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Overview and Assessment of Higher Education May Revision Proposals

PRESENTED TO:

Assembly Budget Subcommittee No. 2
On Education Finance
Hon. Kevin McCarty, Chair

LEGISLATIVE ANALYST'S OFFICE

Key Elements of Higher Education Proposals

▶ Withdraws Most January Proposals

- For the California Community Colleges (CCC), the Governor withdraws his January proposals to provide cost-of-living adjustments (COLAs) (2.3 percent) and enrollment growth (0.5 percent).
- For the California State University (CSU) and the University of California (UC), the Governor withdraws the base augmentations (5 percent) he had proposed in January.
- The Governor withdraws most remaining augmentations from January. In a few instances, the Governor substantially reduces the size of his proposed augmentations rather than withdrawing the proposals completely.
- The Governor also rescinds some 2019-20 initiatives and repurposes associated unspent funds.

▶ Enacts Base Reductions

- For CCC, the Governor proposes an 8 percent reduction to apportionments (10 percent when including the withdrawn COLA). He also proposes reductions to numerous categorical programs, with reductions ranging from 10 percent to 58 percent.
- For CSU and UC, the Governor proposes 10 percent base reductions to ongoing General Fund support (equating to about 5 percent of their total core funding).

▶ Has a Few Other Key Elements

- Consistent with his January assumptions, the Governor assumes no increases in tuition for resident students.
- In contrast to the base reductions proposed for the segments, the Governor does not reduce base funding for any ongoing financial aid programs.

Key Elements of Higher Education Proposals

(Continued)

- The Governor expects CCC to enroll about the same number of students in 2020-21 as funded in 2019-20. He sets no enrollment expectations for CSU or UC.

▶ Proposes a "Trigger-Off" Provision

- The Governor proposes to backfill most of the higher education reductions in 2020-21 if the state receives at least $14 billion in additional federal relief funding.
  - If this level of federal aid is forthcoming, all trigger-associated items across the state budget would be backfilled on a one-time basis.
- The higher education package includes $1.2 billion in Proposition 98 General Fund reductions and $872 million in non-Proposition 98 General Fund reductions associated with the trigger-off provision. The vast majority of these reductions affect ongoing programs.

Summary of Higher Education Reductions Subject to Trigger-Off Provision

Reductions Relative to Governor's Budget (In Millions)

	Total Proposed Reductions[a]	Amounts Subject to Trigger-Off Provision		
		Totals	Ongoing	One Time
Community Colleges (Proposition 98 General Fund)				
Apportionments	$792	$792	$792	—
Other programs	544	450	410	$40
Subtotals	($1,336)	($1,242)	($1,202)	($40)
Other Segments (Non-Proposition 98 General Fund)				
CSU	$609	$404	$404	—
UC	628	376	376	—
Other[b]	102	92	3	$88
Subtotals	($1,339)	($872)	($783)	($88)
Totals	**$2,675**	**$2,114**	**$1,985**	**$128**

[a] Includes ongoing and one-time reductions in the May Revision as well as the withdrawal of proposed January augmentations. Most reductions are associated with 2020-21, but a few are associated with 2019-20. Amounts shown exclude payment deferrals and baseline workload adjustments.

[b] Reflects combined reductions for the California Student Aid Commission, Hastings College of the Law, and California State Library.

Overview of CCC Spending Proposals

2020-21 (In Millions)

	Governor's Budget	May Revision	Change
Ongoing			
COLA for apportionments[a]	$167	—[b]	-$167
Enrollment growth[c]	32	—[b]	-32
Apprenticeship instructional hours	28	—[b]	-28
COLA for select student support programs[d]	22	—	-22
California Apprenticeship Initiative	15	—[b]	-15
Food pantries	11	—	-11
Immigrant legal services	10	$10	—
Dreamer resource liaisons	6	—	-6
Instructional materials for dual enrollment students	5	—	-5
Apportionments	—	-593[b]	-593
Apportionments deferral[e]	—	-332	-332
CCC Strong Workforce Program	—	-136[b]	-136
K-12 Strong Workforce Program	—	-79[b]	-79
Student Equity and Achievement Program	—	-69[b]	-69
Adult Education Program	—	-54[b]	-54
System Support program	—	-19[b]	-19
Part-time faculty programs	—	-7[b]	-7
Calbright College	—	-3[b]	-3
Academic Senate	—	—[b,f]	—[f]
Subtotals	$296	-$1,282	-$1,578
One Time			
Work-based learning initiative	$20	—[b]	-$20
Faculty diversity fellowships	15	—	-15
Part-time faculty office hours	10	—	-10
Zero-Textbook-Cost Degrees	10	—	-10
Deferred maintenance	8	—	-8
Subtotals	$63	—	-$63
Other	-$28	$7	$35
Totals	**$330**	**-$1,275**	**-$1,605**

[a] The statutory COLA rate was estimated at 2.29 percent in January and revised to 2.31 percent in May. The May Revision withdraws all CCC COLA proposals.

[b] The May Revision includes a budget control section that would backfill these reductions if the state receives sufficient additional federal relief funding. The reductions total $1.2 billion. All but $20 million is associated with ongoing programs.

[c] Enrollment growth was proposed at 0.5 percent in January. The May Revision withdraws that proposal.

[d] 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. Same COLA rate as for apportionments.

[e] Amount shown is in addition to $330 million in payment deferrals that the Governor proposes to initiate in 2019-20. Together, $662 million in payments would be moved from the April-June period to sometime the following fiscal year.

[f] Reduction of $253,000.

COLA = cost-of-living adjustment and CalWORKs = California Work Opportunity and Responsibility to Kids..

LAO Comments on CCC Budget Package

▶ May Revision Misses Opportunities to Better Target Reductions

- The Governor focuses reductions on apportionments and career technical education (CTE)—both central to community colleges' mission.
- We think the Legislature has better options for reducing college spending. We offer the Legislature two alternatives for consideration. (The Legislature could implement either package in part or whole.)
  - Our LAO Alternative for Apportionments aims to reduce, if not eliminate, the proposed reduction to apportionments by redirecting cuts toward lower-priority programs, leveraging unspent lottery and other state funds, and directing more federal relief funding to the colleges.
  - Our LAO Alternative for CTE aims to preserve as much funding as possible for the CCC Strong Workforce Program by redirecting funding from certain other CTE programs. The Strong Workforce Program could help colleges meet enrollment demand during a period when many workers have lost their jobs and seek retraining or upskilling.

▶ Trigger-off Provision Increases Prospect of Funding Cliff Next Year

- Of the proposed CCC reductions, most are triggered off if sufficient additional federal relief funding becomes available. Though the federal relief funding likely would be available on a one-time basis, most restorations are for ongoing programs. Such an approach increases the challenges that colleges likely will have adjusting to the magnitude of future state funding reductions.

LAO Alternative for CCC Apportionments

2020-21 (In Millions)

	Amount	LAO Comments
Ongoing Solutions		
Eliminate College Promise (AB 19) program	$81	Program primarily waives fees for students without financial need. Prioritizing aid for (1) students with financial need as well as (2) course sections is more likely to increase college access. Under this approach, the state would continue to provide about $750 million annually for need-based fee waivers through the similarly named California College Promise Grant (formerly known as the Board of Governors fee waiver).
Eliminate apportionment funding for intercollegiate athletics	50	Currently, districts can generate apportionment funding for college sports teams' practice time. In 2018-19, 13,418 full-time equivalent students in sports practices were claimed for apportionment funding. Sports practice time is outside of CCC's core instructional mission.
Eliminate Calbright College	20	The Legislature could eliminate this initiative (begun in 2018-19), which has a very high cost per student, is currently unaccredited, and largely duplicates programs at other colleges. The state could repurpose all of the ongoing funds for 2020-21.
Subtotal, ongoing solutions	($151)	
One-Time Solutions		
Designate federal relief funds for the colleges	$226	The state could redirect discretionary relief funds from the federal CARES Act for the colleges. (Under the LAO alternative, this is the balancer. It reflects the amount of remaining solution needed after taking all other actions shown in the figure.)
Eliminate Calbright College	117	In addition to achieving ongoing savings (discussed above), eliminating Calbright College would allow the state to repurpose unspent one-time funds provided for the college in prior years. The state could leave a few million dollars in one-time funds for ramp-down costs in 2020-21.
Remove certain restrictions on lottery funds	89	Under Proposition 20 (2000), half of the growth in lottery funds must be used for K-14 instructional materials. Statute offers guidance over which instructional material purchases are allowable for Proposition 20 funds. According to the CCC Chancellor's Office, the statutory definition of instructional materials is so narrow that many districts have difficulty finding enough allowable expenses. As of the end of 2018-19, CCC districts had a total of $89 million in unspent lottery funds, the vast majority from Proposition 20 funds ($81 million). The Legislature could change statute to broaden the definition of instructional materials (such as specifically including technology platforms to deliver online instruction), so districts could spend all of this money. Along with this statutory change, the Legislature could direct districts to use unspent lottery funds and reduce Proposition 98 General Fund by a like amount.
Use carryover for immigrant legal services	10	The Legislature could reject the May Revision proposal to provide $10 million in the budget year for these services given that funding from previous years remains available to cover 2020-21 costs.
Subtotal, one-time solutions	($442)	
Total General Fund Savings[a]	**$593**	

[a] The May Revision achieves this amount of savings solely through a base apportionment reduction (of 8 percent).

CARES = Coronavirus Aid, Relief, and Economic Security.

LAO Alternative for CTE

2020-21 (In Millions)

Program	Governor's Budget	May Revision	LAO Alternative	LAO Comments
CCC Strong Workforce Program	$235.6	$100.0	$210.5	Whereas the May Revision reduces CCC Strong Workforce funding by 58 percent, the LAO alternative reduces funding by 11 percent. The higher funding level is intended to reflect anticipated growth in demand for CTE among workers who have lost their jobs and seek retraining or upskilling. It would also align the Strong Workforce Program reduction more closely with reductions proposed for other CCC programs.
K-12 Strong Workforce Program	163.5	84.2	—	The LAO alternative redirects $72.6 million from the K-12 Strong Workforce Program to the CCC Strong Workforce Program. This shift is intended to reflect that CTE demand is primarily expected to increase among adults returning to college rather than high school students. It also reflects that high schools (unlike colleges) receive an add-on to their base funding intended to cover the higher costs associated with offering CTE courses. The LAO alternative redirects the remaining $11.6 million from the K-12 Strong Workforce Program technical assistance set aside to Career Technical Education Incentive Grants (CTEIG). This shift is intended to consolidate support for K-12 CTE under one program, streamlining administrative processes for school districts.
CTEIG	150.0	72.6	84.2	The LAO alternative includes the May Revision reduction to CTEIG, then adds $11.6 million from the K-12 Strong Workforce Program redirection (as described above).
California Apprenticeship Initiative (CAI)	30.0	15.0	—	The LAO alternative redirects CAI funds to the CCC Strong Workforce Program. CAI provides start-up grants to launch new apprenticeships. This program has not yet demonstrated that it is meeting its objective of creating apprenticeships that can be financially sustained after the grant period ends. Eliminating the program would discontinue grants for new cohorts without reducing funding for current grantees. (The state would continue to fund apprenticeship instructional hours through a separate categorical program.)
Economic Workforce Development Program (EWD)	22.9	22.9	—	The LAO alternative redirects EWD funds to the CCC Strong Workforce Program. EWD provides grants for activities such as employer engagement and labor market research within the seven Strong Workforce regions. If this program were eliminated, the regional Strong Workforce consortia could instead use their share (40 percent) of CCC Strong Workforce funds to support such activities.
Totals	**$602.0**	**$294.7**	**$294.7**	

Overview of CSU Spending Proposals

General Fund Changes in 2020-21 (In Millions)

	Governor's Budget	May Revision	Change
Ongoing			
Base increase (5 percent)	$199	—	-$199
Pensions	23	$17	-6
Retiree health benefits	31	31	—
Base reduction (10 percent)	—	-398[a]	-398
Summer financial aid	—	-6[a]	-6
Subtotals	$253	-$356	-$609
One Time			
Extension education	$6	—	-$6
Totals	**$259**	**-$356**	**-$615**

[a] The May Revision includes a budget control section that would backfill these reductions if the state receives sufficient additional federal relief funding. The reductions total $404 million ($398 million associated with ongoing programs and $6 million with a limited-term program originally intended to sunset on December 31, 2021).

Overview of UC Spending Proposals

General Fund Changes in 2020-21 (In Millions)

	Governor's Budget	May Revision	Change
Ongoing			
Campus operations base increase (5 percent)	$169.2	—	-$169.2
UC Riverside medical school operational increase	25.0	$11.3	-13.7
UC San Francisco Fresno center operations	15.0	1.2	-13.8
Agriculture and Natural Resources base increase (5 percent)	3.6	—	-3.6
UC San Diego Center for Public Preparedness	3.0	—	-3.0
Graduate medical education[a]	1.6	3.1	1.5
Legal services for undocumented students	0.3	0.3	—
Campus operations base reduction (10 percent)	—	-338.0[b]	-338.0
Central services and programs base reduction (10 percent)[c]	—	-34.0[b]	-34.0
Summer financial aid	—	-4.0[b]	-4.0
Subtotals	($217.8)	(-$360.1)	(-$577.9)
One Time			
UC Davis animal shelter grant program	$50.0	$5.0	-$45.0
UC Extension centers	4.0	—	-4.0
New UC Subject Matter Project in computer science	1.3	—	-1.3
Graduate medical education[a]	0.7	0.7	—
Subtotals	($56.0)	($5.7)	(-$50.3)
Totals	**$273.8**	**-$354.5**	**-$628.2**

[a] Backfills reduction in Proposition 56 (2016) funds.

[b] The May Revision includes a budget control section that would backfill these reductions if the state receives sufficient additional federal relief funding. The reductions total $376 million ($372 million associated with ongoing programs and $4 million with a limited-term program originally intended to sunset on December 31, 2021).

[c] Consists of reductions (10 percent each) to the Office of the President, the UCPath payroll system, and the Agriculture and Natural Resources division.

LAO Comments on University Budget Packages

▶ May Revision Misses Opportunities to Mitigate Budget-Year Reductions

- Given the state budget's structural deficit, the Governor's focus on base reductions is a reasonable approach. These reductions likely would be difficult for the universities to manage, however, as campuses have little time to reduce operations, adjust enrollment levels, and/or implement tuition increases prior to the beginning of the 2020-21 academic year.
- We think the Legislature has options to mitigate reductions in 2020-21 so as to give the university systems more time to plan and respond. We offer the Legislature an alternative for consideration that has two main elements.
  - Repurposes unspent one-time 2019-20 funds. In 2019-20, the state provided the universities with a large amount of one-time funding ($321 million for CSU and $218 million for UC). The largest single component of this funding was for deferred maintenance projects, which typically take time to implement. Our alternative assumes roughly half of the 2019-20 one-time funds are unspent and can be repurposed to support core ongoing operations at CSU and UC in 2020-21.
  - Establishes an explicit expectation regarding CSU's and UC's use of their unrestricted reserves. The Legislature could work with the segments in setting these expectations.

▶ Trigger-Off Provision Is Narrower Than for Colleges

- In contrast to the community colleges, the trigger-off provision for CSU and UC applies almost solely to their base reductions, rather than also serving to augment their base funding. This narrower trigger construction likely means the universities would not face as steep a funding cliff as the colleges in 2021-22.

LAO Alternative for CSU and UC

2020-21 (In Millions)

	CSU	UC
LAO Alternative[a]		
Repurpose unspent one-time 2019-20 funds	$160	$100
Draw down unrestricted campus reserves	200	100
Make targeted program reductions	—	37
Withdraw additional January proposals	—	5
Subtotals	($360)	($242)
Reduce core operations	$38	$96
Total General Fund Savings[b]	**$398**	**$338**

[a] The objective of the alternative is to lessen the impact on core operations and give CSU and UC more time to plan for operational reductions in 2021-22. The alternative primarily relies on unspent prior-year funds and reserves to reduce the impact on core operations in 2020-21.

[b] The May Revision achieves this same level of savings solely through a base reduction to the universities' core operations.

Note: The Legislature could include a requirement that CSU and UC report on their enrollment levels, reserves, operational efficiencies, operational reductions, actions taken to mitigate the impact of state funding reductions on disadvantaged students, and tuition plans for both 2020-21 and 2021-22.