

COMMUNITY COLLEGE UPDATE

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

LAO to Legislature: Deteriorating Budget Condition Ahead

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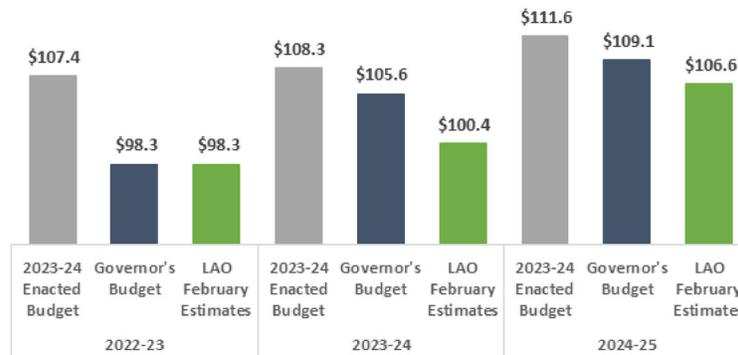
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The Legislative Analyst’s Office (LAO) issued two separate reports on February 15, 2024, analyzing Proposition 98 and Governor Gavin Newsom’s education budget proposal within the context of a deteriorating budget condition. The analyses acknowledge that when the Governor issued his 2024-25 Governor’s Budget on January 10, 2024, he was:

- Solving an estimated \$58 billion State Budget deficit (for comparison, during the height of the COVID-19 recession, the 2020-21 Enacted Budget addressed a \$54 billion deficit)
- Addressing unanticipated reductions in available revenues to K-12 school and community college agencies in the prior and current year with \$13.7 billion in spending solutions—\$8 billion of which is attributable to a funding maneuver the LAO strongly recommends the Legislature reject
- Proposing an additional \$1.4 billion in new K-12 one-time and ongoing spending, with the largest share attributable to funding a 0.76% cost-of-living adjustment (COLA) (\$628 million)

The LAO evaluates the Governor’s January fiscal policy and spending proposals highlighting that, under its most recent revenue estimates, the State Budget and Proposition 98 deficits are likely to grow by May. Specifically, they estimate that the Proposition 98 minimum guarantee could drop by another \$7.7 billion from the Governor’s Budget estimates in 2023-24 and 2024-25 (see Figure 1).

Figure 1. Changes in the Proposition 98 Minimum Guarantee (in billions)



Addressing the 2022-23 Proposition 98 Reduction

Perhaps the most problematic proposal included in the Governor’s Budget from the LAO’s perspective is how the Administration intends to protect school and community college agencies from a \$9.1 billion decrease in the 2022-23 (or prior year) minimum guarantee through an unprecedented interest-free internal borrowing of state cash resources that would exacerbate out-year State Budget deficits by accounting for the payback of the “loan” over five years beginning in 2025-26. In a separate [analysis](#), the LAO highlights multiple fiscal policy concerns with the proposal, including that it would create a binding future budget obligation for the Legislature and would require non-education government programs and services to bear the cost of the borrowing.

Evaluating the Governor’s CCC Spending Plan

The LAO’s fiscal concerns about the Governor’s education spending plan are not limited to the treatment of the 2022-23 minimum guarantee. Its concerns extend to the Administration’s new ongoing and one-time investments that amount to \$218 million in new spending. To this point, the LAO highlights that if the Legislature were to reject the Governor’s above-mentioned funding maneuver and state and Proposition 98 resources were to decline by the LAO’s February estimates, it would need to solve a \$14 billion Proposition 98 problem across the budget window. The LAO identifies several alternatives for the Legislature to consider, including:

- Using the Proposition 98 reserve to allow K-12 and community college agencies to retain their cash resources the state provided in 2022-23 (in lieu of the Governor’s funding maneuver)
- Providing no COLA for 2024-25 for the Student Centered Funding Formula (SCFF) or any California Community Colleges (CCC) categorical programs
- Rejecting most of the Governor’s new spending proposals
- Sweeping some unspent funds
- Reducing spending in existing programs through policy adjustments

Proposed Budget Solutions

Based on its February 2024 estimates of the 2023-24 minimum guarantee, the Legislature is facing an approximately \$800 million gap that year between available Proposition 98 CCC funding and existing CCC spending. Below is a brief summary of the key analyses and recommendations to close the budget gap.

- **Growth Funds:** After three years of enrollment drops, data from the California Community Colleges Chancellor’s Office indicates that enrollment rose overall in 2022-23—increasing by an estimated 4% (in full-time equivalent terms) over 2021-22 levels. That said, not all growth funds from 2022-23 are likely to be used. The LAO recommends sweeping all unused growth funds from 2022-23 (estimated at \$8 million) and consider not funding growth in 2024-25 if revenue estimates at the May Revision suggest a more significant budget problem.
- **Summer Enrollment:** For SCFF calculations, summer classes that have a census date in one fiscal year and end in the following fiscal year may be reported in either fiscal year. Based on some preliminary modeling, the LAO estimates the “summer loophole” could result in roughly \$100 million in additional costs annually from 2024-25 through 2026-27, and costs would continue until all districts reach enrollment levels moving them off the SCFF hold harmless provision. For these reasons, the LAO recommends the Legislature specify in statute that the summer term is to be the first term counted in a fiscal year and summer-term enrollment is to be reported only once each fiscal year.
- **CCC Nursing Funding:** The 2023-24 Enacted Budget included a \$300 million, five-year plan to provide additional funding for CCC nursing programs to “expand nursing programs and bachelor of science in nursing partnerships to grow, educate, and maintain the next generation of registered nurses [RNs] through the community college system, subject to future legislation.” The LAO notes that data suggests the current mismatch between supply and demand of RNs is temporary and that lack of state funding does not seem to be a key reason underlying the shortage, and as a result recommends the Legislature reject the Governor’s \$60 million first-year funding proposal.
- **Unspent Funds:** The LAO recommends the Legislature consider sweeping unspent funding from 11 programs, totaling at least \$936 million (and likely more) one-time if all funds were swept from programs such as:
 - Strong Workforce Program—\$381 million
 - Part-Time Faculty Health Insurance Program—\$177 million
 - Health care pathways for English learners—\$100 million
 - Student Success Completion Grant—\$100 million
- **Revisiting Certain Ongoing CCC Programs:** Due to the potentially grave budget situation, the LAO recommends protecting core CCC priorities (core instructional mission, student support services, and aid for financially needy students) while considering reducing support for other initiatives:
 - Apportionment funding for intercollegiate athletics—\$100 million
 - Apportionment funding for physical education classes—\$100 million
 - California College Promise non-need-based grants—\$91 million
 - State funding for CCC noncredit fine arts and other enrichment activity classes—\$40 million

Finally, the LAO noted that an increase in the CCC enrollment fee for credit courses from \$46 to \$50 per unit would generate \$35 million annually.

The Assembly and Senate budget subcommittees responsible for the education budget are slated to hear the Governor’s Proposition 98 proposals on February 27 and 28, respectively, while the Assembly today began its discussion of community colleges during a higher education overview hearing. The hearings and ensuing discussions may provide early indications of the Legislature’s positions on some of the Governor’s proposals. Stay tuned.