media, and other informational material as a core part of their mission. Around 95 percent of local library funding comes from local governments and the remaining 5 percent comes from state and federal sources.

Governor's Budget Proposals

The Governor's budget includes the following proposals for the State Library:

1. ***Delaying Support for Local Library Infrastructure.*** The Budget Act of 2021 provided $439 million General Fund one-time to support local library infrastructure projects. The Budget Act of 2022 provided an additional $50 million and assumed an additional $100 million in 2023-24 to support local library infrastructure projects. The Governor's budget proposes delaying the $100 million to the 2024-25 ($33 million), 2025-26 ($33 million), and 2026-27 ($34 million) fiscal years.

2. ***Support for Law Library.*** The Governor's budget proposes an increase of $462,000 General Fund ongoing to support and expand the Witkin State Law Library and its personnel. The Witkin State Law Library contains primary and secondary sources in American law, federal and state appellate court opinions, session laws, codes and statutes, federal agency decisions, and attorney general opinions. Its staff provide research support to state agencies and the general public. In 2021-22, about one-third of its clients were from state agencies and two-thirds were from the general public. Among state agencies, the Department of Justice makes considerably more law library requests than any other agency. In addition to handling research requests, law library staff are responsible for curating library materials, among other responsibilities. For the past four years, the law library has had a steady staffing level of seven permanent, full-time positions.

   The California State Law Library Special Fund is intended to cover the operating expenses of the Witkin State Law Library. The state created this special fund in 1992. The special fund receives a specified amount of certain filing fees charged for civil appellate cases. Statute sets both the total civil filing charges (the bulk of which is retained by the judicial branch) as well as the specific amount that is to be deposited into the Law Library Special Fund. Currently, $65 of certain civil filing fees are deposited into the Law Library Special Fund. This fee amount has been flat since 1999. The Legislature has a practice of reauthorizing the amount of certain civil appellate filing fees deposited into the Law Library Special Fund periodically. The next reauthorization is expected to occur in 2025. The last time the Legislature increased the relevant civil appellate filing fees was in 2012.

The four positions consist of a Senior Librarian, who would serve as the main point of contact for state agencies and assist with coordinating digitization projects; two Librarians, who would serve in traditional legal research capacities; and a Library Technical Assistant II, who would perform paraprofessional tasks such as book acquisition, catalog classification, physical upkeep of library material, and book inventory. One of the Librarian positions, as well as the Library Technical Assistant II position, currently are supported by the Law Library Special Fund (costing a combined $221,000). The administration's proposed augmentations are intended to address higher workload and continued increases in the law library's operating costs.

With the law library's fee amount held flat for so long, the State Library reports that it has used some of its ongoing General Fund support to help cover the Witkin State Law Library's operating costs since at least 2007. In each of 2021-22 and 2022-23, the State Library used nearly $600,000 of its ongoing General Fund support for the law library's operating costs. In 2022-23, the state also provided $80,000 one-time General Fund directly in the annual budget act for the law library. Provisional budget language indicated that this one-time funding was broadly "for support of the State Law Library."

3. ***California History Room.*** The Governor's budget proposes an increase of $597,000 General Fund, of which $357,000 is ongoing, to expand the California History Room Special Collections and provide personnel support. The special collections of the State Library's California History Room document the life and experiences of Californians throughout history. These special collections are differentiated from general collections by their rarity, value, and research potential. Many of the items in the California History Room's special collections are one-of-a-kind materials such as letters, drafts of speeches, literary manuscripts, meeting minutes, diaries, scrapbooks, and film recordings. In addition to special collections materials, the California History Room maintains separate print collections of books and periodicals that circulate to both state employees and the general public.

   The increase in ongoing support would fund three additional permanent, full-time positions. One new position would be for a Senior Librarian, who would perform outreach and relationship-building with currently underserved and underrepresented groups. The remaining two positions would be for Librarians, who would be responsible for handling requests for research assistance, providing orientations to special collections, and delivering custom presentations on specific historical topics.

4. ***Internal Audit.*** The Governor's budget proposes an increase of $168,000 General Fund ongoing to support a State Library Audit Program. State law sets forth that state agencies with ongoing budgets of $50 million or more should consider establishing an ongoing audit program. The State Library budget exceeded the $50 million ongoing General Fund threshold for the first time in 2022-23 (reaching $51 million). Over the past five years, the State Library's ongoing General Fund support has increased $20 million (66 percent). In addition to increases in ongoing General Fund support, the state provided the State Library with considerable one-time funding in 2021-22 and 2022-23. Most notably, the state provided the State Library $439 million one-time General Fund in 2021-22 and $50 million in 2022-23 for local library infrastructure grants.

The State Library reports that this will support a Senior Management Auditor who would be tasked with strengthening processes and internal controls, analyzing audit reports, verifying proper reporting, and providing consultation in the administration of local assistance grant programs, among various other related responsibilities. The State Library indicates that the primary rationale for the new auditor position is the significant growth in the State Library's local assistance programs and funding over the past few years.

LAO Assessment and Recommendations for Proposals 2-4

Support for Law Library Proposal

***Assessment:* Workload Has Increased for Law Library, but Remains in Line With Job Expectations.** The number of hours law library staff spend on research has been increasing—rising from 578 hours in 2017-18 to 2,393 hours in 2021-22. The increase is linked to more research requests, with research hours spent per request holding relatively stable over this period, averaging 1.25 hours per request. Though projected hours spent on research for 2022-23 (assuming the second half of the year looks similar to the first half) could fall slightly from the 2021-22 level, hours spent on research still are likely to remain elevated compared to earlier years of the period. The State Library attributes at least some of the increase in law library research activity to the state's expansion of telework, as remote work can separate state employees from traditional print resources previously maintained within their own agencies. Though hours spent on research have increased, the average share of time each Librarian spends on research remains below 40 percent—the target the State Library specifies in its Librarian job duty statement.

***Assessment:* No Clear Justification for Replacing Special Fund Support With General Fund Support.** After hovering at about $300,000 for the past few years, the administration projects that revenue in the State Law Library Special Fund will increase to $391,000 (30 percent) in 2023-24. Moreover, the amount of civil appellate filing fees deposited into this fund are up for reauthorization in 2025. Were the allocation for the law library to be increased, sufficient additional revenue could be generated to address the library's rising operating costs. Finally, the state's projected General Fund operating deficits further call into question the timing of such a proposal. In other areas of the budget, the administration effectively has counter proposals intended to provide General Fund relief. In those cases, rather than having ongoing General Fund replace existing special fund support, special fund revenue is used instead of General Fund.

***Recommendations:* Reject Proposal.** Given the law library's workload levels remain in line with job expectations and the administration has not provided clear justification for using ongoing General Fund support in place of existing special fund support, the LAO recommends the Legislature reject the proposed General Fund augmentations. As the state is likely to reauthorize the amount of civil appellate filing fees deposited into the State Law Library Fund in 2025, the Legislature could consider increasing the amount at that time. The law library has not had an increase in its set-aside rate in more than two decades, despite continuing to experience increases in its staffing costs. This budgetary approach is consistent with statutory intent to fund the law library using special fund revenue. Such an approach also helps improve the state's budget condition by mitigating the law library's reliance on General Fund support.

California History Room Proposal

***Assessment:* California History Room's Special Collections Have Some Shortcomings.** Preserving historical assets is a core function of the State Library. Approximately 75 percent of the current California History Room materials, however, represent the experiences of Anglo settlers. The State Library indicates it has relatively few items in the California History Room's special collections focused on underrepresented and marginalized communities. Moreover, the State Library indicates that the relatively few items in the special collections that document the history of marginalized groups are not organized in a way that makes them easy to find.

***<u>Assessment:</u>* Workload for California History Room Librarians Has Been Fluctuating Notably.** The State Library uses an online management system called "Ask-A-Librarian" for patrons to submit library requests. This system allows California History Room staff to identify when a request comes in, as well as track the number of hours a librarian spends on a request. (When staff are responding to these requests, they tend to pause other tasks such as processing and cataloging new collections.) Associated workload for the California History Room has been fluctuating. Though Ask-A-Librarian workload increased notably from 2020-21 to 2021-22, it tapered off considerably during the first half of 2022-23. If this trend continues through the second half of 2022-23, associated workload will fall not only short of the original projections used to justify the request for additional personnel but also will fall to its lowest level in five years.

***<u>Assessment:</u>* Other Funding Sources Exist for Special Collections Acquisitions.** Over the last three fiscal years, the State Library has spent a total of $247,000 in federal funding to support ongoing subscriptions to various high-use periodicals and recurring print titles at the California History Room. Additionally, the State Library works with the California State Library Foundation, an independent philanthropic partner, to acquire rare and unique historical material for the California History Room's collections. These materials (including items like photographs and manuscripts) are not available through mainstream vendors or publishers. Over the past three calendar years, the California State Library Foundation has spent a total of $19,000 for this purpose.

***<u>Recommendation:</u>* Reject Proposal and Revisit When State Budget Condition Improves.** Given the state's projected budget deficits over the next few years, the LAO recommends the Legislature reject the proposed ongoing and one-time augmentations the Governor proposes for the California History Room at this time. When the state budget condition is better, the Legislature could consider improvements to the California History Room's special collections, including by potentially funding a Senior Librarian to work on expanding certain outreach aimed at including more collections material from underrepresented groups. The Legislature also can continue monitoring Librarian workload. Though existing workload data do not show clear justification for additional Librarian positions, the Legislature could revisit the issue in future years. Finally, when the state budget condition improves, the Legislature could consider providing one-time funds for purchasing more material for the special collections. In the meantime, the California History Room could continue relying on federal funds and philanthropic funds for such purchases.

Internal Audit Proposal

State Library Has Not Made a Particularly Strong Case for New Position. Though a new auditor position might improve the State Library's oversight of local assistance programs, it is not clear that an auditor position is needed at this time. The State Library is only $1 million over the $50 million threshold at which an agency is "to consider" establishing an ongoing audit program. Of this amount, less than $25 million is associated with ongoing General Fund-supported local assistance programs. Moreover, were the State Library's existing eight staff with audit-related responsibilities to lack capacity to fulfill related ongoing audit work, the State Library might consider redesignating one of its other existing staff. The State Library has seen a significant increase in its staff over the past five years. Most recently, the *2021 Budget Act* funded 20 additional positions and the *2022-23 Budget Act* funded a further 17.5 new positions. These positions generally were intended to help the State Library implement various new and expanded state and local assistance programs. Furthermore, it is unclear the extent to which a new ongoing auditor position could be helpful with overseeing recent one-time initiatives. The largest of these initiatives (the

$439 million for local library infrastructure grants) requires grant funds to be used by June 30, 2024, such that a new auditor might be in place only a few months before the funds expire. Though some auditing work might exist even after these local assistance funds expire, such work does not justify a new ongoing position.

Legislature Could Consider Two Options. Given the factors just mentioned, one option is for the Legislature to reject this proposal. Under this option, the State Library would continue relying on its existing staff to ensure internal controls are met. To date, the State Library has not identified instances of fraud or mismanagement of public resources. Moreover, many of its one-time initiatives will expire shortly, calling into question the need for an ongoing position. A second option for the Legislature to consider is converting the requested position from permanent to limited term. Though the State Library potentially has opportunities within its recently expanded staffing level to perform more auditing and oversight, the Legislature could consider a limited-term position that would be particularly focused on ensuring that the local library infrastructure grants are used in accordance with state intent.

Suggested Questions

- Does an oversubscription problem exist for the Library Infrastructure Grant Program? In addition to the funds included, what are the libraries additional and outstanding infrastructure needs?
- What would be the impact of the Governor’s proposed delay on the grant program?
- Are there additional challenges or changes that the Legislature should consider regarding the current version of the grant program?

Staff Recommendation. Hold open all proposals.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Lola Smallwood-Cuevas
Senator Rosilicie Ochoa Bogh

Thursday, May 4, 2023
9:30 a.m. or Upon Adjournment of Session
1021 O Street, Room 1100

Consultant: Christopher Francis, Ph.D.

Items for Discussion

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

6120 CALIFORNIA STATE LIBRARY
6440 UNIVERSITY OF CALIFORNIA (UC)
6610 CALIFORNIA STATE UNIVERSITY (CSU)
6870 CALIFORNIA COMMUNITY COLLEGES (CCC)
6980 CALIFORNIA STUDENT AID COMMISSION

Issue 1: Senate "Protect Our Progress" Plan

Panel

- Jennifer Pacella, Legislative Analyst's Office

Available for additional questions or details: Paul Steenhausen, Legislative Analyst's Office

Senate's "Protect Our Progress" Proposals

Senate Budget and Fiscal Review Subcommittee No. 1 held four higher education hearings in March and April to discuss various issues including, but not limited to, financial aid, student housing, enrollment, base budget increases, cost pressures, student support services, and faculty needs. A recurring theme became clear: There are necessary investments and resources needed to benefit students. The Senate proposes the following ongoing and one-time proposals in addition to proposals included in the Governor's January budget. The below table documents non-Proposition 98 General Fund proposals:

Non-Proposition 98 General Fund proposals		
Proposal #	***Commission or Segment***	***Description***
1.	California Student Aid Commission	***Debt Free College for current and former foster youth attending UC and CSU.*** The Senate proposes $15 million General Fund in 2023-24 and ongoing and placeholder trailer bill language to expand eligibility for the Middle Class Scholarship for foster youth. Changes in trailer bill language would remove the work contribution and cover the total cost of attendance for CSU and UC students who are current or former foster youth.
2.	California Student Aid Commission	***Middle Class Scholarships.*** The Senate proposes to approve the Governor's proposed $226 million General Fund in 2023-24 and include $286 million General Fund in 2024-25 to maintain efforts to reach goal of Debt Free College.
3.	UC	***Addressing staffing issues for disability supportive programs.*** The Senate proposes $19 million General Fund in 2023-24 and ongoing to be dispersed to disability specific programs across UC campuses.
4.	UC	***Basic needs support increase.*** The Senate proposes $5 million General Fund in 2023-24 and ongoing to support basic needs programs at UC campuses
5.	UC	***Mental health support services increase.*** The Senate proposes $5 million General Fund in 2023-24 and ongoing to support mental health support programs at UC campuses

6.	UC	***Rapid Rehousing Baseline Increase.*** The Senate proposes $1 million General Fund in 2023-24 and ongoing to support rapid rehousing initiatives for UC students
7.	UC	***Cal-Bridge Statewide Initiative.*** The Senate proposes $8.4 million General Fund in 2023-24, $11.1 million General Fund in 2024-25, $13.6 million General Fund in 2025-26, $16.3 million General Fund in 2026-27, $19 million General Fund in 2027-28 to diversify the California public university faculty and tech workforce through the Cal-Bridge program.
8.	UC	***Economic impact study.*** The Senate proposes $250,000 General Fund one-time in 2023-24 for a study of oil and gas industry change on local services and jobs by UC Merced Labor Center.
9.	UC	***UC Agriculture and Natural Resources (UCANR) Cost of Living Adjustment (COLA).*** The Senate proposes $6 million General Fund in 2023-24 and ongoing to provide a COLA to UCANR.
10.	UC	***Police Records Access Project.*** The Senate proposes $6.87 million General Fund in 2023-24, with an expenditure or encumbrance period of three-years, to launch a collaborative database with built-in tools that would make records related to police use of force and misconduct accessible to all members of the public – including journalists, researchers, public officials, activists and community members – through an interface that allows easy and sophisticated search and analysis.
11.	CSU	***Disabled Student Supports.*** The Senate proposes $5 million General Fund in 2023-24 and ongoing to be dispersed to disability specific programs across CSU campuses.
12.	CSU	***Basic needs support increase.*** The Senate proposes $5 million General Fund in 2023-24 and ongoing to support basic needs programs at CSU campuses
13.	CSU	***Mental health support services increase.*** The Senate proposes $5 million General Fund in 2023-24 and ongoing to support mental health support programs at CSU campuses
14.	CSU	***Rapid rehousing increase.*** The Senate proposes $1 million General Fund in 2023-24 and ongoing to support rapid rehousing initiatives for CSU students
15.	CSU	***CalFresh outreach support.*** The Senate proposes $1 million General Fund per year for three years starting in 2023-24 to Center for Healthy Communities at CSU Chico to address the continued crisis of food insecurity on college campuses
16.	CSU	***CSU San Bernardino Master Of Science in Physician Assistant program.*** The Senate proposes $4.34 million one-time General Fund in 2023-24 for capital projects that will provide additional classroom and laboratory capacity to increase the class size from 40 students per cohort to 50 students per cohort each year.

Additionally, the Senate proposes the following one-time and ongoing proposals for the community colleges with Proposition 98 funding:

Proposition 98 General Fund proposals		
Proposal #	***Segment***	***Description***
17.	CCC	***Addressing ongoing learning loss, recruitment and retention issues at community colleges.*** The Senate proposes $100 million Proposition 98 General Fund in 2023-24 and ongoing and trailer bill language for local discretionary purposes on activities that directly support students, mitigate learning loss related to COVID-19 impacts, and promote targeted recruitment and retention efforts across the state. Includes reporting language that tracks use of funds, identification of effective strategies, and impacts of strategies on student enrollment and retention.
18.	CCC	***Rapid rehousing baseline increase.*** The Senate proposes $100 million Proposition 98 General Fund in 2023-24 and ongoing to support rapid rehousing initiatives for CCC students
19.	CCC	***Debt Free College for California Community College for current and former foster youth.*** The Senate proposes $12 million Proposition 98 General Fund in 2023-24 and ongoing and trailer bill language to amend the Student Success Completion Grant program so that students who are current or former foster youth committing to coursework with 12+ units have their total cost of attendance covered.
20.	CCC	***Mental health services baseline increase.*** The Senate proposes $50 million Proposition 98 General Fund in 2023-24 and ongoing to support mental health support programs at CCC campuses
21.	CCC	***Basic needs baseline increase.*** The Senate proposes $43.8 million Proposition 98 General Fund in 2023-24 and ongoing to support basic needs programs at CCC campuses
22.	CCC	***COLA for categorical programs.*** The Senate proposes $51.3 million Proposition 98 General Fund in 2023-24 and ongoing to provide an 8.13 percent COLA for Puente, Mathematics, Engineering, Umoja, Science Achievement, Student Equity and Achievement Program, Part-time faculty office hours and Part-time faculty compensation
23.	CCC	***Statewide Community College LGBTQ+ Project.*** The Senate proposes $10 million Proposition 98 General Fund in 2023-24 and ongoing to bolster safe spaces, learning communities, and other support services for LGBTQ+ individuals in community colleges across the state.
24.	CCC	***Open Educational Resources Initiative (OREI).*** The Senate proposes $800,000 Proposition 98 General Fund in 2023-24 and ongoing to support OREI
25.	CCC	***Associate Degree in Nursing programs at community colleges.*** The Senate proposes $90 million per year, starting in 2024-25, for at least five years to grow, educate, and maintain the next generation of registered nurses through the community college system.

26.	CCC	***Los Angeles Community College District Small Business Entrepreneurship and Innovation Center at East Los Angeles College.*** The Senate proposes $2.5 million Proposition 98 General Fund one-time to support this center.
27.	CCC	***Palo Verde Community College District – Child Development Center project.*** The Senate proposes $5 million Proposition 98 General Fund one-time to the Palo Verde Community College District to complete the Child Development Center project.

Staff Comments. The Senate's "Protect Our Progress" plan also modifies several Governor's January budget proposals in higher education. The Senate's plan rejects the delays or cuts to the following initiatives:

- Higher Education Student Housing Grant Program
- Student Housing Revolving Loan Program
- Campus project funding at UCLA, UC Berkeley, UC Riverside and UC Merced
- Library Infrastructure Grant Program
- Community college facilities maintenance and instructional equipment

As well, the Senate's plan proposes to sweep one-time 2021-22 community college enrollment growth funding has not been earned by districts- roughly $23.8 million Proposition 98 General Fund.

Staff Recommendation. Hold Open all proposals

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Lola Smallwood-Cuevas
Senator Rosilicie Ochoa Bogh

Wednesday, May 17, 2023
9:00 a.m.
1021 O Street - Room 2100
Part A- Higher Education

Consultant: Christopher Francis, Ph.D.

Public Comment

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DISCUSSION ITEMS

6440 UNIVERSITY OF CALIFORNIA (UC)
6610 CALIFORNIA STATE UNIVERSITY (CSU)
6870 CALIFORNIA COMMUNITY COLLEGES (CCC)

Issue 1: Student Housing at UC, CSU, and CCC

Panel

- Michelle Nguyen, Department of Finance
- Jennifer Pacella, Legislative Analyst's Office

Available for additional questions or details: Seija Virtanen, University of California
Ryan Storm, California State University
Lizette Navarette, CCC Chancellor's Office

Governor's May Revision Proposals for 2023-24

- **Higher Education Student Housing Grant Program Changes.** The 2021 Budget Act established the Higher Education Student Housing Grant Program to provide grants for the CCCs, CSU, and UC to construct student housing or to acquire and renovate commercial properties into student housing for low-income students. The 2022 Budget Act allocated approximately $1.4 billion one-time General Fund to CCC, CSU, and UC campuses and left $750 million available in 2023-24 for this program. The Governor's budget proposed $500 million one-time General Fund for 2023-24 and shifting $250 million one-time General Fund from 2023-24 to 2024-25 for affordable student housing projects.

  The May Revision instead proposes $450 million one-time General Fund for 2023-24 and $95.4 million one-time General Fund for 2024-25 for CCC affordable student housing projects. The May Revision also proposes to shift approximately $1.1 billion in current and planned General Fund support for UC and CSU affordable student housing grants from General Fund to UC- and CSU-issued bonds, and reflects an increase of $75 million ongoing General Fund to support the underlying debt service on those bonds.

Suggested Questions

- Does shifting the finance support for the UC and CSU projects affect the amount of affordable beds produced by each project?
- Does this proposal affect the timeline of projects?
- Would UC and CSU projects be listed in budget trailer bill legislation, in a similar manner to last year's higher education trailer bill, under this proposal?
- Does the Administration still intend to delay funding for the Revolving Loan Fund?
- How will this impact UC and CSU capital outlay program for the next few years? Will this reduce ability to borrow for other projects?

Staff Recommendation. Hold Open

6440 UNIVERSITY OF CALIFORNIA (UC)

Issue 2: Various Governor's May Revision Proposals

Panel

- Gabriela Chavez, Department of Finance
- Ian Klein, Legislative Analyst's Office

Available for additional questions or details: Jack Zwald, Department of Finance
Jennifer Pacella, Legislative Analyst's Office
Seija Virtanen, University of California

Governor's May Revision Proposals for 2023-24

The Governor's May Revision includes the following ongoing and one-time proposals. These proposals are in addition to the Governor's January budget.

- **Base Increase Maintained.** The May Revision maintains the Governor's proposed five percent base increase for UC ($217 million General Fund in 2023-24 and ongoing).

- **Shift in Finance Support for UC Berkeley Clean Energy Campus Project, UC Merced, and UC Riverside Campus Expansion Projects.** The May Revision shifts $498 million in current and planned General Fund support to UC-issued bonds for these aforementioned projects. To support the underlying debt service on those bonds, the May Revision includes an increase of $33.3 million ongoing General Fund.

- **Support for UC Division of Agriculture and Natural Resources (UC ANR).** The May Revision includes a shift of $4.8 million from UC's main appropriation to provide continued support for UC ANR.

- **Ralph J. Bunche Center.** The May Revision includes a one-time $5 million General Fund increase for the Ralph J. Bunche Center for African-American Studies at the University of California, Los Angeles.

- **UC Riverside School of Medicine Support.** The May Revision includes an ongoing $2 million General Fund increase to support UC Riverside School of Medicine.

- **UC Global Entrepreneurs.** The May Revision increase a one-time $2 million General Fund increase to pilot an entrepreneur in residence project for foreign-born entrepreneurs and UC students in support of job creation and fostering global talent for innovation in areas of need.

- **Graduate Medical Education Backfill.** The May Revision includes an ongoing increase of $1.2 million General Fund to offset declining Proposition 56 revenue for a statewide grant program and maintain $40 million in total ongoing for graduate medical residency slots.

Suggested Questions:

UC Global Entrepreneurs

- Do you have any additional on this request and purposes? Does the May Revision propose budget bill language or trailer bill language for this proposal?

Finance Support Shift for UC Berkeley Clean Energy Campus Project, UC Merced, and UC Riverside Campus Expansion Projects

- Does this shift in financing impact any project timelines?
- Is the Institute for Immunology and Immunotherapy at UCLA part of this UC-issued bond solution? Can you clarify how this project is proposed to be funded going forward relative to these other projects?
- What will these projects cost under this new proposed financing structure?
- How will this impact UC's capital outlay program for the next few years? Will this reduce UC's ability to borrow for other projects?

Staff Recommendation. Hold Open

6610 CALIFORNIA STATE UNIVERSITY (CSU)

Issue 3: Various Governor's May Revision Proposals

Panel

- Jennifer Louie, Department of Finance
- Lisa Qing, Legislative Analyst's Office

Available for additional questions or details: Jack Zwald, Department of Finance
Ryan Storm, California State University

Governor's May Revision Proposals for 2023-24

The Governor's May Revision includes the following ongoing and one-time proposals. These proposals are in addition to the Governor's January budget.

- **Base Increase Maintained.** The May Revision maintains the Governor's proposed five percent base increase for CSU ($227 million General Fund in 2023-24 and ongoing)

- **Shift in Finance Support for Cal Poly Humboldt.** The May Revision shifts $201 million General Fund support included in the 2021 Budget Act to support Cal Poly Humboldt Infrastructure projects to CSU-issued bonds. To support the underlying debt service on those bonds, the May Revision includes an increase of $16 million ongoing General Fund.

- **Restoration of General Fund Support for University Farms.** The May Revision restores $75 million General Fund support for these projects included in the 2022 Budget Act. The January Governor's budget previously shifted fund support from General Fund to CSU-issued bonds but some expenditures for this purpose were determined to be ineligible for CSU-issued bonds.

- **CSU Chico Human Identification Laboratory.** The May Revision includes an increase of $3.1 million General Fund in 2023-24 and ongoing to support the construction of the Human Identification Laboratory at CSU Chico's campus through the issuance of CSU bonds.

Staff Recommendation. Hold Open

6870 CALIFORNIA COMMUNITY COLLEGES (CCC)

Issue 4: Various Governor's May Revision Proposals

Panel

- Madison Sheffield, Department of Finance
- Paul Steenhausen, Legislative Analyst's Office

Available for additional questions or details: Lizette Navarette, CCC Chancellor's Office

Governor's May Revision Proposals for 2023-24

The Governor's May Revision includes the following ongoing and one-time proposals. These proposals are in addition to the Governor's January budget.

- **Categorical Program Statutory Changes to Meet CCC Roadmap Goals.** The May revision includes trailer bill language that allows all CCC districts to spend flexibly amongst the following categorical programs beginning in 2023-24: Student Equity and Achievement Program, Student Financial Aid, and Student Mental Health Resources. The proposed language would direct the CCC Chancellor's Office to assess district-level progress towards the roadmap goals. CCC districts that do not hit their goals will have their flexible spending authority revoked and would be offered technical assistance.

- **Apportionments Cost-of-Living Adjustment and Growth**. The May Revision includes an increase of $25.4 million ongoing Proposition 98 General Fund to reflect a change in the cost-of-living adjustment for apportionments from 8.13 to 8.22 percent, and a decrease of $2.4 million ongoing Proposition 98 General Fund to sustain 0.5-percent enrollment growth. This amount is in addition to an increase of $652.6 million ongoing Proposition 98 General Fund included in the Governor's budget.

- **Funding Budget Year Apportionments with One-Time Resources.** The May Revision provides an increase of $503 million one-time Proposition 98 General Fund to support Student-Centered Funding Formula costs for 2023-24.

- **Student Success and Completion Grant Program Adjustment.** The May Revision includes a decrease of $50 million one-time Proposition 98 General Fund to reflect revised program participation. This brings the total support for the program to $362.6 million General Fund in 2023-24.

- **California Community College COVID-19 Recovery Block Grant Decrease.** The May Revision includes a decrease of approximately $345 million one-time Proposition 98 General Fund in support of the California Community College COVID-19 Recovery Block

Grant, bringing the block grant amount to $305 million one-time Proposition 98 General Fund, reflecting revised estimates of available Proposition 98 resources.

- **Deferred Maintenance.** The May Revision includes an additional decrease of approximately $239 million one-time Proposition 98 General Fund for deferred maintenance needs, for a total reduction of $452 million one-time Proposition 98 General Fund when combined with the reduction proposed in the Governor's budget. These adjustments reflect revised estimates of available Proposition 98 resources.

- **CCC Categorical Program COLA.** The May Revision includes an additional ongoing $3 million Proposition 98 General Fund increase for select categorical programs and the Adult Education program to provide an 8.22 percent COLA. The January Governor's budget included an increase of $92.5 million Proposition 98 General Fund ongoing to provide an 8.13-percent COLA for the Adult Education Program, apprenticeship programs, CalWORKs student services, campus child care support, Disabled Students Programs and Services, Extended Opportunity Programs and Services, and mandates block grant.

- **LGBTQ+ Pilot Project**. The May Revision includes $10 million Proposition 98 General Fund a year for three years to support LGBTQ+ students.

- **Los Angeles Community College District Small Business Entrepreneurship and Innovation Center at East Los Angeles College.** The May Revision includes one-time $2.5 million Proposition 98 General Fund to support this center.

- **Student Enrollment and Retention Revised Proposal.** The Governor's budget includes an increase of $200 million Proposition 98 General Fund one-time to continue to support community college efforts and focused strategies to increase student retention rates and enrollment. The May Revision decreases the January Governor's budget proposal by $100 million one-time Proposition 98 General Fund. The cumulative total proposed due to this revision is $100 million one-time Proposition 98 General Fund.

- **CCC Facilities.** The May Revision includes General Obligation bond funding of $403 million one-time for the construction phase of 19 projects anticipated to complete design by Spring 2023, the design phases of two projects, and both the working drawings and construction for one project. This allocation represents the next installment of the $2 billion available to the CCCs under Proposition 51.

- **Local Property Tax Adjustment.** The May Revision includes a decrease of $19.6 million ongoing Proposition 98 General Fund as a result of decreased offsetting local property tax revenues.

<u>Suggested Questions:</u>

Categorical Program Statutory Changes to Meet CCC Roadmap Goals.

- What issue is this proposal trying to resolve?
- Why were these three categorical programs identified for flexibility?
- How much input did you solicit from districts in the process of determining this proposal?
- Under this proposal, a college could completely defund mental health services and financial aid administration and shift all funding to Student Equity and Achievement Program. Is that correct?

Reductions to COVID-19 Block Grant and Student Recruitment and Retention Efforts

- How were the specific amounts for these reductions determined?
- How would this impact colleges who have expended or encumbered more funding?

Funding Budget Year Apportionments with One-Time Resources

- How was $503 million determined?
- How does the $503 million in one-time funding interact with the apportionments COLA and additional reductions included in the May Revision?

Staff Recommendation. Hold Open

6980 CALIFORNIA STUDENT AID COMMISSION

Issue 5: Various Governor's May Revision Proposals

Panel

- Devin Mitchell, Department of Finance
- Lisa Qing, Legislative Analyst's Office

Available for additional questions or details: Jack Zwald, Department of Finance
Jake Brymner, California Student Aid Commission

Governor's May Revision Proposals for 2023-24

The Governor's May Revision includes the following ongoing and one-time proposals. These proposals are in addition to the Governor's January budget.

- **Cal Grant Program Caseload Adjustments.** The May Revision reflects updated Cal Grant expenditures based on the latest estimates of enrollment of Cal Grant-eligible students. In total, the May Revision reflects estimated Cal Grant expenditures of approximately $2.2 billion in 2021-22, $2.3 billion in 2022-23, and $2.3 billion in 2023-24.

- **Golden State Education and Training Program.** Because of lower revenue projections and a resulting increase in the budget problem, the May Revision proposes a decrease of $480 million one-time General Fund to wind down the Golden State Education and Training Program at the end of the 2022-23 fiscal year.

- **Golden State Teacher Grant Program**. The May Revision includes an increase of $6 million one-time federal Individuals with Disabilities Education Act funding for the Golden State Teacher Grant Program. These resources would supplement the current General Fund amount appropriated to support grants to students enrolled in a special education teacher preparation program at high-need school sites. Additionally, the May Revision alters proposed statutory changes transmitted with the Governor's budget to maintain the requirement that awardees serve in high-needs schools.

- **Independent Institutions.** The Administration has also determined that a good-faith effort has been made by independent institutions of higher education toward meeting the statutory Associate Degree for Transfer commitment required to maintain the maximum award amount for students attending independent institutions of higher education at $9,358 for the 2023-24 award year.

- **Financial Aid Programs.** The May Revision includes an increase of $397,000 General Fund in 2023-24 and ongoing currently unallocated for four positions at the California

Student Aid Commission to support financial aid programs. Combined with the Governor's budget proposal for one Human Resources position and High School Toolkits, which was covered on March 16, 2023, this augmentation provides the California Student Aid Commission a new total of $638,000 for five positions beginning in 2023-24 to support financial aid workload.

- **Cash for College**. The May Revision includes an increase of $103,000 General Fund in 2023-24 and ongoing in the California Student Aid Commission's budget to support the Cash for College program. This is an ongoing increase to this program's baseline.

Suggested Questions:

- **Cal Grant Program Caseload Adjustments.** How do the caseload estimates and adjustments compare to January Gov's budget estimates? How does it compare going back the last three years? What are the reasons influencing the changes and adjustments.

- **Independent Institutions.** What is the Administration's standard for making a "good faith" effort?

- **Financial Aid Programs.** Can you provide the subcommittee members with a new breakdown that reconciles the proposed positions as of May Revision?

Staff Recommendation. Hold Open

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Rosilicie Ochoa Bogh
Senator Lola Smallwood-Cuevas

Wednesday, May 17, 2023
9:00 a.m.
1021 O Street State Office Building - Room 2100

Consultant: Yong Salas

PART B

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

6100 DEPARTMENT OF EDUCATION
6360 COMMISSION ON TEACHER CREDENTIALING

Issue 1: May Revision Proposals

The May Revision includes $127.2 billion total funds ($79.1 billion General Fund and $48.1 billion other funds) for all K-12 education programs. K-12 per-pupil funding is $17,460 in Proposition 98 funds.

PROPOSITION 98

- **Changes to the Minimum Guarantee.** The May Revision reflects a decrease in Proposition 98 funding of $2 billion from the Governor's budget for the three-year period of 2021-22 to 2023-24. More specifically, the May Revision funds the Proposition 98 guarantee for the 2021-22 through 2023-24 fiscal years at $110.6 billion, $106.8 billion, and $106.8 billion, respectively. Compared to January, this reflects the following yearly changes:

    - An increase of approximately $139 million in 2021-22.

    - A decrease of approximately $220 million in 2022-23.

    - A decrease of approximately $2 billion in 2023-24.

  These levels reflect the estimated decrease in General Fund revenues over the three-year period in comparison with the Governor's budget proposal. The Proposition 98 Guarantee continues to be calculated under Test 1 for all three years (equal to approximately 38.6 percent of General Fund revenues, accommodating the rebench of the Proposition 98 Guarantee related to the expansion of transitional kindergarten, plus local property taxes).

- **Public School System Stabilization Account.** The May Revision increases the total payments to the Public School System Stabilization Account from the Governor's budget by $1.1 billion, $699 million, and $382 million for total deposits of $4.8 billion, $1.8 billion, and $748 million in 2021-22, 2022-23, and 2023-24, respectively. This brings the total account balance from $8.5 billion to $10.7 billion, as a result of the increase in the share of total funds from capital gains revenue. This balance reflects this account reaching its constitutional cap in the 2023-24 fiscal year. Funds from this reserve account may be expended in years when the Proposition 98 Guarantee does not increase enough to cover year-over-year growth and inflation. Under current law, there is a cap of 10 percent on school district reserves in fiscal years immediately succeeding those in which the balance in the Account is equal to or greater than three percent of the total K-12 share of the Guarantee. The balance of $9.9 billion in 2022-23 continues to trigger school district reserve caps in 2023-24.

MAJOR CHANGES

- **Local Control Funding Formula (LCFF).** The bulk of funding for school districts and county offices of education for general operations is provided through the LCFF and is distributed based on the number of students served and certain student characteristics. Typically, the state annually adjusts the grant amounts by a cost-of-living adjustment (COLA). The 2023-24 Governor's budget included an LCFF COLA of 8.14 percent, and the May Revision updates this adjustment to 8.22 percent. In addition to the updated COLA, the May Revision also includes $2.7 billion one-time Proposition 98 General Fund to support ongoing LCFF costs, bringing total LCFF funding to $79.1 billion.

- **County Offices of Education**. The May Revision provides $80 million ongoing Proposition 98 General Fund to support county offices of education serving students in juvenile court and other alternative school settings, and includes statutory changes to the funding model for county offices of education as follows:

    - An increase for the Local Control Funding Formula base rate for county offices of education's average daily attendance.

    - An altered average daily attendance calculation for county offices of education to be based on the greater of the current, prior or average of the three most recent prior fiscal years.

    - An allocation of $300,000 per county office of education operating one or more juvenile court schools, and an allocation of $300,000 per county office of education operating one or more community schools.

    - A block grant equivalent to $5,000 per juvenile court or community school average daily attendance, adjusted annually by a cost-of-living adjustment, for a broad range of allowable expenditures, including but not limited to expanding access to A-G courses, vocational and career technical education, and postsecondary preparation and application assistance.

  Additionally, the May Revision includes a 50 percent increase to the base grant allocation that county offices of education receive to support their differentiated assistance work.

- **Accountability and Equity Leads**. The May Revision proposes statutory changes to accountability package that was included at the Governor's budget, as follows:

    - Clarifies that all local educational agencies with low student performance address disparities in the preparation of their educators.

    - Defines the new Long-term English Learner student group in the context of school accountability.

- Makes technical amendments related to free meal data source specification, define key terminology, clarify eligibility for Equity Multiplier allocation, and specify the sourcing of California Longitudinal Pupil Achievement Data System data to a particular point in the school year.

Additionally, the May Revision includes $2 million ongoing Proposition 98 General Fund to support the proposed equity leads in the Statewide System of Support.

- **Local Control and Accountability Plan Query Tool and eTemplate.** The May Revision includes an increase of $148,000 ongoing Proposition 98 General Fund to support refinements to the Local Control and Accountability Plan Query Tool and eTemplate.

- **Arts, Music, and Instructional Materials Discretionary Block Grant.** The Governor's budget proposed to reduce this block grant from $3.4 billion to $2.3 billion. The May Revision proposes to further reduce this block grant by an additional $607 million.

- **Learning Recovery Emergency Block Grant.** The May Revision proposes to reduce the Learning Recovery Emergency Block Grant by $2.5 billion, bringing the total appropriation down from $7.9 billion to $5.4 billion one-time Proposition 98 General Fund.

- **School Nutrition.** The May Revision includes an additional $110 million one-time Proposition 98 General Fund and approximately $191 million ongoing Proposition 98 General Fund to fully fund the program in the 2022-23 and 2023-24 fiscal years.

- **Expanded Learning Opportunities Program (ELOP)**. The May Revision includes statutory changes that extend the encumbrance deadline for ELOP funds received in 2021-22 and 2022-23 from June 30, 2023 to June 30, 2024.

- **After School Education and Safety Programs.** The May Revision includes an increase of $3 million ongoing Proposition 98 General Fund to the Los Angeles County Office of Education to contract with Save the Children to support after school programs in rural districts.

- **Teacher Training, Recruitment, and Retention.** The May Revision proposes statutory changes to the following programs:

  - *Teacher and School Counselor Residency Grant Program.* The May Revision proposes to increase the per-candidate allocation to grantee local educational agencies. These changes also require a minimum stipend or salary be provided to residents, and allow residency candidates to complete their service requirements in eight years instead of five years.

  - *Teacher Performance Assessments*. The May Revision allows teachers who were unable to finish their credential because they could not take the Teaching Performance Assessment during the COVID-19 pandemic to meet this requirement through completion of a

Commission-approved induction program or through two years of satisfactory teacher evaluation.

- *Military Spouse Authorization.* Authorizes the Commission on Teacher Credentialing to issue a comparable California credential to any US Military servicemember or their spouse who possesses a valid out-of-state teaching or services credential.

- *Subject Matter Competence.* Requires the Commission to evaluate how transcript reviews can be conducted to assess basic skills and subject matter competence for teaching candidates to complete their credentialing requirements without the need to take state-mandated exams to prove competence.

- **Literacy Screening.** The May Revision proposes to require local educational agencies to begin screening students in kindergarten through second grade for risk of reading difficulties, including dyslexia, by the 2025-26 school year. The May Revision provides $1 million one-time Proposition 98 General Fund to support the convening of an independent panel of experts to approve a list of screening instruments for these assessments.

- **Stronger Connections Program.** The May Revision includes an increase of $119.6 million one-time federal funds to support state-level activities related to school climate and safety through the Stronger Connections Program.

- **Bilingual Teacher Professional Development Program**. The May Revision includes an increase of $20 million one-time Proposition 98 General Fund to be available through the 2028-29 fiscal year to support the Bilingual Teacher Professional Development Program.

- **Restorative Justice Practices.** The May Revision proposes an increase of $7 million one-time Proposition 98 General Fund to provide support for participating local educational agencies to implement Restorative Justice best practices that will be posted on the Department of Education's website b June 1, 2024, pursuant to SB 2598 (Akilah Weber), Chapter 914, Statutes of 2022.

- **Proposition 28 Funding.** The May Revision reflects a decrease of $8 million to support the implementation of Proposition 28, from $941 million to $933 million in 2023-24. Additionally, the Administration proposes the following statutory changes:

  - To allow for Proposition 28 Arts and Music Funding Guarantee entitlement payments to be issued through the Department Principal Apportionment program.

  - To provide a feasible way to calculate funds for and issue funds to preschool programs.

  - To clarify: (1) terms defined for the purpose of the three-year time limit on use of funds; (2) the Department's authority to collect data on unexpended funds from local educational agencies; and (3) the Department's authority to recover unexpended funds back to the state.

  - To reflect technical corrections for references to annual certification and the good cause waiver.

- **California School Information Services.** The May Revision includes an increase of $2.1 million ongoing Proposition 98 General Fund to support the California School Information Services division of the Fiscal Crisis and Management Assistance Team.

- **Professional Development and Leadership Training.** The May Revision proposes an increase of $1 million ongoing Proposition 98 General Fund for the Los Angeles County Office of Education to support professional development and leadership training for education professionals related to antibias education and the creation of inclusive and equitable schools, pursuant to AB 104 (Committee on Budget), Chapter 13, Statutes of 2015.

- **Basic Aid Wildfire Property Tax Backfill.** The May Revision proposes an increase of $632,000 one-time Proposition 98 General to backfill reduced property tax revenues for certain school districts that were impacted by the Kincade Fire.

- **Local Property Tax Adjustments**. The May Revision includes a decrease of $2 billion Proposition 98 General Fund for school districts, charter schools, and county offices of education in 2021-22, 2022-23, and 2023-24, with an increase in offsetting property tax revenues. Specifically, this includes property tax increases of $15 million in 2021-22, $767 million in 2022-23, and $201 million in 2023-24.

- **Cost-of-Living Adjustments**. The May Revision includes a decrease of $1.7 million ongoing Proposition 98 General Fund to reflect an 8.22 percent COLA and a decrease in enrollment for categorical programs that remain outside of the LCFF and Special Education, including Child Nutrition, State Preschool, Youth in Foster Care, Mandates Block Grant, Adults in Correctional Facilities Program, American Indian Education Centers, and the American Indian Early Childhood Education Program.

EARLY CHILDHOOD EDUCATION

- **Universal Transitional Kindergarten (TK).** The May Revision includes adjustments to the first-year costs to expand transitional kindergarten, from all children turning five-years-old between September 2 and December 2 to all children turning five-years-old between September 2 and February 2, from $604 million at the Governor's budget to $357 million General Fund. The first-year costs to add one additional certificated or classified staff person to every TK class is revised from $337 million Proposition 98 General Fund to $283 million Proposition 98 General Fund. The second-year costs to expand access to children turning five years old between September 2 and April 2 are revised from $690 million to $597 million. The second-year costs to support the addition of one additional staff in TK classrooms remains unchanged.

- **California State Preschool Program (CSPP)**. The May Revision includes a decrease of $54.3 million General Fund to reflect revised estimates of the General Fund resources needed to support recent reimbursement rate increases that are currently supported by limited-term federal funds. The May Revision includes a COLA of 8.22 percent – however, the cost of providing this COLA decreased by $52 million Proposition 98 General Fund and $28 million General Fund due to revised estimates of the number of contractors that opt into the Standard Reimbursement Rate.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Rosilicie Ochoa Bogh
Senator Lola Smallwood-Cuevas

Tuesday, May 23, 2023
9:00 a.m.
1021 O Street State Office Building - Room 2100

Consultant: Yong Salas

PART A

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Item	Subject	Description	Staff Recommendation	Language	Comments
6100 Department of Education, Pre-K-12 Local Assistance					
1	**Local Control Funding Formula** 6100-601-0001 (Governor's Budget and May Revise)	The Governor's Budget provides $4.2 billion in ongoing Proposition 98 funding for applying COLA of 8.14 percent and ADA growth to the LCFF formula. The May Revision reduces this amount by $234.8 million to reflect an updated COLA of 8.22 percent and updated ADA growth for a total adjustment of $3.97 billion.	Approve as proposed.	TBL	
2	**Local Control Funding Formula - One Time Appropriations** 6100-601-0001, Education Code 14041.5 (Governor's Budget and May Revise)	The Administration proposes to use $613 million in one-time funds in 2022-23, and $2.7 billion in one-time resources to support the ongoing costs of LCFF in 2023-24.	Modify to conform to the legislative Proposition 98 package.	TBL	
3	**Arts, Music, and Instructional Materials Discretionary Block Grant** Section 56, Chapter 571 of Statues of 2022 (Governor's Budget and May Revise)	The budget proposes to reduce the Arts, Music, and Instructional Materials Discretionary Bock Grant by 50 percent, revising the amount from $3.5 billion Proposition 98 General Fund by $1.8 billion, for a total amount of $1.8 billion Proposition 98 General Fund.	Reject this proposal.	TBL	
4	**Learning Recovery Emergency Block Grant** 6100-610-0001/6100-620-3402/6100-698-3402 and Education Code 32526 (May Revise)	The May Revise proposes to reduce the Learning Recovery Emergency Block Grant by $2.5 billion Proposition 98 General Fund.	Modify the reduction of the Learning Recovery Emergency Block Grant to $525 million.	TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
5	**County Offices of Education Funding** 6100-608-0001/6100-655-0001 and Education Codes 2574 and 2575.2 (Governor's Budget and May Revise)	The proposed budget includes $181.6 million ongoing Proposition 98 General Fund to reflect: (1) an increase of $36,174,000 to reflect an increased cost-of-living adjustment to 8.22 percent and decreasedgrowth; (2) an increase of $8,250,000 to reflect decreased offsetting property tax revenues; (3) an increase of $49,609,000 to reflect decreased offsetting Education Protection Account revenues; (4) an increase of $80,088,000 to reflect increased Minimum State Aid estimates; and (5) an increase of $7,438,000 to reflect increased state system of support activity costs. The proposed budget also includes statutory changes to increase the base grant allocation from $200,000 to $300,000 for differentiated assistance, and includes $100,000 to extend the differentiated asistance evaluation to allow the contractor to run the 2022 and 2023 Dashboard data through their analysis.	Approve funding and adopt placeholder trailer bill.	TBL	
6	**County Office of Education Alternate Funding for Juvenile Court and Community Schools** 6100-608-0001 (May Revise)	The May Revise proposes $80 million ongoing Proposition 98 General Fund to reflect additional support for juvenile court and community schools operated by a county office of education. The alternate funding model provides the following: (1) an increase for the LCFF base rate for county offices of education's averagedaily attendance; (2) an altered average daily attendance calculation for county offices of education to be based on the greater of the current, prior or average of the three most recent prior fiscal years; (3) an allocation of $300,000 per county office of education operating one or more juvenile court school, and an allocation of $300,000 per county office of education operating one or more community school; and (4) a block grant equivalent to $5,000 per juvenile court or community schoolaverage daily attendance, adjusted annually by a cost-of-living adjustment, for a broad range of allowable expenditures, including but not limited to expanding access to A-G courses, vocational and career technical education, and post-secondary preparation and application assistance.	Approve funding and adopt placeholder trailer bill.	TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
7	**Single District County Office of Education Summary of Differentiated Assistance Support** Education Code 52066 (Governor's Budget)	The budget includes trailer bill language that requires single district county offices of education to develop local control and accountability plans.	Approve and adopt placeholder trailer bill language.	TBL	
8	**Public School System Stabilization Account (Proposition 98 Rainy Day Fund)** 6100-601/698-3207, 6100-610-0001 (Governor's Budget and May Revision)	The May Revision increases the total payments to the Public School System Stabilization Account from the Governor's Budget by $1.1 billion, $699 million, and $382 million for total deposits of $4.8 billion, $1.8 billion, and $748 million in 2021-22, 2022-23, and 2023-24, respectively. This brings the total account balance from $8.5 billion to $10.7 billion, as a result of the increase in the share of total funds from capital gains revenuesrevenue. This balance reflects this account reaching its constitutional cap in the 2023-24 fiscal year. Funds from this reserve account may be expended in years when the Proposition 98 Guarantee does not increase enough to cover year-over-year growth and inflation. Under current law, there is a cap of 10 percent on school district reserves in fiscal years immediately succeeding those in which the balance in the Account is equal to or greater than three percent of the total K-12 share of the Guarantee. The balance of $9.9 billion in 2022-23 continues to trigger school district reserve caps in 2023-24.	Modify to conform to the legislative Proposition 98 package.	TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
9	**Transitional Kindergarten Expansion** 6100-601-0001 and Education Code 33050 and 48000 (Governor's Budget and May Revise)	The May Revision includes adjustments to the first-year costs to expand transitional kindergarten, from all children turning five-years-old between September 2 and December 2 to all children turning five-years-old between September 2 and February 2, from $604 million at the Governor's budget to $357 million General Fund. The first-year costs to add one additional certificated or classified staff person to every TK class is revised from $337 million Proposition 98 General Fund to $283 million Proposition 98 General Fund. The second-year costs to expand access to children turning five years old between September 2 and April 2 are revised from $690 million to $597 million. The second-year costs of $165 million to support the addition of one additional staff in TK classrooms remains unchanged and continues to maintain a 12-to-1 student-to-adult ratio. These funds will increase the Proposition 98 Guarantee through the process of rebenching. The trailer bill language also proposes to prohibit the State Board of Education from waiving any ratio requirements for transitional kindergarten classrooms. The proposed budget also includes trailer bill language that allows children who turn four years old outside of the school year to enroll into transitional kindergarten. This cohort of children are currently scheduled to be enrolled in 2025-26.	Approve funding for TK expansion, and adopt placeholder trailer bill language that prohibits the SBE from waiving ratio requirements for TK. Also adopt placeholder trailer bill language that extends the deadline for teachers in the TK classroom to meet the 24-unit requirement to August 1, 2024. Reject trailer bill language that expedites the timeline to enroll the youngest four year olds whose birthdays are outside of the school year.	TBL	
10	**Transitional Kindergarten - Requirements for the Second Adult in a TK Classroom** Education Code 48000 (Governor's Budget and May Revise)	The Administration proposes trailer bill language to add requirements for the additional adult in a transitional kindergarten classroom beginning in 2028-29. These requirements include meeting at least one of the following: is credentialed, is participating in either an eduator apprenticeship or residency program, the Classified School Employee Teacher Credentialing Program, or any teacher preparation program, Regional Occupational Program/Home Economics Related Occupations program/Future Teachers and Dual Enrollment program, is a holder of any level of child development permit, has earned at least six units in early childhood education or child development, or until 2030 has related experience.	Reject this proposal.		

Item	Subject	Description	Staff Recommendation	Language	Comments
11	**Equity Multiplier** Education Code 42238.024 (Governor's Budget and May Revise)	The Administration proposes an ongoing $300 million Proposition 98 General Fund beginning in 2023-24, with an applied cost-of-living-adjustment that would begin in 2024-25, to local educational agencies for services and supports that directly benefit eligible schoolsites. Eligible schoolsites are determined by the percentage of enrolled students that are eligible for free meals in the prior year – for elementary and middle schools that threshold is 90 percent or more students, and for high schools the threshold is 85 percent or more – and are schools maintained by a county office of education, a charter school, or a school district, including basic aid school districts. The per-unit funding will be determined by total statewide eligible enrollment and the amount of funds available, with a minimum amount of $50,000 provided to each eligible school.	Approve funding and adopt placeholder trailer bill.	TBL	
12	**Accountability - Local Control and Accountability Plans** Education Codes 47606.5, 52062, 52064, 52064.5, 52065, 52068, 52070, 52070.5 (Governor's Budget)	The Administration proposes changes to the development of the LCAP, and how frequently the local educational agency provides updates on outcomes and implementation. Specifically: • Requires local educational agencies that have (1) a school that receives the lowest performance level on at least one indicator, (2) a pupil subgroup with the local educational agency or within a school that receives the lowest performance level on at least one indicator, to include "focus goals" in its LCAP that addresses (1) any underlying issues in the credentialing and subject matter preparation of the school's teachers, and (2) any student group that receives the lowest performance level on at least one state indicator. •Requires the local educational agencies to provide an update on its LCAP, including information for all available mid-year outcome data and mid-year expenditure and implementation data, by February 28 of every year. • Requires actions that are not effective over a three-year period to be changed to a new or strengthened approach, and include an explanation of the reasons for a lack of progress. • Requires local educational agencies to provide information related to any technical or differentiated assistance it may be receiving in its LCAP as a condition of LCAP approval by the county office of education or the State Superintendent.	Adopt placeholder trailer bill language.	TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
13	**Accountability - Statewide System of Support** Education Codes 52071, 52071.5, 52072, 52072.1, 52072.5, 52072.6, and 60900 (Governor's Budget and May Revise)	The Administration proposes changes to the State System of Support that modifies the referral process for technical and differentiated assistance, and intense intervention, and how that assistance should be applied: • Specifies that assistance shall be provided for at least the two years following identification for differentiated assistance. • Codifies that data regarding educator qualifications should be reviewed when a school district is looking at their performance data to identify strengths and weaknesses when receiving assistance. • Allows, as part of a local educational agency's differentiated assistance provided by a county office of education, a review of the LCAP be done in its identified goals, actions, and services. • Creates additional steps within the levels of the system of support between differentiated assistance and intervention. The proposed changes would require the assistance of the geographic lead or the CCEE. • Establishes an assistance framework for local educational agencies that do not submit data to CALPADs. • Establishes deadlines for when School Dashboard data is publicly available.	Adopt placeholder trailer bill language.	TBL	
14	**Accountability - Equity Leads** Education Code 52073.5 (Governor's Budget and May Revise)	The Administration proposes that the Department of Education and the California Collaborative for Educational Excellent select two to four county offices of education or consortia of county offices of education as equity leads to operate within the state systems of support. The selected equity leads would partner and support the work of local educational agencies in analyzing, identifying, and implementing actions and services that address disparities, including racial disparities, and prioritize working with schools that receive equity multiplier funding. The Administration proposes $2 million ongoing Proposition 98 General Fund to support these equity leads.	Approve funding and adopt placeholder trailer bill.	TBL	
15	**Accountability - Public School Performance Accountability Program** Education Code 52052 (Governor's Budget)	The budget proposes to include long-term English Learners as a separate pupil subgroup.	Approve as proposed and adopt placeholder trailer bill language.	TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
16	**California Collaborative for Educational Excellence** 6100-106-0001 and Education Code 52074 (Governor's Budget)	The proposed budget maintains an annual allocation of $12.74 million, of which $4.3 million is comprised of carryover funds from previous years' appropriations. The budget includes trailer bill language that clarifies the CCEE's fee-for-service authority.	Approve funding and adopt placeholder trailer bill.	BBL/TBL	
17	**Cost of Living Adjustments (COLA)** 6100-119, 150, 151, 161, 203, 296 - 0001 (Governor's Budget and May Revision)	The budget proposes a COLA increase of $667 million for the Foster Youth, American Indian Early Education Childhood Education, American Indian Education Centers, Special Education, Child Nutrition, Adults in Correctional Facilities, and K-12 Mandate Block Grant programs. This adjustment reflects an 8.22 percent cost-of-living adjustment.	Approve as proposed.	BBL	
18	**Expanded Learning Opportunity Program** Education Code 8483.4 and 46210 (Governor's Budget and May Revise)	The Administration proposes trailer bill language that makes technical changes to (1) allow local educational agencies to provide expanded learning programming during the summer, (2) prevents local educational agencies from receiving penalties that are larger than their apportionment, and (3) clarifies licensing requirements for providers of Expanded Learning Opportunity Programs for purposes of child care facility licensure overseen by the Department of Social Services.	Adopt placeholder trailer bill language.	TBL	
19	**Single-District Special Education Local Plan Area Creation Moratorium Extension** Education Code 56195.1 (Governor's Budget)	The proposed budget includes statutory changes that extend the moratorium on the creation of new single-district SELPAs by two years from June 30, 2024 to June 30, 2026. The budget also proposes to require the California Department of Education to post each SELPA's annual local plan, including their governance, budget and service plans, on its website.	Adopt placeholder trailer bill language.	TBL	
20	**Special Education Local Plan Area Administration Fee Cap** Education Code 56836.148 (Governor's Budget and May Revise)	The proposed budget includes statutory changes that limits the amount of additional funding that SELPAs are allowed to retain for non-direct student services before allocating special education base funding to their member local educational agencies. This amount would be calculated by applying the 2022-23 base grant funding level that SELPAs provided their member local educational agencies with a cost-of-living-adjustment, multiplied by a factor of the ADA change between 2022-23 and 2023-24.	Reject this proposal.	TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
21	**Special Education** 6100-161-0001 (Governor's Budget and May Revise)	It is requested that Schedule (1) of this item be decreased by $108,256,000 ongoing Proposition 98 General Fund to reflect (1) a decrease of $9,872,000 to reflect increased offsetting property tax revenues; and (2) a decrease of $98,384,000 to reflect decreased estimates of growth in average daily attendance and the revised cost-of-living adjustment.	Approve as proposed.	BBL	
22	**Special Education** 6100-161-0890 (May Revise)	It is requested that Schedule (1) of this item be increased by $73,999,000 federal IDEA funds to reflect a $4 million increase in one-time carryover funds and an ongoing increase of $69,999,000 to align to the federal grant award.	Approve as proposed.	BBL	
23	**Special Education Redevelopment Agency Property Tax Backfill** Uncodified Section (Governor's Budget)	The proposed budget includes trailer bill language that allows the Department of Finance to address any shortfall or excess of local redevelopment agency property taxes for special education programs with General Fund.	Approve as proposed and adopt placeholder trailer bill language.	TBL	
24	**Literacy Screening** ECS 60211 (May Revise)	It is requested that statutory changes be added to require: (1) an expert panel to approve a list of screening instruments to assess pupils in kindergarten through second grade for risk of reading difficulties with a correlating $1 million appropriation; (2) local educational agencies serving pupils in kindergarten through second grade to adopt one or more screening instruments from the list on or before June 30, 2025; and (3) local educational agencies serving pupils in kindergarten through second grade to screen pupils for risk of reading difficulties using the chosen instruments beginning no later than the 2025-26 school year.	Adopt placeholder trailer bill language.	TBL	
25	**Universal School Meals** 6100-203-0001/6100-201-0890 and Education Code 49501 (Governor's Budget and May Revise)	The proposed budget includes $1.6 billion Proposition 98 General Fund, an increase of $191 million Proposition 98 General Fund, and $2.7 billion federal funds in 2023-24 to fund universal access to subsidized school meals. The May Revise also includes $110 million one-time Proposition 98 General Fund to fully fund school meal reimbursement claims in 2022-23. The budget also proposes technical statutory changes that clarify that meals must be compliant to federal meal requirements to be eligible for state reimbursements in order to maximize federal reimbursements.	Approve as proposed and adopt placeholder trailer bill language.	BBL/TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
26	**Commercial Dishwasher Grants + Kitchen Infrastructure and Training Funds** Section 132, Chapter 52 of Statutes of 20022 (Governor's Budget and May Revise)	The proposed budget carves out $15 million from the $600 million Kitchen Infrastructure Fund appropriated in the 2022 Budget for a commercial dishwasher grant program. The budget also proposes amendments that provide additional flexibility for local educational agencies to meet program requirements around freshly prepared onsite meals.	Modify proposal to fund the Commercial Dishwasher Grant program outside of the Kitchen Infrastructure Funds for $15 million and adopt placeholder trailer bill language.	TBL	
27	**School Food Procurement Best Practices Grant Program** Section 133, Chapter 52 of Statutes of 2022 (Governor's Budget)	The proposed budget includes technical changes that clarify requirements for school food procurement.	Approve and adopt placeholder trailer bill language.	TBL	
28	**Literacy Coaches and Reading Specialist Grant Program (2022 Program)** Section 137, Chapter 52 of Statutes of 2022 (Governor's Budget and May Revise)	The 2022 Budget included $250 million one-time Proposition 98 General Fund for schools serving transitional kindergarten through sixth grade who are 97 percent low-income or English learners. The proposed budget includes trailer bill language that adds an interim report from local educational agencies in June 2024 and the final report by June 2027, and clarifies that funding should go to new literacy coaches or reading specialists.	Adopt placeholder trailer bill language.	TBL	
29	**Literacy Coaches and Reading Specialist Grant Program (2023 Program)** Uncodified TBL (Governor's Budget)	The proposed budget includes $250 million one-time Proposition 98 General Fund for schools serving transitional kindergarten through sixth grade who are 95 percent low-income or English learners. Of this amount, $248 million would be used to employ and train literacy coaches and reading/literacy specialists to develop school literacy programs, mentor teachers, and develop and implement interventions for students who need literacy support. Funds would be provided to schools based on the number of students enrolled in transitional kindergarten through sixth grade, and grants would be at least $450,000 per school site. The remaining $2 million would be used for additional training for educators to become literacy coaches and reading and literacy specialists.	Reject this proposal.	TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
30	**Literacy Roadmap** Uncodified Section (Governor's Budget)	The budget proposes $1 million one-time General Fund to create a Literacy Roadmap to help educators navigate various literacy-related resources.	Adopt placeholder trailer bill language.	TBL	
31	**Arts and Music in Schools Funding Guarantee and Accountability Act (Proposition 28)** 6100-628-0001 (Governor's Budget and May Revision)	Appropriates $933 million General Fund for the purposes of Proposition 28, and proposes technical statutory changes for purposes of implementation.	Approve funding and adopt placeholder trailer bill.	TBL	
32	**Cultural Passes Grant Program** Uncodified Section (Governor's Budget and May Revise)	The budget proposes $100 million one-time Proposition 98 General Fund ($200 per every 12th grade student enrolled in California public schools) to provide high school seniors with access to cultural enrichment experiences across the state.	Reject this proposal.	TBL	
33	**Opioid Reversal** Education Code 49414.4 (Governor's Budget and May Revise)	The budget proposes $3.5 million ongoing Proposition 98 General Fund to county offices of education to distribute naloxone hydrochloride to middle, high school, and adult school sites so that they can maintain at least two doses of naloxone or another medication to reverse an opioid overdose on campus for emergency aid.	Modify proposal to reflect actual costs of product and distribution to $1 million, and adopt placeholder trailer bill language that also requires to county offices of education to coordinate with the Department of Public Health for opioid reversal resources.	TBL	
34	**K-12 High Speed Network** 6100-182-0001 (Governor's Budget)	The budget proposes an increase of $3.8 million ongoing Proposition 98 General Fund to support the K-12 High Speed Network program.	Approve as proposed.	BBL	
35	**California School Information Services** 6100-140-0001 (May Revise)	The budget proposes an increase of $2,067,000 ongoing Proposition 98 General Fund to enable the California School Information Services (CSIS) to maintain existing service levels, and to absorb new workload created by proposed statutory changes and additional data reporting requirements. CSIS provides testing and implementation of functionality for California Longitudinal Pupil Achievement Data System enhancements and reporting requirements, as well as help desk support and technical assistance to local educational agencies regarding system issues and data management practices.	Approve as proposed.	BBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
36	**Fiscal Crisis and Management Assistance Team** 6100-107-0001 (Governor's Budget)	The budget proposes an increase of $750,000 ongoing Proposition 98 General Fund to support the professional development of local educational agencies' Chief Budget Offers through mentorship programming by the Fiscal Crisis and Management Assistance Team.	Approve as proposed.	BBL	
37	**Proposition 98 Reappropriation** 6100-488/602-0001 (May Revise)	It is requested that Item 6100-488 be amended, as specified in Attachment 1, and non-Budget Act Item 6100-602-0001 be increased by $56,867,000 one-time Proposition 98 General Fund savings to reflect (1) an increase of $56,235,000 to support current year and budget year local control funding formula costs and (2) an increase of $632,000 for basic aid school districts that experienced a decrease in local property tax revenues as a result of the Kincade wildfire.	*Modify to re-appropriate $200 million in unused funds from the National Board Certified Teacher Incentive Program, and $162.7 million in unused funds from the Inclusive Early Education Expansion Program. *Conform LCFF costs to legislative Proposition 98 package. *Appropriate $610.3 million in re-appropriated funds to restore the Learning Recovery Emergency Block Grant. *Appropriate $18 million for the Diversity Education Leaders Pipeline Initiative.	BBL	
38	**Basic Aid Court Ordered Voluntary Pupil Transfer Adjustment** Education Code 41544 and 48310 (Governor's Budget)	The proposed budget includes statutory changes that aligns existing law with recently enacted trailer bill language that ensures that basic aid school districts serving court-ordered voluntary pupil transfers will continue to receive apportionment funding to serve those students.	Approve and adopt placeholder trailer bill language.	TBL	
39	**California School for the Deaf-Riverside** 6100-301-0001 and 6100-498 (April 1)	It is requested that Item 6100-301-0001 be increased by $4,096,000 one-time for the construction phase of this project and Item 6100-498 be added to revert $1,744,000 of existing authority for the construction phase, resulting in a net increase of $2,352,000. The additional funding will address site issues identified during the design phase of this project.	Approve as proposed.	BBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
40	**Fremont School for the Deaf - Perimeter Security Fencing Reappropriation** 6100-492 (April 1)	It is requested that Item 6100-492 be added to reappropriate the working drawings phase of this project. The reappropriation is necessary due to project delays to incorporate the replacement of an existing fence into the project scope.	Approve as proposed.	BBL	
41	**Fremont School for the Deaf: Middle School for the Deaf: Middle School Activity Center-Supplemental Appropriation** 6100-301-0001 (April 1)	It is requested that Item 6100-301-0001 be increased by $562,000 one-time to complete the construction phase of this project. This project has encountered delays due to poor weather, additional sitework, and Department of Justice authorization to work in a K-12 environment.	Approve as proposed.	BBL	
42	**Digital Learning Update** Uncodified Section (Governor's Budget)	The budget proposes $100,000 Proposition 98 General Fund to the Sacramento County Office of Education to update distance learning curriculum and instructional guidance for mathematics in alignment with the mathematics framework.	Approve and adopt placeholder trailer bill language.	TBL	
43	**Universal Preschool Workgroup - Report Deadline Update** Education Code 8202.6 (Governor's Budget)	Extends the deadline for the Department of Education to provide the recommendations from the Universal Preschool Workgroup to the Legislature from January 15, 2023 to April 1, 2024.	Approve and adopt placeholder trailer bill language.	TBL	
44	**Eligibility for California State Preschool Program** Education Code 8210, 8211, and 8217 (Governor's Budget)	The Administration proposes trailer bill language that would expand eligibility, after priority eligible students are enrolled, and would (1) add an employment option to neighborhood eligibility, (2) allow California State Preschool Program (CSPP) contractors to enroll students through neighborhood eligibility if their parent lives or is employed for more than 10 hours within the attendance boundary where at least 80 percent of enrolled pupils are eligible for free-or-reduced price meals (FRPM), and (3) add eligibility portability that would allow a student who lives in a FRPM boundary or whose parent works in a FRPM boundary to attend any CSPP.	Approve and adopt placeholder trailer bill language.	TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
45	**Educator Assignment Processing and Reporting, and Williams Identification List** Education Code 1240 and 44258.9 (Governor's Budget and May Revise)	The budget proposes trailer bill language that codifies and clarifies current practices around the collection and reporting of educator assignment data, and makes technical and clarifying changes regarding the list of schools that the Superintendent of Public Instruction identifies for inspection for purposes of the Williams settlement.	Approve and adopt placeholder trailer bill language.	TBL	
46	**California College Guidance Initiative** 6100-172-0001 and Education Code 51225.7, 51225.8, and 60900.5 (Governor's Budget and May Revise)	It is requested that statutory changes be added to (1) make the California College Guidance Initiative (CCGI) the primary platform for 11th grade financial aid lessons when all eligible students have an account on the platform, and (2) provide clarification on the data that the Student Aid Commission is required to provide to CCGI. The May Revise proposes amending provisional language to include higher education campuses as eligible entities for collaborative partnerships with CCGI.	Approve funding and adopt placeholder trailer bill.	BBL/TBL	
47	**English Learner Williams Complaint Procedure** Education Code 35186 (Governor's Budget)	The budget proposes to clarify for the English Learner Williams Complaint procedures that a teacher who lacks training or a credential to teach English learners is misassigned if their classroom has one or more English learners.	Approve and adopt placeholder trailer bill language.	TBL	
48	**Migrant Learner Average Daily Attendance** Education Code 42238.053 (Governor's Budget)	The budget proposes to repeal an outdated section of law related to migrant learner average daily attendance.	Redirect to policy omnibus vehicle.	TBL	
49	**Minimum State Aid Calculation for Restructuring Statewide Benefit Charters** Education Code 42238.03 (Governor's Budget)	The budget proposes a technical change to align with changes made in AB 130 (2021).	Approve and adopt placeholder trailer bill language.	TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
50	**Update for New Interim Assessments** Education Code 60642.7 (Governor's Budget)	The proposed budget includes updated statutory changes to reflect the upcoming new interim assessments.	Approve and adopt placeholder trailer bill language.	TBL	
51	**State Special Schools Information Security** 6100-001-0001/6100-488 (May Revise)	It is requested that Item 6100-491 be added to reflect the reappropriation of $170,000 one-time General Fund for contract costs to provide an independent information security assessment for the State Special Schools.	Approve as proposed.	BBL	
52	**State Special Schools Reimbursement Authority** 6100-006-0001 (May Revise)	It is requested that Item 6100-006-0001 be amended to increase ongoing reimbursement authority by $1,335,000 in Schedule (5), $1,425,000 in Schedule (6) and $510,000 in Schedule (7), to facilitate the State Special Schools' ability to receive their applicable share of appropriations from Proposition 28 of 2022 and the 2022 Budget Act.	Approve as proposed.	BBL	
53	**Project Advancing Wellness and Resilience in Education (AWARE) Grant** 6100-104-0890 (May Revise)	It is requested that Schedule (1) of this item be increased by $180,000 one-time federal Project AWARE carryover funds for allocation to selected local educational agencies for programs and activities that increase access to mental health services for students and families. Project AWARE is a five-year grant program that provides funding for the Department and local educational agencies to increase awareness of mental health issues among school-aged youth, provide Mental Health First Aid training to teachers and other school personnel, and ensure students with signs of mental illness are referred to appropriate services.	Approve as proposed.	BBL	
54	**Project Students, Teachers, and Officers Preventing School Violence Grant (Cal-STOP) Program** 6100-104-0890 (May Revise)	It is requested that Schedule (1) of this item be increased by $550,000 one-time federal Project Cal-STOP carryover funds for grants to nonprofit organizations to provide school violence prevention trainings and support schools in setting up mental health student organizations.	Approve as proposed.	BBL	
55	**Public Charter Schools Adjustment** 6100-112-0890 (May Revise)	It is requested that Schedule (1) of this item be increased by $13.9 million Federal Trust Fund to reflect a $22,615,000 increase in one-time carryover funds, and an ongoing decrease of $8,715,000 to align to the federal grant award for the Public Charter Schools program.	Approve as proposed.	BBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
56	**Student Assessment Program** 6100-113-0001 (May Revise)	It is requested that Schedule (1) and Schedule (2) of this item be increased by $1,000 each ongoing Proposition 98 General Fund to reflect rounding adjustments needed to align to the estimated contract costs for assessment administration in 2023-24.	Approve as proposed.	BBL	
57	**Comprehensive Literacy State Development Grant** 6100-117-0890 (May Revise)	It is requested that Item 6100-117-0890 be added in the amount of $2.6 million federal Comprehensive Literacy State Development Grant funds for grants to eligible local educational agencies.	Approve as proposed.	BBL	
58	**Program for Neglected and Delinquent Children** 6100-119-0890 (May Revise)	It is requested that Schedule (1) of this item be decreased by $7,000 federal Title I, Part D funds to align to the federal grant award. This program provides supplemental instruction, including math and literacy activities, to children, youth, and adults in state correctional institutions to ensure that these youth make successful transitions to school or employment.	Approve as proposed.	BBL	
59	**Migrant Education Program, Migrant Education Program State-Level Programs, and English Language Acquisition Program** 6100-125-0890 (May Revise)	It is requested that Schedule (1) of this item be increased by $521,000 federal Title I, Part C Migrant Education Program funds to reflect a $1.7 million increase in one-time carryover funds, and an ongoing decrease of $1,179,000 to align to the federal grant award. This program awards subgrants to local educational agencies to provide educational support services to meet the needs of highly mobile migrant students. It is also requested that Schedule (2) of this item be increased by $763,000 federal Title I, Part C Migrant Education Program State Level Activities funds to reflect a $900,000 increase in one-time carryover funds and an ongoing decrease of $137,000 to align to the federal grant award. The state-administered Migrant Education programs include the Binational Migrant Education Program, Mini-Corps Program, and the Migrant Student Information Network. It is also requested that Schedule (3) of this item be increased by $6,746,000 ongoing federal Title III, Part A English Language Acquisition funds to align to the federal grant award. This program provides services to help students attain English proficiency and meet grade level academic standards.	Approve as proposed.	BBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
60	**Elementary and Secondary Education Act Program, Title I State Grant and School Improvement Program Grant** 6100-134-0890 (May Revise)	It is requested that Schedule (2) of this item be increased by $30,573,000 ongoing federal Title I funds to align to the federal grant award and reflect the amount of federal Title I funds allocated for school support in proportion to the state's increased Title I Basic Grant award. In accordance with California's Every Student Succeeds Act State Plan, Title I funds support eligible local educational agencies and schools that serve high numbers of low-income students.	Approve as proposed.	BBL	
61	**American Rescue Plan Act Homeless Children and Youth** 6100-135-0890 (May Revise)	It is requested that Item 6100-135-0890 be added in the amount of $5,217,000 one-time federal American Rescue Plan Homeless Children and Youth carryover funds to continue supporting the Homeless Education Technical Assistance Centers and evaluation contract funded by this grant. This program supports local educational agencies' efforts to identify homeless students and ensure equal access to public education.	Approve as proposed.	BBL	
62	**McKinney-Vento Homeless Children Education** 6100-136-0890 (May Revise)	It is requested that Schedule (1) of this item be increased by $1,202,000 ongoing federal McKinney-Vento funds to align to the federal grant award. This program supports local educational agencies' efforts to identify homeless students and ensure equal access to public education.	Approve as proposed.	BBL	
63	**Rural and Low-Income Schools** 6100-137-0890 (May Revise)	It is requested that Schedule (1) of this item be increased by $608,000 ongoing federal Rural and Low-Income Schools Grant funds to align with the federal grant award. This program provides rural school districts with financial assistance for initiatives aimed at improving student achievement.	Approve as proposed.	BBL	
64	**American Rescue Plan Act Carryover for After School Programs** 6100-149-0890 (May Revise)	It is requested Item 6100-149-0890 be added in the amount of $279,864,000 one-time federal ARPA carryover funds to reflect the availability of $252,154,000 for transfer to the Department of Social Services, with $27,710,000 available for after and summer school programs.	Adopt budget bill language to conform this item to reflect one-time $3 million federal fund appropriation for Save the Children.	BBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
65	**Adult Education Program** 6100-156-0890/6100-156-0001 (May Revise)	It is requested that Schedule (1) of this item be increased by $18,097,000 federal Workforce Innovation and Opportunity Act, Title II funds to reflect a $13.6 million increase in one-time carryover funds, and an ongoing increase of $4,497,000 to align to the federal grant award. The federal Adult Education Program supports adult basic education, English as a second language, and adult secondary education programs. It is requested that Schedules (3) and (4) be added to Item 6100-156-0001 for a technical correction to aid with the implementation of the Adult Education Program.	Approve as proposed.	BBL	
66	**Vocational Education Program** 6100-166-0890 (May Revise)	It is requested that Schedule (1) of this item be increased by $17,762,000 Federal Trust Fund to reflect a $14 million increase in one-time carryover funds and an ongoing increase of $3,762,000 to align to the federal grant award.	Approve as proposed.	BBL	
67	**Align Title II Federal Grant** 6100-195-0890 (May Revise)	It is requested that Schedule (1) of this item be increased by $980,000 ongoing federal Title II, Part A funds to align to the federal grant award.It is also requested that Schedule (3) of this item be increased by $166,000 to reflect an increase of $1 million one-time federal Title II carryover funds, and a decrease of $834,000 to align to the federal grant award for the 21st Century California School Leadership Academy pursuant to Section 44690 of the Education Code.	Approve as proposed.	BBL	
68	**21st Century Community Learning Grant Federal Adjustment** 6100-197-0890 (May Revise)	It is requested that Schedule (1) of this item be increased by $35,951,000 Federal Trust Fund to reflect (1) an increase of $32,583,000 in one-time carryover from the Federal ARPA Elementary and Secondary School Emergency Relief Grant III funds; (2) an increase of $5,942,000 in one-time federal 21st Century Community Learning Grant carryover funds, and (3) an ongoing decrease of $2,574,000 to align to the federal grant award.	Approve as proposed.	BBL	
69	**Early Head Start Federal Adjustment** 6100-294-0890 (May Revise)	It is requested that Schedule (1) of this item be increased by $2,051,000 Federal Trust Fund to reflect a $1.3 million increase in one-time federal carryover funds and an ongoing increase of $751,000 to align to the federal grant award.	Approve as proposed.	BBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
70	**Tobacco-Use Prevention Education Program** 6100-101-0231/6100-102-0231 (May Revise)	It is requested that Schedule (1) of Item 6100-101-0231 be increased by $454,000 ongoing Health Education Account, Cigarette and Tobacco Products Surtax Fund and Schedule (1) of Item 6100-102-0231 be increased by $1,458,000 ongoing Health Education Account, Cigarette and Tobacco Products Surtax Fund to reflect revised revenue estimates for the Health Education Account, Cigarette and Tobacco Products Surtax Fund (Proposition 99). These funds are allocated to local educational agencies for health education efforts aimed at preventing and reducing tobacco use. Activities may include tobacco-specific student instruction, reinforcement activities, special events, and cessation programs for students.	Approve as proposed.	BBL	
71	**Mandate Block Grant Provisional Language Clean-Up** 6100-295-0001/6100-296-0001 (May Revise)	The budget proposes an increase of $1,278,000 ongoing Proposition 98 General Fund to align mandate block grant funding with revised average daily attendance estimates. Mandate block grant funding is allocated to participating local educational agencies based on specified reimbursement rates per unit of average daily attendance.	Approve as proposed.	BBL	
72	**Simon Wiesenthal Center Anti-bias Education** 6100-608-0001, Section 55 of Chapter 13 of Statutes of 2015 (May Revise)	It is requested that this non-Budget Act item be increased by $1 million for a total of $3 million to reflect an increase for the Los Angeles County Office of Education to contract with the Simon Wiesenthal Center to support professional development and leadership training for education professionals related to antibias education and the creation of inclusive and equitable schools, pursuant to Section 55 of Chapter 13 of the Statutes of 2015.	Approve as proposed.	TBL	
73	**Local Control and Accountability Plan (LCAP) Query Tool and eTemplate Funding** 6100-660-0001 and Uncodified Section (May Revise)	It is requested that this non-Budget Act item be increased by $148,000 ongoing Proposition 98 General Fund and statutory changes be added to contract with the San Joaquin County Office of Education for annual maintenance costs related to the Local Control and Accountability Plan (LCAP) eTemplate and query tool hosting and maintenance, and the cost for an annual software subscription fee.	Approve and adopt placeholder trailer bill language.	BBL/TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
74	**Schools Not Prisons Voluntary Tax Contribution Fund** 6100-101-8121 (May Revise)	It is requested that Schedule (1) of this item be decreased by $61,000 one-time Schools Not Prisons Voluntary Tax Contribution Funds to reflect revised revenue estimates from voluntary tax contributions on personal income tax returns made to the Schools Not Prisons Voluntary Tax Contribution Fund. These funds are intended to be distributed as grants to nonprofit public charities for the purpose of funding academic and career readiness programs that seek to break the school-to-prison pipeline.	Approve as proposed.	BBL	
75	**Stronger Connections Program - Bipartisan Safer Communities Act** 6100-001-0890/6100-103-0890 (May Revise)	It is requested that Schedule (1) of Item 6100-001-0890 be increased by $784,000 federal Stronger Connections Grant funds in 2023-24, $184,000 in 2024-25, and $51,000 in 2025-26 to help schools promote safer, more inclusive, and positive school environments for all students, educators, and school staff. The Stronger Connections program is a four-year grant program that provides funding to the Department and local educational agencies to support school climate and safety efforts. It is also requested that Item 6100-103-0890 be added in the amount of $118,810,000 federal Stronger Connection Grant funds for allocation to selected local educational agencies to support school climate and safety activities.	Approve as proposed.	BBL	
76	**American Rescue Plan Act (ARPA) Emergency Assistance to Non-Public Schools (EANS II) Program** 6100-001-0890/6100-178-0890 (May Revise)	It is requested that Schedule (1) of Item 6100-001-0890 be increased by $891,000 one-time federal ARPA carryover funds to support the administration of the Emergency Assistance to Non-Public Schools Program, which provides services or assistance to eligible non-public schools to address the impacts of the COVID-19 pandemic.	Approve as proposed.	BBL	
77	**Save the Children** 6100-149-0001/6100-149-0890 (May Revise)	It is requested that Schedule (1) of this item be increased by $3 million ongoing General Fund to reflect an increase for the Los Angeles County Office of Education to pass-through these funds to Save the Children to support after school programs in rural districts.	Redirect one-time $3 million for Save the Children to federal fund item 6100-149-0890.	BBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
78	**Non-Local Educational Agency State Preschool Cost-of-Living Adjustment** 6100-194-0001 (Governor's Budget and May Revise)	It is requested that Schedule (1) of this item be decreased by $82,678,000 ongoing General Fund to reflect (1) a decrease of $28,413,000 to reflect the revised cost-of-living adjustment for the California State Preschool Program (CSPP) and a decrease in the number of contractors receiving a cost-of-living adjustment; and (2) a decrease of $54,265,000 to reflect revised estimates to provide rate increases to Non-Local Educational Agency CSPP contractors.	Modify and adopt placeholder trailer bill language to conform methodology to increase child care rates to child care package adopted in Senate Subcommittee #3, and redirect cost-of-living funding for this purpose. Cap family fees to one percent of family income for low-income families, and forgive family fee debt from prior to the family fee suspension.	BBL	
79	**Local Educational Agency State Preschool Program** 6100-196-0001 (Governor's Budget and May Revise)	It is requested that Schedule (1) of this item be decreased by $51,990,000 ongoing General Fund to reflect the revised cost-of-living adjustment for the California State Preschool Program. It is further requested that provisional language be added to include language to clarify that $763,000 is available for a tool to strengthen teacher-child interactions.	Adopt placeholder trailer bill language t conform the methodology to increase child care rates to child care package adopted in Senate Subcommittee #3, and redirect cost-of-living funding for this purpose. Cap family fees to one percent of family income for low-income families, and forgive family fee debt from prior to the family fee suspension. Approve $763,000 for teacher-child interactions	TBL	
80	**Educator Workforce Investment Grant Program** Section 54 of Chapter 571 of Statutes of 2022 (May Revise)	It is requested that statutory changes be added to clarify that one or more county office(s) of education or one or more consortia of county offices of education may apply for Educator Workforce Investment Grant program funding appropriated in the 2022 Budget Act. The requested changes further clarify that a grantee will conduct activities related to a single subject matter pursuant to the grant.	Approve and adopt placeholder trailer bill language.	TBL	
81	**Bilingual Teacher Professional Development Program** Education Code 52202 and Uncodified Section (May Revise)	It is requested that statutory changes be amended to add $20 million one-time Proposition 98 General Fund to be available through the 2028–29 fiscal to support the Bilingual Teacher Professional Development Program and make other changes to strengthen implementation of the program.	Approve and adopt placeholder trailer bill language.	TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
82	**California Prekindergarten Planning and Implementation Grant** Education Code 8281.5 (May Revise)	It is requested that statutory changes transmitted with the Governor's Budget be amended to: (1) clarify that Local Educational Agencies that submit a plan for the California Prekindergarten Planning and Implementation Grant by March 30, 2023 are eligible to receive 2021-22 grant funds, and (2) allow the California Department of Education to reallocate any returned funds from this grant to the Early Education Teacher Development Grant.	Approve and adopt placeholder trailer bill language.	TBL	
83	**Classroom Assessment Scoring System** Uncodified Section (May Revise)	It is requested that statutory changes transmitted with the Governor's Budget be amended to allow the California Department of Education to issue guidance through management bulletins and initiate a rulemaking action to implement the Classroom Assessment Scoring System, which is an observational tool for strengthening child-teacher interactions and supporting quality improvement.	Approve and adopt placeholder trailer bill language.	TBL	
84	**High School Equivalency Certificate Administrative Fee Cap** Education Code 51421 (May Revise)	It is requested that statutory changes be added to remove the fee cap of $20 related to the High School Equivalency exams.	Reject this proposal.	TBL	
85	**2021-22 Charter School Declining Enrollment Relief** Section 123 of Chapter 52 of the Statutes of 2022 (May Revise)	It is requested that statutory changes be added to reflect the 2021–22 charter school declining enrollment relief apportionment having a final computed need of $290,023,000.	Approve and adopt placeholder trailer bill language.	TBL	
86	**Alternate Diploma-Pathway** Education Code 51225.31 (May Revise)	It is requested that statutory changes be added to (1) clarify student eligibility for the alternative diploma-pathway and a pupil's entitlement to a free and appropriate education when earning a diploma through the pathway; and (2) acknowledge that parents and guardians of students with disabilities are part of the individualized education program team.	Approve and adopt placeholder trailer bill language.	TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
87	**Necessary Small Schools Wildfire Hold Harmless Extension** Education Code 46392 (May Revise)	It is requested that statutory changes be added to provide a one-year emergency funding protection extension to school districts that have had a necessary small school site become temporarily inoperative due to an emergency.	Approve and adopt placeholder trailer bill language.	TBL	
88	**Best Practices for Restorative Justice Practice Implementation in Schools (AB 2598) and Restorative Justice Grant Program** 6100-001-0001 Provision 106 and Uncodified Section (Governor's Budget and May Revise)	The budget proposes $130,000 one-time General Fund for the development of evidence-based best practices of restorative justice practice implentation on a school campus and to make these best practices available on the department's website. The May Revise proposes $7 million one-time Proposition 98 General Fund to provide support for local educational agencies opting to implement the Restorative Justice best practices that will be posted by June 1, 2024.	Approve and adopt placeholder trailer bill language.	BBL/TBL	
89	**Zero Emission School Bus Grant Program** Section 121 of Chapter 52 of Statutes of 2022 Legislative Proposal	This proposal would shift $500 million a year to 2024-25 and 2025-26, for a total solution of $1 billion.	Approve as proposed.	TBL	
90	**Ethnic Studies Block Grant** Uncodified Section Legislative Proposal	This proposal includes $20 million for an ethnic studies block grant to help local educational agencies plan and implement ethnic studies course offerings.	Approve as proposed.	TBL	
6100 Department of Education, State Operations					
91	**Education Commission of the States Membership Dues** 6100-001-0001 Provision 97 (Governor's Budget)	The budget proposes $160,000 General Fund for the Education Commission of the States membership dues.	Approve as proposed.	BBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
92	**Data Support** 6100-001-0001 Provision 98 and 109 (Governor's Budget)	The budget proposes an increase of $2.5 million General Fund and 15 positions for the California Department of Education to meet state and federal data and accountability reporting requirements, support data exchanges with other agencies, and to quickly respond to data requests. Of this requst, 8.0 positions and $1.2 million is allocated to establish the Data Science Office, and 7.0 position and $1.3 million is allocated for improved Teacher Assignment Monitoring Outcomes data collection and reporting through CALPADS.	Approve funding and adopt placeholder budget bill language.	BBL	
93	**Migrant Education Extended Year Program (AB 1777)** 6100-001-0001 Provision 99 (Governor's Budget)	The budget proposes $164,000 one-time General Fund in 2023-24 and $82,000 one-time General Fund in 2024-25 to implement the migrant education extended school year program.	Approve as proposed.	BBL	
94	**Direct Deposit Costs for State Preschool Contractors** 6100-001-0001 Provision 100 (Governor's Budget)	The budget proposes $2.2 million in 2023-24, and $3.3 million annually in 2024-25 and 2025-26, for the Department of Education to contract with a vendor to provide direct deposit to State Preschool contractors.	Approve as proposed.	BBL	
95	**Quality Rating and Improvement System BlockGrant Support** 6100-001-0001 Provision 101 (Governor's Budget)	The budget proposes $152,000 and 1.0 position to support workload associated with the Quality Rating and Improvement System Block Grant.	Approve as proposed.	BBL	
96	**Resources for Classroom Assessments Scoring System Implementation** 6100-001-0001 Provision 102 (Governor's Budget)	The budget proposes $645,000 General Fund and 3.0 positions to support implementation of the Classroom Assessments Scoring System for all California State Preschool Providers.	Approve as proposed.	BBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
97	**Revise Suspension and Expulsion Practices in Early Learning (AB 2806)** 6100-001-0001 Provision 103 (Governor's Budget)	The budget proposes $740,000 and 5.0 positions to support workload associated with implementing Chapter 915, Statutes of 2022 which revised provisions related to the suspension and expulsion of children from the State Preschool Program and increased the requirements for early childhood mental health consultation services.	Approve as proposed.	BBL	
98	**Preschool Data Collection** 6100-001-0001 Provision 104 (Governor's Budget)	The budget proposes $5.9 million in 2023-24 and 9.0 positions to support the collection of student and teacher level data from Local Educational Agency-provided California State Preschool Programs.	Approve as proposed.	BBL	
99	**Whole Child Community Equity (AB 2832)** 6100-001-0001 Provision 105 (Governor's Budget)	The budget proposes $449,000 one-time General Fund and 3.0 positions, and $164,000 General Fund ongoing, to support the development of the Whole Child Equity Framework and the Whole Child Community Equity Screening Tool.	Approve as proposed.	BBL	
100	**Resources for Home-to-School Transportation Program** 6100-001-0001 Provisions 107 and 108 (Governor's Budget)	The budget proposes $138,000 General Fund and 1.0 position for the Office of School Transportation and $164,000 and 1.0 position for School Fiscal Services Division for the data processing workload associated with the Home-to-School Transportation program.	Approve as proposed.	BBL	
101	**Local Control and Accountability Plan and Dashboard Resources** 6100-001-0001 Provision 110 (May Revise)	It is requested that Schedule (1) of this item be increased by $300,000 ongoing General Fund and 2 positions to support California School Dashboard-related workload and workload related to the timeline shift associated with the collection of data through the California Longitudinal Pupil Achievement Data System, pursuant to proposed accountability system statutory changes amendments.	Approve as proposed.	BBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
102	**State Operations for Proposition 28 Funding** 6100-001-0001 Provision 111 (May Revise)	It is requested that Schedule (1) of this item be increased by $473,000 ongoing General Fund and 3 positions to support and administer the additional ongoing workload related to the Arts and Music Funding program as enacted by Proposition 28 (2022).	Approve as proposed.	BBL	
103	**Preschool Development Grant Reimbursement Authority** 6100-001-0001 Provision 112 (May Revise)	It is requested that Schedule (6) of this item be amended to increase one-time reimbursement authority by $369,000 to support the Preschool Development Grant-Renewal.	Approve as proposed.	BBL	
104	**School Facility Program Reimbursement Authority** 6100-001-0001/6100-001-6086 (May Revise)	It is requested that Schedule (5) of this item be amended to increase reimbursement authority by $3,195,000 in 2023-24 and 2024-25 for the Department's administration of the School Facility Program (SFP). The May Revise also includes a technical correction to 6100-001-6086.	Approve as proposed.	BBL	
105	**Instructional Quality Commission Support** 6100-004-0001 (Governor's Budget)	The budget proposes $109,000 one-time General Fund in 2023-24 to support the activities of the Instructional Quality Commission.	Approve as proposed.	BBL	
106	**Federal Educationally Related Mental Health Services Funding Monitoring** 6100-001-0890 (Governor's Budget)	The budget proposes $242,000 in federal Individuals with Disabilities Education Act funds and 2.0 positions.	Approve as proposed.	BBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
107	**Coronavirus Response and Relief Supplemental Appropriations Emergency Assistance to Non-Public Schools Program** 6100-001-0890 Provision 42 (May Revise)	It is requested that Schedule (1) of this item be increased by $500,000 one-time federal CRRSA carryover funds to support the administration of the Emergency Assistance to Non-Public Schools Program, which aims to provide services or assistance to eligible non-public schools to address the impacts of the COVID-19 pandemic.	Approve as proposed.	BBL	
108	**American Rescue Plan Act (ARPA) Funds Administration** 6100-067-0890 (May Revise)	It is requested that Item 6100-067-0890 be added in the amount of $7,515,000 one-time federal ARPA carryover funds to support workload related to the administration and monitoring of federal relief funds provided to local educational agencies.	Approve as proposed.	BBL	
109	**Office of Administrative Hearings** 6100-001-0890 Provision 4 (May Revise)	It is requested that Schedule (1) of this item be increased by $3,821,000 one-time federal Individuals with Disabilities Education Act (IDEA) funds to support increased costs associated with special education dispute resolution services. The Department contracts with the Office of Administrative Hearings to provide special education services, which includes hearings, mediations, and related due process activities required by both state and federal law. The number of claims filed and the cost per case have increased over the past few years.	Approve as proposed.	BBL	
110	**Golden State Teacher Grant Program - Special Education** 6100-001-0890 Provision 43 and 44 (May Revise)	It is requested that Schedule (1) of this item be increased by $6.5 million one-time federal IDEA funds to reflect a $6 million increase to expand teacher recruitment efforts through the Golden State Teacher Program, and a $500,000 increase for the compilation and development of alternative coursework options and performance tasks to meet California's state graduation requirements.	Approve as proposed.	BBL	
111	**Office of School Transportation Infrastructure Support** 6100-001-0178 (May Revise)	It is requested that Schedule (1) of this item be increased by $50,000 one-time Driver Training Penalty Assessment Fund to support the acquisition of infrastructure parts necessary for operating the two recently funded electric vehicle buses for the Office of School Transportation.	Approve as proposed.	BBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
0985 California School Finance Authority					
112	**Intercept Mechanism to Intercept Local Revenues** Education Code 17199.4 and 17199.5 (Governor's Budget and May Revise)	The Administration proposes stautory changes that allows California School Finance Authority to intercept local revenues for basic aid districts that would like to request Tax Revenue Anticipation Notes from CSFA.	Approve and adopt placeholder trailer bill language.	TBL	
6350 School Facility Aid Program					
113	**School Facility Program** Section 129, Chapter 52 of Statutes of 2022 (Governor's Budget)	The budget proposes a decrease of $100 million General Fund in planned support for the School Facility Program, taking the planned allocation in 2023-24 from approximately $2.1 billion to $2 billion.	Approve and adopt placeholder trailer bill language.	TBL	
114	**Preschool, Transitional Kindergarten, and Full-Day Kindergarten Facility Grant Program** Section 129, Chapter 52 of Statutes of 2022 (Governor's Budget)	The 2022 Budget Act reflected $550 million in 2023-24 to support the Preschool, Transitional Kindergarten, and Full-Day Kindergarten Facility Grant Program. The proposed budget delays this investment to the 2024-25 fiscal year.	Approve and adopt placeholder trailer bill language.	TBL	
115	**Project Savings for Specified School Facility Program Projects** Education Code 41024 (May Revise)	It is requested that statutory changes be added to remove instructions from the annual K-12 audit guide related to the process for determining School Facility Program (SFP) project savings for the following project types: modernization and new school construction projects for districts receiving financial hardship funding, Career Technical Education Facilities Program projects, and Charter School Facilities Program projects. These changes conform to a recent ruling from California's Third Appellate District.	Approve and adopt placeholder trailer bill language.	TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
6360 Commission on Teacher Credentialing					
116	**Prospective Educator Transcript Review** 6360-001-0001 and Uncodified Section (May Revise)	The May Revise proposes statutory changes requiring the Commission to examine and determine the feasibility of expanding online services to perform transcript review to assess basic skills requirements and subject matter competence for all candidates to complete their credentialing requirements, and to do so within existing resources.	Approve and adopt placeholder trailer bill language.	BBL/TBL	
117	**Relocation to Richards Boulevard Office Complex** 6360-001-0001 (May Revise)	It is requested that Schedule (1) of Item 6360-001-0001 be increased by $690,000 one-time General Fund to support the procurement of networking equipment and laptops for the Commission's relocation to the Richards Boulevard Office Complex in January 2025.	Approve as proposed.	BBL	
118	**General Fund Backfill** 6360-001-0001/6360-001-0407 (Governor's Budget and May Revise)	The May Revise proposes to use $3.4 million General Fund to backfill revenue shortfalls resulting from declining teacher credentialing fees.	Approve as proposed.	BBL	
119	**Special Education Teaching Performance Assessment Contract** 6360-001-0407 (May Revise)	It is requested that Schedule (6) of Item 6360-001-0407 be added in the amount of $612,000 one-time to support an external contract associated with the development of a Teacher Performance Assessment for candidates seeking a credential in special education. This expenditure authority is provided to support the final payment of a multi-year contract.	Approve as proposed.	BBL	
120	**Abolishment of the Test Development and Administration Account and Consolidation into Teacher Credentials Fund** 6360-001-0408 and Education Code 42235.1, 42235.12, and 42235.2 (May Revise)	The Administration proposes statutory changes to abolish the Test Development and Administrative Account and consolidate expenditures and fee revenues currently collected under the fund into the Teacher Credentials Fund.	Approve and adopt placeholder trailer bill language.	BBL/TBL	

Item	Subject	Description	Staff Recommendation	Language	Comments
121	**Extend Encumbrance Period for Dyslexia Grants to Preparation Programs** Uncodified Section (May Revise)	The Administration proposes statutory changes to extend the encumbrance period for funds appropriated in the 2021 Budget Act through fiscal year 2024-25.	Approve and adopt placeholder trailer bill language.	TBL	
122	**Military Teacher Mobility** Uncodified Section (May Revise)	The Administration proposes statutory changes authorizing the Commission to issue a comparable California credential to any United States military servicemember or their spouse that possess a valid out-of-state teaching or services credential to provide instruction or services in the public schools of the state of issuance when the candidate is relocated to California on military orders.	Approve and adopt placeholder trailer bill language.	TBL	
123	**Teaching Performance Assessment Waiver** Uncodified Section (May Revise)	The Administration proposes statutory changes authorizing the Commission to waive the Teaching Performance Assessment requirement for educators who were unable to meet the requirement during the COVID-19 pandemic and who completed a Commission-approved induction program or completed two years of satisfactory teacher evaluations.	Approve and adopt placeholder trailer bill language.	TBL	
124	**Teacher and School Counselor Residency Grant Program** Education Code 44415.5, 44415.6, and 44417 (May Revise)	The Administration proposes statutory changes to the Teacher and School Counselor Residency Grant Program to: (1) increase the per-candidate allocation to grantee local education agencies, (2) require a minimum stipend or salary to residents, and (3) allow residency candidates additional flexibilities to complete their credentialing and service requirements.	Approve and adopt placeholder trailer bill language.	TBL	

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Lola Smallwood-Cuevas
Senator Rosilicie Ochoa Bogh

Tuesday, May 23, 2023
9:00 a.m.
1021 O Street - Room 2100
Part B- Higher Education
Consultant: Christopher Francis, Ph.D.

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Vote-Only Calendar

6440 UNIVERSITY OF CALIFORNIA (UC)
6610 CALIFORNIA STATE UNIVERSITY (CSU)
6870 CALIFORNIA COMMUNITY COLLEGES (CCC)

Issues 1-3: Various Proposals

Issue	Origin	Description	Staff Recommendation
1.	January Governor's Budget	**Revolving Loan Fund Delay.** The 2022 Budget Act included intent language to provide $1.8 billion General Fund over a two-year period ($900 million scored to 2023-24, and $900 million scored to 2024-25) to establish a student housing revolving loan program for the UC, CSU, and CCCs. The Governor's budget proposes delaying $900 million planned in 2023-24 to the 2025-26 fiscal year and delaying $250 million from the 2024-25 fiscal year to the 2025-26 fiscal year. This delay would result in $650 million in 2024-25 and $1.15 billion in 2025-26 being available for the program.	Modify Governor's Budget proposal and instead provide $1.15 billion General Fund over three years ($383 million in each of 2023-24, 2024-25, and 2025-26).
2.	January Governor's Budget with May Revision	**Student Housing Grant Program Delay.** The 2022 Budget Act allocated approximately $1.4 billion one-time General Fund to CCC, CSU, and UC campuses and left $750 million available in 2023-24 for this program. The Governor's budget proposed $500 million one-time General Fund for 2023-24 and shifting $250 million one-time General Fund from 2023-24 to 2024-25 for affordable student housing projects. The May Revision instead proposes the following: • $450 million one-time General Fund for 2023-24 and $95.4 million one-time General Fund for 2024-25 for CCC affordable student housing projects. • Shift $437 million in current and planned General Fund support for these UC affordable housing student grants to UC-issued bonds. To support the underlying debt service on those bonds, the May Revision includes an increase of $30 million ongoing General Fund. • Shift $655 million in current and planned General Fund support for these CSU affordable housing student grants to CSU-issued bonds. To support the underlying debt service on those bonds, the May Revision includes an increase of $45 million ongoing General Fund.	Approve May Revision proposal and adopt placeholder trailer bill language

3.	Senate Democratic Caucus	**Cal Fresh campus-county data sharing.** Proposes trailer bill language to require campuses to develop data sharing agreements with counties to improve student access to the Cal Fresh program.	Adopt placeholder trailer bill language and provisional budget bill language

Staff Comment: Subcommittee No.1 on Education heard Student Housing issues on March 9, 2023, April 20, 2023, April 27, 2023, May 4, 2023, and May 17, 2023.

6120 CALIFORNIA STATE LIBRARY

Issues 4-8: Various Proposals

Issue	Origin	Description	Staff Recommendation
4.	January Governor's Budget	**Delaying Support for Local Library Infrastructure.** The Budget Act of 2021 provided $439 million General Fund one-time to support local library infrastructure projects. The Budget Act of 2022 provided an additional $50 million and assumed an additional $100 million in 2023-24 to support local library infrastructure projects. The Governor's budget proposes delaying the $100 million to the 2024-25 ($33 million), 2025-26 ($33 million), and 2026-27 ($34 million) fiscal years.	Approve as budgeted and adopt provisional budget bill language
5.	January Governor's Budget	**Support for Law Library.** The Governor's budget proposes an increase of $462,000 General Fund ongoing to support and expand the Witkin State Law Library and its personnel.	Approve as budgeted
6.	January Governor's Budget	**California History Room.** The Governor's budget proposes an increase of $597,000 General Fund, of which $357,000 is ongoing, to expand the California History Room Special Collections and provide personnel support.	Approve as budgeted
7.	January Governor's Budget	**Internal Audit.** The Governor's budget proposes an increase of $168,000 General Fund ongoing to support a State Library Audit Program.	Approve as budgeted
8.	Senate Democratic Caucus	**Lunch at the Library Provisional Budget Bill Amendments.** Changes the reporting date for the Lunch at the Library program from October 1 each year to January 15 each year and aligns reporting content with attainable data.	Approve this proposal

Staff Comment: Subcommittee No.1 on Education heard California State Library issues on April 27, 2023.

6440 UNIVERSITY OF CALIFORNIA (UC)

Issues 9-27: Various Proposals

Issue	Origin	Description	Staff Recommendation
9.	January Governor's Budget	**Base Increase.** The Governor's budget proposes an increase of $215.5 million General Fund ongoing for operating costs, representing a five-percent base increase in ongoing General Fund resources that is consistent with the Governor's multi-year compact with UC.	Approve as budgeted and adopt provisional budget bill language
10.	January Governor's Budget	**Resident Undergraduate Enrollment Growth.** Consistent with the Budget Act of 2021, the Governor's budget includes an increase of $30 million General Fund ongoing to offset revenue reductions associated with the replacement of 902 nonresident undergraduate students enrolled at three campuses with an equivalent number of California resident undergraduate students at these campuses in 2023-24. This investment builds on the previous $31 million General Fund ongoing provided in the 2022 Budget Act that supported a shift of 902 nonresident students.	Approve as budgeted
11.	January Governor's Budget	**UC Riverside School of Medicine - Project Debt Service Support.** Consistent with the 2019 Budget Act, the Governor's budget includes an increase of $6.5 million ongoing General Fund to support the Medical School Project at UC Riverside. Consistent with the 2019 Budget Act, the Administration's fiscal plan also includes an additional $14.5 million General Fund ongoing to support the Medical School Project at UC Merced beginning in 2024-25.	Approve as budgeted
12.	May Revision	**UC Riverside School of Medicine - General Operations Support.** The May Revision includes an ongoing $2 million General Fund increase to support general operations at UC Riverside School of Medicine. The purposes of these funds are separate from the issue above.	Approve May Revision proposal
13.	January Governor's Budget with May Revision modification	**Graduate Medical Education.** The Governor's budget includes an increase of $4 million General Fund ongoing to offset the Proposition 56 revenue offset amount for a statewide grant program and maintain $40 million ongoing for graduate medical residency slots. The May Revision includes an ongoing increase of $1.2 million General Fund to offset declining Proposition 56 revenue for a statewide grant program and maintain $40 million in total ongoing for graduate medical residency slots.	Approve May Revision proposal

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<tr>
<td></td>
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<td>Proposition 56 – California Healthcare, Research and Prevention Tobacco Tax Act of 2016 – was passed by voters on the November 8, 2016 ballot and implemented a surcharge on tobacco tax products.

Among the numerous programs supported with Proposition 56 funds, the measure requires $40 million annually to go to UC for primary care physician post-graduate training programs (known as “graduate medical education”). UC uses the funds to support the CalMedForce program, which provides competitive grants to primary care graduate medical education programs throughout California. Under a memorandum of understanding with UC, Physicians for a Health California administers the grants.

The measure also directs the state to reduce the amount of Proposition 56 funds going for UC graduate medical education in response to declining tobacco tax revenues. The objective of this provision is to prevent any one Proposition 56-funded program to be disproportionately impacted from declining revenues. The state has backfilled Proposition 56 funding reductions to CalMedForce with state General Fund, maintaining the program’s total level of support at $40 million.</td>
<td></td>
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<tr>
<td>14.</td>
<td>January Governor’s Budget</td>
<td>Institute for Immunology and Immunotherapy at the University of California, Los Angeles (UCLA) Delay. The Governor’s budget proposes a delay for $200 million ($100 million in 2022-23 and $100 million in 2023-24) of the support for the construction of an Institute for Immunology and Immunotherapy at the University of California, Los Angeles (UCLA) to fiscal year 2024-25.

<table>
<tr><th>Governor Proposes to Change Funding Schedule UCLA Project

(In Millions)</th><th>2022-23</th><th>2023-24</th><th>2024-25</th><th>Totals</th></tr>
<tr><td>Per 2022 Budget Act Agreement</td><td>$200.0</td><td>$200.0</td><td>$100.0</td><td>$500.0</td></tr>
<tr><td>Governor’s January Budget Delay</td><td>$100.0</td><td>$100.0</td><td>$300.0</td><td>$500.0</td></tr>
</table>
</td>
<td>Reject this proposal and shift all General Fund support for this project to UC-issued bonds. To support the underlying debt service on those bonds, includes $33.334 million ongoing General Fund support.</td>
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15.	January Governor's Budget with May Revision modification	**Shift in Capital Outlay Support for Select Projects.** The Governor's budget included a delay for $83 million to support the UC Berkeley Clean Energy Campus project currently planned for fiscal year 2023-24 to 2024-25 and a delay for $83 million to support campus expansion projects at UC Riverside and UC Merced currently planned for fiscal year 2023-24 to 2024-25. The May Revision instead shifts $498 million in current and planned General Fund support for these aforementioned projects to UC-issued bonds. To support the underlying debt service on those bonds, the May Revision includes an increase of $33.3 million ongoing General Fund.	Approve May Revision
16.	January Governor's Budget	**Transfer Admissions Guarantee at UCLA.** As a condition of receiving a specified amount of state General Fund through the UC campus allocation model, the Governor's budget proposes requiring UCLA to participate in the UC Transfer Admissions Guarantee Program to further facilitate students' ability to transfer to UCLA.	Reject this proposal
17.	January Governor's Budget	**Associate Degree for Transfer at UCLA.** As a condition of receiving a specified amount of state General Fund through the UC campus allocation model, the Governor's budget proposes requiring UCLA to offer Associate Degree for Transfer program pathways to students seeking to transfer from a California Community College to UCLA.	Reject this proposal
18.	Senate Democratic Caucus "Protect Our Progress" Plan	**Disability Supportive Programs.** The Senate proposes $1.5 million General Fund in 2023-24 and ongoing to be dispersed to disability specific programs across UC campuses.	Approve as proposed and adopt provisional budget bill language
19.	Senate Democratic Caucus "Protect Our Progress" Plan	**Basic Needs Support Increase.** The Senate proposes $1 million General Fund in 2023-24 and ongoing to support basic needs programs at UC campuses	Approve this proposal

20.	Senate Democratic Caucus "Protect Our Progress" Plan	**Mental health support services increase.** The Senate proposes $1 million General Fund in 2023-24 and ongoing to support mental health support programs at UC campuses	Approve this proposal and adopt provisional budget bill language
21.	Senate Democratic Caucus "Protect Our Progress" Plan	**Rapid Rehousing Baseline Increase.** The Senate proposes $1 million General Fund in 2023-24 and ongoing to support rapid rehousing initiatives for UC students	Approve this proposal
22.	Senate Democratic Caucus "Protect Our Progress" Plan	**Economic impact study.** The Senate proposes $250,000 General Fund one-time in 2023-24 for a study of oil and gas industry change on local services and jobs by UC Merced Labor Center.	Approve this proposal
23.	Senate Democratic Caucus "Protect Our Progress" Plan	**Police Records Access Project.** The Senate proposes $6.87 million General Fund in 2023-24, with an expenditure or encumbrance period of three-years, to launch a collaborative database with built-in tools that would make records related to police use of force and misconduct accessible to all members of the public – including journalists, researchers, public officials, activists and community members – through an interface that allows easy and sophisticated search and analysis.	Approve this proposal
24.	May Revision	**Support for UC Division of Agriculture and Natural Resources (UC ANR).** The May Revision includes a shift of $4.8 million from UC's main appropriation to provide continued support for UC ANR.	Approve May Revision proposal
25.	May Revision	**Ralph J. Bunche Center.** The May Revision includes a one-time $5 million General Fund increase for the Ralph J. Bunche Center for African-American Studies at the University of California, Los Angeles.	Approve May Revision proposal

26.	May Revision	**UC Global Entrepreneurs.** The May Revision increase a one-time $2 million General Fund increase to pilot an entrepreneur in residence project for foreign-born entrepreneurs and UC students in support of job creation and fostering global talent for innovation in areas of need.	Reject without prejudice
27.	Senate Democratic Caucus	**AB 132 (Committee on Budget), Chapter 144, Statutes of 2021 Sunset Extension.** Proposes trailer bill language that amends Section 66021.9 of the Education Code by extending by four years, until June 30, 2027, the ability for UC to provide scholarships from non-state funds to students. This was previously extended in AB 132 until June 30, 2023.	Approve this proposal

Staff Comment: Subcommittee No.1 on Education heard issues related to UC on April 27, 2023, May 4, 2023, and May 17, 2023.

6600 UC College of the Law, San Francisco (CLSF)

Issues 28-29: Various Proposals

Issue	**Origin**	**Description**	**Staff Recommendation**
28.	January Governor's Budget	**Base Adjustment.** The Governor's budget proposes an increase of $2.2 million General Fund ongoing to support operating costs. This represents a three percent increase base augmentation.	Approve as budgeted
29.	January Governor's Budget	**Safety Program, Urban Alchemy.** The Governor's budget proposes an increase of $3 million, available over three years, to continue supporting a campus safety program that employs formerly incarcerated individuals and/or those who have experienced homelessness.	Approve as budgeted

Staff Comment: Subcommittee No.1 on Education heard CLSF issues on March 16, 2023.

6610 California State University (CSU)

Issues 30-40: Various Proposals

<table>
<tr><th>Issue</th><th>Origin</th><th>Description</th><th>Staff Recommendation</th></tr>
<tr><td>30.</td><td>January Governor’s Budget</td><td>Base Increase. The Governor’s budget proposes an increase of $227.3 million General Fund ongoing for operating costs, representing a five-percent base increase in ongoing General Fund resources that is consistent with the Governor’s multi-year compact with CSU.</td><td>Approve as budgeted and adopt provisional budget bill language</td></tr>
<tr><td>31.</td><td>January Governor’s Budget with May Revision Modification</td><td>Shift in Capital Support Funding. The Governor’s budget proposes shifting $404.8 million appropriated for the upfront support of various capital projects on CSU campuses to CSU-issued bonds. The Governor’s budget includes $27 million General Fund ongoing to support the underlying debt service on those bonds. The projects were as follows:
<table>
<tr><th>Campus</th><th>Project</th></tr>
<tr><td>Bakersfield</td><td>New Energy Innovation Center</td></tr>
<tr><td>San Diego (Brawley center)</td><td>New STEM building</td></tr>
<tr><td>San Bernardino (Palm Desert center)</td><td>New student services building</td></tr>
<tr><td>Chico, Fresno, Pomona, San Luis Obispo</td><td>University farms facilities and equipment</td></tr>
<tr><td>Fullerton</td><td>New Engineering and Computer Science Innovation Hub</td></tr>
<tr><td>San Luis Obispo</td><td>Swanton Pacific Ranch rebuilding</td></tr>
</table>
Restoration of General Fund Support for University Farms. The May Revision restores $75 million General Fund support for these projects included in the 2022 Budget Act. The January Governor’s budget previously shifted fund support from General Fund to CSU-issued bonds but some expenditures for this purpose were determined to be ineligible for CSU-issued bonds.</td><td>Approve shift in capital support funding proposals from the Governor’s budget except University Farms. Approve the May Revision proposal for University Farms</td></tr>
</table>

32.	Senate Democratic Caucus "Protect Our Progress" Plan	**Disabled Student Supports.** The Senate proposes $1 million General Fund in 2023-24 and ongoing to be dispersed to disability specific programs across CSU campuses.	Approve as proposed and adopt provisional budget bill language
33.	Senate Democratic Caucus "Protect Our Progress" Plan	**Basic needs support increase.** The Senate proposes $1.5 million General Fund in 2023-24 and ongoing to support basic needs programs at CSU campuses	Approve as proposed
34.	Senate Democratic Caucus "Protect Our Progress" Plan	**Mental health support services increase.** The Senate proposes $1 million General Fund in 2023-24 and ongoing to support mental health support programs at CSU campuses	Approve as proposed and adopt provisional budget bill language
35.	Senate Democratic Caucus "Protect Our Progress" Plan	**Rapid rehousing increase.** The Senate proposes $1 million General Fund in 2023-24 and ongoing to support rapid rehousing initiatives for CSU students	Approve as proposed
36.	Senate Democratic Caucus "Protect Our Progress" Plan	**CalFresh outreach support.** The Senate proposes $1 million General Fund per year for three years starting in 2023-24 to Center for Healthy Communities at CSU Chico to address the continued crisis of food insecurity on college campuses	Approve as proposed
37.	Senate Democratic Caucus "Protect	**CSU San Bernardino Master Of Science in Physician Assistant program infrastructure project.** The Senate proposed $4.34 million one-time General Fund in 2023-24 for capital projects that will provide additional classroom and laboratory capacity to increase the class size from 40 students per cohort to 50 students per cohort each year.	Cover the cost of this project with CSU-issused bonds. To support the underlying debt

	Our Progress" Plan		service on this bond, the May Revision includes $290,000 ongoing General Fund.
38.	May Revision	**Shift in Finance Support for Cal Poly Humboldt.** The May Revision shifts $201 million General Fund support included in the 2021 Budget Act to support Cal Poly Humboldt Infrastructure projects to CSU-issued bonds. To support the underlying debt service on those bonds, the May Revision includes an increase of $16 million ongoing General Fund.	Approve May Revision proposal
39.	May Revision	**CSU Chico Human Identification Laboratory.** The May Revision includes an increase of $3.1 million General Fund in 2023-24 and ongoing to support the construction of the Human Identification Laboratory at CSU Chico's campus through the issuance of CSU bonds.	Approve May Revision proposal
40.	Senate Democratic Caucus	**CSU Dominguez Hills.** Provides $15 million General Fund one-time in 2023-24 to support this campus.	Approve this proposal

Staff Comment: Subcommittee No.1 on Education heard issues related to CSU on March 9, 2023, May 4, 2023, and May 17, 2023.

6870 CALIFORNIA COMMUNITY COLLEGES (CCC)

Issues 41-59: Various Proposals

Issue	Origin	Description	Staff Recommendation
41.	May Revision	**Local Property Tax Adjustment.** The May Revision includes a decrease of $19.6 million ongoing Proposition 98 General Fund as a result of increased offsetting local property tax revenues.	Adopt Senate plan, which provides an additional $142.7 million ongoing from using LAO's local property tax estimate
42.	January Governor's Budget with May Revision modification	**Apportionments Cost-of-Living Adjustment.** The May Revision includes an increase of $25.4 million ongoing Proposition 98 General Fund to reflect a change in the cost-of-living adjustment for apportionments from 8.13 to 8.22 percent. This amount is in addition to an increase of $652.6 million ongoing Proposition 98 General Fund included in the Governor's budget.	Approve May Revision
43.	Senate Democratic Caucus	**CCC Recovery Block Grant.** Proposes trailer bill language that creates a flexible block grant. This block grant allows districts to spend among the following purposes: • Recruitment and retention initiatives • All purposes within the 2022-23 CCC COVID-19 Recovery Block Grant, effectively folding this grant into the CCC Recovery Grant, and • Deferred Maintenance The amount available for this grant would be $753.554 million one-time Proposition 98, with five years to spend on the above purposes. This amount comes from rejecting the May Revision reduction to the COVID-19 block grant and adding $103.554 million one-time Proposition 98 from the 2022-23 Recruitment and Retention initiative.	Adopt placeholder trailer bill language

		Staff Comment: Issues 43-47 contain staff's recommended actions and scoring of funding related to this block grant and the budget year apportionments shortfall backfill.	
44.	January Governor's Budget with May Revision modification	**Recruitment and Retention Initiatives.** The Governor's budget includes an increase of $200 million Proposition 98 General Fund one-time to continue to support community college efforts and focused strategies to increase student retention rates and enrollment. The May Revision decreases the January Governor's budget proposal by $100 million one-time Proposition 98 General Fund. The cumulative total proposed due to this revision is $100 million one-time Proposition 98 General Fund.	Reject the May Revision and Governor's budget proposals. Reduce the amount provided in 2022-23 for recruitment and retention by $46.446 million Proposition 98 General Fund.
45.	January Governor's Budget with May Revision modification	**Deferred Maintenance.** The May Revision includes an additional decrease of approximately $239 million one-time Proposition 98 General Fund for deferred maintenance needs, for a total reduction of $452 million one-time Proposition 98 General Fund when combined with the reduction proposed in the Governor's budget. These adjustments reflect revised estimates of available Proposition 98 resources.	Approve May Revision
46.	May Revision	**California Community College COVID-19 Recovery Block Grant Decrease.** The May Revision includes a decrease of approximately $345 million one-time Proposition 98 General Fund in support of the California Community College COVID-19 Recovery Block Grant, bringing the block grant amount to $305 million one-time Proposition 98 General Fund.	Reject this proposal
47.	May Revision	**Funding Budget Year Apportionments with One-Time Resources.** The May Revision uses $503 million in one-time Proposition 98 General Fund to support Student-Centered Funding Formula costs for 2023-24.	Adopt the Senate's plan to address budget year shortfall. **Staff Comment:** See attached Proposition 98 worksheet that contains CCC actions

48.	January Governor's Budget with May Revision modification	**CCC Categorical Program COLA.** The May Revision includes an additional ongoing $3 million Proposition 98 General Fund increase for select categorical programs and the Adult Education program to provide an 8.22 percent COLA. The January Governor's budget included an increase of $92.5 million Proposition 98 General Fund ongoing to provide an 8.13-percent COLA for the Adult Education Program, apprenticeship programs, CalWORKs student services, campus child care support, Disabled Students Programs and Services, Extended Opportunity Programs and Services, and mandates block grant.	Approve May Revision
49.	January Governor's Budget with May Revision modification	**Enrollment Growth.** The Governor's budget proposes $28.8 million Proposition 98 General Fund ongoing to support 0.5-percent enrollment and the May Revision decreases this by $2.4 million ongoing Proposition 98 General Fund to sustain the 0.5-percent enrollment growth.	Approve May Revision proposal
50.	January Governor's Budget	**Workforce Training Grants.** The Governor's budget proposes an increase of $14 million reappropriated Proposition 98 General Fund one-time to support the administration of workforce training grants in collaboration with the California Department of Forestry and Fire Protection.	Approve as budgeted
51.	January Governor's Budget	**Chief Business Officer Mentorship Program.** The Governor's budget includes an increase of $275,000 Proposition 98 General Fund, of which $200,000 is ongoing, to develop a community college chief business officer professional learning program run through the Fiscal Crisis and Management Assistance Team to improve community college district leadership capacity and fiscal accountability.	Approve as budgeted
52.	Senate Democratic Caucus "Protect Our Progress" Plan	**Debt Free College for CCC current and former foster youth.** The Senate proposes $14 million Proposition 98 General Fund in 2023-24 and ongoing and trailer bill language to amend the Student Success Completion Grant program so that students who are current or former foster youth committing to a certain number of units of coursework have their total cost of attendance covered.	Approve as proposed and adopt placeholder trailer bill language

53.	Senate Democratic Caucus "Protect Our Progress" Plan	**Associate Degree in Nursing programs at CCC.** The Senate proposes $60 million per year, starting in 2024-25 for at least five years to grow, educate, and maintain the next generation of registered nurses through the community college system.	Approve as proposed and adopt placeholder trailer bill language
54.	May Revision	**Categorical Program Statutory Changes to Meet CCC Roadmap Goals.** The May revision includes trailer bill language that allows all CCC districts to spend flexibly amongst the following categorical programs beginning in 2023-24: Student Equity and Achievement Program, Student Financial Aid, and Student Mental Health Resources. The proposed language would direct the CCC Chancellor's Office to assess district-level progress towards the roadmap goals. CCC districts that do not hit their goals will have their flexible spending authority revoked and would be offered technical assistance.	Reject this proposal
55.	May Revision	**LGBTQ+ Pilot Project.** The May Revision includes $10 million Proposition 98 General Fund a year for three years to support the LGBTQ+ Pilot Project.	Approve as budgeted
56.	May Revision and Senate Democratic Caucus "Protect Our Progress" Plan	**Los Angeles Community College District Small Business Entrepreneurship and Innovation Center at East Los Angeles College.** The May Revision includes one-time $2.5 million Proposition 98 General Fund to support this center.	Approve as budgeted
57.	May Revision	**Student Success and Completion Grant Program Adjustment.** The May Revision includes a decrease of $50 million one-time Proposition 98 General Fund to reflect revised program participation. This brings the total support for the program to $362.6 million General Fund in 2023-24.	Approve as budgeted
58.	May Revision	**CCC Facilities.** The May Revision includes General Obligation funding of $232 million one-time for the construction phase of 12 projects and the design phases of two projects. Two projects with new funding will have previously authorized funding reverted. Of the $232 million, $121 million represents the next installment of the $2 billion available to the CCCs under Proposition 51 and $111 million is from older bonds measures.	Approve as budgeted

59.	May Revision	**CCC Strong Workforce Program (SWP).** Proposes trailer bill language stating that districts may use their SWP funds (1) to enhance student services, (2) to cover fees charged by a third party for student certifications and licensing, and (3) for work-based learning.	Adopt placeholder trailer bill language

Staff Comment: Subcommittee No.1 on Education heard issues related to CCC on April 20, 2023, May 4, 2023, and May 17, 2023. The above proposals in this section are Proposition 98 General Fund.

6980 California Student Aid Commission

Issues 60-69: Various Proposals

Issue	Origin	Description	Staff Recommendation
60.	January Governor's Budget	**Middle Class Scholarships.** Consistent with the Budget Act of 2022, the Governor's budget includes an increase of $227 million General Fund one-time to support a modified version of the Middle Class Scholarship that will focus resources toward reducing a student's total cost of attendance.	Approve the Governor's proposed $227 million General Fund in 2023-24 and include $289 million General Fund in 2024-25 to maintain efforts to reach goal of Debt Free College per the Senate Democratic Caucus' "Protect Our Progress Plan."
61.	January Governor's Budget	**Cybersecurity.** The Governor's budget includes an increase of $1.4 million General Fund in 2023-24, of which $469,000 is ongoing, to assess CSAC's current information technology system, address cybersecurity issues, and support two positions.	Approve as budgeted
62.	January Governor's Budget	**Financial Aid Programs.** The Governor's budget includes an increase of $241,000 ongoing for one position at CSAC to support human resources and to distribute toolkits to high schools to help students complete their financial aid applications. The May Revision includes an additional increase of $397,000 General Fund in 2023-24 and ongoing currently unallocated for four positions at the California Student Aid Commission to support financial aid programs. Combined with the Governor's budget, this augmentation provides the California Student Aid Commission $638,000 for four positions beginning in 2023-24 to support financial aid workload.	Approve May Revision proposal
63.	January Governor's Budget with	**Golden State Education and Training Grant Program Elimination.** The Governor's budget assumes, consistent with estimated program expenditures, that $100 million General Fund provided for the program, that was previously assumed to be spent in 2021-22, will be spent in 2024-25 and that $200 million, $100 million, and $100 million would	Approve May Revision proposal

	May Revision modification	be expended in fiscal years 2024-25, 2025-26, and 2026-27, respectively. As a result of lower revenue projections and a resulting increase in the budget problem, the May Revision now proposes a decrease of $480 million one-time General Fund to wind down the Golden State Education and Training Program at the end of the 2022-23 fiscal year.	
64.	Senate Democratic Caucus "Protect Our Progress" Plan	**Debt Free College for current and former foster youth attending UC and CSU.** The Senate proposes $15 million General Fund in 2023-24 and ongoing and placeholder trailer bill language to expand eligibility for the Middle Class Scholarship for foster youth. Changes in trailer bill language would remove the work contribution and cover the total cost of attendance for CSU and UC students who are current or former foster youth.	Approve this proposal
65.	May Revision	**Cal Grant Program Caseload Adjustments.** The May Revision reflects updated Cal Grant expenditures based on the latest estimates of enrollment of Cal Grant-eligible students. In total, the May Revision reflects estimated Cal Grant expenditures of approximately $2.2 billion in 2021-22, $2.3 billion in 2022-23, and $2.3 billion in 2023-24.	Approve May revision proposal
66.	May Revision	**Golden State Teacher Grant Program.** The May Revision includes an increase of $6 million one-time federal funds to support grants to students enrolled in a special education teacher preparation program at high-need school sites. (CSAC would receive the funding as reimbursements from the California Department of Education.) This funding would supplement the $98 million state General Fund provided to CSAC for the program in 2023-24. As well, this proposal includes trailer bill. Initially, the Governor's January budget proposed language changed the priority school service requirement for grant recipients and expanded program eligibility to students pursuing certain child development permits—specifically for master teachers, site supervisors, and program directors. The May Revision amends trailer bill language proposed in February by: • Rescinding the expansion that would have allowed grant recipients to teach in non-high-priority schools.	Modify proposal to reject trailer bill language expanding eligibility to students enrolled at certain online higher education providers based outside California, as determined by the Labor Secretary, and adopt placeholder trailer bill language.

		• Clarifying a school deemed a priority school when the grant recipient began working there satisfies service requirement. • Clarifying students in undergraduate teacher preparation programs are eligible for program. • Expanding eligibility to students enrolled at certain online higher education providers based outside California, as determined by the Labor Secretary.	
67.	May Revision	**Cash for College.** The May Revision includes an increase of $103,000 General Fund in 2023-24 and ongoing currently unallocated in the California Student Aid Commission's budget to support the Cash for College program, a longstanding program that offers workshops to help students complete their financial aid applications.	Approve May Revision proposal
68.	Senate Democratic Caucus	**Cal Grant Priority Application Deadline Extension.** Proposes trailer bill language that would extend the Cal Grant priority deadline given the pending but delayed launch of new simplified, federal *Free Application for Federal Student* Aid (FAFSA) forms. The federal FAFSA Simplification Act will be a significant overhaul of the processes and systems used to award federal student aid starting with the 2024–25 award year. Traditionally, Oct. 1, 2023 would be the launch date for the 2024-25 FAFSA period but recent communications with the state suggest that a delay to January 1, 2024 could occur. Because of the delayed launch and uncertainty, a filing period that is up to three months shorter may occur and result in more students without Cal Grant that would have otherwise qualified.	Adopt placeholder trailer bill language
69.	Senate Democratic Caucus	**Middle Class Scholarships Clean Up.** Proposes trailer bill language that exempts emergency housing assistance and emergency basic needs assistance from the MCS funding calculation. The amount of MCS that a student is eligible for is a function of the other institutional gift aid (including basic needs awards and other emergency aid) that a student receives. As a result, any student receiving basic needs/rapid rehousing/other emergency aid will have a reduced MCS 2.0 award amount. This language would correct this issue.	Adopt placeholder trailer bill language

Staff Comment: Subcommittee No.1 on Education heard issues related to the CA Student Aid Commission on March 16, 2023, May 4, 2023, and May 17, 2023.